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Bank-characteristics, Lending Channel and Monetary Policy in Malaysia: Evidence from Bank-Level Data

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ABSTRACT

Based on a bank-level panel dataset for Malaysian banks from 1997 to 2005, this paper analyzes the effects of bank-specific characteristics, bank specialization and portfolio concentrations on the transmission of monetary policy via bank lending channel in a fairly well-developed financial system. The dynamic panel regression results provide evidence in favour of the bank lending channel theory and consistent with other empirical evidences that the bank lending channel operating via small and low liquidity banks. Furthermore, the evidence suggests that the dividing lines between different categories of financial institutions distinguished by differences in both market structure and regulatory, influence the way financial institutions react to monetary policy shock with finance companies react stronger than commercial banks to monetary shock. The results also suggest that banks with higher concentration of corporate loans seem to face greater financial constraint and limited access to other sources finance.

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