

Financial Liberalization and Allocation of Bank Credit in Malaysia

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Abstract : The main purpose of developing a modern and sophisticated financial system is to mobilize and allocate the country's resources for productive uses and in the process contribute to economic growth. Financial liberalization introduced in Malaysia in 1978 was said to be a step towards this goal. According to Mc-Kinnon and Shaw, the deregulation of a country's financial system will create a more efficient and competitive market driven financial sector; with savings being channelled to the most productive users. This paper aims to assess whether financial liberalization resulted in bank credit being allocated to the more productive users, for the case of Malaysia by: firstly, using Chi-square test to if there exists a relationship between financial liberalization and bank lending in Malaysia. Secondly, to analyze on a comparative basis, the share of loans secured by 9 major economic sectors, using data on bank loans from 1975 to 2003. Lastly, present value analysis and rank correlation was used to determine if the recipients of bigger loans are the more efficient users. Chi-square test confirmed the generally observed trend of an increase in bank credit with the adoption of financial liberalization. While the comparative analysis of loans showed that the bulk of credit were allocated to service sectors, consumer loans and property related sectors, at the expense of industry. Results for rank correlation analysis showed that there is no relationship between the more productive users and amount of loans obtained. This implies that the recipients (sectors) that received more loans were not the more efficient sectors.

Keywords : allocation of resources, bank credit, financial liberalization, economics

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