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FACTORS AFFECTING LIQUIDITY OF BANKS IN MALAYSIA

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ABSTRACT

The factors affecting bank liquidity in Malaysia are investigated in this paper. It is common knowledge that the primary purpose of banks is to generate a profit. At the same time, the banking sector performs a number of critical functions, including lending to individuals and businesses, encouraging the accumulation of funds in the national economy, facilitating payments, transfers, and financial transactions, and ensuring the efficient allocation of investment resources. A cross-sectional survey research design was used in this study. Annual reports from 15 commercial banks and 15 Islamic banks in Malaysia were used to compile the data. All of the independent factors, such as bank size, capital adequacy ratio, cost of funding, and return on assets, were found to have a significant relationship with the dependent variable, liquidity. Policymakers would benefit from this research if it employed the internal factors in banks offered in this study to analyse the liquidity performance of banks in relation to the microeconomic variables included in this study.

Keywords: ***liquidity, bank, bank size, capital adequacy ratio, cost of fund, return on assets***

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

This research aims to discuss the relationship between microeconomic variables and liquidity of banks in Malaysia. This chapter will discuss the background of the study, problem statement, research questions, research objectives, significance of the study, study scope, and chapter one's overview.

The liquidity is a bank's ability to fund asset growth and satisfy both anticipated and unanticipated cash and collateral obligations when they become due. Liquidity risk refers to a bank's inability to meet its financial obligations without losing assets or suffering unfavourable expenses. It is preferable for banks to keep an adequate liquid buffer in order to avoid such a situation and maintain financial stability (Kodasheva, Azhmuxamedova, Arynova, Shaikenova, Kabdullina, Savanchiyeva, & Amerzhanova, 2020).

The liquidity has a significant role to the banks because it influences bank growth and development by ensuring the smooth operation of financial markets. Liquidity is important for learning how easily banks or companies are able to quickly pay bills and meet short-term business and financial obligations. It is also an active variable because it can be determined by a broad range in an economy by engaging as an intermediary between surplus and deficit units, respectively, other than playing a pivotal role in the execution of different valuable activities on both sides of the balance sheet. The statement of financial situation provides critical information to all interested parties. For example, in addition to current and fixed assets, the assets side includes bank loans, while the liabilities side includes, among other things, client deposits.

Liquidity is a key factor that influences the entire economy, and it has spawned several debates among policymakers, financial institutions, and other economic and banking actors. The Asian financial crisis in 1997 and the Subprime crisis in 2008 were the two most notable financial disasters in the last two decades. The banking industry