# THE DETERMINANTS OF SAVINGS IN MALAYSIA

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# Table of Contents

ABSTRACT

The objective of this study is to investigate the determinants of savings in Malaysia. Savings plays an important role in the economic development of a country. It is shown in growth theory that saving is a necessary element to finance investment which will enhance a country's productivity. Thus, it would be important to look at the determinants of savings such as the inflation rate, income level and age dependency ratio to fully understand the economic growth in Malaysia. Such information too will help financial institutions and policy makers in mobilizing savings as well as to increase the investment level in Malaysia. This study consists of dependent variables and independent variables. The dependent variable is national savings while the independent variables are inflation rate, income level and age dependency ratio. In this study, the secondary data were used and the information were gathered from the DataStream, WorldBank, Bank Negara Malaysia and Malaysian Department of Statistics. The total amount of 30 observations were collected starting from the year 1984 to 2013. Multiple Regressions Method was used in this research as the statistical method to determine how the variables are affecting other variables. The result shows that age dependency ratio and inflation variables are statistically signigficant. Meanwhile, gross domestic product does not have a significant relationship with national savings.

# CHAPTER 1: INTRODUCTION

## 1.0 Overview of the Study

In the history of economic development, savings has become a central issue for economic growth (Kelley, 1976; Kelley, 1980; King, 1985; Bairamli and Kostoglou, 2010; Karlan and Morduch, 2010). Savings play a very important role in promoting real growth (The World Bank, 2007). Several empirical studies suggest that savings rate brings positive impact on the long term growth (Page, 1994; Cardenas and Escobar, 1998; Motely, 1994; Krieckhaus, 2002). Savings is crucial to a nation's economic health, both at the household and national levels (Gersovitz, 1988). One of the important goals that every country desires is to attain a rapid economic growth. This is because the quality of life and the standard of living for the people in a country is determined by the economic growth of the country.

Based on Solow (1956) and Romer (1986), high savings rate will have an impact on the capital formation of a country and hence, causing a higher economic growth. This indicates that savings rate positively correlate to economic growth. In recent years, there has been an increasing interest on the determinants of savings in developing countries (Bairamli & Kostoglou, 2010), as well as in developed countries (The Economist, 2005; Karlan, et. al., 2009). Savings are arguably affected by many variables; the main ones are income, inflation, as well as demographics (Loayza et al., 2000). However, research on the influences of inflation and income on savings have been inconsistent (Chaturvedi, Kumar and Dholaika, 2009).