

**BM 222**  
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**MACROECONOMIC FACTORS THAT AFFECT THE  
QUALITY OF LENDING IN MALAYSIA**

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## **ABSTRACT**

This paper is aimed to analyse the impact of the macroeconomic variables in the quality of lending in banking system of Malaysia. Non-performing loans (NPL) has been used to explain the quality of lending. This study is motivated by the hypothesis that macroeconomic variables have effects on the non performing level. The paper will be focusing on finding out the relations of the NPL and the gross domestic product (GDP), unemployment rate, exchange rate, and inflation rate. The sample of this study comprises of 32 observations for each of the independent and dependent variables, on a quarterly basis over 8 years period, from Jan 2006 to December 2013. The quarterly data is collected from the Data Stream besides from the Bank Negara Malaysia (BNM), Department of Statistics Malaysia and other sources. The methodology used in this research is Multiple Linear Regression Analysis and Correlation Coefficient in order to reveal about the relationship between the chosen variables. Interactive software package E-views would be used for testing and analysing the data collected. This study expected to get the findings that the quality of lending is significantly affected by the macroeconomic environment: the credit risk increases when GDP decrease and is also positively affected by an exchange rate. The set of 2 independent variables as factors determining the changes in amount of doubtful and non-performing loans was created.

## Table of Contents

<b>ACKNOWLEDGEMENT</b> .....	<b>i</b>
<b>ABSTRACT</b> .....	<b>ii</b>
<b>INTRODUCTION</b> .....	<b>1</b>
<b>1.2 BACKGROUND OF RESEARCH</b> .....	<b>2</b>
<b>1.4 RESEARCH QUESTION</b> .....	<b>4</b>
<b>1.4.1Main research question</b> .....	<b>4</b>
<b>1.4.2Specific research question</b> .....	<b>4</b>
<b>1.5 RESEARCH OBJECTIVE</b> .....	<b>4</b>
<b>1.5.1Main research objective</b> .....	<b>5</b>
<b>1.5.2Specific research objective</b> .....	<b>5</b>
<b>1.6 SCOPE OF STUDY</b> .....	<b>6</b>
<b>1.7 SIGNIFICANCE OF STUDY</b> .....	<b>6</b>
<b>1.8 LIMITATION OF STUDY</b> .....	<b>8</b>
<b>1.9 DEFINITION OF TERM</b> .....	<b>8</b>
<b>1.9.1Non Performing Loan</b> .....	<b>8</b>
<b>1.9.2Gross Domestic Product (GDP)</b> .....	<b>9</b>
<b>1.9.3Unemployment rate</b> .....	<b>9</b>
<b>1.9.4Exchange rate</b> .....	<b>9</b>
<b>1.9.5Inflation rate</b> .....	<b>9</b>
<b>1.10 SUMMARY</b> .....	<b>10</b>
<b>CHAPTER TWO:</b>	
<b>LITERATURE REVIEW</b> .....	<b>11</b>
<b>2.1 INTRODUCTION</b> .....	<b>11</b>
<b>2.2 NON PERFORMING LOAN</b> .....	<b>11</b>
<b>2.3 GROSS DOMESTIC PRODUCT (GDP)</b> .....	<b>12</b>
<b>2.4 UNEMPLOYMENT</b> .....	<b>13</b>
<b>2.5 EXCHANGE RATE</b> .....	<b>14</b>
<b>2.6 INFLATION</b> .....	<b>15</b>
<b>CHAPTER THREE :</b>	
<b>RESEARCH METHODOLOGY</b> .....	<b>17</b>

<b>3.1 INTRODUCTION .....</b>	<b>.....</b>
<b>3.2 DATA COLLECTION .....</b>	<b>.....</b>
<b>3.2.1 Secondary Data .....</b>	<b>1</b>
<b>3.3 VARIABLES.....</b>	<b>20</b>
<b>3.3.1Dependent Variable.....</b>	<b>20</b>
<b>3.3.2Independent Variables.....</b>	<b>20</b>
<b>3.4 RESEARCH DESIGN.....</b>	<b>20</b>
<b>3.4.1 Purpose of Study .....</b>	<b>21</b>
<b>3.4.2Types of investigation.....</b>	<b>21</b>
<b>3.4.2Researcher Interference.....</b>	<b>21</b>
<b>3.4.4Study Setting .....</b>	<b>21</b>
<b>3.4.5Unit of Analysis .....</b>	<b>22</b>
<b>3.4.6Time Horizon.....</b>	<b>22</b>
<b>3.5 RESEARCH THEORETICAL FRAMEWORK .....</b>	<b>23</b>
<b>3.6.1Target Population.....</b>	<b>24</b>
<b>3.6.2Sampling Size. ....</b>	<b>24</b>
<b>3.7 TEST CONSIDERATION FOR DATA ANALYSIS .....</b>	<b>24</b>
<b>3.7.1.Descriptive Statistics Analysis .....</b>	<b>24</b>
<b>3.7.2Normality test.....</b>	<b>24</b>
<b>3.7.3Heteroscedasticity Test – Variance of Error Term Test.....</b>	<b>25</b>
<b>3.7.4Autocorrelation – Serial Correlation Test.....</b>	<b>25</b>
<b>3.7.5Multicollinearity Test.....</b>	<b>25</b>
<b>3.7.6Regression.....</b>	<b>25</b>
<b>3.7.6.1 T-test.....</b>	<b>26</b>
<b>3.7.6.2 Coefficient of Determination (<math>R^2</math>) .....</b>	<b>27</b>
<b>3.7.6.3 Adjusted (<math>R^2</math>) .....</b>	<b>27</b>
<b>3.7.6.4 F-statistic .....</b>	<b>27</b>
<b>3.7.6.5 Durbin Watson Test .....</b>	<b>28</b>
<b>3.8HYPOTHESIS STATEMENT.....</b>	<b>28</b>
<b>3.8.1Main Hypothesis Statement .....</b>	<b>29</b>
<b>3.8.2Specific Hypothesis Statement.....</b>	<b>29</b>
<b>3.8.2.1 Gross domestic product.....</b>	<b>29</b>