

**TITLE:  
THE RESPONSE OF BANK LENDING TO  
INTEREST RATE CHANGES: THE CASE OF MALAYSIA**

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## **ABSTRACT**

This research paper is to examine the response of aggregate commercial bank lending to money market interest rate changes for the case of Malaysia. The study is based on quarterly data for the period from the first quarter of 1990 to the second quarter of 2000.

The results show that the negative one-month and three-month money market interest rate shocks have negative effects on the aggregate commercial bank lending. On the other hand, the positive one-month and three-month money market interest rate shocks have positive effect on the aggregate commercial bank lending. This paper also finds evidence that the response of aggregate commercial bank lending to the positive and negative one-month and three-month money market interest rate changes is asymmetric. The commercial banks are careful in their lending when negative interest rate shocks prevail in the money market and willing to increase lending when interest rate shocks are positive in the money market.

The commercial bank lending reacts quickly to the positive and negative shocks in the case of one-month and three-month money market interest rates. For any deviation from the long run equilibrium in these cases, market adjustments are completed in less than one quarter to revert to the equilibrium position. A further finding of this research paper is that the response of aggregate commercial bank lending to money market interest rate changes that do not take into account the asymmetric responses may lead to misleading results.

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