

**RELATIVE IMPACTS OF ISLAMIC AND CONVENTIONAL  
BANKS: EVIDENCE FROM PRODUCTIVE SECTORS IN  
MALAYSIA**

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## ABSTRACT

This study investigates the relative impacts of conventional banks and Islamic banks on productivity indexes in Malaysia. These sectors include manufacturing sector, mining sector and electricity sector in Malaysia for the period covering 2006:12 to 2010:12. The methods of the study are divided into two sections. The first section focuses on descriptive analysis, while the second section deals with econometrics analysis. SUR and ARDL methods constitute the econometrics approach. Beyond the indicators of conventional banks and Islamic banks, the study employs LABOUR, INTEREST and INFLATION, as control variables. The findings of the descriptive analysis suggest Islamic banks product based on profit and loss paradigm receive little patronage. The findings of SUR estimates indicate that Islamic banking performs better than conventional banks in providing finances to these sectors. The ARDL estimates support the evidence provided by SUR estimates except in the electricity sector, in which the conventional banks performs better. Therefore, we recommend that the government, policy makers and investors should focus more on Islamic banking relative to conventional banking. In particular, the government is advised to promote Islamic banks product based on profit and loss paradigm. The study has numerous contributions. For instance, to our knowledge, this is first study to decompose the impact of Islamic and conventional banking system on different productive sectors in Malaysia. Hence, the study will serve as an extension of literatures on Islamic banking in Malaysia. Moreover, the research may guide appropriate authorities of Malaysia on how to allocate fund or stabilization policy between Islamic banking system and conventional banking system. Similarly, this may inform policy decisions from countries aspiring to reach the level of Malaysia in terms of Islamic banking development. The study can also serve as a blueprint for future master plan.

## ABSTRAK

Kajian ini digunakan untuk mengenalpasti hubungan kesan indeks keluaran antara perbankan konvensional dengan perbankan Islam di Malaysia. Ini termasuk sektor pembuatan, sektor pelombongan dan sektor elektrik di Malaysia dari tahun 2006 hingga tahun 2010. Bahagian pertama kajian ini akan menerangkan analisis deskriptif dan bahagian kedua akan menjelaskan analisis ekonometrik. Pendekatan ekonometrik yang akan digunakan adalah kaedah SUR dan ARDL. Pembolehubah tidak bersandar yang digunakan di dalam kajian ini adalah *LABOUR*, *INTEREST* dan *INFLATION*. Kaedah SUR menunjukkan perbankan Islam adalah lebih baik berbanding perbankan konvensional dalam menyediakan kewangan kepada sektor-sektor yang telah dinyatakan. Berbanding kaedah ARDL, perbankan konvensional adalah lebih baik dalam menyediakan kewangan kecuali dalam sektor elektrik. Secara umumnya, kajian ini menyarankan agar pembuat dasar kerajaan dan pelabur lebih tertumpu kepada perbankan Islam. Selain itu, kajian ini merupakan kajian pertama di Malaysia dan ianya banyak menyumbang kepada negara. Selain itu, kajian ini dapat membantu pihak berkaitan untuk menyediakan peruntukan untuk sektor perbankan Islam dan konvensional. Oleh itu, kajian ini dapat membantu pembuat polisi di Malaysia untuk memajukan sektor perbankan Islam. Seterusnya, kajian ini akan berfungsi sebagai *blueprint* untuk rancangan induk masa depan sektor perbankan di Malaysia.

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