

**Liquidity, Credit, and Default Risks:
Evidence from Banks around the World¹**

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Abstract

We analyze the effects of credit and liquidity risks on default risk using a panel dataset that covers banks in 195 countries from 2011 to 2020. The analysis reveals that liquidity risk is positively correlated with default risk while credit risk is only weakly associated with default risk. Furthermore, while the correlation between liquidity and default risks are significant for both developed and developing countries, it is particularly pronounced in developed countries and in countries with more developed banking systems. This may be because liquidity is more likely to dry up during financial crises in economies with well-developed banking systems.

Key words: Liquidity risk; Credit risk; Default Risk.

JEL Classification Numbers: G01; G18; G21.

¹ We are indebted to Junichiro Fukuchi and Hideki Murase for insightful comments. This work was supported by the Grant-in-Aid for Scientific Research (B) No. 21H00711, JSPS.

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