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THE DETERMINANTS OF COMMERCIAL BANK LENDING IN 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.
Abstrak

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Table of contents

Title page.................................................................i
Certification of research paper...............................ii
Permission to use........................................................iii
Abstract.......................................................................iv
Abstrak......................................................................v
Acknowledgements......................................................vi
Table of contents........................................................vii
List of tables.................................................................ix
List of figures.................................................................x

CHAPTER 1: INTRODUCTION
1.1 Background of the study..............................................1
1.2 Problem statement...................................................3
1.3 Objective of the study.................................................6
1.4 Significance of the study..............................................6
1.5 Organization of the study.............................................7

CHAPTER 2: OVERVIEW OF LENDING ACTIVITIES IN MALAYSIA AND LITERATURE REVIEW
2.1 Introduction............................................................8
2.2 Overview of commercial bank lending in Malaysia..............8
2.3 Literature review and hypothesis statements.........................13
   2.3.1 Bank's specific characteristics..............................14
   2.3.2 Macroeconomic determinants...............................20
2.4 Conclusion............................................................28

CHAPTER 3: RESEARCH METHODOLOGY
3.1 Introduction............................................................29
3.2 Data........................................................................29
3.3 Sample.....................................................................30
3.4 Regression model.....................................................32
3.5 Measurement of variables...........................................33
   3.5.1 Dependent variable..............................................33
   3.5.2 Independent variables.........................................33
3.6 Technique of analysis...............................................40
CHAPTER 4: RESULTS AND DISCUSSIONS
4.1 Introduction........................................................................................................43
4.2 Descriptive statistics analysis.............................................................................43
4.3 Correlation coefficients matrix...........................................................................45
4.4 Variance inflation factor (VIF) test....................................................................46
4.5 Hausman test.........................................................................................................47
4.6 Random effect regression....................................................................................48
4.7 Conclusion.............................................................................................................52

CHAPTER 5: CONCLUSION AND RECOMMENDATION
5.1 Conclusion.............................................................................................................54
5.2 Contribution of the study....................................................................................56
5.3 Limitation of the study........................................................................................56
5.4 Recommendations for future study.....................................................................57
References................................................................................................................59
Appendix.................................................................................................................62
List of tables

Table 2.1 Summary of previous findings on determinants of bank lending...25
Table 3.1 List of commercial banks in Malaysia.................................31
Table 3.2 Summary of all variables..................................................39
Table 4.1 Descriptive statistics analysis............................................43
Table 4.2 Correlation coefficients matrix...........................................45
Table 4.3 Variance inflation factor (VIF) test....................................46
Table 4.4 Hausman test.................................................................47
Table 4.5 Random effect regression................................................48
Table 4.6 Summary of the hypothesis testing results.........................53
List of figures

Figure 2.1 Commercial bank loans to GDP ratio and GDP growth............10
Figure 2.2 Total loan and loan growth of commercial bank in Malaysia.....12
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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References


