



**THE LINKAGES BETWEEN NON-PERFORMING LOANS AND
MACOECONOMIC VARIABLES**

ROZIELA BINTI ENDUT

2009530337

**BACHELOR OF BUSINESS ADMINISTRATION (HONS) FINANCE
FACULTY OF BUSINESS MANAGEMENT TERENGGANU CAMPUS
OF
UNIVERSITI TEKNOLOGI MARA**

JUNE 2012

ACKNOWLEDGEMENT



All praise to the Almighty Allah, the most gracious, Most Merciful and Most Benevolent for giving me an opportunity to study for higher education and giving me strength and patience in completing this thesis paper.

I would like to express my gratitude to most respected advisor, Prof. Dr. Wan Mansor Bin Wan Mahmood for his moral support, ideas, suggestions, time and continued throughout the period of this study in order to complete this thesis paper. I also would like to thank my second examiner, Prof. Madya Hj Wan Abd. Manan Bin Wan Muda for his opinion and recommendation, and all my lectures in faculty of business for their moral support.

Special thanks and appreciations are also due to the administration of Petronas Gas Bhd especially to Mr. Fakhru Anwar Bin Abdullah, Mr. A. Manaf Bin Muda, Mr. Fauzi Bin Md Nordin and all staff of Petronas Gas Bhd especially for Production Planning Department (PPL), who assists and support me during practical training.

Last but not least, my gratitude is also dedicated to my beloved family, all the members and classmate of bachelor degree in finance for their kindness in sharing their knowledge in order to encourage me to complete this study successfully. Hopefully, this research study would be beneficial and act as guidance to future researchers who are interested to explore and gain as much as possible knowledge from this research studies. Thank you.

TABLE OF CONTENT

<u>CONTENT</u>	<u>PAGE</u>
ACKNOWLEDGEMENT	iv
LIST OF TABLE	v
LIST OF ABBREVIATIONS	vi
ABSTRACT	vii
CHAPTER ONE: INTRODUCTION	
1.0 Introduction	1-3
1.1 Problem Statement	4-5
1.2 Trends of Non- performing loan in Asia- pacific and South Asia region	6-9
1.3 Objectives	9
1.4 Significance	10-11
1.5 Scope	11-12
1.6 Limitations and Constraints	12-13
1.7 Theoretical Framework	13-17
CHAPTER TWO: LITERATURE REVIEW	
2.0 Introduction	18-19
2.1 Relationship between non-performing loan and interest rate (BLR)	19-22
2.2 Relationship between non-performing loan and inflation rate (CPI)	23-25
2.3 Relationship between non-performing loan and economic growth (GDP)	26-29

CHAPTER THREE: DATA AND METHODOLOGY

3.0 Data and methodology	30-32
3.1 Data Collection Method	
3.3.1 Data Retrieval	33-34
3.2 Hypothesis	34-35
3.3 Data Processing	35-36

CHAPTER FOUR: FINDINGS

4.1 Introduction	37
4.2 Descriptive Statistics	37-38
4.3 Correlation of Coefficient Analysis	39
4.4 Regression Analysis	40-44

CHAPTER FIVE: CONCLUSION AND RECOMMENDATION

5.1 Conclusion	45-46
5.2 Recommendation	46-47

BIBLIOGRAPHY	48-50
---------------------	-------

APPENDICES

Appendix 1	51-54
Appendix 2	55-57

THE LINKAGES BETWEEN NON-PERFORMING LOANS AND MACROECONOMIC VARIABLES

ABSTRACT

This paper uses dynamic panel data methods to examine the determinants of Non-performing Loans (NPLs) in the Asia Pacific and South Asia Region. The study is motivated by the hypothesis of Non-performing Loans and macroeconomic variables. The purpose of this paper is to analyze the relationship between the non-performing loans, interest rate (BLR), inflation rate (CPI) and economic growth (GDP) by utilizing STATA software. The relationship among those variables is investigated using yearly data for nine (9) years from 2000 to 2008. The Researcher used Pooled Ordinary Least Squares (POLS) Regression, Random-Effect GLS Regression, Breusch and Pagan Lagrangian Multiplier Test for Random Effects and Two Way Estimation Random Effects to retrieve the result. From the result, it shows that only one independent variable which is interest rate (BLR) is the most significant relationship with Non-performing Loan (NPLs). As a remainder of the paper, researcher will use default, arrears and non-performing loans (NPLs) as synonyms.

Keywords: *Non-performing loans; Indebtedness; macroeconomic variables; Dynamic panel data*