



**THE MACRO EFFECT TOWARDS CREDIT RISK**

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## **ABSTRACT**

Credit risk has been always been a primary concern for financial institution to maintain its performance. Therefore financial institution will develop a mechanism to monitor and measure the factor that contributed to credit risk. The global financial crisis which is started in year 2007 has exposed that the existing of risk management systems among financial institution still fragile. Due to that issue, this research is attempting to study on macroeconomics factor towards credit risk determinants. This study has two major purposes including to identify the most macro variable factors that determined the credit risk and to determine the relationship between macroeconomic variables towards credit risk. Non-performing loan as a dependent variable for credit risk related with independent variables that included real GDP growth, interest rate, inflation and unemployment. The data had taken from year 1997 to 2014 from World Bank in Malaysia

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# **CHAPTER 1: INTRODUCTION**

## **1.1.INTRODUCTION**

The financial crisis that started since 2007 had effects around of the world including Malaysia. The economic downturn gave a big impact to the Malaysian currency and stock prices that listed on Bursa Malaysia which resulted in dampened business confidence and increased company bankruptcies. Household sector and financial institutions were also affected by this incident. Since the financial crisis had caused some financial institution severe losses, they had to face several type of financial risk such as credit risk, operational risk, liquidity risk, and market risk. These types of financial risk have different effects in different businesses.

According to Bank Negara Malaysia (BNM) (2008), a sound measurement of corporate sector soundness may have an impact on the stability of financial system for a country. Based on BNM's report, the bankruptcy cases in Malaysia involving public listed companies, private an individual companies show the highest in July 2013. It was ruminated that more companies are failing to repay their debt and to continue their business. By becoming a developing country, the factors that have an effect on credit risk should be identified and Malaysia will uphold the confidence of investors to invest by managing on credit risk said (Yunus, N. S., 2001).