



Internship Report

Influences of Macroeconomic Factors on Non-performing loan of Non-banking Financial Institutions of Bangladesh:

Study on IPDC Finance Ltd.

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জীবন তো একটাই।
এক জীবনে কতোই না স্বপ্ন।
বিন্দু থেকে শুরু হয়ে
ছোট বড় অর্জনেই জীবন পায় পূর্ণতা।
অবিরাম সৃষ্টির সম্ভাবনায়
চলো জেগে উঠি উচ্চুসে।

জাগো
উচ্চুসে



ইন্ডিয়ান প্রোসেন এন্ড ডেভেলপমেন্ট কোর্পোরেশন লিমিটেড (আইপিডিসি) এনে
আইপিডিসি ফাইন্যান্স লিমিটেড

IPDC
FINANCE

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27th August, 2017
Dr. Suman Paul Chowdhury
Assistant Professor
BRAC Business School
BRAC University.

Subject: Letter of Transmittal

Dear Sir,

It is my immense pleasure and with respect that I have the opportunity to submit a report on **‘Influences of Macroeconomic Factors on Non-performing loan of Non-banking Financial Institutions of Bangladesh: Study on IPDC Finance Ltd’**. I have completed my internship as a part of BBA curriculum to observe closely and studied different practical aspects of the Non-Banking Financial institute of Bangladesh. In last three months of my internship period at IPDC Finance Limited, I was introduced to corporate culture and had opportunity to learn some new things.

It was a great experience to conduct the internship under your supervision and as per your guideline. I have tried hard to write the report and I gone through some research and analysis in doing this report, which was a good learning curve for me.

The internship program and writing this report has been a great pleasure and an extremely interesting and rewarding experience. It has enabled me to get an insight into the practical arena of NBFIs. Though I put great efforts on preparing this report, I am glad to address with you for any mistakes and flaws or lacking regarding this report. Therefore, your assistance is highly acknowledged and I am very thankful for the opportunity to work under your advices.

Sincerely yours,

Mahin Uddin Sarker
Student ID: 13104157
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I would like to express my heartfelt thanks to the Mr. Shamsheer Morshed, Senior Executive, Information Technology and business transformation, IPDC Finance Ltd, as under his direct supervision it has been possible to learn about digital bank management and different financial software. Special thanks to other respected employees of IPDC who give me opportunity to learn new things and advices regarding this report.

I also like to Thanks Mr. Shah Wareef Hossain, Chief Operating Officer, IPDC Finance limited for his intellectual advice regarding the report and giving me the core idea of banking in IPDC Finance limited.

Last but not the least, It was a great experience to work with such a knowledgeable people who are ready to help and making this short period of time really fruitful.

Executive Summary

A Non-banking financial institution (NBFI) is a financial institution that does not have a full banking license and cannot accept deposits from the public. However, NBFIs do encourage elective monetary administrations; for example, venture (both group and individual) risk pooling, financial consulting, brokering, money transmission, and check cashing. NBFIs are a source of consumer credit NBFIs are a wellspring of purchaser credit. Non-Banking Financial Institution There is 33 non-banking financial institutes (NBFIs) is currently operating and regulated under Financial Institution Act, 1993 and controlled by Bangladesh Bank. IPDC Finance limited is one the top ranking NBFIs among them. This financial sector is booming nowadays. Although, there are a few obstacles that effecting it steady growth. Non-performing loan is one of the very few obstacles. According to the “Prudential Regulations for Consumer Financing” regulation -04, all banks (including all NBFIs) shall submit the borrower-wise annual statements regarding classified loans/ advances to the Banking Inspection Department. The report focuses how Non performing loan of Non-Banking financial institution is impacted by different macro-economic variables like national lending Rate, Unemployment rate, Inflation, Exchange rate and GDP Growth. Since my focus of the study is on the NBFIs, a total fifteen (15) number of institutions’ data, exerted from annual reports, and 90 of firm’s years have been taken into consideration. For conducting the study random sample is selected in this field. For the purpose of data analysis, regression analysis has been conducted using the statistical applications- SPSS and MS Excel.

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Chapter 1: Introduction

1.1 Basis of the Internship Report:

After the accomplishment of Academic courses in BBA, internship at a company which is a part of the academic curriculum is an effective way to be introduced with practical and relevant knowledge, skills, and experience. It helps to build network, increase communication skill and develop self-confidence in life, and many more. Basically, it is provisional job programs where students get an opportunity gather broad idea and experience regarding the professional world.

As a student of Bachelor in business administration with Accounting and Finance major, IPDC Finance limited is one of the best places to learn about banking operation and core financial activity. Additionally, IPDC Finance Limited is one of the top renowned Non-banking financial Institutes in Bangladesh. BRAC, Ayesha Abed Foundation, RSA Capital Limited, AKFED are the main key owner of IPDC Finance limited.

According to BRAC University internship policy, Student are required to have internship programs with a view to getting field experience and getting an chance for use theoretical concepts in practical life situation. There would be 10 weeks of organizational period. During this internship report preparation, a student can apply his/her theoretical knowledge as well as his/her methodical and critical abilities on a given topic. Finally, these experiences during internship period can add an extra edge in students' career.

1.2 Objective

The objectives of the Internship Report are-

- To gain practical knowledge about corporate culture and organizational behavior.
- To understand the comparable picture of the theoretical approach and the practical applications in Non-Banking Financial Institution.
- To know about the products and services provided by IPDC Finance ltd.
- To increase the practical knowledge about different investment sectors.
- To gain the knowledge of Electronic banking system.
- To gain the idea of working in different financial software.
- To develop the analytical ability to valuate company performance.
- To understand the process asset purchase and vendor relationship management.

1.3 Methodology

All the data have been collected from the secondary sources. For example - Annual Reports, Previous research articles on Internet, and from different websites.

1.4 Limitations:

- Unable to collect bigger sample size due to sufficient time
- Unable to get access of confidential information
- Unable to add more variable
- Lack of primary data sources

Chapter 2: IPDC- at a Glance

2.1 Foundation

IPDC Finance Limited, formally known as Industrial Promotion and Development Company of Bangladesh Limited, is one of the renowned Non-Banking Financial Institutions (NBFIs) in Bangladesh. It is a public limited company incorporated in Bangladesh under the company Act 1913 (now the Companies Act 1994), listed with the Dhaka and Chittagong Stock Exchange Limited since 02 December 2006. Since it was founded in 1981, IPDC has played a crucial role in reshaping the private sector industrialization of the country through groundbreaking financial products and services. IPDC Finance Limited got the permit as a Financial Institution under Financial Institutions Act on 07 February 1995. Since the finish of October 2015, BRAC, Ayesha Abed Foundation and RSA Capital Limited have obtained substantial amount of shareholding through a Strategic Alliance Agreement with Aga Khan Fund for Economic Development (AKFED). Starting now and into the foreseeable future, the reconstituted Board of IPDC started to give organization level specialist to the organization with a rejuvenated business expansion appear. Currently IPDC is a broadened budgetary establishment with an extensive variety of items and administrations covering corporate fund and admonitory administrations. From SME fund financing to retail funds financing all are in the list of IPDC Finance Limited. The most important organizations of the Company are related to subsidize and back related activities. These associations join stores get together; credit to corporate affiliations; Retail and SMEs, figuring reserve; stretch out back; leases; contract purchase; esteem/semi esteem wanders and admonitory organizations.

2.1.1 Branches

Presently, IPDC Finance Limited has been providing various financial services through its 11 branches including Head Office, and those are -

Outside Dhaka

Chittagong
Sylhet
Narayangonj
Gazipur
Bogra
Mymenshingh
Jessore

Inside Dhaka

Motijheel
Dhanmondi
Uttara

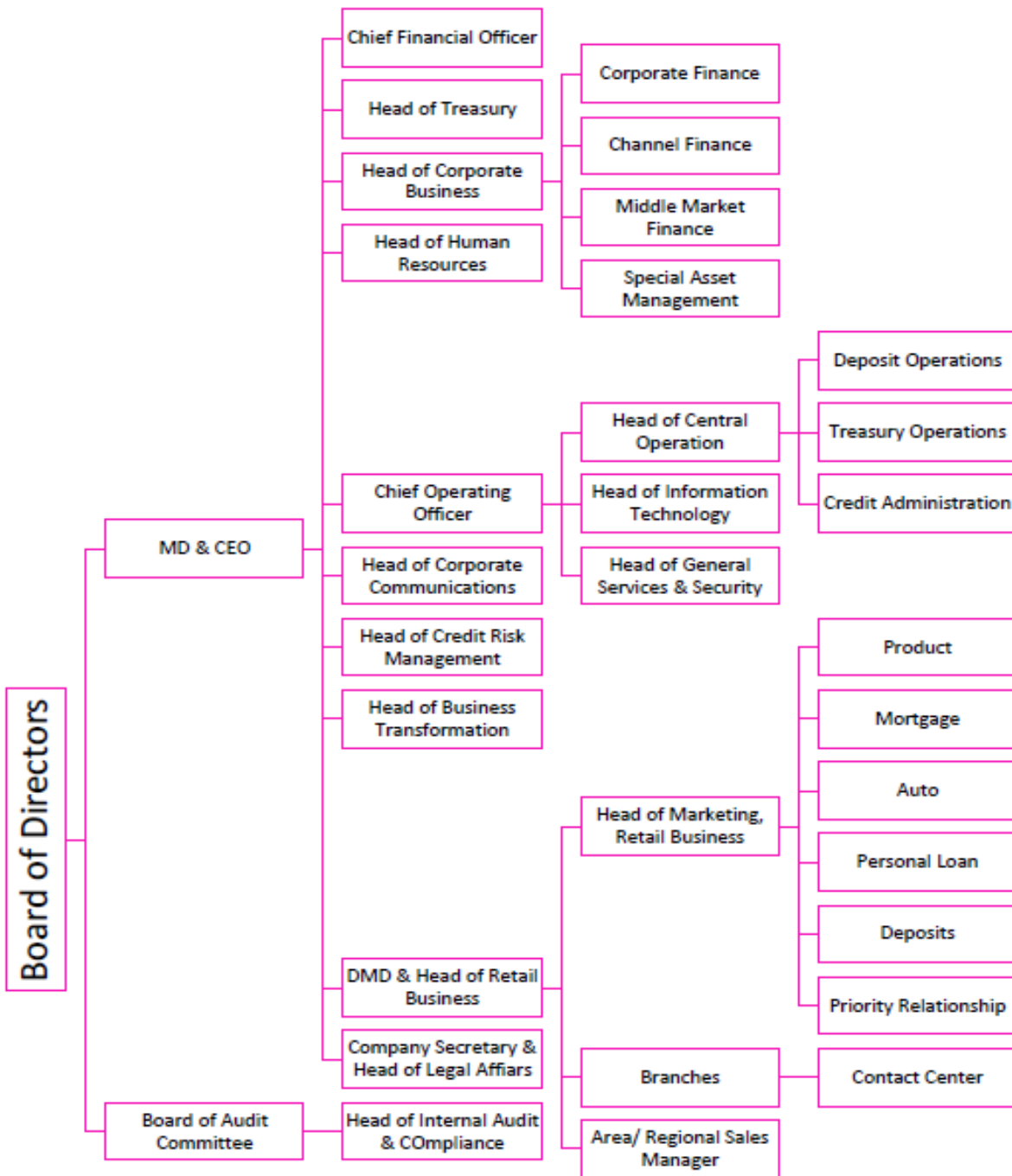
2.1.2 Board of Directors of IPDC

The current Board of Director, consists of eleven (11) members-

Dr. Muhammad Musa	Chairman – Nominated by BRAC
Mr. Amin H. Manekia	Vice Chairman- Nominated by AKFED
Mr. Mohammad Mamdudur Rashid	Nominated by BRAC
Mr. Asif Saleh	Nominated by BRAC
Mr. Shameran Abed	Nominated by Ayesha Abed Foundation
Mr. Sameer Ahmad	Nominated by RSA Capital Limited
Mr. Sadaruddin Ahmed	Nominated by GoB
Mr. Md. Enamul Hoque	Nominated by GoB
Ms. Nasreen Sattar	Independent Director
Mr. Salahdin Irshad Imam	Independent Director
Mr. Mominul Islam	Managing Director - Ex Officio

*Source: Annual Report
2016, IPDC*

2.1.3 Organizational Structure



Source of data: Annual report IPDC, 2016

2.1.3 Distribution of Shareholding

IPDC has a total 1,515,005,670 shareholders with 88.95% domestic holding and 11.05% foreign holding. Shareholding Details are as follows:

	As of December 31, 2016	
	Number	% of holding
Foreign		
AKFED	16,744,132	11%
Domestic		
BRAC	37,875,141	25%
Ayesha Abed Foundation	15,150,057	10%
RSA Capital Limited	7,575,028	5%
GoB	33,147,664	22%
General shareholders	41,008,545	27%
	134,756,435	89%
	151,500,567	100%

2.2 Products and Services

IPDC is a broadened nonbanking monetary organization taking into account of Corporate, SME and retail customer for their finance and savings need. IPDC offers simple and customized solutions and counseling services with quickest pivot time. Additionally, IPDC gives consultative advices to Corporate and SME customers for their new endeavor under the organized back financial wing.

The list of products and services offered by IPDC under the Corporate, SME and Retail business segment are as follows:

2.2.1 Corporate Business:

Products and services under corporate finance/business are-

- **Lease Finance;** offered against industrial machineries, commercial equipment, generators, vehicles, vessels, industrial large engines, etc.

- **Term Loan;** offered to meet various capital/fixed expenditures of production line, modernization of manufacturing process, expansion of capacity and space for business purposes.
- **Project Financing;** large-scale investment. IPDC brings other Financial Institutions/Banks to raise funds through syndication where IPDC arrange the financing. Project Financing provided for setting up of addition product line and capacity.
- **Short Term Financing;** Offered for the working capital needs of a company to meet short term cash money requirements.
- **Investment in Preference and Common Share;** IPDC corporate division makes financing by purchasing the preference and common shares for clients and getting payments through redemption of the preferred shares over the tenure and receiving dividend from equity.

2.2.2 Small and Medium Enterprises (SME) Business:

For the development and advancement of Small and Medium Enterprises, IPDC gives credit support to potential business visionaries. With the conviction of 'Jago Ucchase', IPDC has concentrated on SME business keeping in mind the end goal to lightening of destitution, production of work openings, ladies strengthening and impartial dispersion of pay and also expansion of mechanical segment in Bangladesh.

The short description of SME products are as follows -

Lease Finance; offered to small/medium size business for procuring fixed asset like commercial/office equipment, machineries, generators, vehicles, vessels etc.

- **Long Term Finance;** to meet various regular capital/fixed asset expenditures.
- **Short Term Finance;** to meet urgent fund requirement for any interim period.
- **Financing Women Entrepreneurs;** giving credit support for women empowerment
- **Factoring;** providing advance cash against invoices or bills to meet their liquidity needs.
- **Work Order Financing;** to bridge the gap between time of processing the order and receipt of payment.

2.2.3 Retail Business

Financial Service division offers a variety of personal financial services to fulfill the needs of individuals. Offers mainly two types of schemes- deposit schemes and savings schemes. A short description of products under Retail business segment is given below:

- **Savings Schemes;** deposit premium, millionaire deposit, ultiplex deposit schemes.
- **Deposit Schemes;** annual profit, cumulative profit, fixed deposit general, monthly profit, double money deposit, quarterly profit schemes.
- **Home Loan;** to meet the individual needs for housing solutions.
- **Auto Loan;** car financing for individuals and institutions.
- **Personal Loan;** loans for personal need.
- **Club Royal;** personal financial advice to the high-value customers.

Source of list of products and services: Annual Report, 2016 (IPDC)

Chapter 3: Responsibilities as an Intern

The entry level position at IPDC was begun from April to till the end of July 2017. I had been in Information technology and Business Transformation Department for the entry level position period. The task was to perform, perusing records, documentation of fixed asset purchase, credit proposition, work order processing and so forth.

Involvement in regular office jobs like Cheque Signing from Signatories, Punching documents, Making Files, Searching Files Boxes, Proof Reading, and Scanning Documents, File Management etc. was a great experience to learn the office culture. Apart from those involvement in some administrative tasks in MS Word and Excel to help the designated employees of IPDC was the experience of real experiment in job.

Involvement in Audit review for the first quarter of 2017, which was assigned to me by Mr. Shah Wareef Hossain, COO, IPDC Finance Limited having responsibilities to Identify the issue, understand current situation of the issue, fixed meeting with the designated employee, discussed the solution, solve the issue, create proper document against the solution, submit report to Mr. Shah Wareef Hossain for further review in weekly basis, also helped to develop the task development skill and responsibility taking. For the purpose along with my department we attend meeting with Mr. Shah Wareef Hossain in every week. The basic responsibilities were-

- Creating Purchase order and keeping records of that.
- Memo creation and keeping record of it. (The assignment was to conduct some administrative strategy creation task within designative group- for RJSC Charge Creation Process, Disaster Recovery Maintenance Manual, Sub-delegation of Authority, IT asset checklist for new branches, create PowerPoint slides regarding BCP Test for employee training and so on.)
- Policy paper creation for Close Circuit Television and Surveillance Policy in IPDC, Memo Creation Process Development in IPDC,

Involvement in creating employee Job Description, DCFCL maintenance, Create MIS for asset of 2015-2017 (till July), ensure learning some HR skill those are required to construct resume and documentation skill.

Apart from the work responsibilities, working and communicating with innovative-minded employees in the company helped to think innovatively, how to create document in Organizational manner as well as recovering cultural shock and accepting normality of corporate life.

After All, my association with IPDC for the three months of Internship, I have an insight of Corporate Culture, the People, and Behaviors which would be helping for my professional life in future.

Chapter 4: Impact of Macroeconomic Factors on Non-performing loan of Non-banking Financial Institutions of Bangladesh

Introduction

It is impossible to deny the significance from claiming money related foundations in any created or creating economy these monetary foundations not just facilitate the credit stream in the economy yet additionally upgrade the profitability by stimulating the investment assumption (Richard, 2011). Monetary development in any nation is unfeasible without a sound financial sector (RAJARAMAN & VASISHTHA, 2002). Good performance of these financial institutions is the symbol of prosperity and financial development in any nation or region and poor execution of these institutions not just hamper the monetary development and structure of the specific locale yet additionally influences the entire world economy (Khan & Senhadji, 2001)

Non-performing Loan (NPL) is a credit that is in default or near to being default. Many credits move toward becoming non-performing loan in the wake of being in default for 90 days based upon the agreement terms. As indicated by International Monetary Fund (IMF), "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".

Non-Banking financial institution or NBFIs are monetary foundations that give certain sorts of banking services, yet don't have license of keeping money as deposit. However, these establishments are not permitted to take deposits from people in general, which keeps them outside the extent of customary oversight required under managing an account controls. NBFIs can offer keeping banking services, for example, loans and credit offices, retirement arranging, currency markets, endorsing, merger exercises and IPO etc.

Non-Bank Financial Institutions (NBFIs) in Bangladesh are increasing expanded popularity in very recent time. Despite the fact that the real business of most NBFIs is renting some are also diversifying into different lines of systematic term loaning, professional term loaning, lodging fund, and vendor managing an account, shipper saving money, value financing and investment financing.

Over the most recent couple of decades we can see many Banking failure throughout the world (Farhan, Sattar, Chaudhry, & Khalil, 2012) which causes the termination of many banking institution

by regulatory authorities (Brownbridge, 1998). These banking collapses negatively affect the financial system in many ways, firstly these banking collapses causes banking catastrophe by harming the banking sector, secondly it also reduces the total loan flow in the country which eventually affects the effectiveness and efficiency of the business units (Farhan, Sattar, Chaudhry, & Khalil, 2012) . Many experiential study have shown that most of the time banking collapses or banking catastrophe are sourced by non-performing loans (Brownbridge, 1998)

Research Objective:

The objectives of this paper are-

- To understand the service providing process of Non-Banking Financial Institution in Bangladesh.
- To understand the reason behind loan default.
- To enhance knowledge about previous study related with this study.
- To gain knowledge of Marco-economic variables that effect Non-performing loan.
- To gain the idea, how other NBFIs are performing regarding NPLs.
- To enhance the knowledge how non-performing loan effect NBFIs performance.
- To gain idea how IPDC Finance limited performing in last 6 years regarding Non-Performing loan management.

Literature Review

As we know, Currently 33 NBFIs operating under the direct supervision of Bangladesh Bank (Bangladesh Bank, 2011-16). In recent years, non-performing loans has involved the enthusiasm of a few authors especially the consideration in comprehension of the factors subject to the money related weakness (Khemraj & Sukrishnalall, 2009). There are strong relationship between NPL and different macroeconomic variables; The real interest rate, annual GDP growth, annual Inflation rate, loans growth, the exchange rate, the unemployment rate, money supply (Messai & Jouini, 2013).

Non-performing Loan

Non-performing loans (NPLs) is a very common scenario in the 21st century banking world. Non-Performing loan has a negative effect on NBFIs performance. NPLs decline with growth and rise with interest rates and fiscal and external deficits which is an effect of Macroeconomic variables (Espinoza, Raphael A; Prasad, Ananthkrishnan, 2010). Besides, NPL is likely to hamper economic growth and reduce the economic efficiency.

Lending Rate

The lending rate or the interest rate affects the amount of bad debt in the case of floating interest rate. This infers that the impact of financing costs ought to be sure, and in this way, there is an expansion in the obligation caused by the expansion in installments of financing costs and subsequently the ascent of non-performing credits (Bofondi & Ropele, 2011). According to Bangladesh Bank, considering to the last couple of years, the lending rate are gradually Decreasing. Therefore there is a significant positive association between the lending rate and nonperforming loans (NPL) ((Messai & Jouini, 2013)

Exchange Rate

Exchange rate is the rate used to exchange one currency with another one .A decrease in home currency will result in costly imported goods which put a pressure to finance letter of credits issued to trader by commercial banks and risk of default increases. Therefore an increase in exchange rate positively associated with NPLs (Badar, Javid, & Zulfiquar, 2013). Another study stated that, if there is an appreciation of the local currency, the NPL portfolios of NBFIs institutions are expected to be high. Besides, Exchange rate increases the gain of financial instructions and investors in Forex. In the event that conversion standard builds, it influences shipper as they have pay more for their advance sum in regards to this procedure (LC) and in the meantime causing exporter extra pick up by a similar

procedure. Furthermore, considering the area money stream, the arrangement of NPL depended to be high upon NBFIs. Another study said that, high interest rates, real effective exchange rate brought high level of NPLs (Dash & Kabra, 2010). Therefore, the exchange rate has both positive and negative effect on Non-performing loans (Khemraj & Sukrishnalall, 2009).

Unemployment Rate

Unemployment rate have a strong positive relationship with NPLs (Dimitrios, Anastasiou; Helen, Louri; Mike, Tsionas, 2016). Besides, the economy of Bangladesh grows 5.8 for every penny yearly yet the work constrain was expanded by 4.6 for every penny amid the period 2000 to 2010. A sum of 15.1 million new occupations was made yet 20.1 million new works entered in to the work compel (World, 2012). Furthermore, an aggravation in the macroeconomic environment as proxied by slothful growth, reduction in asset prices or higher unemployment is interconnected with NPLs (Nkusu, Mwanza;, 2011). Increase in unemployment, increase the rate of NPLs. Increase in the unemployment rate confines the present and future buying power of people and it is associated with a decrease in the production of goods and services. Unemployment reduces the money streams of economy and expands the loan load. Therefore, unemployment is positively related to the NPL. (Messai & Jouini, 2013)

GDP Growth

An economy in growth is favorable to an increase in revenues and a decrease in financial distress... Because, higher positive increase in real GDP growth creates a higher level of income. This enhances the limit of the borrower to pay its obligations and adds to lessen bad debts. Similarly, the real GDP growth rate, unemployment and lending rates have a strong negative effect on the level of NPL (Louzis, Vouldis, & Metaxas, 2010) . Therefore, GDP growth is negatively associated with the NPL (Messai & Jouini, 2013)

Inflation

It is an increase in prices of general commodities which is measure by how much the value of the currency has been impaired (Warue, Beatrice Njeru, 2013) . This study also shows that, inflation is negatively related to NPLs. Though, this effect shows significant result over government and large bank and non-banking financial institutes. Furthermore, Inflation affects debtor's capability of paying off their loans (Makri, Tsagkanos, & Bellas, 2014). Therefore, inflation has an impact on loan quality can be ambiguous which can have a negative or positive relationship with NPL (Nkusu, Mwanza;, 2011).

Hypothesis Development

As indicated by Bangladesh Bank considering to the most recent few years, the loaning rate are gradually Decreasing. Along these lines there is a noteworthy positive relationship between the loaning rate and nonperforming credits (NPL) (Messai & Jouini, 2013) Therefore the first hypothesis is-

H1: Lending rate (LR) has positive impact on Non-Performing Loan.

In previous study shows that, inflation has a negative effect on NPLs. Inflation influences debtor's ability to paying off their debt (Makri, Tsagkanos, & Bellas, 2014). Inflation leads the devaluation of the real income. Inflation has an impact on loan quality which is ambiguous, can have a negative or positive relationship with NPL (Nkusu, Mwanza;, 2011).

H2: Inflation (Inf) has impact on Non-Performing Loan.

Previous studies show that, exchange rate absolutely connected with NPLs (Badar, Javid, & Zulfiquar, 2013). Besides, considering the local money flow, the arrangement of NPL relied to be high upon NBFIs. Hence, the Exchange rate is both positively and negatively related with Non-performing loans based on Export and Import business as it influence Balance of Trade and Forex investment (Khemraj & Sukrishnalall, 2009). Therefore, the second hypothesis is-

H3: Exchange Rate (ExR) has impact on Non-Performing Loan.

Previous study shows that increasing amount of income increase the amount of GDP growth. Besides, the GDP growth rate, unemployment and lending rate rates have a solid negative impact on the level of NPL. GDP development is negatively connected with the NPL (Messai & Jouini, 2013). Therefore, fourth hypothesis is-

H4: GDP growth Rate (GDPgr) has negative impact on Non-Performing Loan.

Unemployment increase the rate of NPLs. Increase in unemployment rate limits the present and future purchasing power of individuals and it is related with a lessening in the production of good purchase. Unemployment decreases the cash floods of economy and grows the Loan load. Consequently, Unemployment is decidedly related with the NPL. (Messai & Jouini, 2013). Therefore, the fifth variable is-

H5: Unemployment Rate (UnR) has positive impact on Non-Performing Loan.

Research Methodology

First of all, collect information of Non-performing loan of 15 Non-banking Financial Institutes from Annual Financial report for 6 years (2011-2016). In these samples, all 15 companies are under Securities and Exchange Commission (SEC).

Then, collect information regarding lending rate, exchange rate, Inflation, unemployment rate, GDP growth rate for 6 years (2011-2016) from Bangladesh Bank data server. For calculating Exchange rate, I take the average of USD for 6 years.

Then, I search for the perspective of different research in this field regarding the influence of macroeconomic factors on non-performing loan. I consider those research perspective and findings in this paper.

Finally, based on the previous researches, I create hypothesis for this paper considering Non-Performing Loan as depending variables and Lending rate, Inflation, Exchange Rate, GDP growth Rate, Unemployment Rate are as independent variables.

Finally, I conduct statistical analysis on these variables for different findings.

Sample Description Year	Industry	Number of Firms in the sample	Observed Firm Years
2011	NBFI	15	15
2012	NBFI	15	15
2013	NBFI	15	15
2014	NBFI	15	15
2015	NBFI	15	15
2016	NBFI	15	15
Total Observations (Firm Years)			90

Findings and Analysis

Table 1 states the regression results of all Hypotheses, which claims in short all variables or elements in the research impacts on the national non-performing loan of Bangladesh.

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.824	5	.165	.	. ^a
	Residual	.000	0	.		
	Total	.824	5			

a. Predictors: (Constant), Unemployment Rate, GDP Growth rate, Exchange Rate, Inflation, Lending rate

b. Dependent Variable: Non Performing loan industry average (Million Tk)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1.000 ^a	1.000	1.000	0

a. Predictors: (Constant), Unemployment Rate, GDP Growth rate, Exchange Rate, Inflation, Lending rate

Firstly for *H1*, as per the Hypothesis, considering to the last couple of years, demonstrated by Bangladesh Bank, the loaning rate are Decreasing. As loan rate increase borrower have to pay additional EMI (Equated Monthly Installment) which leads to inconvenience to pay off the full amount. It may cause default for some borrower. Therefore, it was expected that, there should be vital positive connection between the Loan rate and nonperforming Loan (NPL) (Messai & Jouini, 2013)

Table 1: Regression Result

Details	Coeff.	P-Value	Standard error	Expected sign	Actual Sign	Statement
Lending rate	10.382	0.00	0.00	Positive	Positive	Accepted
Inflation	1.970	0.00	0.00	Positive/ Negative	Positive	Accepted
Exchange Rate	-2.392	0.00	0.00	Positive/ Negative	Negative	Accepted
GDP Growth rate	4.567	0.00	0.00	Negative	Positive	Not-accepted
Unemployment Rate	-10.476	0.00	0.00	Positive	Negative	Not-accepted

Based on the findings, “Lending Rate” come up with nearly no significance with a coefficients of 10.382. It states that “Lending rate” has a highly positive impact on Non-performing loan and if “Lending Rate” goes up it will impact on NPL highly. This may cause by high interest burden on loanee which leads them to bankruptcy of inability to pay the additional amount of loan.

Secondly in the case of *H2*, In Previous study described Inflation negatively affects NPLs. Inflation reduces debtor's capacity to paying off their Debt (Makri, Tsagkanos, & Bellas, 2014). Inflation causes the devaluation of the money. As a result, Debtor used to pay more than before their livelihood. These scenarios reduce the capacity of paying off their debt. As Higher Inflation rate can make debt servicing either by lessening the value of outstanding credits. Another case, it reduces the borrowers’ capacity to debt obligation by decreasing real income when compensations are sticky. Besides, when credit rates are variable, expansion is probably going to lessen borrowers' loan servicing capacity as banks change rates to keep up their real returns to overcome the swelling Inflation effect. However, the study also claimed as inflation is a cause of higher industrialization and it causes less unemployment (Phillips, 1958), it also on average increase the ability to pay off the loan EMI in the short run. Thus Inflation can have a negative or positive association with NPL (Nkusu, Mwanza;, 2011).

In the finding “Inflation” comes up with nearly no significance and coefficient of 1.97 which also justify the positive linear relationship on NPL. Similarly, if “Inflation” goes up NPL also goes up. This may cause by devaluation of income of loanee which leads to inability to pay the repayment.

Thirdly, previous research findings demonstrate that, Currency Exchange Rate (Taka to USD is considered only) completely associated with NPLs (Badar, Javid, & Zulfiquar, 2013). The change of exchange rate has a reverse impact on exporter and importer. However it causes gains financial institutions and investors in Forex. If exchange rate increases, it affects importer as they have pay more for their loan amount regarding this process (LC) and at the same time causing exporter additional gain by the same process. Additionally, considering the neighborhood cash stream, the plan of NPL depended to be high upon NBFIs. Henceforth, the Exchange rate is emphatically related with Non-performing advances (Khemraj & Sukrishnalall, 2009). Therefore, it may impact both positively and negatively based on Balance of Trade.

Therefore, for *H3*, “Exchange Rate” has nearly no significance with a negative coefficient (-2.392) which states Exchange effects negatively on NPL which means if Exchange rate grows the NPL will fall and vice versa. This may cause by the overseas business who actually gains by increasing of exchange rate. There is a scope of further study in this sector.

Previous study demonstrates that, increase in increment causes GDP development. Moreover, the GDP development rate and loaning rate rates have a strong negative effect on the level of NPL. If GDP goes up it will increase the amount of income of the people which will enhance borrower ability for pay off the EMI. Gross domestic product advancement is adversely associated with the NPL (Messai & Jouini, 2013).

Next, for *H4* “GDP growth Rate” significance level is nearly zero and coefficient of 4.567 suggests that GDP growth leads to increasing NPL. This may cause by reverse impact in our economic structure as per previous study which states as growing economy leads to income.

Unemployment enhance the rate of NPLs. Unemployment rate restricts the present and future acquiring power of people and it is connected with a reducing the production of purchasing product. Unemployment floods of economy and grows the Loan load on borrowers. Therefore, Unemployment is positively related with the NPL. (Messai & Jouini, 2013)

NPL is decreased. Lastly for “Unemployment Rate” with no significance, coefficient is (-10.476) which states if unemployment rate increase NPL will go low. The impact is also reversing the idea of previous study. Therefore further research is required on this field.

Chapter 5: Conclusion

Non-performing loan takes lots of attention now days. High rate of NPL not only hampers the financial institution but also affect the national economy. This research consists of the Non-Banking Financial Institutions in Bangladesh in order to find the **“Influences of Macroeconomic Factors on Non-performing loan of Non-banking Financial Institutions of Bangladesh: Study on IPDC Finance Ltd.”**. The study resulted in positive influence of “Lending Rate of Bank”, “Inflation” and “GDP Growth Rate” towards Non-performing Loan amount of Non-banking Financial Institution however previous studies does not support that growing rate of GDP has positive impact on NPL. On the other hand, it declares “Exchange Rate” and “Unemployment Rate” has negative influence on NPL however previous study does not support Unemployment Rate can influence NPL negatively.

The study results in justifying prior concept about Lending Rate, Inflation and Exchange rate that lending rate and Inflation impacts positively with NPL and Exchange rate plays negatively. On the contrary, it claims reversely for GDP growth rate and unemployment rate saying that, GDP growth has positive impact on NPL and Unemployment rate plays negatively. Therefore, further study is required to justify the concept for Bangladesh perspective.

In this period of internship in IPDC finance, it was a great chance for me to understand the electronic banking system and having the idea of corporate culture. The importance of learning the workplace I felt in real measure. Among 33 Non-Banking Financial Institutes IPDC shows outstanding performance in reducing the amount of Non-performing loan in last couple of year. To control non-performing loan it is necessary to take important decision by the government to control these macroeconomic variables.

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Appendix

Appendix A: Amount of Non-Performing Loans of Different Non-Banking Financial Institution

Sl#	Name Of organization	2011	2012	2013	2014	2015
1	IPDC Finance Limited	563799421	539363199	3 42,072,882	192,338,111	126,982,039
2	LankaBangla Finance Ltd	925610000	522530000	931210000	1,231,910,000	1,339,180,000
3	IDLC Finance Ltd	544040000	613665800	643002400	913201600	1603287000
4	Delta Brac Housing Finance Corp. Ltd	17,836,847	27,719,331	64,434,827	58,810,757	87,676,170
5	Bay Leasing	231001038	217129295	280,245,000	324815200	505985059
6	FAS Finance & Investment Limited (FASFIN)	163381549	194778519	343,864,468	551,991,677	11,286,132,874
7	First Lease Finance & Investment Ltd	281414569	580066000	752539000	1,585,728,000	3,592,764,541
8	GSP Finance	45738508	33051621	41150499	292,896,444	303849653
9	ICB	2456974878	2274872219	2,621,321,686	3,052,755,499	3,771,777,768
10	National Housing	266214515	431838481	240171789	316,966,000	410,244,416
11	Phoenix Finance	348,579,948	415003083	560880118	684,257,624	475,690,802
12	Premier Leasing	266,597,955	621,659,830	1,071,366,889	1140936454	1140901005
13	Union Capital	650,932,513	1,189,195,842	936,513,882	1,216,390,000	1,212,917,220
14	United Leasing Company	289,391,14	289,391,146	347,369,064	327,837,680	280,966,630
15	Uttara Finance	273,995,889	408,325,026	838,223,997	1,061,305,389	1,729,505,895

Source: Annual Report of Respected Corporation (2011-16)

Appendix B: Macro-economic indicator of Bangladesh (Bangladesh Bank, 2011-16)

Year	NPL Growth (%)	Lending rate (%)	Inflation (%)	Exchange Rate (%)	GDP growth rate (%)	Unemployment Rate (%)
2011	10	13.32	7.86	71.17	6.46	4.5
2012	11	13.94	8.17	79.1	6.52	4.5
2013	24	13.59	7.18	79.93	6.01	4.3
2014	25	12.94	5.67	77.72	6.06	4.2
2015	115	11.71	5.87	77.67	6.55	4.1
2016	15	10.41	6.73	78.27	7.11	4.1

Appendix C: Wordlist

GoB- Government of Bangladesh

EMI- Equated Monthly Installment

NPL- Non-Performing Loan

NBFI-Non-Banking Financial Institute

AKFED- Aga Khan Fund for Economic Development

DCFCL- Departmental Control Function Checklist

BCP-Business continuity plan

GDP-Gross Domestic Product

MIS-Management Information System