



UNIVERSITI TEKNOLOGI MARA

**DETERMINANTS OF DEFAULT
RISK:
A COMPARATIVE ANALYSIS ON
BANKING INDUSTRY IN
INDONESIA AND SINGAPORE**

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ABSTRACT

The purpose of the research study is to examine the relationship of default risk or nonperforming loans of the banking industry in Indonesia and Singapore. It is aimed to see any differences in the factors that may affect the banking industry in Indonesia and Singapore since Indonesia has the higher nonperforming loan while Singapore has the lower nonperforming loan. The factors that may affect the default risk are including unemployment rate, lending interest rate and also domestic credit. The observation in this research is 17 observation between 1999 to 2015 years from both countries. After the test done, this study would make a comparison of performance and relationship between both countries according to the results. It is to investigate whether the all variables are related with the nonperforming loan or only a few variable, it mostly depends on rules and regulation of country. The bad of movement nonperforming loan could threaten the stability of banking sector. This research is based on data obtained from World Bank and Federal Reserve Economic Data (FRED). Other than that, by doing research will also increase knowledge and give a clear view on the relationship of each variable conducted. Hopes that, this research would give benefit to future researcher and contribute the improvement of performance nonperforming loan every country.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter will discuss in details about background of the study, problem and purpose of the study. The objective and question of study will be implement to solve a specific problem. It is to investigate the movement of nonperforming loan because Indonesia and Singapore have a different performance of nonperforming loan. There are divided into two variables which are dependent variable and independent variable. Definition for each of the variable will be explain. Ultimately, after the test had been done, the result will compare the performance for both countries and analyse which country is more influenced by independent variables.

1.2 Background of Study

1.2.1 Background of Bank in Indonesia

The institutions of Bank Indonesia began the enactment of the central bank Act No. 11, 1953 concerning Principal Act on Bank Indonesia dated 1 July 1953. Bank Indonesia was managed by the Monetary Board, Board of Directors and Board of Advisors. The Monetary Board issued monetary policies, although the Government was accountable for it. After it had been amalgamated into a single bank, during the early period of the New Order, the underlying act of Bank Indonesia was amended through Act No. 13 of 1968 concerning the Central Bank became independent through Act No. 23 of 1999 which was then amended with Act No. 3 of 2004. From that time, Bank Indonesia played the role as the Central Bank and simultaneously assisted the government in the development programs by implementing the government policies with the help from the Monetary Board and ultimately concerning Bank Indonesia. (Financial system stability, 2013)