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MONETARY POLICY EFFECT ON ISLAMIC RATE OF RETURN AND CONVENTIONAL INTEREST RATE IN THE MALAYSIA

Abstract:

This paper focuses on the impact of monetary policy on deposit rates in Malaysia. Comparative analyses on Islamic rates of return and conventional interest rates are conducted. Bank Negara Malaysia has been successful to some extent in the communication with the financial markets because monetary policy expectations give some impacts on the Islamic rates of return or conventional interest rates up to the maturity of 12 month. Islamic rates of return and conventional interest rates form the short-term deposit market driven by monetary policy expectations in Malaysia. Islamic finance is not different from conventional finance in terms of deposit rates formation. Bank Negara Malaysia plays an important role in the formation of Islamic rates of return and conventional interest rates in the deposit market up to 12 month.

Keywords:

Islamic Finance, Malaysian Deposit Market, Monetary Policy Expectations

JEL Classification: E43, F30, P51