



**THE RELATIONSHIP OF NON-PERFORMING LOAN ON
BANKING SECTOR IN MALAYSIA**

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JANUARY 2012



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I, NURUL ASLINDA BINTI MAT SHAH, (881004-03-5490) hereby declared

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- This project paper is the result of my independent work and investigation except where otherwise stated.
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ABSTRACT

Non-Performing Loans (NPLs) are widely accepted that the quantity or percentage of non-performing loans is often associated with bank failures and financial crises in both developing and developed countries. In fact, there is abundant evidence that the financial crises in Malaysia are preceded by high non-performing loans. The current global financial crisis, which originated in the US, was also attributed to the rapid default of sub-prime loans/mortgages. In Malaysia, during set in of 1997-1998 financial crisis, the commercial banks loan portfolio was stronger and more diversified compared to where it was in 1998. Net non-performing loans began rising towards the ends of 1997 to a high of 7.9% in November 1998 with total net non-performing loans of RM22.7 billion. In view of this reality it is therefore understandable why much emphasis is placed on nonperforming loans when examining financial vulnerabilities. The aim of this study is to investigate the relationship of non-performing loans on banking sector in Malaysia which are interest rate, inflation rate, real effective exchange rate and growth in GDP. In particular, it employs Stata software covering 8 years 2002 to 2009. From the result obtained in long run relationship, the researcher can see that interest rate, inflation rate, real effective exchange rate and growth in GDP has a negative relationship towards non-performing loans but significant but in short run relationship, the finding show that all of independent variable cannot influence the non-performing loans.

Keywords: base lending rate, inflation rate, real effective exchange rate, growth in gross domestic product, non- performing loans.

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