

**THE DETERMINANTS OF  
SAVING BEHAVIOUR IN MALAYSIA**

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## ABSTRACT

This study was conducted to examine the determinants of saving behaviour in the process of economic development, in the light of the Malaysian experience during the period 1974-2006. The long-debated relationship between savings and the level and growth rate of income has provided a strong motivation for analyzing the determinants of saving behaviour in Malaysia.

The methodology involves the estimation of a saving rate function derived within the life cycle framework while paying attention to the structural characteristics of a developing economy. It is found that the saving rate rises with both the level and the rate of growth of income. Among the other variables considered, deposit interest rate, demographic variables and current account balance as statistically significant positive influences on domestic saving and inflation rate and old dependency ratio have negative impact on domestic saving.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of study

Economic growth has been a major concern for economists for many centuries. In recent years, there has been a lot of empirical work on the determinants of saving behaviour either by country basis or cross-country basis. The long-debated relationship between savings and the level and growth rate of income has provided a strong motivation for analyzing the determinants of saving behaviour. This relation has become even more solid with the studies confirming that saving is related with investment. Ozcan (2002)

Although there is abundant of study via group of countries and region (see, for instance, Edwards, 1996, Dayal-Gulhati & Thimann, 1997 and Metin-Ozcan and Ozcan, 2000), the focus has seldom been a specific country. This because it's quite difficult to draw a full picture of saving relation and its determinant when there is lack or inaccurate data for a country.

Even Malaysia was not immune from the data lack or inaccurate data, Malaysia is a very suitable case study of the subject at hand for the following reasons. First, the Malaysian database is considered quite well by developing country standards, and data are available on a comparable basis for a period of time. Secondly, Malaysia has also undergone significant policy transitions relating to the key variables relevant for the analysis, providing an appropriate setting for a historical analysis of the subject at hand. Mahmood (2002)