

Majors: FIN

No. 28

***“Non-Performing Loans: Impact of Explicit Internal and External
Factors on Banking Sector of Pakistan”***



By:

Ahsan Ali

01-222192-024

**Supervisor:
Dr. Lubna Maroof**

Department of Business Studies

**Bahria University Islamabad
Spring-2021.**

Abstract

Objective: The current study has aimed to examine the determinants of non-performing loan in the conventional private banks of Pakistan.

Methodology: The data has been gathered using quantitative approach as the study has compiled data for the period of 12 consecutive years from 2009 to 2020 while data was based on annual series comprising total 156 observations. The data analysis carried out with pooled OLS is based on the model estimation through panel data.

Results: The results have shown that bank size has a positively significant effect on the LOG of nonperforming loans while capital adequacy ratio has a negatively significant effect on the LOG of nonperforming loans. However, ROA and inflation have positively insignificant effect on the LOG of nonperforming loans while GDP has negatively insignificant effect on the LOG of nonperforming loans.

Policy Implications: The banks must get engaged into a 'collection agency' to enforce the recovery of the loan. To measure the bank performance bank administrator must observe the level of the loan losses, borrower's quality, and risk of credit with efficiency of cost. The banks must have a control credit policy by applying a proactive system that is strong and loan supervision departments, especially credit control department and collateral evaluation sector.

Keywords: *Bank Size, Capital Adequacy Ratio, Return on Assets, Macroeconomic Indicators, Non-Performing Loan, Pakistan.*

Table of Contents

ACKNOWLEDGEMENT	4
Abstract.....	5
Table of Contents.....	6
CHAPTER 1	8
1 Introduction.....	8
1.1 Background of the study.....	8
1.2 Problem statement.....	11
1.3 Research Objective.....	12
1.4 Research Question.....	12
1.5 Significance of the study.....	12
1.6 Scope of the study.....	14
1.7 Organization of the thesis.....	14
CHAPTER 2	15
2 LITERATURE REVIEW.....	15
2.1 Theoretical Background.....	15
2.1.1 Bad management theory.....	15
2.1.2 Bank Size.....	16
2.1.3 Return-on-Assets (ROA).....	17
2.1.4 Capital Adequacy Ratio (CAR).....	17
2.1.5 Non-Performing Loans (NPL).....	18
2.1.6 Economic Growth (GDP).....	18
2.1.7 Inflation.....	19
2.2 Relationship between bank size and non-performing loan.....	20
2.3 Relationship between CAR and NPL.....	22
2.4 Relationship between ROA and NPL.....	24
2.5 Relationship between macroeconomics factors and NPL.....	26
2.6 Summary of Literature Reviews.....	28
2.7 Research Hypotheses.....	29
CHAPTER 3	30
3 Methodology.....	30
3.1 Research approach and type.....	30
3.2 Research design.....	30
3.3 Sample and population.....	30
3.4 Econometric model.....	30
3.5 Conceptual model.....	31

3.6	Statistical techniques.....	31
CHAPTER 4		33
4	RESULTS AND FINDING	33
4.1	Descriptive statistics.....	33
4.2	Correlation analysis.....	33
4.3	Cointegration analysis.....	34
4.4	Hausman test	Error! Bookmark not defined.
4.5	Random-effect analysis.....	36
CHAPTER 5		37
5	DISCUSSIONS.....	37
5.1	Relationship between bank size and NPL.....	37
5.2	Relationship between CAR and NPL.....	37
5.3	Relationship between ROA and NPL.....	38
5.4	Relationship between economic growth and NPL	38
5.5	Relationship between inflation and NPL	38
CHAPTER 6:		40
6	CONCLUSION AND RECOMMENDATIONS.....	40
6.1	Conclusion	40
6.2	Policy Implications.....	41
6.3	Limitations of the Study.....	42
6.4	Future Research Suggestions	42
References.....		44
APPENDIX A: LIST OF BANKS		53
APPENDIX B: RESULTS OUTPUTS		54