Determinants of Non-Performing Loans in Listed Commercial Banks in Sri Lanka: A Comparison between Pre- and Post-Covid-19 Period

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Abstract

The Listed Commercial Banks in Sri Lanka play a critical role in the economy. They handle financial intermediation processes. The study attempts to investigate the factors affecting non-performing loans (NPLs) of Listed Commercial Banks in Sri Lanka and how COVID-19 impacts non-performing loans (NPLs) of Listed Commercial Banks by using twenty Listed Commercial Banks. This study employed a quantitative deductive approach by using secondary data such as annual reports of selected Listed Commercial Banks from 2013 to 2022 based on annual reports and other statistical reports of the Central Bank of Sri Lanka. The study decided to collect data from all listed commercial banks in Sri Lanka but since the data unavailability were considered the twenty listed commercial banks in Sri Lanka. The dependent variable is non-performing loans and the independent variables include macro-economic and institutional-specific factors. Based on the literature, this study has used the size of the company, return on assets (ROA), capital adequacy ratio (CAR), and efficiency are considered as institutional-specific factors, and gross domestic products, inflation rate, interest rate, and unemployment rate are considered as macro-economic factors. The impact of macroeconomic and institutional-specific factors on non-performing loans was observed through multiple regression models. According to the findings, bank size, CAR, GDP, and inflation have a significant relationship with non-performing loans. However, it found that ROA, Interest rate, efficiency, and unemployment rate have no significant relationship with non-performing loans. When comparing pre- and post-COVID-19 periods, COVID-19 has a significant impact on NPLs. The results of this study will be beneficial for the management of the entire banking sector including public and private banks as well as current customers, potential customers, future researchers, and also policy makers.

Keywords: Listed Commercial Banks, Macroeconomic Factors, Bank-Specific Factors, Non-Performing Loans, COVID-19.