



**AN EMPIRICAL ANALYSIS OF LOCAL COMMERCIAL BANK'S LIQUIDITY
DETERMINANTS IN MALAYSIA**

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ABSTRACT

This study explores the relationship between liquidity of local banks listed in Bursa Malaysia towards some key element of internal variable which is Capital Adequacy, Bank Size and Return on Equity. Apart from that, this study wants to know the relation the independent factors into bank. This study obtained secondary data from 8 Malaysia local commercial banks from the year 2011 to 2015. Some factors were expressed in ratios, while some were in percentage variable was qualitative in form. This study concludes the results based on panel data and random effect model using annual data of bank. The empirical findings state that all the factors included are not significant. The factors with positive influence on bank liquidity was Return on Equity .On the other hand, factors to bring negative effect to bank liquidity are Capital Adequacy and Bank Size.

CHAPTER 1

INTRODUCTION

1.0 Introduction and Problem Definition

Bank is critical to the financial system and plays an important role as a controlling and contributing to the growth sectors of the economy. Financial system in Malaysia is divided into banking system and non-banking system. Malaysian banking system consists of commercial banks, Islamic banks, and investment banks. Other than that, banks play a role as a earning a commission, foreign exchange dealings and also provide trust service such as unit trust where is banks play as a role to withholds their assets for the next nominal fee. Apart of this, banks is issuing loans for a long terms and collecting short term deposit, because of this it will make problem towards liquidity to the bank. The liquidity bank happens when a bank suffer a less liquidity to fulfill the obligation.

Nowadays, bank is critical to the financial system and plays an important role as a controlling and contributing sectors of the economy. Activities in the bank are lending funds to business s firms using bond issue and borrowing money from a lender that households with the means of the funds deposited in the current account, savings account or fixed deposits.

According to Mishkin and Eakins (2012), financial sectors of banks have a role in Malaysia. The flow of funds are from the surplus users which is mostly from household to the business, government in the country, household and to the foreigner. In year 2002, the Malaysian government began the implementation of the reform of the banking sector in responding to the financial crisis of 1997. Other than that, the banking sector has always act as the main source of financing for most of the business entities (Ab-Rahim and Chiang, 2016), and therefore banking sector can be seen as having a very important roles to ensure the business entities' survival. Because of this, it is important for banking sector to maintain its performance so that it can continue to serve for the business entities. Beside that, past researcher Rauch, Steffen, Hackethal and Tyrell, (2009) are also agrees that the factor reasons for bank to fragility is because do to the maturity transformation.

1.1 Background of the study

A words liquidity is relating to describe as using their ability to satisfy the demand for each of cash and in exchange of deposit with the word that banker always use in a banks. Other than that, it also can be define to prompt demands that it payment obligation for the capacity of bank.

When it has sufficient cash and other liquid asset and together with the ability to make a fund from any sources. It shows bank is considered to be liquid. This is related to meet its payment obligation with a timely manner which is under financial commitments. In addition, from bank management it will be refer to see the amount of liquidity to hold and in the type of form to hold it. Besides, legal reserve requirements a one of required banks to

play a roles. The most important banks always need the liquidity to meet their unexpected of the seasonal, loan demands, and also deposit fluctuations. (Kleopatra Nikolou 2009).

Other than that, the majority of this transaction can be anticipated from deposits in business, loan repayments or earning in advance. Cash reserve also need because it will give advantage from a huge profit opportunities or can be the term important purpose. During the period of expanding economic, banks will always attract loan situations to their customers which only can be met if banks can maintain their adequate liquidity in a good conditions.

Besides that, banks also make a business firm by secure as a customer to represent a loan application or any investment develops, to make their bank successful in the loan, the banks must have funds available to seize their opportunities. From this it will help to determine in a particular time the liquidity of bank needs , this is because to find the measurement ratio of total loans deposits. It will know whether or not the policies is including in the commercial bank by the central bank.

The main of this research is to know with detail the factors in Malaysia local commercial bank liquidity. Study in this research paper also using factor which is the independent factors into bank specific factors. It is also including the bank specific which is bank size, capital adequacy, and profitability.