



UNIVERSITI TEKNOLOGI MARA

**COMPARATIVE ANALYSIS OF
FOREIGN AND DOMESTIC BANK
LIQUIDITY RISK IN MALAYSIA**

SITI HAZIRAH BINTI SULAIMAN

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ABSTRACT

This study aims to identify the factors that affect liquidity risk of foreign and domestic banks in Malaysia and want to identify which bank has better liquidity position. This study focuses on commercial banks in Malaysia for ten (10) years, started from 2006 until 2015. Unlike previous study done on liquidity risk management, this study includes both internal and external forces that might influence the liquidity risk. The internal factors can be classified as bank-specific characteristics while the external factors can be represented by the macroeconomic variables of Malaysia. As for bank-specific characteristic, two (2) independent variables were included which are bank size and return on asset. Meanwhile, the macroeconomic variables included are growth of gross domestic product and inflation rate. Hence, four (4) independent variables were used in this study to explain liquidity risk. Panel Least Square Regression was used in this study to meet all research objectives. The empirical findings of this study found that only one (1) of the bank-specific characteristic variables is significantly related towards liquidity risk, which is bank size and domestic bank has been found to has better liquidity position during the study period of year 2006 until 2015.

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

This chapter will discuss on the background of the study, problem statement of the research, research question, research objective, significance of the study, and scope of the study. This research is about to find the determinants of liquidity risk of foreign and domestic banks in Malaysia.

In background of the study, dependent and independent variable used in this study will be discussed. Liquidity risk is the dependent variable of this study. There are four (4) independent variables included in the study in order to measure the liquidity risk. The dependent variables are divided into two categories which are bank-specific characteristics and macroeconomic factors. Variables for bank-specific characteristics include bank size and return on asset. Macroeconomic variables include growth of gross domestic product and inflation rate. This paper will discuss on the gap of liquidity risk between foreign and domestic banks in Malaysia, as it will be discussed further in the problem statement.

Next is research question of this study. The research question is related to the theoretical framework of this study, in which the main research question will be based on the dependent variable. Otherwise, the specific research questions are based on the independent variables that are used in explaining the dependent variable. Besides, research objective also will be discussed in this chapter. It refers to the statements that derived from answering the research questions of this study. Therefore, research objectives will be divided into two (2) categories, which are main research objective and specific research objectives. Other than that, this chapter highlighted the significance of the study, explaining the importance of this study being conducted.