Nonperforming Loans in the Middle East Banking Sector: A Qualitative Perspective

Wael Moustafa Hassan Mohamed

Non-performing loans have a significant impact on banks performance and their ability to continue in supporting the economic from macro perspective. This study classify factors that may have impact on nonperforming loans into five categories: 1-Bank level, 2-Borrower’s level, 3-Macroeconomic level, 4-Microeconomic Levels 5-Political Levels. The main purpose of this paper is to determine the most influential factors that has the most significant impact and explanatory power on explaining non-performing loan in banking sector in the Middle East. The study used qualitative technique to collect and analyze data. A questionnaire has been distributed across different banks in the Middle East region and across different managerial levels such as credit officers, non performing loan officers, recovery officers and unit heads to investigate the main non financial factors that influence the rate of nonperforming loans in the Middle East. Cronbach’s alpha test used to measure the consistency among respondents. Also regression analysis used to investigate the most explanatory non financial factors which have impact on non performing rate.

Keyword: Nonperforming loans, Recovery, Borrowers Level, Banks Levels, Macroeconomic, Microeconomic Levels, Political Levels

1. Introduction

Gezu (2014) stated that, there is no general definition of nonperforming loans as different definition could be recognized across different countries. In other words, what is suitable in one nation may not be appropriate for another one. However, there is general point of views regarding NPLs. IMF’s compilation guide (2005), defines nonperforming loans as follows:

“A loan is nonperforming when payments of interest and/or principal are past due by 90 days or more, or interest payments equal to 90 days or more have been capitalized, refinanced, or delayed by agreement, or payments are less than 90 days overdue, but there are other good reasons such as a debtor filing for bankruptcy to doubt that payments will be made in full”

Nonperforming loans are those loans which loan’s principle and interest are unpaid for ninety days or more. (Badar and Javid, 2013) . Nonperforming Loans or Non performing credits ("NPLs") refer to those economic resources from which banks no longer get

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interest and/or portion installments as booked. (Joseph et al., 2012). NPLs are known as non-performing in light of the fact that the advance credit facilities stops to "perform" or produce interest for the bank. Choudhury et al. (2002: 21-54) state that the nonperforming loan is not a "uniclass" but instead a "multiclass" idea, which implies that NPLs could be classified into groups in the light of the "length of past due" of the said credits. NPLs are seen as a genuine side effect of the recent global financial crisis: they are not a principle result of the granting loans yet rather an incidental event of the lending process, one that can possibly extend the seriousness and span of money related emergency and to convolute full scale financial administration (Woo, 2000: 2).

Figure 1: Economic and Financial Implications of NPLs

Source: ADHIKARY (2006)

The above figure by Adhikary (2006), demonstrate the disastrous impact of nonperforming loans in banking system. As it can be concluded that NPLs are the outcome of the economic slowdown which significantly reduce the investment rate in the economy and cause high interest rate on loans. And as long as there were a slowdown in the economy borrowers were not able to pay back loans which lead to increase in loan loss provisions and increasing loss of banks current revenue. Accordingly increasing the probability of banks’ instability and bankruptcy.

It's clear that there is a correlation between non performing loans and banks' profitability, as banks cannot generate interest income from NPL. As non performing loans decrease available fund to grant loans, in other word NPLs interrupt the cycle of granting loans and receiving interest and installment to complete the lending process and generate profit. Banks must have a loan provision based on the NPL ratio to make
up bad debts. A banks with high percentage of nonperforming loans are suffering from high probability of financial instability.

Ouhibi and Hammami (2015) argued that nonperforming loans are very critical because NPLs are used as an indicator of financial stability of banking sector and reveal banks’ asset quality, credit risk management and efficiency which considered as main elements of financial system.

Nonperforming loan is a result of credit risk that face banks and cause financial instability due to financial system interruption. Greuning and Bratanovic (2009) define credit risk as the chance that a debtor or issuer of a financial instrument— whether an individual, a company, or a country— will not repay principal and other investment-related cash flows according to the terms specified in a credit agreement. Inherent to banking, credit risk means that payments may be delayed or not made at all, which can cause cash flow problems and affect a bank’s liquidity. The goal of credit risk management is to maximise a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. More than 70 percent of a bank’s balance sheet generally relates to credit risk and hence considered as the principal cause of potential losses and bank failures. Time and again, lack of diversification of credit risk has been the primary culprit for bank failures. The dilemma is that banks have a comparative advantage in making loans to entities with whom they have an ongoing relationship, thereby creating excessive concentrations in geographic and industrial sectors. Credit risk includes both the risk that an obligor or counterparty fails to comply with their obligation to service debt (default risk) and the risk of a decline in the credit standing of the obligor or counterparty.

While default triggers a total or partial loss of any amount lent to the obligor or counterparty, a deterioration of the credit standing leads to the increase of the possibility of default. In the market universe, a deterioration of credit standing of a borrower does materialise into a loss because it triggers an upward move of the required market yield to compensate the higher risk and triggers a value decline (Bessis, 2010). Normally the financial condition of the borrower as well as the current value of any underlying collateral are of considerable interest to banks when evaluating the credit risks of obligors or counterparties (Santomero, 1997).

According to Greuning and Bratanovic (2009), formal policies laid down by the board of directors of a bank and implemented by management plays a vital part in credit risk management. As a matter of fact, a bank uses a credit or lending policy to outline the scope and allocation of a bank’s credit facilities and the manner in which a credit portfolio is managed— that is, how investment and financing assets are originated, appraised, supervised, and collected.

There are also minimum standards set by regulators for managing credit risk. These cover the identification of existing and potential risks, the definition of policies that express the bank’s risk management philosophy, and the setting of parameters within which credit risk will be controlled. There are typically three kinds of policies related to
credit risk management. The first set aims to limit or reduce credit risk, which include policies on concentration and large exposures, diversification, lending to connected parties, and overexposure. The second set aims at classifying assets by mandating periodic evaluation of the collectability of the portfolio of credit instruments. The third set of policies aims to make provision for loss or make allowances at a level adequate to absorb anticipated loss due to increase in NPLs level.

2. Literature Review

The nonperforming loans in banks relies on the capacity of the bank to evaluate loan applicants' credit risk which is generally assessed using the probability of default (PD), loss given default (LGD), and exposure at default (EAD). The main aim of credit risk management of banks is to maximize expected profits taking into account its volatility (risk). This calls for an active management of the volatility (risk) in order to get the desired results. Risk management is therefore an attempt to reduce the volatility of profit which has the potential of lowering the value of shareholders'wealth. (Mileris, 2014).

In the credit risk evaluation procedures, generally loans’ risk are determined by elements related to loan applicants in addition to macroeconomic factors to explain credit risk. Kero (2013) argued that expansion of granting loans could be considered as a critical factor of the financial crisis and consequently increase the financial instability hence, the macroeconomic could be considered as corner stone in explaining credit risk. Particularly, loan defaults are more likely during the recession.

Nkusu (2011) categorized literature of non-performing loans into three categories: The first category of the literature has focused on explaining the NPL in credit institutions in the country demonstrating the role of macroeconomic performance, quality of management and political choices (Dash and Kabra, 2010; Espinoza and Prasad, 2010). The second Category of the literature explore the relationship between non-performing loans and macro-financial conditions demonstrating the significant positive influence of non-performing loans on the probability of financial instability and accordingly financial crisis which could be considered as a critical function in predicting banking crises (Caprio and Klingebiel, 1996, Kaminsky and Reinhart, 1999).

The third category of the literature has focused on interpreting and forecasting the non-performing loans at the macro level. These aggregates may belong to gross/overall loans in one economy (total debt) or certain types of loans (Rinaldi and Sanchis-Arellano, 2006; Pesola, 2007; Jappelli et al., 2008; Nkusu, 2011). Therefore, factors that explain NPL may be linked to the macroeconomic environment or to the precise features of banks (Nkusu, 2011).

Messai and Jouin (2013), Investigate the determinants of nonperforming loans for a sample of eighty five banks in three countries, namely (Spain, Italy and Greece) over the period of 2004-2008. These countries have suffered from financial difficulties after
the subprime crisis on 2008. This study used macroeconomic variables in addition to specific variables linked to banks’ characteristics. The macroeconomic variables included the rate of growth of GDP, unemployment rate and real interest rate with respect to specific variables linked to banks’ characteristics such as the return on assets, the change in loans and the loan loss reserves to total loans ratio (LLR/TL). The result of this study revealed that, the nonperforming loans vary negatively with the growth rate of GDP, the profitability of banks’ assets vary positively with the unemployment rate, the loan loss reserves to total loans and the real interest rate. Louzis et al. (2012) examine macroeconomic variables and bank-specific determinants of non-performing mortgage, business and consumer loans in nine leading banks in Greece over the period from 2003 to 2009. Among macroeconomic variables, GDP growth, unemployment, interest rate and public debt affect losses in all categories of loans, while among internal factors, performance and efficiency appear to be important. Furthermore, quantitative impact of the determinants varies among the type of loans.

Prasanna (2014) examined factors that affect nonperforming loans in the Indian 31 banks over the period of 2000 to 2012 totaling 372 companies. The results revealed that there is a negative relationship between nonperforming loans and Gross Domestic Product (GDP) and High growth rate of savings. However there is a positive relationship between nonperforming loans and high interest rate and inflation rate.

Williamson (1987) demonstrated that academic models of the business cycle with a financial explicit role provide a strong foundation for modeling non-performing loans as they highlight the cyclical character of counter credit risk and business collapses. These models provide scientific proof that there is a significant relationship between macroeconomic variables and non-performing loans.

Makri et al., (2014), investigate the determinates of nonperforming loans rate (NPLs) of Eurozone’s banking systems over the period 2000 till 2008. The study used macroeconomic variables such as annual percentage growth rate of GDP, Public debts as a percentage of GDP and unemployment rate. In addition to microeconomic variables such as loan to deposits ratio (LDR), Return on Assets (ROA) and return on equity (ROE). The results revealed that there is a significant positive relationship between nonperforming loans and both macro and microeconomic variables.

Boudriga et al. (2009a), investigated the influence of various macro and micro factors on NPL in a sample of 46 banks from 12 countries (“Middle East and North Africa - MENA Countries”) for 2002-2006. Specifically, they found that high credit growth, loan loss provisions and the foreign participation of developed countries affect the levels of NPL.

Parven (2011) stated the causes for growing Non Performing Loans as follows:

- Improper selection of borrowers, inadequacies of character, capacity and capital at the borrower’s level.
Deficiencies in appraisal, processing, sanction, and release.
Inadequate/excess sanction of the limit irrespective of the economic size of the unit.
Scattered financing.
Unrealistic terms or conditions of sanction and fixing unrealistic repayment schedule.
Political interference in sanctioning of loans and patronage to defaulters.
Lack of infrastructural facilities like power, raw materials, fuel, transportation, marketing and technical support.
Lack of inter-bank co-ordination as well as cooperation with financial institution in exchanging information over list of defaulters.

As stated by Reed and Gill (1989) cited in Zewdu (2010) therefore, there are some elements that have a significant influence on bank loans and NPLs. These elements could be summarized as follows:

- **Banks’ Capital Position:** Bank’s capitals is considered as the backbone of bank due to its critical role in absorbing any shock in the market and accordingly stabilizes bank’s position and protect deposit holders. The larger the capital the longer loans maturities associated with high level of credit risk.

- **Bank’s Profitability:** The need to increase bank’s profitability will lead to adapting aggressive lending strategies which will cause high probability of credit defaults and accordingly high level of instability due to increase in NPLs level.

- **Bank’s Deposits Stability:** The stability of banks’ deposits is very important to ensure a steady flow of granting loans. Consequently, banks with high level of deposit fluctuation may suffer from variation in granting loans and reformulating loan policy.

- **Economic Status:** Economic stability create a favorable environment to moderate loan’s policy which let banks grant more loans and liberal loan policy. However a close attention should be given to the economic changes as it might reverse all expectation about economic growth and lead to increasing high rate of nonperforming loans.

- **Impact of Monetary and Fiscal Policies:** Expansive monetary policies by monetary authorities will lead to decrease in bank reserve requirement an accordingly bank will adapt a liberal lending policies.

- **Bank’s experience:** Bank’s experience is a very important element in granting loans. Lack of knowledge and experience may lead to unqualified loan decision and expose the bank to credit risk which lead to increase in nonperforming loans.
The following gaps found in the previous studies regarding nonperforming loans in the Middle East region:

- None of the previous researchers studied Banks’ level factors and its impact on NPLs ratio in the Middle East.
- None of the previous researches Investigate the effect of Political instability on NPLs determinates in the Middle East.
- None of the Previous Research examined the Borrowers level factors and their impact on Nonperforming loans ratio in the Middle East.

3. Research Question

This research is an attempt to answer to following research questions

- Do Bank level factors have a significant impact on nonperforming loans levels?
- Do Borrowers level factors have a significant impact on nonperforming loans levels?
- Do Macroeconomic factors have a significant impact on nonperforming loans levels?
- Do Microeconomic factors have a significant impact on nonperforming loans levels?
- Do Political level factors have a significant impact on nonperforming loans levels?

4. Research Hypothesis

Five null hypotheses will be testes to answer the research questions as follow:

H₀₁: Bank level factors have no significant impact on nonperforming loans levels
H₀₂: Borrowers level factors have no significant impact on nonperforming loans levels
H₀₃: Macroeconomic factors have no significant impact on nonperforming loans levels
H₀₄: Microeconomic factors have no significant impact on nonperforming loans levels
H₀₅: Political level factors have no significant impact on nonperforming loans levels

5. Methodology

A combination of Qualitative and Quantitative method used to find answer of the research questions.

The Quantitative Method: NPL Ratio has been calculated from 2008 till 2014 as follows

\[ \text{NPL Ratio} = \frac{\text{NPL}}{\text{TL}} \]

Where,

- NPL= non performing loans
However, with regard to qualitative method: A questionnaire has been developed for this research that contains 55 questions broken down into 5 general categories as follows:

**Bank’s Level**
The questions cover following items
- Credit Assessment
- Credit Monitoring
- Collateralized Loans
- Credit Pricing (Interest Rate).
- Credit Strategy.
- Bank Size
- Bank Ownership
- Loan Provisions
- Return on Asset
- Return on Equity

**Borrower Level:**
Questions cover the following items:
- Borrower’s culture.
- The change of the external auditor by a more liberal accountant.
- Management weaknesses
- Financial Control
- Selling Profitable division
- Request to waive part of the covenants.
- Failure to spot technology change
- Poor position with industry
- Borrower change supplier frequently.
- Fixed asset sales are used to fund working capital needs.
- The company begins to borrow against remaining unsecured assets.

**Macroeconomics Level**
Questions cover the following items
- Real Interest Rate
- Unemployment Rate
- Currency Exchange
- GDP
- Tax
- Economic Status

**Microeconomic Level**
Questions covers the following items:
- Changes in the competitive environment;
• Change in demand

**Political Level**
Question covers the followings
• Change government & political regime
• Civil war
• Stability of political institutions

The questionnaire is distributed over 65 Banks (i.e. Egypt, Kuwait, Oman, Jordan, Bahrain, Qatar and Saudi Arabia) and the response rate was 32%.

6. **Model:**

\[ NPL_{it} = \beta_0 + \beta_1(BAL)_{it} + \beta_2(BOL)_{it} + \beta_3(MAL)_{it} + \beta_4(MIL)_{it} + \beta_5(POL)_{it} + \epsilon_{it} \]

Where;
NPL = nonperforming loan ratio of Middle East banks 'i' in year t
BAL = represents bank level
BOL = represents Borrower's Level
MAL = represents Macroeconomic Level
MIL = represents Microeconomic Level
POL = represents Political level

ALR = Average lending rate of bank 'i' in year t
INFR = inflation rate of bank 'i' in year t
ETR = effective tax rate of bank 'i' in year t
\( \beta_0 \) = an intercept,

\( \beta_1, \beta_2, \beta_3, \beta_4, \beta_5 \) = estimated coefficient of explanatory variables for Middle East banks 'i' in year t

\( \epsilon_{it} \) = the error term for error terms for intentionally/unintentionally omitted or added variables. It has zero mean, constant variance and non-autocorrelated.

7. **Results and Interpretation**

The following section revealed results and interpretation of reliability, consistency, regression an ANOVA analysis

7.1 **Reliability and Consistency**
Cronbach's Alpha test used to examine reliability and consistency among the responses against each item in the questionnaire. The results for the seven subsections in the questionnaire as shown in table 1.1 revealed that the cronbach's alpha is vary between 0.714 and 0.816 which indicate that there is an acceptable level of consistency among
responses. Also, the cronbach’s Alpha result for overall questionnaire is 0.821 which indicate that there is a very satisfied level of consistency among responses for overall questionnaire.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|}
\hline
NPL & 0.862 \\
 BAL & 0.714 \\
 BOL & 0.725 \\
 MAL & 0.853 \\
 POL & 0.816 \\
 Overall & 0.821 \\
\hline
\end{tabular}
\caption{Table 1.1}
\end{table}

7.2 Multicollinearity
Multicollinearity can generate misleading results when attempting to examine how well individual independent variables could be used as predictors to understand the dependent variable. In general, multicollinearity could lead to a wide confidence intervals and strange P values for independent variables. Pearson correlation is used to examine whether there is a multicollinearity problem among the explanatory variables or not, .Anderson et al. (1990) states that any correlation coefficient exceeding (0.7) indicates a potential problem of multicollinearity.
Table 1.2

<table>
<thead>
<tr>
<th></th>
<th>NPL</th>
<th>BAL</th>
<th>BOL</th>
<th>MAL</th>
<th>MIL</th>
<th>POL</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPL</td>
<td>Pearson Correlation</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BAL</td>
<td>Pearson Correlation</td>
<td>0.273</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.052</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BOL</td>
<td>Pearson Correlation</td>
<td>0.093</td>
<td>0.059</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.428</td>
<td>0.657</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MAL</td>
<td>Pearson Correlation</td>
<td>0.313</td>
<td>0.572</td>
<td>0.228</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.064</td>
<td>0.093</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MIL</td>
<td>Pearson Correlation</td>
<td>0.267</td>
<td>0.157</td>
<td>0.215</td>
<td>0.349</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.501</td>
<td>0.398</td>
<td>0.229</td>
<td>0.023</td>
<td></td>
</tr>
<tr>
<td>POL</td>
<td>Pearson Correlation</td>
<td>0.21627</td>
<td>0.12717</td>
<td>0.17415</td>
<td>0.28269</td>
<td>0.347</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.40581</td>
<td>0.32238</td>
<td>0.18549</td>
<td>0.01863</td>
<td>0.0245</td>
</tr>
</tbody>
</table>

Results in table 1.2 revealed that, there is no problem of multicollinearity among these variables. The following table indicates the correlation coefficient between explanatory variable is varying. The maximum correlation coefficient is 0.572 and the lowest correlation coefficient is 0.093, which still in the acceptable range as indicated by Anderson et al. (1990).

6.3 Regression Analysis:
This section revealed the results of regression analysis to test the hypothesis number 1 Ho:1. The following model was applied:

\[ NPL = f(BAL, BOL, MAL, MIL, POL) \]

Where NPL is the dependent variable and are the BAL, BOL, MAL, MIL and POL are independent variables. The serious of the independent variables are extracted from the results of the questionnaire. As show in table 1.4 all independent variable have a positive and significant impact on corporate governance practice.
Table 1.3

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.7314</td>
<td>0.5349</td>
<td>0.5113</td>
<td>0.4725</td>
<td>34.135</td>
<td>0.000</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), BAL, BOL, MAL, POL.  
b. Dependent Variable: NPL

The model summary as shown in table 1.3 revealed that the $R^2 = 0.5349$ which means that all independent variables can explain only 53.49% of the variation in risk management practices. Accordingly, there are other factors that did not included in this model/study and may have significant impact in explaining the variation in nonperforming loans and its effectiveness.

Table 1.4

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beta</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BAL</td>
<td>0.397</td>
<td>0.230</td>
<td>0.325</td>
<td>1.815</td>
</tr>
<tr>
<td>BOL</td>
<td>0.229</td>
<td>0.166</td>
<td>0.220</td>
<td>1.023</td>
</tr>
<tr>
<td>MAL</td>
<td>0.238</td>
<td>0.107</td>
<td>0.213</td>
<td>1.642</td>
</tr>
<tr>
<td>MIL</td>
<td>0.129</td>
<td>0.300</td>
<td>0.123</td>
<td>0.341</td>
</tr>
<tr>
<td>POL</td>
<td>0.531</td>
<td>0.466</td>
<td>0.512</td>
<td>0.292</td>
</tr>
</tbody>
</table>

a. Dependent Variable: NPL

Table 1.4 revealed that the most significant factor that has influence on explaining the variation of NPLs is political levels as beta coefficient is 0.531. this confirm the arguments by Aisen and Veiga (2010) that Political instability is likely to shorten policymakers’ horizons leading to sub-optimal short term macroeconomic policies. It may also lead to a more frequent switch of policies, creating volatility and thus, negatively affecting macroeconomic performance which will lead to low economic performance of borrowers and increasing nonperforming loans rate. Considering its damaging repercussions on economic performance the extent at which political instability is pervasive across countries and time is quite surprising.

The table 1.4 also revealed that the second factor that has a significant on explaining NPLS is Bank level factors this results is in line with (Klein, 2013) who argued that The impact of bank-specific factors is broadly in line with the literature: equity-to-asset ratio and return on equity (ROE) are negatively correlated with NPLs while excessive lending (measured by loan-to-asset ratio and the past growth rate of banks’ lending) leads to
higher NPLs. Although bank-level factors have a significant impact on NPLs, their overall explanatory power was found to be low.

The third factor that has influence on NPLs is Macroeconomic factors which confirm the results by (Klein, 2013) that the results suggest that higher unemployment rate, exchange rate depreciation (against the euro) and higher inflation contribute to higher NPLs while higher Euro area’s GDP growth results in lower NPLs. Higher global risk aversion was also found to increase NPLs. It also confirms the existence of strong macro-financial linkages. In particular, the impulse response functions reveal that a positive shock to GDP growth and credit (as a ratio of GDP) contributes to the reduction of NPL while a higher inflation leads to higher NPLs. In addition, other things being equal, a positive shock (increase) to NPLs ratio leads to a contraction of credit-to-GDP ratio and real GDP and to a higher unemployment rate. As a result of a weaker economic activity, CPI inflation also declines.

The fourth factor affect the explanation of NPLs is Borrower level factors as beta coefficient is 0.229. This result confirm the fact that there are several factors at borrowers level may affect the ability of the borrowers to repay their loans which will lead to increase of nonperforming loans levels. These factors are (but not limited to): Management weaknesses, Lack of Financial Control, Selling Profitable division, Failure to spot technology change, Poor position with industry, Borrower change supplier frequently and Fixed asset sales are used to fund working capital needs. The fifth and the last factor is the microeconomic factors such as shifting in demand and increasing competitiveness that lead to some borrowers couldn’t cope with this changes an accordingly couldn’t repay their loans and consequently increasing nonperforming loans ratio.

Based on the mentioned results and analysis, the researcher reject all five null hypotheses and accept the alternatives, Which mean that there is a significant impact of 1-Bank level Factors, 2-Borrower’s level Factors, 3-Macroeconomic level Factors, 4-Microeconomic Levels Factors and 5-Political Levels factors and determining NPL non-performing loans.

8. Conclusion & Recommendations

The main objective of this research is to fill the gap found in the previous researches regarding nonperforming loans in the Middle East and to investigate the most influential factors that have significant impact and explanatory power on non-performing loan in banking sector in the Middle East. The Results of this research add to the body of knowledge from theoretical and practical perspectives.

From theoretical perspective: The results add value to the body of knowledge by highlighting the importance of Bank level Factors, Borrowers Factors and Political factors in determining nonperforming Loans in the Middle East.
From practical perspective: The results is an attempt to enhance the awareness of bankers and recovery officers with regard to the nature of nonperforming loans and their determinates which mean that bankers and credit officers should take into consideration the Political stability and borrowers factors before and during the lending relationship not before lending Only.

Researchers should try additional factors to explain NPLs such as (But not limited to): Structure Break (i.e. Before and After Middle East Revolutions), Type of Industry, Level of Technology and Culture.

Reference


