THE LINKAGES BETWEEN NON-PERFORMING LOANS AND

MACOECONOMIC VARIABLES

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ABSTRACT

This paper uses dynamic panel data methods to examine the determinants of Non-performing Loans (NPLs) in the Asia Pacific and South Asia Region. The study is motivated by the hypothesis of Non-performing Loans and macroeconomic variables. The purpose of this paper is to analyze the relationship between the non-performing loans, interest rate (BLR), inflation rate (CPI) and economic growth (GDP) by utilizing STATA software. The relationship among those variables is investigated using yearly data for nine (9) years from 2000 to 2008. The Researcher used Pooled Ordinary Least Squares (POLS) Regression, Random-Effect GLS Regression, Breusch and Pagan Langrangian Multiplier Test for Random Effects and Two Way Estimation Random Effects to retrieve the result. From the result, it shows that only one independent variable which is interest rate (BLR) is the most significant relationship with Non-performing Loan (NPLs). As a remainder of the paper, researcher will use default, arrears and non-performing loans (NPLs) as synonyms.

Keywords: *Non-performing loans; Indebtedness; macroeconomic variables; Dynamic panel data*