

Determinants of Non-Performing Loans in Licensed Commercial Banks in Sri Lanka

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ABSTRACT

Introduction - The purpose of this paper is to examine the determinants of non-performing loans in licensed commercial banks in Sri Lanka. In recent years, non-performing loans have been a huge issue for the financial industry. Non-performing loans in the Sri Lankan banking system have grown exponentially over the last few years.

Design/methodology/approach - The research sample consists of 10 domestic licensed commercial banks, based on annual data representing the period 2010-2019, including 100 observations, which shall be taken into consideration.

Findings - Average Prime Lending Rate, GDP Growth rate, Lone to Deposit ratio and Bank size have a positive relationship with NPL and Inflation rate, Loan Growth for the bank, ROA and Loan Loss Provision have a negative relationship with NPL.

Conclusion – Regression findings showed that Six independent variables are statistically significant among both bank-specific and macro-economic variables. Throughout the considered period, public commercial banks maintained better credit quality than private commercial banks that operate in the country. To preserve the banking sector's stability, commercial banks need to continue strengthening their credit risk mitigation measures.

Keywords: *Bank specific determinants; Macroeconomic determinants; Non-performing loans*