



NEGARAKU

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AN EMPIRICAL ANALYSIS OF ISLAMIC BANKING AND ECONOMIC GROWTH IN MALAYSIA

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INTRODUCTION



- September 1963 - Perbadanan Wang Simpanan Bakal-Bakal Haji (now known as Lembaga Tabung Haji) were established
- July 1983, Bank Islam Malaysia Berhad was established, licensed and regulated by Bank Negara Malaysia (BNM), followed by Bank Muamalat Malaysia Berhad in October 1999
- 1993 - BNM upgraded Islamic Banking Scheme (IBS) to Interest Free Banking Scheme (IFBS)

INTRODUCTION



- May 1997 - National Shari'ah Advisory Council (NSAC) was established under BNM
- May 2006 - BNM has set up International Centre for Education in Islamic Finance (INCEIF)
- BNM introduced the Malaysia's new Islamic Financial Services Act (IFSA) 2013 which provides a stronger legal foundation to support the growth of Islamic finance sector in Malaysia

OBJECTIVE



- Following the lack of study on economic growth and Islamic finance, this study attempted to explore empirically the relationship between the development of Islamic finance and economic growth in Malaysia.
- This study examines the significant relationship between Islamic banking and economic growth as well as the impact of Islamic banking towards the economic growth.

RESEARCH METHODOLOGY

- Data series - Quarterly time series data from Q1 2004 to Q3 2016
- Variable representing the economic growth - Real GDP
- Four variables as proxy for the development of Islamic Banking namely:
 - Islamic Banking Deposits (IBD)
 - Islamic Banking Equity (IBE)
 - Islamic Banking FISIM (IBF)
 - Islamic Banking Loans (IBL)
- Econometric estimation methods used in this paper:
 - Augmented Dickey Fuller (1981) and Phillips Perron (1988) unit root tests
 - Johansen co-integration test
 - Granger causality test

ANALYSIS AND RESULT

Descriptive Statistics (based on Q1 2004 to Q3 2016)

Statistics (RM Millions)	GDP	IBD	IBE	IBF	IBL
Mean	210,023	202,615	18,036	1,543	162,131
Median	203,119	204,229	18,678	1,860	144,799
Maximum	281,084	426,335	38,571	2,650	407,014
Minimum	149,963	17,013	1,465	158	10,301
Std. Dev.	37,072	138,606	11,658	870	126,731
Observations	51	51	51	51	51

- Indicates Islamic Banking industry recorded high growth was in the recent years.
- Median for GDP and IBLoans is less than the mean which indicates that the values are positively skewed while for other three variables are negatively skewed as the mean is less than the median.

ANALYSIS AND RESULT

Unit Root Test

Variable	ADF Test				Philip-Perron Test			
	Level 1		First Difference		Level 1		First Difference	
	t-statistic	P-Value	t-statistic	P-Value	t-statistic	P-Value	t-statistic	P-Value
GDP	1.321361	0.9984	-4.23123	0.0017	0.566292	0.9874	-11.342	0.0000
IBD	0.227801	0.9718	-6.05896	0.0000	0.177589	0.9685	-6.05673	0.0000
IBE	1.454458	0.9990	-6.9307	0.0000	1.384323	0.9987	-6.94321	0.0000
IBF	-1.12578	0.6986	-7.58923	0.0000	-1.12578	0.6986	-7.58864	0.0000
IBL	4.247246	1.0000	-5.03085	0.0001	3.703455	1.0000	-5.29243	0.0001

- The null hypothesis for unit root test is the series are non-stationary, thus the alternative hypothesis implies that the series are stationary.
- The data are test at α 5% level of significance.

ANALYSIS AND RESULT

Johansen Co-integration Test

Null	Trace Statistics	5% Critical Values	Probability	Max-Eigenvalue	5% Critical Values	Probability
IBD						
$H_0 : r = 0$	16.44990	15.49471	0.0358	16.38395	14.26460	0.0228
$H_1 : r \geq 1$	0.065946	3.841466	0.7973	0.065946	3.841466	0.7973
IBE						
$H_0 : r = 0$	17.09300	15.49471	0.0285	14.18990	14.26460	0.0514
$H_1 : r \geq 1$	2.903099	3.841466	0.0884	2.903099	3.841466	0.0884
IBF						
$H_0 : r = 0$	5.033457	15.49471	0.8053	3.212227	14.26460	0.9316
$H_1 : r \geq 1$	1.821230	3.841466	0.1772	1.821230	3.841466	0.1772
IBL						
$H_0 : r = 0$	35.80534	15.49471	0.0000	26.24370	14.26460	0.0004
$H_1 : r \geq 1$	9.561643	3.841466	0.0020	9.561643	3.841466	0.0020

ANALYSIS AND RESULT

Granger Causality Test

Null Hypothesis	F-Statistic	Probability
IBD does not Granger Cause GDP	11.50230	0.00010
GDP does not Granger Cause IBD	1.76933	0.18240
IBE does not Granger Cause GDP	8.27071	0.00090
GDP does not Granger Cause IBE	1.60668	0.21210
IBF does not Granger Cause GDP	1.50251	0.23380
GDP does not Granger Cause IBF	0.14198	0.86800
IBL does not Granger Cause GDP	8.12923	0.00100
GDP does not Granger Cause IBL	5.05735	0.01050

- The null hypothesis for this test is there are non-causality between the variables and the alternative hypothesis that there is causality between the variables.

CONCLUSION



- The study indicates that deposits and loans by Islamic Banking will contribute in the economic growth of Malaysia in the long term
- There is a causality relation exists from deposit of equity of Islamic Banking to the economic growth
- The result from causality tests shows that the two-way causality relation from Islamic banks' loans to economic growth and vice versa
- This implies the improvement of Islamic Banking loans will benefit from the growth of overall economy and financing through Islamic Banking institutions will stimulate the development of economy in the long-term.

THANK YOU