



**UNIVERSITI TEKNOLOGI MARA**

**DETERMINANTS OF BANK  
LENDING RATE IN SELECTED  
ASIAN COUNTRIES**

**NUR SHARINA BINTI MOHD ARSHAD**

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## **ABSTRACT**

This study assesses the conduct of recent monetary policy especially on lending rate in Asian countries. The paper focuses on a general comparison of the lending rate of these countries, without going into a detailed description of the financial structure of each one. It investigates the trends in lending rate spreads and documents the key determinants of lending rate. It can be used by banking sector to enhance the efficiency of the banking sector and hence economic growth and development of Asian countries. This study uses Multiple Regression Analysis with panel data. The data is collected from ten countries which are Malaysia, Thailand, Indonesia, Afghanistan, Brunei, Bangladesh, Japan, Sri Lanka, Philippines and Qatar for 2011 until 2015. The aim of this study is to identify the relationship between Bank Lending Rate with Inflation Rate, Gross Domestic Product, Non-performing Loan and Bank Reserves. This study expects to find that there is a relationship between the variables.

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 BACKGROUND OF STUDY**

Lending is considered one of major functions of commercial banks. Banks play an important role in allocating the resources by accepting deposits and converting it into loans and investment.

Bank lending rate also known as interest rate is a rate determined by conventional financial institutions charged to customer for compensation received when deferring consumption or cost of consuming when resources are not available. From economic perspectives, interest is the equilibrium price of money and will be explained by the intersection of supply and demand curves. This equilibrium is not static as it will change when there are shifts in the supply or demand curves.

People with money have two choices either to spend the money or save for the future consumptions. On the other hand, people without money also have two choices either to borrow money in order to buy something or decide to postpone the purchase. Therefore, higher lending rate will attract people with money while lower lending rate will attract people without money. Interest rate will be set by including all the cost incurred by the bank and a profit made when customers use the facilities. Thus, it is important to know what interest is and how it is determined.

### **1.2 PROBLEM STATEMENT**

On 22 April 2016, article from The Hindu said that Asian banks' bad debt at highest since financial crisis. In the recent past, Asia relatively have strong growth and low interests rates which encouraged loan growth and higher leverage but now, growth has weakened which has impacting the rest of region. Gene Fang, Moody's associate managing director for financial institution group said that Asia is entering into more challenging phase of the credit cycle. Asian central banks have to cut interests rates to ensure abundant liquidity. However, due to uncertain economic growth and weak export demand, it leads to more loan defaults.