THE DETERMINANTS OF NON-PERFORMING LOANS OF ISLAMIC BANKS IN MALAYSIA

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ABSTRACT

Non-performing loans trend is essential for banking institutions as it plays important part in contributing loss instead of interest income to banking institutions if there is increase in amount of loan repayment due overtime. This study conducted to investigate the determinants of non-performing loans of Islamic banks in Malaysia using macroeconomic factors. By using time series data from 2011 to 2017 accumulated on monthly basis, the results of this study reveal that inflation rate have positive and significant relationship with non-performing loans of Islamic banks in Malaysia. However, contrary with above variables, financing rate, exchange rate and GDP growth rate shows negative and significant relationship with non-performing loans. Moreover, unemployment shows positive and insignificant relationship with non-performing loans. Islamic banks should be more intensive in monitoring increase and decrease in non-performing loans in order to avoid any failures of banking operations. Hence, in order to improve and increase accuracy of the results, future researchers recommend to use other variables such as growth in loans, bank size, producer price index, industrial production index and other related variables to measure the problem of non-performing loans. In addition, future researchers recommend to make comparism between conventional and Islamic banks for better results.