



**FINANCIALS AND MACROECONOMICS IMPACT ON CAPITAL
ADEQUACY RATIO: EVIDENCE FROM MALAYSIAN COMMERCIAL
BANKS**

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ABSTRACT

This study investigates the impact of financial and macroeconomic variables on banks capital adequacy ratio (CAR) in the Malaysian commercial banks, with specific attention on return on assets (ROA), banks size (SIZE), deposits (DEPO), inflation (INF) and economic condition(GDP). The time period examined is from 2010 to 2016 which consist in total of 147 annual data observations. A research framework and hypothesis are developed and tested using linear regression analysis. The objectives of this study are to identify the most significant factor that influence the capital adequacy ratio of commercial banks in Malaysia and to investigate the relationship between banking capital adequacy ratio (CAR) with return on assets (ROA), bank's size (SIZE), deposits (DEPO), economic condition (GDP) and inflation (INF). From Random Effect Model regression, it revealed that only return on assets (ROA) and inflation (INF) have an insignificant relationship with capital adequacy ratio (CAR) while deposits (DEPO), banks size (SIZE) and economic condition (GDP) have a significant relationship with capital adequacy ratio (CAR). It showed that inflation signifies a positive relationship with capital adequacy ratio (CAR) whereas return on assets (ROA), deposits (DEPO), banks size (SIZE) and economic condition (GDP) were concluded to have a negative relationship with capital adequacy ratio (CAR). The results has provided fruitful insights into the effects of financial and macroeconomic factors on capital adequacy ratio in Malaysian commercial banks. The findings can assist banks' manager to promote banks' withstanding in consistent to Central Bank of Malaysia main focus that is to promote monetary stability and financial stability that conducive towards the sustainable Malaysian economic growth.