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DETERMINANTS OF NON-PERFORMING LOANS IN EUROPEAN UNION COUNTRIES

Abstract:

Using a panel data model, we study the macroeconomic and microeconomic determinants of non-performing loans across European Union countries during the period from 2005 to 2018. According to our estimation, the following variables are found to significantly affect NPL ratio: unemployment rate, gross domestic product per capita, capital adequacy, private debt ratio, nominal effective exchange rate and the net interest margin. As the NPL ratio is found to respond to macroeconomic conditions, such as GDP and unemployment, the analysis also indicates that there are substantial effects from the banking system to the real economy, thus suggesting that the high NPL that some European countries recorded after the financial crisis could be adversely affected in the future by the downturn in economic recovery due to the pandemic.

Keywords:

Non-performing loans, Microeconomic determinants, Macroeconomic determinants

JEL Classification: G21, E44