



اَوْنُوْرْتِي تِيْكْنُوْلُوْجِي مَارَا

**UNIVERSITI
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MARA**

**AN ANALYSIS OF RELATIONSHIP
BETWEEN NON-PERFORMING LOAN
AND ITS DETERMINANTS FOCUSING
COMMERCIAL BANKS IN
MALAYSIA**

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ABSTRACT

As we know that non-performing loans (NPLs) always happen in our country and become more serious. A non-performing loan (NPL) may be defined as a loan that has been unpaid for ninety days or more. There are too many reasons why it happens and most banking institutions find alternative strategies on how to handle this problem. A study shows that non-performing loans are increasing year to year and this situation is disquieting. The objective of this paper is to investigate the relationship between non-performing loans in Malaysia and the various factors by using data from the year 2004 to 2009, which includes 72 months. The data gathered is to prove whether an increase in the real interest rate, inflation rate, real exchange rate, and GDP growth will increase non-performing loans or not. On the other hand, for the long-run relationship, it shows that all independent variables such as the base lending rate, inflation rate, exchange rate, and growth in GDP are negatively significant towards non-performing loans. For the short-run relationship, only the base lending rate influences non-performing loans where the p-value is more than significant intervals, which means the result should reject the null hypothesis. For future recommendations, it is suggested that other researchers will supplement this research by integrating other factors that might affect non-performing loans in Malaysia, such as the unemployment rate and income.

Keywords: Interest rate, inflation rate, real exchange rate, growth in domestic product, non-performing loans.