

Determinants of NPL ratio in the Bolivian financial system

Oscar A. Díaz Quevedo

Abstract

Credit risk is probably the most important thing to manage a bank. In the expansionary phase of the economic cycle a higher rate of credit growth with low levels of default is recorded. However, in recessions, businesses and households are struggling to pay their debts and overdue portfolio increases, forcing financial institutions to make higher provisions for portfolio which reduces the expansion of credit and probably the pace of economic growth.

The aim of this paper is to analyze the determinants of NPL ratio in the Bolivian financial system entities in the period 2001-2008 including macro and microeconomic factors.

JEL Classification: C23, G14, G21

Keywords: Credit risk, non-performing loans, economic cycle