

# **The Impact of Bank Specific Factors and Macro-Economic Factors on Non-Performing Loans of Commercial Banks in Sri Lanka**

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## **Abstract**

Non – Performing Loans (NPL) can be identified as a factor that is negatively affecting to banks' performances hence it should be mitigated. Banks can't totally avoid NPL so it becomes a risk for all banks. This study investigates the determinants factors of Non-Performing Loans in Sri Lankan Commercial Banks and aims to identify how both bank specific and macro-economic factors influences on NPL of commercial banks in Sri Lanka. Total Loans to Asset Ratio (LA), Liquidity Asset Ratio (LAR), and Return on Assets (ROA) are the indicators of bank specific factors while Gross Domestic Production (GDP), Inflation Rate (INF) are the indicators of macro-economic factors. The study used secondary data of 25 commercial banks covering the period of 2008 to 2017. Data were analyzed using regression analysis and EViews package. The result reveals that NPL can be affected by both bank specific factors and macro-economic factors. Further LA has positive correlation with NPL. With regards to macro-economic factors NPLs vary negatively with the growth rate of GDP. In conclusion the management of banks should adopt accurate risk mitigation tools by focusing on both bank specific and macro-economic factors that affect the level NPL in banks.

**Keywords:** NPL, Bank Specific Factors, Macro-Economic Factors, Licensed Commercial Banks