UNIVERSITI TEKNOLOGI MARA

EFFECTS OF ECONOMIC FACTORS ON THE BANK'S LIQUIDITY RISK: CASE OF SOUTHEAST ASIA

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Thesis submitted in partial fulfillment
of the requirements for the degree of
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Investment Management

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AUTHOR'S DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi 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 degree or qualification.

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

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ABSTRACT

Liquidity risk is the risk that because of the inability to turn assets into cash without incurring a loss, a corporation or entity that may not be able to fulfil short-term financial obligations. This most frequently happens when there is a lack of buyers, large market movements or widening bid-ask spreads assets such as securities that may not be sold for a fair price. When liquidity was abundant, several banks failed to take note of a variety of core liquidity risk management concepts. Many banks did not have an acceptable structure that properly compensated for the liquidity risks that raised by individual products and business lines, and business-level rewards were thus misaligned with the bank's overall risk tolerance. Managing liquidity risk also has been an important factor to determine the success of the financial institutions. It is because, capital refers to solvency while reserves of cash are for liquidity. In order to lend, banks need money or they risk for being insolvent. Deposits are generated by lending, but not all deposits originate from lending. When deposits are obtained, banks need funding which is liquidity or they risk for running out of funds. That is why knowing the liquidity of the company or specifically, banks are very important for measuring how they are being able to fund their short-term obligations and current liabilities as well as evaluating a company's health. On the other hands, if a trading bank has an illiquid asset position, it is limited capacity to liquidate asset position at short notice would result in market risk. A place may be hedged against market risk, but liquidity risk is still involved. That would be another reason why managing liquidity risk is important for company or any financial institutions. Hence, the main objective of this research is to study the effect of economic factors on the bank's liquidity risk in Southeast Asia which is Brunei, Indonesia and Thailand for ten (10) years from years 2009 until 2019. This study only includes three (3) countries in Southeast Asia only which are Brunei, Indonesia and Thailand due to lack of data that have been collected from The World Bank Data. This static panel data technique was employed to test the significant effect between the variables using the Ordinary Least Squares (OLS) and multiple regression. The independent variables that included in this study are all economic factors which are Capital Adequacy Ratio (CAR), Gross Domestic Products (GDP), Non-Performing Loans (NPL), Inflation and Interest Rate Spread (IRS). Meanwhile the dependent variable is liquidity ratio. CAR, GDP, NPL and inflation are expected to have negative effect towards dependent variables. Meanwhile, IRS expected to have positive relationship with liquidity ratio.

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