

THE DETERMINANTS OF BANK INTEREST RATE SPREADS IN MALAYSIA

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**Submitted in Partial Fulfillment of the Requirement for the
Bachelor of Business Administration (Hons) Finance**

**FACULTY OF BUSINESS MANAGEMENT
MARA UNIVERSITY OF TECHNOLOGY
JOHOR**

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DECLARATION OF ORIGINAL WORK



**BACHELOR OF BUSINESS ADMINISTRATION (HONS)
FINANCE FACULTY OF BUSINESS MANAGEMENT
MARA UNIVERSITY OF TECHNOLOGY
JOHOR**

“DECLARATION OF ORIGINAL WORK”

I, **Norashikin Binti Malik**, (I/C Number: **850612-06-5720**)

Hereby, declare that,

- This work has not previously been accepted in substance for any degree, locally or overseas and not being concurrently submitted for this degree or any other degrees.
- This project paper is the result of my independent work and investigation, except where otherwise stated.
- All verbatim extracts have been distinguished by quotation marks and sources of my information have been specifically acknowledged.

Signature:

Date: 25 April 2008

LETTER OF TRANSMITTAL

Faculty of Business and Management
MARA University of Technology
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Johor Darul Takzim

1st May, 2008

Rabiatul Alawiyah Bt. Zainal Abidin
The Head of Program
Bachelor of Business Administration (Hons) Finance
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MARA University of Technology
85000 Segamat
Johor Darul Takzim

Dear Madam,

THE DETERMINANTS OF BANK INTEREST RATE SPREADS IN MALAYSIA

I'm required to do a project paper on the above topic. I hereby submitted this report and I really hope that this work will fulfill the requirement for the Bachelor of Business Administration (Hons) Finance.

Thank you.

Yours sincerely,

NORASHIKIN BINTI MALIK
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ABSTRACT

This paper was study the determinant of commercial bank interest rate spread in Malaysia during the period of 1997-2006 by using all commercial bank as a sample. This paper empirically analyzes all macroeconomic factors that would affect the behavior of such rates. The study has used multiple regression method to see the relationships between dependent and independent variables. Bank interest rate spread was used as the dependent variable and inflation rate, interest rate volatility, economic activity in term of Gross Domestic product (GDP), which is all of this are also known as external factors or macroeconomic factors that were used as independent variables.

The role played by the inflation rate, interest rate volatility and economic activities (gross domestic product) which is also known as macroeconomics factors were highlighted. The result suggests that all macroeconomics factors were the most relevant factors to explain the behavior of bank interest rate spread in Malaysia.

CHAPTER 1

INTRODUCTION

1.0 HISTORY OF BANK INTEREST RATE SPREAD IN MALAYSIA

Banking sector are the important financial institutions that help Malaysia's economic growth. The banking sectors plays an important role as a financial intermediary and is a primary source of financing for the domestic economy, accounting for about 70% of the total assets of the financial system as at end 1999. As at end 2000, there were 31 commercial banks (of which are 14 are fully foreign owned), 19 finance companies, 12 merchant banks and 7 discount houses.

Upon completion of the merger programmed among domestic banking institution will be significantly reduced to 10 domestic banking groups consisting of 10 commercial banks, 10 finance companies and 9 merchant banks. Commercial banking activities are different than those of investment banking, which include underwriting, acting as an intermediary between an issuer of securities and the investing public, facilitating mergers and other corporate reorganizations, and also acting as a broker for institutional clients.

For the interest rate, it isn't what they used to be, which is rate a year or even a month ago are different from those prevailing today in our financial markets. That because interest rate flex with flow of general economic activities. Interest also change I response to the expectations borrowers and lenders have about the future level of prices. Changes in the dollars' value on foreign exchange markets or in interest rates abroad