



**THE EFFECTS OF MACROECONOMIC VARIABLES ON
NON-PERFORMING LOANS IN ASEAN COUNTRIES**

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ABSTRACT

This paper aims to examine the effects of macroeconomic variables toward non-performing loans in Asean countries. The variables used in this study are the unemployment rate (UN), inflation rate (INF), gross domestic product (GDP), and lending interest rate (INT). As for the sample of this study, it comprises of 75 observations each for the independent and dependent variables on a yearly basis over fifteen years period from 2000 to 2014 and the data are gathered from World Bank. The selected asean countries are including Malaysia, Indonesia, Singapore, Thailand and Philippines. E-views7 software package has been used in analysing the data. In order to observe the relationship between the macroeconomic variables and non-performing loans in Asean countries, an econometric test has been conduct during this research. The results reveal that only two independent variables that have a significant relationship towards the non-performing loan which are, inflation rate and lending interest rate.

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CHAPTER 1: INTRODUCTION

1.1 Introduction

Financial system has received a lot of attention by many parties which includes government, regulator, investors and also public people. This is because the financial system is the key driver for the economy of the country. A basic function of the financial system is saving mobilization which obtaining funds from the surplus unit such as household individuals, business corporate and government and so on. It also contributes to nation's growth by ensuring sustain flow of surplus funds. Many interested buyers and sellers, including households, firms, and government entities were placing in the system. Commercial banks are part of the financial system. As a financial intermediary, commercial banks provide a services to individual, business corporate as well as government entities. Their basic function are lending fund to deficit unit and borrowing fund from surplus unit. The banks perform this function by using the deposit of their customer. The lending activities may entitle the banks to gain profit and also can suffer loss. The default of the borrower to pay the loan will cause a loss to the bank. These unable payments of debt are categorized as non-performing loans (NPLs). Mostly, the entire bank faced a risk to have the non-performing loan and it will be problem for them. Bank need to have the information in order to them to overcome the problem. This paper takes an opportunity to make a further study and understanding on the non-performing loan. Hopefully this effort can provide a little bit information about non-performing loan.