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**THE DETERMINANTS OF COMMERCIAL BANK
LENDING IN MALAYSIA**



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**MASTER OF SCIENCE (BANKING)
UNIVERSITI UTARA MALAYSIA
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**THE DETERMINANTS OF COMMERCIAL BANK LENDING IN
MALAYSIA**



BY
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Abstract

This study investigates the bank specific and macroeconomic determinants of commercial bank lending in Malaysia using a sample of 27 banks covering the period from 2005 to 2014. This study also examines the impact of macroprudential policy measure implemented in 2010 on the lending activities of Malaysian commercial banks. Employing a random effects estimation, the findings demonstrate that bank size and volume of deposit positively influence commercial bank lending in Malaysia, while liquidity negatively influences the lending activities. With regard to macroeconomic determinants, this study does not find any conclusive evidence to support the influence of gross domestic product (GDP), lending rate and cash reserve requirement on commercial bank lending activities in Malaysia. Moreover, the findings of this study also reveal that the macroprudential policy measure which was implemented in 2010 to curb the high level of household indebtedness does not give any significant impact on lending activities in Malaysia during the study period.



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Abstrak

Kajian ini menyiasat penentu pinjaman bank komersial di Malaysia dari aspek sifat-sifat tertentu bank dan faktor makroekonomi dengan menggunakan sampel 27 bank meliputi tempoh kajian dari tahun 2005 sehingga 2014. Kajian ini juga mengkaji kesan langkah dasar kehematan makro yang dilaksanakan pada tahun 2010 ke atas aktiviti pinjaman bank komersial di Malaysia. Menggunakan kesan anggaran rawak (*Random effects*), hasil kajian menunjukkan bahawa saiz bank dan jumlah deposit mempengaruhi pinjaman bank komersial di Malaysia secara positif, manakala mudah tunai mempengaruhi aktiviti pinjaman secara negatif. Berhubung dengan penentu makroekonomi, kajian ini tidak menemui sebarang bukti yang kukuh untuk menyokong pengaruh keluaran dalam negara kasar (KDNK), kadar pinjaman, dan keperluan rizab tunai ke atas aktiviti pinjaman bank komersial di Malaysia. Selain itu, hasil kajian ini juga menunjukkan bahawa langkah dasar kehematan makro yang dilaksanakan pada tahun 2010 untuk membendung hutang isi rumah yang tinggi tidak memberi kesan yang signifikan ke atas aktiviti pinjaman bank komersial di Malaysia dalam tempoh kajian.



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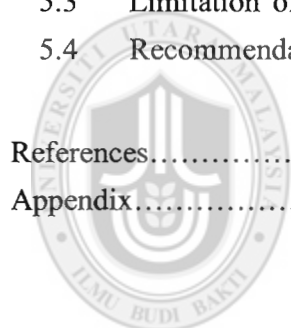
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CHAPTER 1

INTRODUCTION

1.1 Background of the study

The lending activities can be described as the heart of commercial bank's banking business. The commercial bank plays an intermediary's role by linking the surplus unit and the deficit unit in the financial market together. Commercial bank accepts deposit from customers who have surplus of fund while at the same time uses the fund to grant loans to the deficit unit in the financial market. Malede (2014) depicts lending plays a primary role in commercial bank daily banking activities where loan and advances is the largest component in the bank's asset portfolio and it is also the predominant sources of revenue for the bank.

In the context of Malaysia, lending activities is important for the commercial bank's banking business. This is because approximately 62% of the commercial bank's asset portfolio is constitutes by the loan and advances (Bank Negara Malaysia, 2015). Moreover, lending activities is also the main drivers of earnings for the commercial bank in Malaysia which approximately 70% of the commercial banks operating income is contributed by the interest income from the lending activities (Bank Negara Malaysia, 2014). Furthermore, the commercial bank lending also play an important role in supporting Malaysian economy. This is evidenced by the commercial bank loans to gross domestic product ratio have increased steadily from year 2005 to year 2014, which the ratio had recorded 78.37% on year 2005 and increased to 98.44% on year 2014 (Bank Negara Malaysia, 2015). This implies that commercial bank have a significant contribution in financing the economic activities in Malaysia.

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