

Abstract

This thesis investigates long-run feedback effects between non-performing loans and their determinants in the Economic and Monetary Union countries using a panel VAR method with generalized impulses response functions and local projections. The results suggest a bi-directional relationship between the non-performing loans and their determinants. The non-performing loans ratio increases after a negative shock in GDP growth, rising unemployment, worsened fiscal balance and increasing risk. On the other hand, a positive shock to non-performing loans decreases the unemployment rate, risk and return on assets. Furthermore, we revealed a different magnitude of responses to shocks in core and periphery countries of EMU, which proves financial fragmentation.

JEL Classification C23, C51, G21, E32, E44

Keywords Non-performing loans, Panel VAR model, EMU, Generalised impulse response functions

Title Feedback effects of non-performing loans in EMU: A Panel VAR Approach