



UNIVERSITI TEKNOLOGI MARA

**THE IMPLICATION OF MACROECONOMIC
VARIABLES TOWARDS NON-PERFORMING
LOAN IN MALAYSIA**

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ABSTRACT

This paper is primarily interested in examining the economic effect on the Malaysian non-performing loan from the year 2007 to 2017. A specific question that is addressed in this study is whether the macroeconomic variables affect the performance of non-performing loans.

Hence, the independent variables that were chosen in this study are gross domestic product (GDP), tax revenue (TR), interest rate (IR) and foreign direct investment (FDI) while the performance of non-performing loans would be the dependent variable. This paper utilised the Ordinary Least Squares (OLS) regression method in determining the significance of the independent variables in causing the increasing number of non-performing loans.

The correlation test, multicollinearity test, normality test and regression analysis were also employed in order to discover the properties of data collected from The World Bank and Trading Economics. Overall, the results have found that GDP, TR, IR and FDI have a significant relationship with the non-performing loan in Malaysia.. Thus, the finding assists the financial institutions to take actions on the number of non-performing loans.

Keywords: Non-performing loans, Gross Domestic Product, Foreign Direct Investment, Tax Revenue, Interest Rate, Malaysia

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CHAPTER 1

1.1 INTRODUCTION

Non-performing loan is referring to a loan that has passed 90 days without the borrower paying the agreed installment to the bank. Non-performing loans (NPLs) are also significant because they reflect the credit quality of a bank's loan portfolio and, in aggregate, the credit quality of a country's banking sector. Understanding the factors that influence the level of non-performing loans is critical for banks' risk management functions as well as national bank supervisors in charge of banking stability.

The determinants of non-performing loans is a major theme within and across countries in the academic literature on non-performing loans (Skarica, 2014). In addition, the cyclicity of bank lending and the occurrence of abnormal loan losses are factors to consider. Besides, the bank profitability and proficiency is dependent on the financial development (Demirgüç-Kunt and Huizinga, 2000). That shows how the data of non-performing loans could reflect the performance of the bank.

The identification of factors that contribute to NPLs would allow for proper monitoring and the implementation of sound financial policies to prevent future delinquency of these loans (Adebola et al., 2011). Apart from that, a foundation or an essential part of the events' financial turn described the meaning behind a commercial bank (Saini and Sindhu, 2014). Accepting the client's stores, giving credit to more ordinary for business and some speculations items is another administration's activities that the business bank's did every single day (Saini and Sindhu, 2014). Besides the business areas, business banks also serve different divisions like people and government. As indicated by Bank Negara Malaysia's standard base, the advance delegated nonperforming when the intrigue and chief is the default for six months from the first day of default (Amanda, 2019)