

MACROECONOMIC FACTORS INFLUENCING NON- PERFORMING LOANS IN AFGHAN BANKS

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Abstract. Non-performing loans (NPLs) are an important indicator of credit risk and banking-sector stability. This study examines the potential influence of macroeconomic factors on non-performing loans in Afghan banks, focusing on economic growth, inflation, unemployment, and exchange rate movements. The study uses a qualitative analytical approach based on academic literature and reports from international institutions. It discusses how economic instability can affect borrowers' repayment capacity and the quality of banks' loan portfolios. The World Bank has identified rising non-performing loans, regulatory uncertainty, and constrained lending activity as continuing challenges for Afghanistan's banking sector. The study highlights the importance of macroeconomic monitoring, effective credit assessment, and stronger financial supervision. It concludes that integrating economic indicators into credit risk management may help banks identify vulnerabilities and improve resilience. Further empirical research using reliable banking-sector data is needed to establish the magnitude of these relationships.

Keywords: non-performing loans, macroeconomic factors, credit risk, Afghan banks, inflation, economic growth, financial stability.

1. Introduction

Banks play a significant role in economic development by providing loans to households and businesses. However, lending creates credit risk when borrowers are unable to repay their obligations. When overdue loans accumulate, banks may experience lower profitability, reduced liquidity, and weaker capacity to provide new credit.

Macroeconomic conditions can influence the likelihood of loan repayment. Economic growth may improve business revenues and household incomes, while economic contraction can reduce borrowers' financial capacity. Inflation may increase living and operating costs, and unemployment may reduce household income. Exchange rate fluctuations can create additional difficulties for businesses that depend on imported goods or have foreign-currency liabilities.

These issues are particularly relevant to Afghanistan. The World Bank's April 2025 report described the banking sector as fragile, highlighting rising non-performing loans, regulatory uncertainty, and constrained lending activity (World

Bank, 2025a). Understanding the relationship between macroeconomic conditions and loan quality is therefore important for improving credit risk management.

The objective of this study is to examine the principal macroeconomic factors that may influence non-performing loans in Afghan banks and to identify practical measures for reducing credit risk.

2. Literature Review and Methodology

Previous studies have examined the relationship between macroeconomic conditions and non-performing loans. Louzis, Vouldis, and Metaxas (2012) highlighted the relevance of macroeconomic and bank-specific factors in explaining loan quality in Greece. Klein (2013) also examined the determinants of non-performing loans and their relationship with macroeconomic performance.

Anita, Tasnova, and Nawar (2022) investigated macroeconomic determinants of non-performing loans across eight South Asian countries, including Afghanistan, using data from 2008 to 2019. Their study provides a regional perspective on the relationship between economic conditions and banking-sector credit risk.

Based on this literature, four main macroeconomic factors are considered in the present study.

Table 1.

Macroeconomic factors and their potential relationship with NPLs

		Stronger economic activity may improve borrowers' repayment capacity.
		Higher prices can reduce purchasing power and increase business costs.
		Lower household income can increase repayment difficulties.
		Currency changes can affect import-dependent businesses and foreign-currency borrowers.

Source: Author's synthesis based on Louzis et al. (2012), Klein (2013), and Anita et al. (2022).

This study adopts a qualitative analytical approach based on a review of academic literature and secondary information from the World Bank and other relevant institutions. It does not estimate a statistical model or claim to establish

causal relationships. The proposed relationships should be tested through future empirical research using consistent data on non-performing loans and macroeconomic indicators.

3. Macroeconomic Conditions and Non-Performing Loans in Afghanistan

Afghanistan's banking sector operates under challenging economic and institutional conditions. Although economic activity has gradually recovered, persistent poverty, unemployment, external vulnerabilities, and limited access to formal finance continue to affect the broader economic environment (World Bank, 2025a).

The World Bank reported that credit to the private sector declined from 2.4% of GDP in December 2023 to 2.0% in December 2024. It also identified rising non-performing loans as a concern for banking-sector stability (World Bank, 2025a).

Table 2.

Selected indicators of Afghanistan's banking environment

		Indicates a modest economic recovery.
		Shows the limited depth of formal bank lending.
		Indicates a further decline in credit relative to GDP.
	Rising NPLs identified as a concern	Highlights the importance of monitoring credit risk.

Source: World Bank (2025a). The indicators describe the economic and banking environment; they do not establish that changes in private-sector credit were caused by NPLs.

The figures illustrate the constrained role of formal bank lending in Afghanistan's economy. However, a decline in private-sector credit is not the same as an increase in the NPL ratio. The two indicators should be interpreted separately.

4. Discussion and Recommendations

The analysis suggests several ways in which macroeconomic conditions may affect loan quality. First, weak economic growth can reduce business profitability and household income, making debt repayment more difficult. Second, inflation may increase the costs faced by households and firms, although its effect depends on income adjustments and loan terms. Third, unemployment can reduce borrowers' ability to meet scheduled payments. Finally, exchange rate volatility may increase financial pressure on businesses exposed to imported inputs or foreign-currency obligations.

To manage these risks, Afghan banks should strengthen borrower assessments and regularly monitor changes in income, business performance, and repayment behaviour. Banks should also consider macroeconomic scenarios when evaluating their loan portfolios. Financial regulators can support these efforts by improving the transparency, consistency, and availability of banking-sector data.

These measures should complement effective lending standards, sound internal controls, and regular supervision. Macroeconomic indicators are useful warning signals, but they cannot fully explain the performance of individual borrowers or banks.

5. Conclusion

Macroeconomic factors may play an important role in determining non-performing loans in Afghan banks. Economic growth, inflation, unemployment, and exchange rate movements can influence borrowers' financial conditions and repayment capacity. Afghanistan's fragile banking environment and constrained lending activity make effective credit risk management particularly important.

This study recommends stronger borrower monitoring, the use of macroeconomic indicators in risk assessment, regular portfolio reviews, and improved financial reporting. Nevertheless, the analysis is based on secondary sources and does not quantify the independent effect of each factor on non-performing loans. Future research should use reliable time-series or bank-level data to test these relationships and determine which indicators are most useful for predicting credit risk.

References

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