



**UNIVERSITI TEKNOLOGI MARA**

**DETERMINANTS OF ISLAMIC BANKING  
PERFORMANCE TOWARDS THE  
ECONOMIC GROWTH IN MALAYSIA**

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## **ABSTRACT**

This research aim to study the nature of Malaysia's Islamic bank's performance that is able to develop the economic growth in the country. It is an attempt to add to the existing research by including an objective compromise on the gaps in research findings of economic growth between selected Islamic banks. Financial and banking institutions should be managed efficiently and take an important part of the economy and financial performance. Against conventional bank, where dealing with interest is a main product and money is traded as a commodity, Islamic banking is based on real assets and is interest-free. In the meantime, Islamic banking have broadened their financial activities in accordance with Syariah including financing and investment banking, capital markets, takaful, financial advisory, and microfinance. This study carried out panel data regression analysis by 4 determinants of Islamic banking performance (total assets, total financing, total deposits, total zakat) that have been collected within 5 local Islamic banks and tested empirically on Malaysia economic growth (GDP). Within a period of 2011 and 2020, this secondary data from local Islamic banks was gathered from annual reports, and gross domestic product (GDP) data was obtained from the International Monetary Funds (IMF). Descriptive analysis, correlation analysis, regression analysis, and normality analysis are all used to interpret the findings in this study. The findings will endorse the concept that Islamic banking system strengthens both the economy and the management' competencies and lowers agency costs, all of which have a strong impact on economic growth and contribute to society.

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## **CHAPTER ONE: INTRODUCTION**

### **1.1 Introduction**

The first step in the chapter used to investigate the research problem that will formulate the findings at the conclusion. The exact approach which will be used is based on the research methodology competence, course content knowledge, and awareness of the topic to be investigated, and the level at which the study's goal is decided. Make sure the idea is reasonable. As not all problems lend themselves to research methodologies. The significance of developing a research topic as well as the sources of research difficulties are also discussed. Exploring, discovering, or establishing association or causation is the focus of this chapter. Consequently, I need to consider how to determine the research problem of the research. The research areas that will most likely be explored in the topic, as well as how problem areas can be found in the issues, can help to determine the problem. Furthermore, there are several stages that must be followed when designing a research problem that we will consider in this chapter. Working through all these processes requires a reasonable level of understanding of the research topic abroad subject area as well as the research methodology.

### **1.2 Background of the Study**

Against conventional bank, where dealing with interest is a main product and money is traded as a commodity, Islamic banking is based on real assets and is interest-free. The lender and the borrower share the risks in this system, which is based on the principles of partnership, joint ownership, leasing, and sale. Money is solely classified as a tool of exchange in Islamic finance, according to the rules of syariah (Daly S., & Frikha, M., 2016). Islamic banking, according to Fasih (2012) and Huda (2012), has the ability to help underprivileged populations like farmers and SMEs, as well as generate inclusive economic growth..

In Malaysia, Islamic bank system is still relatively new, having only operated about 30 years in comparison with the commercial bank. Even though the Islamic banking sector has been around for a shorter time than commercial banks, it has grown significantly due to consumer acceptance. In the meantime, Islamic banking have broadened their financial