

COMMERCIAL BANKS LENDING AND ECONOMIC GROWTH IN MALAYSIA:  
AN EMPIRICAL STUDY

By

TANG TUCK CHEONG

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*(Name)* : Prof. Madya Dr. Stitua Arief  
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Tandatangan  
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Nama  
*(Name)* : Dr. Dawood Ali Mithani

Tandatangan  
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## ABSTRAK

*Objektif kajian ini adalah menyiasat and meneroka kesan pinjaman bank-bank perdagangan terhadap pertumbuhan ekonomi in Malaysia dengan data tahunan daripada 1960 hingga 1998. Perhubungan peranan pinjaman bank-bank perdagangan terhadap pertumbuhan ekonomi adalah berdasarkan satu aplikasi gabungan teori kuantiti uang dan fungsi pengeluaran agregat. Kajian ini menunjukkan satu peningkatan dalam kepentingan bank-bank perdagangan terhadap pertumbuhan ekonomi, dengan bank-bank perdagangan menyumbangkan kira-kira 69 peratus hingga 72 peratus daripada jumlah pinjaman dalam sistem perbankan. Kajian ini turut menunjukkan satu peningkatan peranan bank-bank perdagangan dalam pertumbuhan ekonomi, KNK (Keluaran Negara Kasar), dengan peningkatan daripada RM0.073 juta kepada RM1.14 juta untuk menghasilkan satu juta KNK dalam ekonomi. Pembolehubah-pembolehubah Keluaran Dalam Negari Kasar benar (RGDP), dan pinjaman Bank-Bank perdagangan (LAc) digunakan bagi analisis regresi. Dengan menggunakan model regresi linear (OLS), penemuan menunjukkan pengaruh positif jangka pendek (tahun semasa) pinjaman bank-bank perdagangan terhadap pertumbuhan ekonomi, tetapi secara negatif pada jangka panjang (pembolehubah tak bersandar di'lag'kan). Penemuan kajian turut menerokai kebenaran teori  $y = f(LAc)$  dalam kajian ini. Tambahan pula, pinjaman bank-bank perdagangan merupakan pembolehubah yang signifikan secara statistik dalam ramalan masa depan gelagat ekonomi.*

## ABSTRACT

*The objective of the study is to investigate, and explore the impact of commercial banks lending on economic growth in Malaysia with annual data for the period of 1960-98. The theoretical underpinning of the role of commercial banks lending to economic growth is based on combination of quantity theory of money and aggregate production function. The study shows an increasing of importance of commercial banks to economic growth. Obviously, commercial banks in Malaysia provided about 69 per cent to 72 per cent of total loan in banking system. The study shows an increasing role of commercial banks lending in economic growth, GNP(Gross National Product), from RM0.073million in 1959 to RM1.14million in 1998 to generate a million of GNP in economic. The variables of Real Gross Domestic Product (RGDP), and commercial banks lending (LAc) are employed in the regression analysis. By using linear regression model (OLS), the finding reveals a short run (current year) positive influence of commercial banks lending to economic growth, but negative impact in long run (lagged explanatory variables). The findings also significantly explore the validity of theory in this study,  $y = f(LAc)$ . In addition, the commercial banks lending is found to be statistically significant variable to predict the future economic behavior.*

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ADJRSQ  
BACKWARD  
STEPWISE  
MAXR

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## CHAPTER ONE

### INTRODUCTION

#### 1.1 Problem Statement

Banking is an engine of growth. Bank credit flow is crucial in this regard. Vasudevan in his book entitled "Theory of Banking", for instance, had stressed the importance of banks in the economy of a country by stating that:

*"The flow of credit is very much like the circulation of blood. Just as the circulation of blood has to be smooth and uniform throughout all the organs of the human body, so also credit should flow steadily and evenly through various sectors of economy. If credit flow is artificially plugged or arrested, it would do irreparable harm to economy just as clotting of our blood vessels would lead to fatal results." (Vasudevan, 1979:522)*

Recently, Amirsham A. Aziz, chairman of Association of Banks in Malaysia (ABM) too had acknowledged the important role banks play in the economic development of the country by continuing to provide credit, especially to the productive sectors, as all banks were required by Bank Negara Malaysia to have a minimum loans growth of 8 per cent by the end of 1998. (The Star, 1998, September, 11: 3)

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