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Abstract

This paper contributes to the existing empirical literature on savings and Islamic banking systems by comprehensively examining the determinants of Islamic banking deposits in Malaysia. Initially, we examine the factors affecting the deposits in Islamic banking *by types*, which include investment deposits, demand deposits, savings deposits, ringgit Tawarruq deposits, dollar Tawarruq deposits and negotiable instrument deposits. Additionally, we investigate the determinants of deposits in Islamic banking *by holders* including household deposits, business deposits, financial institution deposits, federal government deposits, state government deposits and statutory agency deposits. We also examine the factors affecting the total deposits in the Islamic banking system. After confirming that the variables are stationary in the first difference through the use of the residual augmented least squares (RALS) procedure of Meng et al. (2014), we use the break-augmented cointegration methods of Johansen et al. (2000) and Giles and Godwin (2012) to check the cointegrating relationships and generate the long run coefficients of the variables. The results show that industrial production index, real interest rates on fixed and savings deposits have positive impacts on several components of Islamic banking deposits and the total deposits of Islamic banks, while real interest rates on deposits in commercial banks have a negative impact. However, the roles of both the Shariah index and the real exchange rate are mixed.

JEL Classification: C58, E42; E43. G01, G21.

Keywords: Islamic banking system, Islamic deposits, Macroeconomic factors, Structural Breaks.

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