



# To Study the Worthiness in Fixed Deposit (FD) Investment in Malaysia

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**Abstract:** The purpose of the study is targeted to study the worthiness in fixed deposit (FD) investment in Malaysia. The main objective of investment is to grow the wealth of the investment value to surpass the rising inflation in the economy of Malaysia. There is multiple suggestion provide the impression that the FD investment is not likely to yield sufficient return to cover the inflation rate in the country. Therefore, this has motivated the research to investigate the performance of the FD investment in Malaysia. The quantitative analysis had been conducted with the development of the study through the period of 1966 to 2022 to explore the relationship between the inflation rate and the FD investment return as the comparative analysis to demonstrate the performance of the FD investment. As a result, the inflation rate had identified the significant positive impact towards the movement of the FD rate of return suggesting the similar growth direction for both the FD investment and the inflation rate of the local economy. The comparative analysis had proven that the FD investment had yield higher returns to overcome the rising inflation pressure for the Malaysian investors. With this, the outcome of the study had drawn the suggestion and recommendation to invest in FD as an investment strategy to offset the impact rising inflation in Malaysia.

**Keywords-** fixed deposit, Malaysia, fixed deposit, inflation, economy, investment

## Introduction

The investment had been defined as the allocation of resources, usually money, time, or effort, into an asset, venture, or project with the expectation of generating some form of return or profit in the future. The goal of investment is to increase wealth, either through capital appreciation, income generation, or a combination of both (Manikandan & Muthumeenakshi, 2017). The effort in investing had been common in these days as almost all individuals are contributing the savings into making good investment to allow growth in the wealth and improving the cashflow for future financial management (Li, Li & Wei, 2020). The choice of investment in Malaysia had been very broad where the investors can choose from multiple investment opportunities like stock market, mutual funds, property investment, unit trust and so on (Abdullah & Shari, 2019). There is no limit in investment where each type of investment offers different level of risk and return matching different preferences and risk tolerance from the group of investors.

Within the choices of the investment available, fixed deposit (FD) had been one of the options in the world of investment as well but failed to offer as attractive investment opportunity in comparison with other type of investment (Shaik et al., 2022). This is mainly because the FD



investment tend to offer a lower return on investment (ROI) which create lower earnings for the investors over time making it not favourable as the choice of investment. However, the FD investment had been highly referred as the low-risk investment where the investors tend not to being exposed to major risk where the FD provide higher stability and extremely minimal default risk possibility for the investors (Pandey & Vishwakarma, 2020). Therefore, the FD investment could become an ideal choice for the investors who are not keen into high-risk investment or even suitable for those individuals that are struggling with the investment knowledge would likely to see the FD investment as the better preference (Che Arshad & Nurfadilah, 2017).

As far as the FD investment come into picture, there is still a number of suggestions from the experts putting unfavourable comments and feedbacks towards the idea on investing in FD as the FD rate of return tend to be super low and not being able to cover the inflation rate in Malaysia (Hati, Wibowo & Safira, 2020). This had been referenced to the objective of investment which is to maintain the value of dollar through the growth of the investment to net off the inflation effect over time (Abdullah & Shari, 2019). This will help the investors to battle the rising inflation in the economy without losing out in the purchasing power for the individuals. In Malaysia, the rapid increase of the inflation rate within the local economy had been alarming where there is suggestion that the FD return on interest will not be able to cover the rising inflation rate within the prices of consumers goods and services rejecting the idea of investing in FD despite the low risk (Lee & Lisa, 2019). With this, today's investment behaviour in Malaysia had observed the major shift in the investment choice where many investors are seeking away from investing in FD due to the low rate of return over time.

This had led to the designation of the problem statement for the study which is addressed from the highlight of the background of research study. The problem statement had been clear where the doubt for the FD investment had still been creating the gap in the understanding within the scope of finance and economics which lead to the motivation to drive the need for the current study (Lee & Lisa, 2019). The comparison of the FD investment return will then be compared against the inflation rate in Malaysia to verify the facts on the myth stating the lower return from the FD against the rising inflation in Malaysia. The objective of the research had been designed with the intention to further investigate the performance of the FD investment in financial market in Malaysia.

## **Literature Review**

The prior knowledge derived from financial and economic concepts gave a clear indication that the role of investments will help investors achieve greater wealth while reducing pressure on the country's inflation rate. According to Jareno, Ferrer & Miroslavova (2016), the most common mistake is not investing, which causes money to lose value over time. This means that the investment return can exceed the inflation rate. This is due to the concept of time value of money, which ultimately results in a similar amount of money being recorded at a lower value in the future. For this reason, investors often create a portfolio investment that allows money to grow over time through the investment, thus ensuring that money and wealth growth correlates with the country's rising inflation (Nkoro & Uko, 2016). Furthermore, according to



Ichsan et al. (2021), the plan was to create a portfolio to increase investors' risk returns, which is considered the best protection against rising inflation.

In order for investors to generate a consistent return on their investments, it has been suggested on numerous occasions that a portfolio of investments be built. According to Antonakakis, Gupta, and Tiwari (2017), portfolio returns were more likely to produce positive returns for investors even during recessions, indicating that using a portfolio investment strategy typically produced favorable results. This demonstrates portfolio investments' capacity to spread out risk in investment portfolios while giving investors steady returns. Rising inflation can be halted by a steady return that ultimately cancels out the decline in the purchasing power of money. Salisu, Sikiru, and Vo (2020) emphasized that even though portfolio investments might not maximize the potential return on investment, they still offer a steady and consistent return equal to the time value of money.

Since stock performance is typically favorable, particularly during economic upswings, previous publications have argued that stock investments are the best types of investments based on prior knowledge (Kwofie and Ansah, 2018). The economic climate frequently had an impact on the company's success, and this development could be seen in the share price development on the stock market. As the economic environment changes over time, as shown by GDP growth, stock market performance is anticipated to have a positive relationship with economic growth (Yismaw, 2019). Consequently, purchasing stock gave the impression that its value would rise sharply over time. As a result, when investors look at fixed assets and the country's inflation rate, the growth of their stock portfolio investments will typically outpace the inflation rate as a whole (Salisu, Akanni, & Raheem, 2020). Additionally, due to their diversification, stock market portfolio investments should produce positive returns during a recession, but inflation is predicted to decline (Bonab, 2017).

With reference to the FD investment, the FD investment had been the common financial products around the financial investment world. However, there is multiple suggestion from previous research suggesting that the FD rate of return tend to be not worth based on the risk and return engagement for the investment (Solarin, Hammoudeh & Shahbaz, 2018). The low return from FD investment had put out in favour for the preference for the choice of investment which shift the preference for the investment into other portfolio management (Li, Li & Wei, 2020). In the similar perspective, the different investment tends to be sharing positive correlation with one another as it is highly believed that the investment growth should be sharing the similar pattern and trend over time (Shaik et al., 2022). The difference between the investments should be referring to the level of risk and return which affect the preference among the investors.

There is suggestion where the FD investment is targeted to provide consistence and safe investment for the investors. The fluctuation of the FD investment is believed to be sharing the same direction with the inflation rate with the country's economic which is similar with the expectations for other alternative investments (Abdullah & Shari, 2019). Therefore, the relationship between the FD investment and the inflation rate should have significant positive correlation over the past trend (Relasari & Soediro, 2017). The positive trend should be reflecting the similar movement of the FD investment return to cover the rising inflation rate for the investors. However, there is also multiple suggestions where the FD return may not be



too positive to outperform the inflation rate for the country making the investment preference into the FD is not being favourable for the investors (Lee & Isa, 2019).

With the literature review being completed for the current study, the research framework had been developed to test the relationship between the inflation rate as the independent variable against the FD investment return for the investors in Malaysia. The expected outcome derived from the previous studies had indicate the potential observation of the significant positive relationship between the inflation rate in Malaysia against the growth of the FD investment return. The hypothesis drawn as below will be tested through the quantitative study that will be achieved at the end of the current study.

***H0: There is no significant positive relationship between the inflation rate of the economy and the FD investment return.***

***H1: There is significant positive relationship between the inflation rate of the economy and the FD investment return.***

Based on the reflection of the literature review, there is strong suggestion lack of demonstration for the previous studies which suggest no much evidence to identify the study of the relationship between the FD return against the inflation from the financial investment perspective (Lee & Isa, 2019). In addition, there is a gap addressed in the lack of academic study when comes to FD investment which create the higher motivation to conduct the current scope of the research to achieve the relevance understanding towards the FD investment return. Furthermore, the relevance research has not provided significant relevance towards the country of Malaysia which had been one of the most anticipating impacts in the academic field to draw the contribution of the study to understand the investment in Malaysia.

## **Research Methodology**

The research methodology of the study will enable the application of the quantitative analysis method which is essential to address the current state of research in which quantitative data from historical data on stock market return and inflation rate in Malaysia is heavily involved. This leads to a comparative analysis. According to Pitkowski (2020), comparative analysis is a method by which two or more variables that provide a consistent measurement are systematically compared and contrasted to improve understanding of the similarities and differences and to provide greater visibility of the quantitative measurement results. It is an important tool for many academic fields, including economics, business administration, sociology, politics, literature, and more (Roig-Tierno, Gonzalez-Cruz, & Llopis-Martinez, 2017). It is important to remember that the level of complexity and detail of a comparative analysis can vary significantly depending on the situation and the entities being compared (Fainshmidt et al., 2020). Furthermore, it is important to ensure that the comparison criteria are relevant and appropriate for the particular analysis context (Ezejiolor, Olise, & John-Akamelu, 2017). The comparative analysis for the current study will focus into the exploration to compare the performance of the FD investment return against the infation rate in Malaysia.

Moving on, the quantitative analysis does not stop at using the comparative analysis as the sole quantitative analysis method for the study but also addressing he application for the correlation analysis and regression analysis to conduct the testing on the relationship between the independent variable and the dependent variable based on the research framework drawn



within the scope of study (Sekaran & Bougie, 2016). The correlation analysis holds the significant towards the quantitative method where the correlation analysis explores the potential existence in the correlation between two variables where the correlation will be judged based on the Pearson Correlation Coefficient to identify the strength of the correlation exist. In addition, the regression analysis will be utilized to achieve the testing for the significant existence of the relationship between the variables as defined within the research framework to conclude the findings and result for the quantitative study (Apuke, 2017). The outcome from the quantitative analysis will be proceeded to perform the testing for the hypothesis as drawn from the literature review of the study.

## Results and Findings

Based on the data input for the study, the data collection will cover the timeline from the very beginning years from 1966 to the recent year recorded in 2022. The time span over more than 50 years will provide the relevance understanding towards the trend through the long-term as well as considering the impact from the economic condition and external factors that are very uncertain to be included in the quantitative analysis for the study.

**Table 1: Correlation Analysis**

	<i>FD Rate</i>	<i>Inflation Rate</i>
<i>FD Rate</i>	1	0.386883851
<i>Inflation Rate</i>	0.386883851	1

The Table 1 had been showing the fundamental of the correlation analysis where the correlation analysis will be comparing the correlation exist between the FD rate of return against the inflation rate in Malaysia. The results based on Table 1 show the Pearson Correlation Coefficient recorded at 0.39869 which fell within the range of 0.2 to 0.4 that represent the presence of the weak positive correlation between the two variables. In other words, the growth of the FD investment return is sharing the similar direction with the inflation rate growth in Malaysia.

**Table 2: Regression Analysis**

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	3.945787804	0.397887571	9.916841065	7.52033E-14
Inflation Rate	0.290428905	0.093340326	3.111505143	0.002949935

The Table 2 provide the information regarding the regression analysis conducted based on the research framework for the study. The regression model had observed the application for the inflation rate as the independent variable and the FD investment return as the dependent variable. The regression analysis as reference to Table 2 had shown the p-value pf 0.003 which





is below the tolerance level of 5% that linked to the evidence to suggest there is significant relationship being exist from the inflation rate in Malaysia affecting the FD rate in Malaysia. With reference to the outcome for the quantitative analysis the hypothesis testing will be conducted to identify the achievement towards the objective of the study. Based on the hypothesis as drawn below, the quantitative analysis through the testing for both correlation analysis and regression analysis will be concluding the outcome of the hypothesis testing for the study. The correlation analysis had suggested there is significant in the positive correlation exists between the inflation rate and the FD rate despite being weak correlation between the two variables. In addition to the positive correlation findings, the regression analysis without a doubt showed sufficient evidence to identify the significant in the relationship from the inflation rate being highly relevance in affecting the movement to the FD rate of return for the investors. With this, it is concluded that the inflation rate in Malaysia is sharing a significant positive relationship against the FD investment return resulting in the acceptance of the alternative hypothesis drawn in H1 and rejecting the null hypothesis at H0.

***H0: There is no significant positive relationship between the inflation rate of the economy and the FD investment return.***

***H1: There is significant positive relationship between the inflation rate of the economy and the FD investment return.***

**Table 3: Comparative Analysis**

Variable	FD Rate	Inflation Rate
Average Rate	4.87	3.18

The Table 3 had showed the comparative analysis to identify the average return on yearly basis from the observation for the year from 1966 to 2022 which cover the significant timeline to understand the all-time impact on both the FD investment return as well as the inflation rate in Malaysia. The results as reference to Table 3 had shown that the average return from FD rate had been positive and higher against the average inflation rate being recorded in the past trend suggesting that the investment in FD had been more favourable to overcome the pressure from the rising inflation in the country. Based on the outcome, the investment in FD will likely to yield additional 1.5% outperforming the inflation rate of the country.

**Table 4: Investment of RM1,000 (1966 to 2022)**

Variable	FD Investment	Inflation Adjusted
Total RM Value	15,571.08	6,008.79

Shifting the focus into information in Table 4, the data showed the projection of the outcome through the value of RM1,000 back in 1966 over the timeline until the recent period at 2022. With reference to the results, the FD investment will be growing over the time to reach the value of RM15,571.08 at the end of 2022 while considering the inflation adjusted value, the similar RM1,000 will likely to be deemed to be at RM6,008.79. This had showed the significant



evidence that the investment in FD had been extremely favourable to create additional wealth and overcoming the rising inflation of the country where the information in Table 4 had showed concrete evidence to point out the suggestion.

### **Discussion on Findings**

The term "fixed deposit" (FD) refers to a type of investment that is frequently referred to as safe because it carries a low level of risk for the investor while also providing a consistent stream of return. In Malaysia, FDs are a popular low-risk investment option, making them an excellent choice for investors who are unsure about investing or are risk-averse. According to common perception, FDs frequently appear as lower return options than equity and bond investments, which are aligned with the concept of risk and return. Investments like equity and stock investments will appear to be higher risk, which will induce higher returns to entice investors to invest with compensation of higher risk premium.

Based on the quantitative analysis study, there is a strong suggestion that the inflation ate within the Malaysian economy had showed positive influence towards the designation of the FD rate of return in the country creating significant positive relationship between the two variables. This had been in aligned with the initial understanding for the study where the investment return tends to share the similar direction of growth over time with the rising inflation rate in the country. This had become relevance to address that the investment in FD will be assist in offsetting the impact from the rising inflation rate for the investors to maintain their good wealth as well as improving the purchasing power over time. In other words, the investment into the FD investment had become good investment strategy for the investors to mitigate the investment risk and producing the relevance return to reduce the inflation impact towards the individuals.

With reference to the study, the comparative analysis will be used to conclude the objective of the study especially with the suggestion of the significant positive relationship between the inflation rate and the FD rate. Based on the results and findings, the income through the FD investment had been surprisingly surpassing the overall average inflation rate from the period of 1966 to 2022. In other words, the investors that are constantly investing into the FD investment will likely to have greater return to offset the impact from the rising inflation in Malaysia and in additional creating little additional wealth over the results from the investment. This would mean that the continuous decision to invest in FD investment may not become a bad idea as the return from FD investment had been favourable to fight against the inflation rate within the country. Therefore, the investors that are not familiar with the financial investment would be highly preferred to invest in FD as the choice in investing in FD would still be likely to produce positive impact on the savings and wealth of the individuals.

### **Conclusion**

The research had concluded the study with the reflection on the quantitative analysis being achieved throughout the process of the research study. The outcome of the study had identified significant contribution to the relevance parties for the research scope of interest. Firstly, the lack of exploration in the relevant area of study certainly benefits from the outcome of the current study where the achievement of this research will create additional value and



contribution towards the field of academic research papers. This will also become the source of motivation for the future researchers to extend their interest into further exploration of the study when carrying out future research studies.

Besides, the important piece of the outcome for the current study is to provide investment advice to fellow investors in Malaysia. There is definitely a lot of doubt coming in for the FD investment return where the FD rate is always deemed to be insufficient to cover the impact arise from the rising inflation of the country. However, the results in the study had provide the fresh perspective rejecting the initial understanding and suggesting that the investment in FD would likely to surpass the rising inflation of the country aligning with the objective of investment. The investment in FD would likely to yield great return for the investors resulting for the investors to settle with greater wealth and higher purchasing power over time. Therefore, the investment into FD had bene recommended for investors that are seeking for low-risk investment where the investment may not generate extreme return but the return from investment would be sufficient to cover the inflation pressure which is the objective in investment.

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