FOREIGN BANKS ENTRY AND
DOMESTIC BANKS PERFORMANCE
IN MALAYSIA

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By

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ABSTRACT (BAHASA MELAYU)

ABSTRACT (ENGLISH)

Malaysia recognizes that the opening up of the domestic financial sector to foreign competition would contribute towards creating a more efficient, competitive and market driven financial sector, thus, enabling the sector to play a more efficient and effective role in the economy. The objective of this study is to evaluate the capabilities of the Malaysian local banks in meeting up with its new challenges. This paper will examines the effects that the foreign banks have on performance of local banks in term of profitability. The study used multiple regressions to analyze the data from year 2000 to 2009 for local and foreign banks. The result shows that there are positive relationship between profitability and internal indicators that derived from financial ratios for local and foreign banks. Other than that, the analysis illustrate that there are linear relationship between profitability performance of local banks and foreign banks. It sustain that foreign banks have a relationship with the profitability changes by local banks.
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CHAPTER ONE

1.0 BACKGROUND OF THE STUDY

1.1 Introduction

The entries of foreign banks in Malaysia are very intensive, especially in 1990s where the financial liberalization was taking place. As such, the presence of foreign banks is debating whether the performances of the domestic banking sector are affected. However, the presence of foreign banks to certain extent has provided some advantages to the domestic banking sector. For example, most of the past studies suggest that the local banks indirectly get the benefit of being more efficient in the financial system through competitions. As foreign banks promote quality services and improved pricing, it helps to improve the country's economic positions and attract more foreign investment.

Studies by Okuda (2004); Claessens et al, (2000) and Negishi and Inoguchi, (2006), revealed that the presence of the foreign banks in the local market reduce the profits of domestic banks. It improves the operational efficiency of domestic banks due to reduction in operational expenses. It also promotes new financial services and technology into the markets and finally it tends to reduce the credit quality of domestic banks, which could lead to financial system instability.
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REFERENCES


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