UNIVERSITI TEKNOLOGI MARA

THE MEDIATING ROLE OF GREEN FINANCING IN RELATIONSHIP BETWEEN CLIMATE CHANGE AND BANK STABILITY AMONG TIGER CUB ECONOMIES

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Thesis submitted in fulfilment
of the requirements for the degree of
Doctor of Philosophy
(Finance)

Faculty of Business and Management

November 2024

ABSTRACT

Banking stability is paramount for economic growth. A sound financial intermediation process leads to the creation of friendly environmental loans from depositors to borrowers, guaranteeing the nation's development and sustainability. However, banking businesses through credit facilities could severely cause environmental degradation and economic development. The non-green financing facilities have impacted climate change to hike and become uncontrollable. An ongoing debate pertaining to the relationship between climate change and bank stability raised remarkable attention amongst scholars, in which practicing green financing may reduce climate change and enhance bank stability. Therefore, this study aims to examine the impact of climate change on bank stability and the mediating effect of green financing on the relationship between climate change and bank stability in the Tiger Cub economies region, which includes Indonesia, Malaysia, the Philippines, Thailand, and Vietnam. The data was collected from the Fitch Connect website for a period from 2012 until 2021 and analysed using static panel data based on pooled Ordinary Least Square (OLS) and Random Effect (RE)/Fixed Effect (FE) regression model. The current study also employed a Panel Autoregressive Distributed Lag (ARDL), which examined the short-run and long-run relationship between variables. The general findings suggest that climate change significantly impacts significantly and negatively the bank stability in the Tiger Cub economies region. Additionally, findings showed that green financing plays a significant mediating role in influencing the relationship between climate change and bank stability. However, findings produced by Panel ARDL estimation suggest that the direct impact of climate change and green financing towards bank stability only applies in the long run. The current study provides several important implications especially for the policymakers in the Tiger Cub Economics region, by promoting green financing in the bank's business as an alternative to control climate change impacts in order to maintain bank stability.

ACKNOWLEDGEMENT

Alhamdullillah, all praises to Allah SWT for the strengths and His blessing giving me the opportunity to complete this thesis. In addition, I would like to take this opportunity to express my profound thankfulness to both of my supervisors, Professor Ts Dr Imbarine bin Haji Bujang and Dr Flicia Rimin, for their willingness to accept me to do Ph. D under their supervision. Thank you for an excellent guidance and improving my presentation skills and even supporting me financially. Without their invaluable help of assistance during the study period, this thesis will not be successfully completed by me

Special thanks go to my parent, Abd Hishamuddin Sitam and ,
my siblings for all their love and unconditional support in every possible way. I would not be able to finish at this stage without their prayers and sacrifices for my study.

In addition, I would like to thank my future wife Nur Hidayati Sairin for always give me advise and give me extra moral support. I am also grateful to Muhamad Sufian Hadi Bacho, Ts. Mohd Shahrin Bahar, Mohd Azwan Sulaiman, Meldebra Hilom Polinon, Mohd Shahrizan Syukur, Nur Azureen Inchiem and Nur Ayiqin Ramdhan for give support and the fond memories. Last but not least, I would like to thanks to everyone who has assisted me directly or indirectly contributed to this thesis

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CHAPTER 1

INTRODUCTION

1.1 Background of Research

The financial system is extremely important to the economy's stability. It facilitates the flow of cash between savers and borrowers, ensuring that financial resources are efficiently distributed to promote economic growth and development. Bank stability describes the condition where the financial intermediation process functions smoothly, and there is confidence in the operation of key financial institutions and markets within the economy. Financial instability and its effects on the economy can be very costly due to its contagion or spillover effects to other parts of the economy. Moreover, it may result in a financial crisis with negative economic effects. As a result, having a solid, stable, and healthy financial system is critical for the effective allocation of resources and risk distribution across the economy. Therefore, the main purpose of the central bank is to promote and maintain monetary and bank stability that provides sustainable economic growth.

The determinants of bank stability can be classified into two groups, which are internal and external determinants, as mentioned by Malichova and Mária (2015), Chen and Wei (2017), Yahya (2017), Javaid and Alalawi (2018) and Robin (2018). The internal determinants are sometimes called bank-specific factors, and the external ones are called micro-economic determinants of banks stability. Jongho (2010) discussed that the broader economic situation such as stock market stability is a major contributor to bank stability and believed the market index to be one of the most important determinants of total commercial bank stability. Diaconu and Oanea (2014) concluded that the interbank offered rate and GDP growth rate are the primary elements that significantly impact commercial bank stability. Furthermore, Diaconu and Oanea (2015) found that internal factors like loans as a proportion of assets, deposit ratio, salary expense