Abstract

This article investigates the determinants of non-performing loans (NPLs) across 52 commercial banks in 11 Central and Eastern European (CEE) countries, including Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia, over the period from 2007 to 2022. The study employs both static and dynamic panel data analyses, utilizing fixed effects, random effects, one-step system Generalized Method of Moments (GMM), and two-step system GMM models to evaluate the influence of macroeconomic and bank-specific factors on NPLs. The findings reveal that GDP growth, unemployment rates, share price indices, return on assets, and loan loss reserves significantly influence NPL ratios. The study substantiates existing literature while contributing new insights into managing the risks associated with NPLs. It provides evidence-based recommendations for policymakers and commercial banks, aimed at mitigating potential risks and enhancing financial stability. The research uniquely combines various econometric models, offering a comprehensive evaluation of both macroeconomic impacts and bank-specific determinants on NPL ratios. This broad approach not only confirms the significant influence of identified variables but also highlights the complex interactions between different economic and operational factors within the banking sectors of CEE countries.