

Rise in Non-performing Loans: Determinants and Repercussions

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Abstract: Ever since 2008 as the global financial crisis came about, we witness quite major increase in non-performing loans in Bosnia and Herzegovina but also elsewhere in Eastern and Southern Europe and around the world. Non-performing loans can be viewed as realization of credit risk and indicator of financial health of the banking sector but also as an indicator of liquidity in real sector. The paper investigates determinants of non-performing loans and concludes that both macroeconomic and bank level determinants play a major role in determining level of non-performing loans in a country. The paper also discusses the feedback effect of rising level of non-performing loans back to the economy and finds that there is effect and repercussion on short term to medium term on macroeconomic climate. The paper also shortly addresses the banking regulation that regulates management of credit risk.

Keywords: Non-performing loans, macroeconomic and bank level determinants, feedback effect, banking regulation.