UNIVERSITI TEKNOLOGI MARA

QUANTITATIVE DETERMINANTS OF BANKS' LIQUIDITY IN MALAYSIA AND INDONESIA

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Thesis submitted in fulfilment
of the requirements for the degree of
**Bachelor of Business Administration
(Hons) (Finance)**

Faculty of Business and Management

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AUTHOR'S DECLARATION

I declare that the work in this project paper was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the result 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 degree or qualification.

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

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ABSTRACT

It is very important for every single bank to achieve and sustain ideal level of bank's liquidity. It is also the key variable in banking system. Thus, it is attention-grabbing to define its determining factor. Liquidity as well plays a part in defining the bank's profit level. It is also indicated that the liquidity is the basic aspect that involved in any unforeseen and unanticipated environment. Additionally, a bank can threaten by liquidity risk whereas the bank incapable to meet its short term commitment. This is because the bank is incompetent to liquidate its asset and security into cash without any losses of principal or profit. Thus, it is essential that a bank need to preserve their liquidity in order to persist in stable condition. This research studies the determinants of banks' liquidity in Malaysia and Indonesia. In order to complete the purposes of this study, data has been collected from 2006 to 2015(yearly based) from 19 samples which are 9 banks of Malaysia and 10 banks of Indonesia and analyse the data by using panel data regression analysis. Bank liquidity is defined as dependent variable (liquid asset over total asset) and return on asset (net income over total asset), return on equity (net income over total equity), capital adequacy (total equity over total asset), growth annual rate of gross domestic product and annual inflation rate (CPI) are well-defined as independent variables. The data was analysed by using Stata 11 to declare the data, to analyse descriptive analysis and to identify the particular panel data modelling whether pooled OLS ,fixed effect model or random effect model by using F-test , Breusch and Pagan LM test or/and Hausman test.

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