Abstract

This thesis investigates the key determinants of the Non-performing loans (NPLs) comparing two groups of countries from Southeastern and Western Europe, with two different levels of economic development. We try to find empirical evidence and estimate whether the determinants of NPL ratio are different for the middle and high income countries. Applying panel data models for 14 countries overall, and using the regressions of subsampled countries, we analyze the importance of the determinants at the aggregate level. The final results show that all variables considered are significant, except inflation rate under all specifications and FDI when the subsampled dummy variables are used. As for the specifications of the exchange rate determinant, we conclude that the NPL ratio is negatively and significantly influenced in the export dominant middle income economies. An additional non-economic variable, such as the educational index, constructed at the national level, is found to increase the NPL ratio. Concerning the institutional quality index, averaging all six institutional indicators, this determinant does not show a consistent result across different data sample specifications.