

**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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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
H ₀	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 (hajiyyat), and beautifications or embellishments (tahsiniyyat). Essentials entail five basic elements which are

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