

DEMAND IN CONSUMER CREDIT

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DEMAND IN CONSUMER CREDIT

A dissertation submitted to the Faculty of Finance and Banking in partial fulfillment
of the requirement for the degree
Master of Science (Banking)
Universiti Utara Malaysia

by

Othman Mohd Rashid

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ABSTRAK

Kredit pengguna telah menyaksikan pertumbuhan yang ketara di sepanjang kitaran ekonomi. Pertumbuhan ekonomi yang mapan di Malaysia, dengan purata 5.9% setahun dalam tempoh 6 tahun terakhir ini, telah meningkatkan pendapatan isirumah dan menggalakan kepercayaan pengguna, yang mana telah merangsang jangkaan pendapatan akan datang yang optimistik. Pengaruh variasi makroekonomi terhadap permintaan kredit pengguna adalah tidak dapat dielakkan dan seperti juga prestasi transaksi hartanah perumahan, automotif, penggunaan kad kredit dan pinjaman peribadi.

Maka, kajian ini bertujuan untuk memahami dan menerangkan pengaruh-pengaruh variasi makroekonomi tersebut. Terdapat beberapa variasi ekonomi berbeza dalam cara ia mempengaruhi kredit pengguna tetapi apabila produk dalaman kasar, kadar dasar pinjaman dan pengangguran meningkat didapati permintaan terhadap kredit pengguna menurun. Sementara, index harga pengguna dan kumpulan umur menunjukkan satu perhubungan yang positif dan apabila variasi tersebut meningkat permintaan credit pengguna juga akan meningkat. Penemuan ini mencadangkan bahawa dengan memantau variasi makroekonomi, permintaan bagi kredit pengguna juga boleh diramalkan.

ABSTRACT

Consumer credit has witnessed a significant growth throughout the economic cycles. Sustained economic growth in Malaysia, averaging 5.9% a year over the past six years, has raised household incomes and boosted consumer confidence, which, in turn, has induced optimistic expectations of future income. The influence of macroeconomic variables toward the demand in consumer credit is inevitable as well as the performance of residential property transaction, automotive, credit cards usage and personal loans.

Hence, this study aims to understand and explain the influence of these macroeconomic variables. Several analytical methods such as trend, correlation analysis and regressions were carried out. Some of the economic variables vary in the way they influence consumer credit but when GDP, BLR and unemployment increased it leads to decrease in demand of consumer credit while CPI and age group which are significantly positive correlated leads to increased of consumer credit. This finding suggests that by monitoring the macroeconomic variables, the demand in consumer credit may be predictable.

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ABBREVIATIONS

AITAB	Ijarah Thumma Al- Bay
BNM	Bank Negara Malaysia
BLR	Base Lending Rate
BBA	Bay-Bithaman Ajil
BSN	Bank Simpanan Nasional
CPI	Consumer Price Index
GDP	Gross Domestic Product
MAA	Malaysian Automotive Association
MBSB	Malaysian Building Society Bhd

CHAPTER ONE

BACKGROUND OF THE STUDY

1.1 Introduction

Consumer debt or household debt can be defined as ‘money, goods or services provided to an individual in lieu of payment.’ Common forms of consumer credit include credit cards, motor (auto) finance, personal finance and mortgages. The concept of debt is not difficult to understand. When you need something and borrow it and you're in debt to the lender. When you give it back you're considered out of debt. It's when you throw in the concept of adding interest to what you've borrowed that things get interesting. Now you borrow from a bank and pay them back more than you borrowed and if you don't, you pay a penalty in fees, late charges, over-the-limit charges and any other charges that they can come up with to increase what you owe.

Debt has been around for hundreds of years and is seen to be a burden to many. In early Greece debt was physically tied to bondage, for if one was unable to repay their debts they simply became property of the lender. In his wisdom Solon, the great lawgiver, passed a law in 594 B.C. that outlawed debt bondage and canceled all outstanding debts. It was in the Italian banking system in the 1300's that modern lending got its start. Using a bill of exchange a bank could lend money and a safest mode of transaction. The bill of exchange was then able to be used as currency among merchants and lenders. Lending continued to be reserved for the upper class until fairly recently. Most middle-class and working-class people had no debt because the banks refused to lend them money. A middle class person in need of a loan only had the options of a pawnshop or a loan shark. In an attempt to curb loan

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