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No. 28

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

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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.*

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