

# **DETERMINANTS OF BANK LENDING: A MALAYSIA CASE**

**By**  
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## **ABSTRAK**

Kajian ini bertujuan untuk menganalisis hubungan antara aktiviti ekonomi dan jumlah pinjaman bank di Malaysia. Kajian ini adalah terhad kepada institusi perbankan Malaysia dalam tempoh 1996 hingga 2010. Jumlah pinjaman merupakan pembolehubah bersandar. Sementara pembolehubah bebas terdiri daripada kadar faedah, inflasi dan indeks pengeluaran perindustrian. Objektif utama kajian ini adalah untuk menentukan sama ada aktiviti-aktiviti ekonomi mempunyai kesan kepada jumlah pinjaman bank di Malaysia.

Hasil kajian menunjukkan hanya indeks pengeluaran perindustrian mempunyai hubungan signifikan dengan jumlah pinjaman bank di Malaysia. Ini menunjukkan bahawa setiap peningkatan dalam indeks pengeluaran perindustrian akan meningkatkan pinjaman bank di Malaysia.

## **ABSTRACT**

This study aims to analyze the relationship between the economic activities and bank loans in Malaysia. This empirical analysis of this study is to Malaysian banking institutions during the period of year 1996 until the year 2010. The total loans were used as the dependent variable. The three variables including interest rate, inflation and industrial production index as independent variables. The main objective of this study is to determine whether economic activities have a significant effect of bank lending in Malaysia.

The result indicates that only industrial production index have a significant effect to bank lending in Malaysia. This shows that as increase in industrial production index will increase the bank loans in Malaysia.

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## TABLE OF CONTENT

ABSTRAK	i
ABSTRACT	ii
ACKNOWLEDGEMENT	iii
TABLE OF CONTENT	iv
LIST OF TABLES	vii
LIST OF FIGURES	vii

### CHAPTER ONE: BACKGROUND OF THE STUDY

1.0 Introduction	1
1.1 Bank Lending	1
1.1.1 Interest rate in Malaysia	5
1.1.2 Inflation in Malaysia	6
1.1.3 Industrial Production Index in Malaysia	7
1.1.4 Overview of Malaysian Financial System	8
1.2 Problem Statement	9
1.3 Objectives of the Study	10
1.4 Research Questions	11
1.5 Significance of the Study	11
1.6 Scope of the Study	12
1.7 Organization of the Study	12

## **CHAPTER TWO: LITERATURE REVIEW**

2.0 Introduction	14
2.1 Bank Lending	14
2.2 Relationship between Interest rate and Bank Lending	18
2.3 Relationship between Inflation and Bank Lending	20
2.4 Relationship between Industrial Production Index and Bank Lending	23

## **CHAPTER THREE: METHODOLOGY**

3.0 Introduction	26
3.1 Theoretical Framework	26
3.2 Hypotheses Development	27
3.3 Research Design	27
3.4 Data Collection Method	27
3.4.1 Secondary Data	28
3.5 Data Collection	28
3.6 Definitions and Measurement of Variables	29
3.7 Econometrics Procedure	32
3.7.1 Normality Test	32
3.7.2 Unit Root Test	33
3.7.2.1 Augmented Dickey- Fuller Test	33
3.7.2.2 Phillips Perron Test	34
3.7.3 Granger Causality Test	34
3.7.4 Regression Analysis	35

## **CHAPTER FOUR: RESULTS AND DISCUSSION**

4.0 Introduction	36
4.1 Normality Test	37
4.2 Unit Root Test	38
4.3 Granger Causality Test	40
4.4 Multiple Regression Analysis	42
4.5 Discussion of Result	45

## **CHAPTER FIVE: CONCLUSION AND RECOMMENDATION**

5.0 Introduction	46
5.1 Overview of the Research Process	46
5.2 Conclusion	47
5.3 Contribution	48
5.3.1 Body of Knowledge	48
5.3.2 Policy Recommendations	49
5.4 Limitations	49
5.5 Considerations for Future Research	50
REFERENCES	51
APPENDICES	

## **LIST OF TABLES**

Table 3.6.1: Summary of variables and measurements

Table 4.1.1: Normality Test Result

Table 4.2.1: Augmented Dickey –Fuller Test Result

Table 4.2.2 : Phillips Perron Test Result

Table 4.3.1: Pairwise Granger Causality tests for lags 1

Table 4.3.2 : Pairwise Granger Causality tests for lags 2

Table 4.3.3 : Pairwise Granger Causality tests for lags 3

Table 4.4.1 : Ordinary Least Square Result

Table 5.2.1 : Summary of Findings



## **LIST OF FIGURES**

Figure 1.0: Total Loans in Malaysia

Figure 3.1: Theoretical Framework

## **CHAPTER ONE**

### **BACKGROUND OF THE STUDY**

#### **1.0 Introduction**

This chapter provides a brief discussion on the relationship between economic activities and bank loans. The chapter begins with the discussion about the background of the study and followed by the explanation about the problem statement in section 1.2. Section 1.3 explains the objectives of the study. While, section 1.4 discusses the research questions and section 1.5 explains the significance of the study. The scope of the study is discussed in section 1.6 and lastly section 1.7 explain the organization of the study.

#### **1.1 Bank Lending**

A bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets. A bank is the connection between customers that have capital deficits and customers with capital surpluses ( Study mode, 2013). The basic operation of a bank is referred to as asset transformation. The bank uses customer deposits to finance loans to private persons and businesses that need money to borrow. The deposits which are an asset to the depositors are converted to loans which are an asset to the bank (Mishkin & Earkin, 2009). Furthermore, the value of the bank's assets (loans) may drop due to borrower becomes unable or unwilling to

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