Determinants of Non-Performing Loans in Licensed Commercial Banks and Impact of Covid 19 on Nonperforming Loans: Evidence from Sri Lanka

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ABSTRACT

Purpose: The purpose of this study is to ascertain the determinants of the non-performing loans and identify the impact of COVID19 on non-performing loans in licensed commercial banks in Sri Lanka.

Design/Methodology/Approach: The study employed panel data methodology to investigate the effect of bank specific and macroeconomic factors on non-performing loans. This study takes secondary/ quantitative data. Panel unit root test has been undertaken in order to test the stationary of the variables. Hausman test and Breusch-Pagan Lagrange multiplier test were used to select the appropriate model out of pooled, random and fixed effect. The research conducted for pre-pandemic period (2012-2019) and period with the pandemic (2012-2021) to identify the impact of COVID19 on non-performing loans using selected 20 licensed commercial banks.

Findings: Findings revealed that return on assets and loan loss provision has a significant positive influence, while loan to assets ratio positively associated with non-performing loan and no significant impact in both periods. Bank size has a significant negative influence. Real GDP growth rate, unemployment rate and lending interest rate were highly significant in both periods. Contrary to literature, inflation rate has a positive insignificant relationship with nonperforming loans.

Originality: The findings of the study which details the determinants of non-performing loans of licensed commercial banks in Sri Lanka is beneficial for different stakeholders. The findings of the study might be used as a directive input in developing regulatory standards regarding lending policies in banking sector in Sri Lanka.

Keywords: *Non-Performing Loans, Licensed Commercial Banks, Bank-Specific Determinants, Macroeconomic Determinants, COVID19*