UNIVERSITI TEKNOLOGI MARA

THE CONTRIBUTION OF BANKING INDUSTRY TO THE ECONOMY GROWTH

WAN NUR IZANA BT WAN MOHD ZAWAWI
2020964531

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ABSTRACT

The banking industry is one of the most important institutions that may impact the functioning of the economy. Commercial banks are big financial institutions that regulate and manage the money supply in order to minimise risks. The purpose of this study is to determine the contribution of the banking industry to economic growth using selected variables. The research is performed using Gross Domestic Product (GDP) as dependent variable to examine the relationship between Bank loans, Net Interest Margin (NIM) and Bank Deposits (BD) as an independent variables. Information for this analysis were collected from the sampled companies' related databases and annual reports. This study uses secondary data from the top three (3) commercial banks listed in Bursa Malaysia between the years 2006 to 2020. So, the total observation for this study is 45. Furthermore, the results of this study are focused on descriptive analysis, correlation analysis, regression analysis, multicollinearity test and normality test. The balanced panel data is regressed using the Pooled Ordinary Least Square Model. The study show only bank loans have a contribution on economy growth.

Keywords: Bank loans, Net Interest Margin, Bank Deposits, Gross Domestic Product (GDP) and Commercial Banks

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CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

The strength and stability of a country's banking industry is a key determinant in its economic growth and development. The banking industry in Malaysia is one of the service businesses that contribute to the country's economic growth. It is crucial for job creation, human resource transfer, and capital mobilisation. The financial sector has experienced enormous change in recent years and new regulations and norms are continually being established with the purpose of ensuring stability (Yakubu, 2016). The relationship between financial development and economic growth has long been a prominent theme of development economics. Financial development is roughly described as an increase in the amount of financial services offered by banks, as well as financial transactions on capital markets.

The relationship between financial activity and economic growth has piqued the interest of academics, intellectuals, and politicians all around the world (Meshach Aziakpono, 2004). Malaysia, one of the quickest Asia - pacific countries with a well-designed and developed financial sector, particularly an, endorsed the financial policy in the early 1980s (DOSM, 2019). Malaysia experienced significant economic progress during the past two decades, and its economic performance for the sixth consecutive year may best be described as exceptional, with yearly growth rates of more than 5%. This expansion was aided by stable prices, a low unemployment rate, modest wage increases, a persistently strong current-account surplus, and a tiny reduction in the country's budget deficit (Ramlan et al., 2017). One unique element of Malaysia is the coexistence and smooth operation of commercial banking institutions inside its financial system. In recent years, the assets and capital of the banking systems have grown significantly (Gani & Bahari, 2021). So, the influence of performance will have a direct effect on the expansion of the economy's growth.

More financial resources may be placed to productive use as the financial sector expands, and more physical capital is developed, both of which can contribute to economic