UNIVERSITI TEKNOLOGI MARA

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

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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.

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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.

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