A STUDY ON

FACTORS AFFECTING BANKRUPTCY: THE CASE OF MALAYSIA

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ABSTRACT

This paper deals with the bankruptcy of individual subject and how bankruptcy rate is affected by macroeconomic variables. The data collected is based on the time series for the period from 2006 to 2013 on quarterly basis consist of the independent variables such as non performing loans, per capita income, unemployment and bankruptcy cases as dependent variables. There might be supposed positive or negative significant relationship between non performing loans, unemployment, per capita income (GNI) with bankruptcy cases in Malaysia. My finding in this paper research confirms strong correlation between non performing loans, unemployment with the number bankruptcies cases declared in Malaysia. This result shows that Malaysians fails to repay loan due to inability to settle their debt and also loss of work or being unemployment. While per capita incomes (GNI) have no significant relationship towards bankruptcy cases in Malaysia. This research is done by using Malaysia as single entity instead of a pool of countries

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1.1 Background of Study

What is bankruptcy?

Bankruptcy refers to a process where a debtor will be declared a bankrupt pursuant to a court order. All property belonging to the bankrupt will vest on the Director General of Insolvency (DGI) and the DGI has the responsibility to sell all such assets. Once this is completed, the proceeds of the sale will be distributed among creditors who have filed their proof of debts with the DGI's office. According to Malaysia Department of Insolvency, a bankrupt person is someone who has officially being declared that he unable to pay what he owes. In Malaysia, the minimum outstanding debt amount to be declared as bankruptcy person is RM30, 000. Issues of bankruptcy case have gained increasing attention from many parties in the past few decades, as data shows an increasing form.
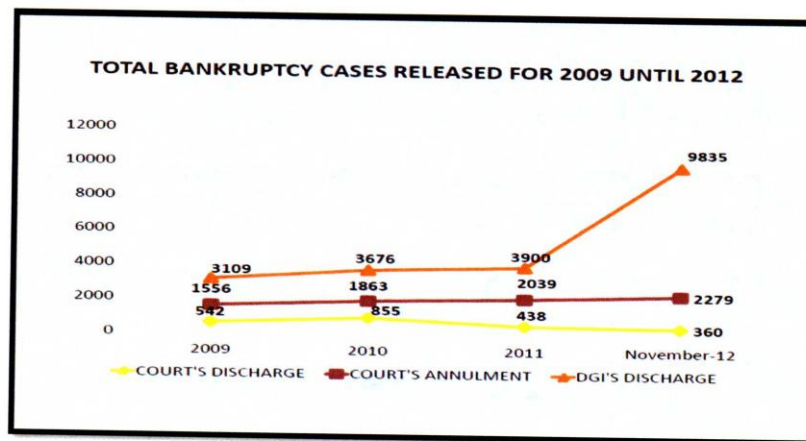

Figure 1: Total Bankruptcy Cases Released For 2009 Until 2012
Source: Malaysia Department of Insolvency

From the article of The Star dated 9 April 2014, the Minister in the Prime Minister's Department Nancy Shukri said some 33,570 Malaysians were declared bankrupt within that