THE MACROECONOMIC DETERMINANT ON NON-PERFORMING LOAN

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CHAPTER 1

INTRODUCTION

1.1INTRODUCTION

This study to examine the effect of macroeconomic determinant on the Non-Performing Loan. This section of chapter will discuss briefly on the background of the study, problem statement, research question research objective, scope of study, significant of study, limitation of study and definition of term and also provide a summary on this section of chapter.

Furthermore there are two types of research question. Firstly is the main research question and secondly are specific research questions. The main research questions related to the dependent variable that is the nexus or centre of our research study. The main research questions are aimed at supporting the validity of the outcome of the main research question.

Moreover, in this research the objective is divided into two part. First is the main research objective and secondly are the specific research objectives. In this part, the significance of the study will be highlighted for better understanding in this research paper.

1.2 BACKGROUND OF THE STUDY

Banking systems play an important role in mobilizing and allocating resources in a market economy. This stands in fundamental contrast to a planned economy, where financial institutions play a largely incidental role in resource allocation. Loans are given to customer in order to gain profit from it. Credit risk is one of the most important kinds of risk in banking sector

The central bank of Malaysia (BNM) define a loans as Non-Performing Loans (NPLs)when the principal or interest is due and unpaid for six months or more from the first day of default. According to (Woo, 2000) the most of important reason of this crisis was the lack of enough supervisory and regulatory rules in banking system beside noticeable increase in foreign private capital inflow (short time debts).

Hence the main objective of this study is to analyse relationship between NPLs towards macroeconomic variables study on Malaysia banking system by using time series model in for period 1985-2014.The result of the study can be helpful to bank supervisory and economist to adjust banking system stability and economic policies.