

# Abstract

This paper represents an empirical analysis of the determinants of Non- performing loans in Eurozone and Non- Eurozone countries. We contribute to the literature by including a comprehensive literature review and examining a large sample of annual data on 534 banks from both euro and non- euro member countries during the time period from 2012 to 2017. The timeline taken into study includes also the period of zero and negative rates in EU. By applying System GMM methodology, we find the empirical evidence to draw the conclusions regarding our four hypotheses as it follows. First, a better loan quality is found to be in Eurozone countries compared to the Non-Eurozone countries. We found out that both macroeconomic and bank related variables significantly impact the levels of NPLs. Second, the bank size resulted to have a non significant impact on loan quality during the studied period. Third, we considered also three industry related variables which also resulted to not have any impact in the fluctuations of bad loans. Finally, we show that the prolonged period of low interest rates has shaped the expectations for the future and has changed the slope of the yield curve thus significantly impacting the quality of loans.

**JEL Classification** C33, E43, E52, E58, G21F12, F21, F23, H25, H71, H87

**Keywords** banks, Eurozone, Non- Eurozone, credit risk, impaired loans, low interest rates, bank heterogeneity.

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