



**UNIVERSITI TEKNOLOGI MARA**

**MACROECONOMIC FACTORS AFFECTING  
MUDHARABAH DEPOSITS AT ISLAMIC BANKS IN  
MALAYSIA**

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## **ABSTRACT**

This study attempts to determine the factors affecting determinants of Islamic savings in Islamic banking. The objective of this research is to examine the Islamic saving determinants in Malaysia and the factors affecting saving in the Islamic banks in Malaysia. The hypothesis that were applied in this research are if people prefer to making saving in Islamic banking, what are the determinants of saving and do the variables give impact on the savings rate. Next, the variables that were used in this research are Mudharabah deposits/savings for dependent variables, meanwhile the independent variables are money supply, base lending rate, conventional deposit rate, consumer price index and industrial production index growth. The findings underline the significant role of the independent variables in deciding the amount of deposits in Islamic banks. In fact higher Islamic deposits are associated substantially with higher return rates and lower interest rates. In addition, the study shows that there is a displacement of commercial risk between Islamic and conventional banks, so that the depositors of Islamic banks move their funds to conventional banks when the rate of return offered by Islamic banks is considerably lower than their counterparty's interest rate. The results of this analysis have significant consequences for the activities of risk assessment at Islamic banks in Malaysia.

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# CHAPTER ONE

## INTRODUCTION

### 1.1 INTRODUCTION

Researchers have been debating the factors that influence saving in Islamic banks, particularly the significance of conventional interest rates in affecting the volume of savings in Islamic banks. Savings are aimed at future consumption as well as the supply of money for investment. When people resolve to save and completely stop spending, they must be paid for their "sacrifice" with a positive-added amount to their savings. It demonstrates that financial knowledge has an impact on overall savings. Savings, according to traditional economics, is the difference between income and consumption expenditure (Keynes, 1963). The positive time value of money means that the drive to gain an additional sum, or simply profit-seeking, is known as the key reason for saving in conventional banking institutions. As a consequence, saving is mainly measured by the rate of return on saving. These institutions are operated by the policy of paying interest on deposits.

The ban of interest is followed by the encouragement of different trading and equity-based investment activities, according to Islamic financial principles. (Usmani, 2005) Riba' is a term used in Shariah law to describe any action that provides excess in exchange for no benefit or equivalent counter-value. Since the 1960s, the prohibition of interest (usury) has been one of the most contentious topics among Muslims. This is due to both the widespread belief in bank interest, known as Riba', and the dominance of the banking system's interest in today's society. Finally, current Muslim scholars disagree on whether the riba ban is related to the modern bank's interest. However, currently there is a widespread belief that interest on bank loans is deemed Riba' and hence severely prohibited in Islam. The purpose of this study is to look at the factors that impact savings in Malaysian Islamic banks in this setting. It's crucial to understand the elements that influence savings and interest rates. A few studies have been undertaken in the context of Indonesia (R. Kasri and S. H. Kassim, 2009), however the results are unclear and inconsistent. According to surveys performed by the Indonesian Central Bank on popular preference for Islamic banks, religion was one of the most important factors in choosing Islamic banking products (Bank Indonesia, 2005).