



**IMPACT OF MACROECONOMIC VARIABLES ON
NON-PERFORMING LOANS**

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ABSTRACT

Malaysian banking system can be divided into two categories: banking system and the non-bank financial intermediaries. Banking system comprises of three main groups namely the commercial banks (including Islamic), investment banks (co regulated with the Securities Commissions) and development financial institutions (DFIs) is supervised by Bank Negara Malaysia (BNM). The non-financial intermediaries is a group of provident and pension funds, insurance companies and takaful operators which falls under the supervision of various government departments and agencies. BNM also regulates the foreign exchange and money market as well as undertakes oversight of the payment system.

In Malaysia, there were some banks scandals happened in the past 20 years, which either affect the NPLs or affected by the NPLs. According to Tan (n.d.), the banks must write off the outstanding balance of NPLs according to the percentage in different category and sell off the collateral of borrower to recover the loan. However, NPLs only can be recovered less than 50%. Thus, NPLs become one of the main elements representing the economic conditions of Malaysia (Lum and Philip, n.d.). Therefore, this study aims to determine the elements that will affect NPLs in Malaysia to better understand causes of NPLs and manage economic conditions in Malaysia.

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