

Determinants of Non-Performing Loans in Cyprus: A Bayesian VAR approach

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ABSTRACT

We investigate the macroeconomic determinants of non-performing loans in Cyprus, using a Bayesian VAR methodology, employing a disaggregate approach by using Household and Non-Financial Corporation (NFC) NPLs in order to reach more precise estimates. Overall, the results suggest that the determinants of NPLs vary across the two sectors, with only industrial production having a negative effect on both. Funding conditions, i.e. deposits, have been found to have an effect on both household and NFC NPLs, albeit likely through different channels. Other important factors also exist, although these are different across the two sectors. Forward-looking variables, like the ESI, do not appear to register any important effects on NPLs. The findings bear policy implications, with the most important being that growth has to be persistent if a decrease in the overall level of NPLs is to be observed.

Keywords: Non-performing loans, Bayesian VAR, Households, Non-Financial Corporations.

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