Studying the Effect of monetary and fiscal policy on bank's Non-performing Loans

(A Case Study in Middle East countries)

Abstract

Over the past two decades crisis in real and nominal economic, have caused many banks and credit institutions to go bankrupt in the global economy. As a result of such crisis, identifying sources of problem becomes vital for the reduction of its severity and effects. In this study, by applying a suitable economical model which uses historical data, the relationship between macroeconomic variables (nominal and real variables in the economy) and the percentage of non-performing loans in the banking system is examined for selected countries in Middle East and North Africa region. The results of the dynamic panel model in the period of 2000-2010 confirmed that variables such as inflation, GDP growth, Money supply, interest rates and government spending, respectively, have the greatest impact on the percentage of nonperforming loans in the banking system.

In addition, using this economic model and considering different scenarios, we have performed a stress test analysis for non-performing loans. Evaluating the effects of pessimistic state of shock (1% occurrence probability) shows that the volatility of real variables such as GDP would result in the amount of Non-performing loan increase.

GLE classification: E44, E51, G21

Key Words: Default Rate, Macroeconomic Indexes, dynamic panel, Stress Testing