

**MACROECONOMIC DETERMINANTS OF HOME FINANCING IN
MALAYSIA: A COMPARATIVE ANALYSIS OF CONVENTIONAL AND
ISLAMIC BANKS**

By

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ABSTRAK

Kajian ini dijalankan adalah bertujuan untuk menganalisis dan membandingkan hubungan dinamik di antara pembolehubah makroekonomi (iaitu keluaran dalam negeri kasar, harga rumah, harga saham, dan kadar faedah) dengan pembiayaan rumah yang ditetapkan oleh bank konvensional dan bank Islam di Malaysia. Hal ini berhubungkait dengan krisis kewangan yang berlaku pada masa kini yang menekankan aspek kepentingan interaksi faktor makroekonomi dalam pembiayaan perumahan. Pengamalan sistem dwi-perbankan di Malaysia membawa kesan satu kajian kes yang penting dan berbeza daripada interaksi pembolehubah makroekonomi dan pembiayaan perumahan. Oleh demikian, kajian ini dianalisa dari suku pertama 2007 hingga suku kedua 2014. Kajian ini menggunakan teknik analisis seperti *autoregressive distributed lag* (ARDL) *bound-testing cointegration approach*, *impulse response function* (IRF), dan *forecast error variance decomposition* (FEVD) untuk menganalisis jangka masa panjang dan pendek jangka hubungan antara pembolehubah. Hasil kajian mendapati bahawa pembolehubah makroekonomi mempunyai perbezaan terhadap kesan jangka masa panjang dan kesan jangka masa pendek yang mempengaruhi pembiayaan perumahan yang ditetapkan oleh bank konvensional dan bank Islam. Kedua-dua kesan jangka masa panjang dan kesan jangka pendek turut memberi lebih implikasi terhadap pembiayaan rumah yang diberikan oleh bank-bank Islam yang mana ianya lebih dikaitkan dengan sektor ekonomi berbanding dengan pembiayaan rumah yang diberikan oleh bank konvensional. Walau bagaimanapun, kadar faedah didapati membawa pengaruh yang besar terhadap bank konvensional dan bank Islam dalam jangka masa panjang. Berdasarkan hasil kajian ini, dasar campur tangan diperlukan untuk merangsang pembiayaan rumah yang diberikan oleh bank-bank konvensional perlulah memberi tumpuan kepada harga saham dan dasar monetari. Dasar campur tangan ini juga dilihat penting dalam pembiayaan rumah yang diberikan oleh bank-bank Islam dan mesti memberi tumpuan kepada keluaran dalam negeri kasar, harga rumah, dan dasar monetari.

Kata Kunci: pembiayaan perumahan, penentu ekonomi makro, sistem dwi-perbankan, Malaysia, ARDL

ABSTRACT

The purpose of this study is to analyze and compare the dynamic relationship between macroeconomic variables (i.e. gross domestic product, house prices, stock prices, and interest rate) and home financing provided by conventional and Islamic banks in Malaysia. The recent financial crisis has highlighted the importance of the interactions of macroeconomic factors and home financing. The dual banking system in Malaysia provides an important and distinct case study of the interplay of macroeconomic variables and home financing. The period covered for this study is from first quarter of 2007 to second quarter of 2014. This study employs time series analysis techniques such as autoregressive distributed lag (ARDL) bound-testing cointegration approach, impulse response function (IRF), and forecast error variance decomposition (FEVD) to analyze the long-run and short-run relationships among the variables. This study finds that macroeconomic variables have different long-run and short-run influence on home financing provided by conventional and Islamic banks. Both in the long-run and short-run, home financing provided by Islamic banks are more linked to real sector economy as compared to home financing provided by conventional banks. However, interest rate is found to have significant influence on both conventional and Islamic banks in the long-run. Based on the findings of this study, policy intervention to stimulate or dampen home financing provided by conventional banks must focus on influencing stock prices and monetary policy. On the other hand, policy intervention to stimulate or dampen home financing provided by Islamic banks must focus on GDP, house prices, and monetary policy.

Keywords: home financing, macroeconomic determinants, dual banking system, Malaysia, ARDL

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TABLE OF CONTENTS

PERMISSION TO USE	ii
ABSTRAK	iii
ABSTRACT	iv
ACKNOWLEDGEMENT	v
LIST OF TABLES	vii
LIST OF FIGURES	ix
LIST OF ABBREVIATIONS	x
CHAPTER 1: INTRODUCTION	
1.1 Background of the Study	1
1.2 Problem Statement	5
1.3 Research Questions	8
1.4 Research Objectives	8
1.5 Significance of the Study	9
1.6 Scope and Limitations of the Study	9
1.7 Organization of the Study	10
CHAPTER 2: THEORETICAL UNDERPINNINGS AND LITERATURE REVIEW	
2.1 Introduction	11
2.2 Theoretical Underpinnings	11
2.2.1 Wealth Effects	11
2.2.2 Financial Accelerator	12
2.2.3 Credit View	14
2.3 General Components of Research on Credit and Macroeconomic Variables	15
2.3.1 Home Financing Provided by Conventional and Islamic Banks	15
2.3.2 Home Financing and Macroeconomic Variables	21
2.4 Conclusion	28
CHAPTER 3: RESEARCH METHODOLOGY	
3.1 Introduction	29
3.2 Research Design	29
3.3 Research Framework	30
3.4 Hypotheses	30
3.5 Definition of Variables	33
3.5.1 Home financing	33
3.5.2 Gross Domestic Product	34
3.5.3 House Prices	34
3.5.4 Stock Prices	34
3.5.5 Interest Rate	35
3.6 Measurement of Variables	36
3.7 Data Collection	37
3.8 Time Series Analysis	38
3.8.1 Unit Root Test	39

3.8.2 ARDL Bound Testing Cointegration Approach (Long-run Analysis)	40
3.8.3 Impulse Response Function and Forecast Error Variance Decomposition (Short-run Analysis)	44
CHAPTER 4: FINDINGS AND ANALYSIS	
4.1 Introduction	47
4.2 Results of Unit Root Test	47
4.3 Results of ARDL Model Approach	48
4.4 Results of Impulse Response Functions (IRF)	61
4.5 Results of Forecast Error Variance Decomposition (FEVD)	63
CHAPTER 5: CONCLUSION AND RECOMMENDATION	
5.1 Conclusion	69
5.2 Policy Implications	70
5.3 Recommendations	70
REFERENCES	72

LIST OF TABLES

Table 2.1	Summary of Past Studies on Macroeconomic Determinants of Credit	27
Table 3.1	Measurement of Variables	36
Table 3.2	Research Objectives and Time Series Analysis Techniques	39
Table 4.1	Summary of Unit Root Tests	48
Table 4.2	Bound-testing Procedure Results	49
Table 4.3	Long-run ARDL Model Estimates	50
Table 4.4	ECM Coefficients	58
Table 4.5	Forecast Error Variance Decomposition of Home Financing Provided by Conventional Banks (Ordering 1)	63
Table 4.6	Forecast Error Variance Decomposition of Home Financing Provided by Conventional Banks (Ordering 2)	64
Table 4.7	Forecast Error Variance Decomposition of Home Financing Provided by Islamic Banks (Ordering 1)	65
Table 4.8	Forecast Error Variance Decomposition of Home Financing Provided by Islamic Banks (Ordering 2)	65
Table 4.9	Hypotheses and Findings of the Study	67

LIST OF FIGURES

Figure 1.1	Credit Lenders to Household Sector	2
Figure 1.2	Composition of Household Debt from Banking System	3
Figure 1.3	Composition of Total Banking System Loans	4
Figure 2.1	Conventional Home Financing	16
Figure 2.2	Cost-plus-markup Credit Sale Home Financing	17
Figure 2.3	Diminishing Partnership Home Financing	18
Figure 3.1	Research Framework	30
Figure 4.1	KLCI from 1Q 2007 to 2Q 2014	51
Figure 4.2	OPR and Deposit Rate of Conventional Banks	53
Figure 4.3	GDP and HFI from 1Q 2007 to 2Q 2014 (in RM millions)	54
Figure 4.4	CUSUM and CUSUMSQ Tests for HFC Model	59
Figure 4.5	CUSUM and CUSUMSQ Tests for HFI Model	60
Figure 4.6	Impulse Responses of Home Financing Provided by Conventional Banks to Macroeconomic Variables	61
Figure 4.7	Impulse Responses of Home Financing Provided by Islamic Banks to Macroeconomic Variables	62

LIST OF ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ADF	augmented Dickey-Fuller
AIC	Akaike Information Criterion
ARDL	autoregressive distributed lag
BNM	Bank Negara Malaysia
CAGR	compound annual growth rate
CUSUM	cumulative sum of recursive residual
CUSUMSQ	cumulative sum of squares of recursive residuals
ECM	error correction
FEVD	forecast error variance decomposition
GDP	gross domestic product
HFC	home financing provided by conventional banks
HFI	home financing provided by Islamic banks
Ho	null hypothesis
HPI	house price index
IRF	impulse response function
KLCI	FTSE Bursa Malaysia Kuala Lumpur composite index
KLSI	FTSE Bursa Malaysia EMAS Shariah - Price Index
OIC	Organization of Islamic Cooperation
OPR	overnight policy rate
SBC	Schwarz–Bayesian Criterion
VAR	vector autoregression

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Malaysia operates a dual banking system wherein Islamic banks operate in parallel with conventional banks. Having established the first Islamic bank in 1983, Malaysia's Islamic banking industry is a global leader with a growth of 6-year compound annual growth rate (CAGR) of 21 percent and account for 20 percent of total domestic banking market share (Ernst & Young, 2013). The main difference between Islamic and conventional banks is that, the former operates in accordance with the rules of Shariah, the legal code of Islam, while the latter is based on secular principles, not religious laws (Shanmugam & Zahari, 2009). Conventional banks are primarily debt- and interest-based, and permit risk transfer. In contrast, Islamic banks are asset-based, prohibit interest (riba), and promote risk sharing (Hasan & Dridi, 2010). Primarily due to the prohibition of interest and asset-based structure, the dynamic relationship of macroeconomic variables and home financing provided by Islamic banks can be expected to be different from conventional banks.

From the Islamic perspective, the legitimacy of home financing as a means of securing housing is rooted from the basic principle of realizing maqasid al-Shariah (Ahmad, 2009; Ahmed, 2011). As Al-Ghazali identifies, maqasid Al-Shariah which refers to the objectives of Islamic law consists of three categories: essentials (daruriyyat), complementary requirements (hajiyat), and beautifications or embellishments (tahsiniyyat). Essentials entail five basic elements which are

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