

UNIVERSITI TEKNOLOGI MARA

**MODERATION OF
COUNTRY GOVERNANCE ON
MACROECONOMIC CYCLICAL
INDICATOR TO NPL BEHAVIOR IN
EMERGING ASIA**

NURFILZAH BTE ARHAM

MSc

February 2021

AUTHOR'S DECLARATION

I declared that the work in this thesis was carried out in accordance with the regulations of University of Technology MARA. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Postgraduate, University of Technology MARA, regulating the conduct of my study and research.

Name of Student : Nurfilzah Bte Arham

Student I.D. No. : 2018403822

Programme : Master of Science in Business Administration
(BA750)

Faculty : Business and Management

Thesis Tittle : Moderation of Country Governance on Macroeconomic
Cyclical Indicator to NPL Behavior in Emerging Asia.

Signature of Student :

Date : February 2021

ABSTRACT

Non-Performing Loan (NPL) remains as an important element of credit risk in emerging Asia banking. This research theoretically and practically examined the role of macroeconomic cyclical variables in influencing the level of bank's NPL in Asia emerging countries. Theoretically, the procyclical and countercyclical perspectives used as the underlying theory to understand the role of macroeconomic cyclical indicators in influencing bank NPL in Asia. Practically, this research extended the previous studies on the macroeconomic cyclical model by introducing the interaction of macroeconomic cycle indicators with country governance and their influence on bank NPL. The proposed empirical model is used to examine the roles of country governance (i.e. voice and accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of law and control of corruption) in mitigating the negative effects of macroeconomic cycles on bank credit risk. This study employed panel regression analysis methods to examine the relationships of microeconomics and country governance variables on bank NPL using Principal Component Analysis (PCA) as interaction tools by analyzing 10 countries in emerging Asia from 2010 to 2018 which experienced great and rapid growth during the years namely Philippines, Vietnam, Indonesia, Thailand, Malaysia, Singapore, India, South Korea, Hong Kong and China. The geographical coverage of the research data is limited to 10 emerging Asia countries. Based on this study, it is found that the interaction analysis provides new insights on the role of country governance to mitigate the negative effect of economic cycle shocks. It is found that the country governance has an effect on total gross external debt/GDP, inflation rate, real interest rate, and unemployment rate on bank NPL. Thus, country governance has a significant impact on mitigating bank NPL. This research contributes to the extension of bank NPL research that would be valuable to disseminate theory, practice and policy related to the management of the bank NPLs in selected emerging countries of Asia. It also provides new insights into the interaction role of governance in managing bank credit risk.

Keywords: Asia Countries, Bank Credit Risk, Bank NPLs, Macroeconomic Cyclical Indicators.

ACKNOWLEDGEMENT

Firstly, I would like to thank Allah SWT for allowing me to embark on my master's degree and for being in this challenging journey. My gratitude goes to my supervisor Dr Mohd Shamlie Bin Salisi, and co-supervisor, Assoc. Prof. Dr Rozita @ Uji Binti Mohammed. Thank you for the support, patience and ideas throughout this study. Their continuous support in this journey will never be forgotten. Any assistance in the forms of material and financial are truly appreciated especially when I participated in a few big events such as conferences organized by the University of Malaya and Universiti Malaysia Sabah, and publication issued by the Borneo Colloquium, UiTM Sabah Branch. Their in-depth supervision when it comes to my mock and final viva voce, and ongoing thesis writing have created such a wonderful relationship between us. All these kinds of supports are very meaningful to me as a MSc candidate.

I would also like to express my gratitude to Dr Jasman Tuyon for providing me the facilities, knowledge and assistance during my study. His regular check-up on the completion of my thesis is appreciated for me to be on track. The advice that I got from him as the Postgraduate Coordinator is priceless. His knowledge sharing in the area of study is very useful to ensure I contribute to the new knowledge of study. His information regarding conferences and publications became the main source of my involvement in writing articles for few proceedings and journals.

Next, I would like to take this opportunity to thank my family members especially my mother, Jarah Bte Untong and my brother, Muhammad Hazwan Shah Arham, who are always there for me when I am in difficulty and having hard time. Lastly, I would like to say thank you to all individuals who are directly or indirectly involved in the making of this thesis, all of you are truly appreciated and this thesis will never be completed without everyone's assistance. Lastly, my appreciation goes to the Postgraduate Centre of UiTM Sabah Branch as the provider of facilities and assistance during the proposal development phase. Special thanks to my colleagues and friends for their kind help. The knowledge sharing session held together before will not be forgotten, especially the 'coffee-talk' sharing session as it is also has created a bond between us as the MSc students. Thank you!

TABLE OF CONTENTS

	Page
CONFIRMATION BY PANEL EXAMINER	ii
AUTHOR'S DECLARATION	iii
ABSTRACT	iv
ACKNOWLEDGEMENT	v
TABLE OF CONTENTS	vi
LIST OF TABLES	ix
LIST OF FIGURES	x
LIST OF SYMBOLS	xi
LIST OF ABBREVIATIONS	xii
CHAPTER ONE INTRODUCTION	1
1.1 Research Background	1
1.1.1 Banking Sector Development in Emerging Asia Countries	1
1.1.2 Review of Bank NPLs in Emerging Asia Countries	4
1.2 Problem Statement	7
1.3 Research Questions	9
1.4 Research Objectives	9
1.5 Significance of Study	10
1.6 Scope of Study	11
1.7 Limitation of Study	12
1.8 Summary	12
CHAPTER TWO LITERATURE REVIEW	13
2.1 Introduction	13
2.2 Theories	13
2.2.1 Procyclical and Countercyclical Perspective	13
2.2.2 Macroeconomic Cyclical Indicators and NPL Behaviour	14
2.3 Empirical Evidences	17
2.3.1 Role of Country Governance	17
2.3.2 Total Gross External Debt/GDP	18
2.3.3 Inflation	19