DEPOSIT DETERMINANTS OF COMMERCIAL BANKS IN MALAYSIA

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ABSTRACT

This paper attempts to investigate the relationship between the deposit level with financial variables and macroeconomic variables in Malaysia. The independent variables are rates of interest on deposits, Base Lending Rate (BLR), Kuala Lumpur Composite Index (KLCI), Consumer price Index (CPI), Money Supply (M3), and Gross Domestic Product (GDP). The dependent variable is deposit level of commercial banks in Malaysia. To identify the determinants that affect the deposit level of commercial banks in Malaysia, this study applied the Ordinary Least Square (OLS) method using the monthly data over the period of January 2001 until December 2014. The OLS method results suggest that BLR, KLCI and M3 have a significant relationship with the deposit level whereas interest rate on deposits, CPI and GDP do not have a significant relationship with deposit level of commercial banks in Malaysia.

CHAPTER 1: INTRODUCTION

1.1 Background of the Study

Deposits in commercial bank are an important sign of economic development where it is viewed as an element which finances domestic investment to achieve economic growth. Nowadays, we can see that most bankers are now targeting more efforts into off-balance-sheet activities. However, the traditional banking business function of supplying funds to the economic is still important. For example, most business organizations especially in developing countries are highly dependent on bank loans as a source of finance and the capability of banks in approving the loan depend much on their ability to attract deposits.

Basically a bank deposit is the fund placement in an account with a bank institution. In Malaysia, the difference commercial banks compete among them to produce the various forms of deposits to attract the depositors. In this case, banks are unconstrained in terms of deposit facilities they can offer. So, the range of products is much broader than what was previously available. Therefore, the depositors are free to choose any minimum denomination, rates of return and maturity period prior to placing their fund with a particular bank. That deposits facilities are now available at other financial institutions. To continue ahead of the competitors, the commercial banks have to be more sensitive on pricing, products offering, and the service quality they offer to their customers.