UNIVERSITI TEKNOLOGI MARA

THE DETERMINANTS OF NON PERFORMING LOANS OF COMMERCIAL BANKS IN MALAYSIA YEAR 1985 UNTIL YEAR 2014

NUR AISHA BINTI MOHD AZMAN

2014454612

BACHELOR OF BUSINESS ADMINISTRATION

HONS (FINANCE)

FACULTY OF BUSINESS MANAGEMENT

UNIVERSITI TEKNOLOGI MARA

SEGAMAT

JUNE 2016

ACKNOWLEDGMENT

TABLE OF CONTENTS

	Page

ABSTRACT

The purpose of this research is to find out the determinants of non-performing asset or loan in Malaysia for the period of 2005-2014. It is important to identify the problem that may leads to non-performing loans because it will affect the ability of bank to perform in the development of the economy. The independent variables used are the Gross Domestic Product (GDP) growth rate, unemployment rate and interest rate. From the regression analysis result, there is a significant relationship between interest rate and NPL rate. However, the result shows that there is no significant relationship between GDP growth rate and unemployment rate towards NPL. This study was limited to three variables as the causes of Non-Performing Loans in Malaysia. The interpretation of these results as concerns to the causes of non-performing loans should be restricted to variables under study. The second limitation is related to the period of study. Ten year was chosen due to availability of data on the Bank Negara Malaysia Monthly Statistical Bulletin and World Bank website. However there are few data missing from the period of study. The third limitation relates to study population. The study only covered commercial banks in Malaysia and did not consider other financial institutions across countries so as to provide a more broad based analysis. The study was limited to establishing the determinants of Non-Performing Loans in Malaysia. Few studies have been done on causes and management of Non-performing Loans in Malaysia.

Keywords: Non-Performing Loans (NPL), Gross Domestic Product (GDP), Unemployment Rate, Interest Rate, Lending Rate.

CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

One of the best measurement or tools that can be used to analyze our economic situation is by looking at the banking sector performance. This is because banking sector is the most important sector of a country financial system. Therefore, that performance can be measure and look in term of the bank's rate of non-performing loans. Non-performing assets or non-performing loans (NPL) is form of principal and interests are not paid by the borrower for a period 180 days (Shanmugasundaram & Selvaraj, 2015). It also can be defined as loan within a long period of time which it does not create revenue (Akinlo & Emmanuel, 2014). NPL is effect from country's economic downturn can give impact to bank's loan portfolio profitability. NPL also is defined as a loan asset which has ceased to generate any income for a bank whether in the form of interest or principal repayment. It was proven in the event of economy meltdown that happened in the United States of America that occurred in the 90's.

The major reason for the meltdown was because of the abundant housing loans offered to the lower income groups despite them not being able to pay back their loans. Furthermore, Lithuanian economy downturn in 2009- 2010 has negatively affected the bank's debtor abilities to repay their debts increasing the proportion of non-performing loan (Mileris, 2014). According to Saba, Kouser, and Azeem (2012), NPL lead to uncertainty and influence banks decision to give out loans and therefore, loan demand and investments will be affected.