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THE RELATIONSHIP BETWEEN HOUSEHOLD CREDIT AND BANKING STABILITY IN MALAYSIA: PANEL EVIDENCE

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LET'S GET TO KNOW

ABOUT

This study's main objective was to provide empirical evidence of household credit's influence on banking stability. In achieving this objective, this study proposed an indexing system to measure banking stability to explain the relationship between household credit and the Malaysian banking sector.

DESIGN/METHODOLOGY/ APPROACH

In analyzing household credit's influence on the Malaysian banking sector's stability, household credit was categorized into two components, namely mortgage and consumer credit. The Banking Stability Index (BSI) for each bank is constructed using 15 bank-specific variables and some macro-economic variables. The determinants of the BSI are estimated using a static panel data technique using a sample of 37 commercial banks spanning the period from 2008 to 2015.

FINDINGS/EXPECTED FINDINGS

The fixed-effects regression results showed a statistically significant negative relationship between both forms of household credit (mortgage credit and consumer credit) upon the banking sector's stability.

ORIGINALITY/VALUE/ CONTRIBUTION

This study's contribution is the empirical examination of household credit's effect on banking stability using a total household credit to total loan indicator. The influence of household credit on banking stability using a Banking Stability Index (BSI) has not been previously explored in the literature. The present study also offers a deeper understanding of the relationship between two different credit categories— mortgage and consumer credit—rather than focusing on overall household credit. In particular, differences in the credit categories' sensitivities may affect each type of credit differently.

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