Role of Islamic Banking in Economic Growth of Pakistan

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**ABSTRACT**

**Purpose:** This paper is all about the advancement of Islamic Banking and its impact on economic growth of Pakistan. In recent years it has been observed that overall growth in the Islamic Banking has increased over conventional banking in Pakistan. The primary goal of this research is to find the impact of Islamic Banking products on the economic growth of a country.

**Approach:** This report examines a new approach to defining the success of the system of the Islamic banking industry in the context of Pakistan. After Utilizing econometrics examination, quarterly time-arrangement information of financial loaning and all out resources an intermediary for the advancement of Islamic banking and GDP as an intermediary for monetary development.

**Findings:** The study’s result closes that there is long-standing co-integration between the variables. The report finds indication here that Islamic finance is strongly and greatly associated with economic development in the long term. Several research results indicate that Islamic banking is an important way of building an equitable monetary structure for the country's economic development and advancement.

**Implications:** This research would aim to expand the reach of brief discussions at various levels in the Islamic banking and economics field. The research was carried out to determine the effect of Islamic banking on Pakistan's economic development and the impact of Islamic banking goods on economic growth.

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**Introduction**

The word monetary alludes to monetary exercises which conform to Islamic law (sharia). It is one of Islam's center primary establishments and furthermore the Islamic construction of account.
Notwithstanding the preclusion of the riba, the denial of installment and gathering of the riba (interest) incorporates numerous other fundamental provisos that may impact the monetary exchange. This incorporates the preclusion of "gharar" (vulnerability), stowing away and selling of prohibited products (for instance, pork and liquor).

Islamic money has created as a significant and available strategy for subsidizing development around the planet over the previous decade. Solid verification is being revealed by significant capital business sectors that Islamic money has effectively been incorporated into the worldwide monetary framework. Over the previous many years, the Islamic money industry has developed dramatically, rising yearly at 10-12 percent. Then, sharia-agreeable monetary stores crossing banks and non-bank monetary foundations are esteemed at around $2 trillion today. Currency markets for monetary business sectors and protection (taka full). Islamic financial stores have risen quicker than traditional met in numerous lion's share Muslim nations. Islamic money is value based, resource sponsored, moral, supportable, monetarily dependable, financially and socially capable. It supports hazard sharing, attaches the money business with the genuine economy and stresses government backed retirement and monetary incorporation. Islamic financial area is a spellbinding area of capital interest in numerous nations due to its advantage free items. There are sure highlights of Islamic financial which give a base for bigger level of danger sharing, lesser reliance on advance instruments and limit the hole between present moment and long term financing. Islamic financial industry stayed reinforced in its resource bases indeed, even in the period of downturn and more capital interest in Islamic items has been noticed (Rogoff, 2011). Thus, different eyewitnesses have suggested that ordinary banking has a few possibilities to gain from Islamic banking.

Islamic account is administered by the accompanying primary standards:

1) Interest restriction on buys (riba).
2) Interest money on advances (materiality).
3) Illicit support in an exploitative or morally problematic association (for instance: liquor creation).
4) It is essential to relate gets back to hazards.

Branch Network of Islamic Banking Industry

Toward the finish of March 2020, the Islamic financial industry network comprised of 22 Islamic financial establishments, 5 undeniable Islamic manages an account with isolated Islamic financial auxiliaries (IBBs) and 3,250 branches dispersed across 120 areas. Notwithstanding a few changes, the significant portion of branches is as yet gathered in Punjab Province and Sindh as found in Figure 01. The quantity of Islamic financial windows worked by conventional keeps money with IBBs was 1,375.

Assets and Liability Structure

Islamic financial industry resources rose by Rs: 76 billion during the quarter of January to March 2020, and were enlisted in the past quarter at Rs: 3.360 billion to Rs: 3.284 billion. Accordingly, the piece of the pie of the resources of the Islamic financial area in the absolute resources of the financial business developed from 14.9 percent for the year finished December 2019 to 15.2 percent before the finish of March 2020. Financing and venture stayed the center parts of Islamic financing resources and related resources.

The bifurcation of properties among IBs and IBBs is appeared as demonstrated in Figure 02. The stores of undeniable Islamic banks rose by 4.1 percent (Rs: 78 billion) and were enlisted at Rs:2.005 billion, while IBB resources diminished by more than Rs:2 billion and were accounted for at Rs:1.354 billion before the finish of March 2020. There was a little ascent in the portion of IBs, which represented 59.7 percent before the finish of March 2020, contrasted and 58.7%
toward the finish of December, 2019. The portion of IBBs in the all-out resources of the Islamic financial industry during the time under audit was 40.3 percent.

**Financing and Related Assets**

Islamic financial area subsidizing and related stores (net) developed by Rs: 12 trillion to cross Rs: 1,634 trillion before the finish of March 2020, in (figure 02) as Shown Data separation between undeniable Islamic banks and conventional banks’ Islamic financial divisions shows that IB subsidizing and related resources (net) diminished by 1% Rs: 9 billion during the time under investigation and remained at Rs: 923 trillion. Then again, however financing and related resources (net) of IBBs, experienced development of 3% Rs: 21 billion and arrived at Rs: 711 billion before the finish of March 2020. Reducing share regarding method of savvy financing with a portion of 31.85, Musharaka stayed the biggest in the general subsidizing of the Islamic financial industry, driven by Musharaka (19.4%) and Murabaha, as found in the figure.

The year 2000 incorporates moving all areas equal, customary and Islamic. The strict development behind the foundation of Pakistan, which held the way of thinking of an Islamic state where Muslims can make the most of their lives under Islamic qualities, can be the authentic development of the Islamic financial framework in Pakistan. The State Bank of Pakistan was opened in 1948 by Muhammad Ali Jinnah, the author and the main Governor General of Pakistan. For the endorsement of monetary exchanges, agreements or instruments, moral sufficiency requested the hypothesis building approach in Islamic financial aspects dependent on the monetary cases of the Quran, Hadith and Sunnah prompts a structure that sets up a cycle to achieve the evident feeling of the Islamic financial framework's development. Hypothetical ramifications of the outcomes of Islamic counts on monetary advancement for contributors, controllers, administrators, directors and borrowers of the Islamic monetary framework are drawn up in late writing. The hypothetical components of this examination, in any case, are centered on financial hypothesis. Two separate methodologies are Islamic monetary hypothesis and customary financial speculations. There are numerous perspectives on the two theories.

Under the country's political reasons, the Islamic Commission (later the Council of Islamic Ideology) was set up in 1957 under Articles 198(1-4) of the 1956 Constitution of Pakistan, to present Islamic reconstruction. This was a specialist body to help the public authority in issue identifying with Shariah. The nation, then, begun presenting double Islamic banking in Pakistan in 2002 and adjusted its approach to consistently turn the economy without critical unsettling influence (Saba, 2017). Islamic banking was dispatched authoritatively in Pakistan in 2002. At the point when the Three Points Policy for Economic Development and the Advancement of Islamic Banking was actualized by the Meezan Bank of Pakistan.

1) Endorsement for the launch of new completely fledged private area Islamic banks.
2) Endorsement for the making of Islamic financial branches by conventional banks.
3) Approval to open independent Islamic heating branches or windows by the new conventional bank.

**Problem Statement**

The Purpose Resolution was embraced in 1949, which directs that our constitution depends on the educating of Islam (Hoodbhoy & Nayyar, 1985). The constitution was set up in 1973, which explicitly elevates policymakers to focus on the expulsion of Riba from Pakistan's monetary construction (Shah, 2012). With past examination, unmistakably there is a connection of circumstances and logical results between Islamic account and financial turn of events. This article, subsequently, investigates this relationship in Pakistan.
Research Objective
The goal and objective of this examination are as per the following:

1) As a matter of first importance, I might want to sort out the impact of Islamic relying upon Pakistan's monetary turn of events.
2) Furthermore, regarding monetary turn of events, address Islamic financial merchandise.
3) Address the highlights and models of Islamic banking in Pakistan, specifically its monetary instruments for the assembly and conveyance of money related capital (stores and resources).
4) To fix methods for guaranteeing that financial tasks are shariah-guarantee.

Research Questions
- Does Islamic finance in Pakistan contribute to economic growth?
- Is there a major connection between Islamic finance and long-term economic development in Pakistan?
- Does Islamic finance have an effective association with Pakistan’s GDP?
- Does Islamic Total Assets Financing have a major relationship with Pakistan’s GDP?
- Does lending to Islamic Finance have a substantial partnership with Pakistan's Gross Fixed Capital Formation (GFCF)?
- Does Total Assets of Islamic Finance have a major partnership with Pakistan's GFCF?

Literature Review
We need to do a ton of studies on the exploration directed by various researchers worldwide on Islamic banking and its effect on monetary improvement in Pakistan to proceed with the report. Since this type of banking came during the 1990s, we didn't need to return ever, researchers like Hassan and Bashir (2003), Samad & Hassan (2000), Rosly & Abu-Bakar (2003), Samad (1999), Samad (2004), Sufian (2007) and some of fascinating investigations by Kazarian, E. (1991) on Finance in Islamic banking and in monetary development. Right off the bat, I picked Samuelsson (2000) to explain how Muslims think and take the expressions of Allah (God) comparative with the western resident to start the significance after thorough investigation. At that point go to the investigation of the historical backdrop of Islam and Islamic banking and its effect on Pakistan's monetary advancement Warde (2000), Archer, (2002) and Scharf, T. (1983). What's more, we focused on the investigation of Al-Omar (1996), who further distinguished four center Islamic financial framework ideas and featured the Islamic financial framework instrument by the researcher Zineldin, M. (1990), who zeroed in on observational examinations. What's more, I utilized the hypothesis of monetary items given by Islamic banking from Islamic banking to check Islamic banking and its impact on financial development in Pakistan Usmani (1999), Imtiaz A. (1990) and Zineldin, M. (1990). Musharakah, Mudarabah, Murabaha and Ijara are the things that work on the impact explained by Al-Omar (1996). I contemplated the estimations of Islamic banks in Pakistan and their impact on Pakistan's economy. In a few nations, the Islamic financial industry is an enrapturing area of capital spending because of its advantage free merchandise. There are a few qualities of Islamic financial that give the premise to a higher level of danger sharing, a lower reliance on layaway instruments, and a diminishing in the contrast between present moment and long haul financing. Especially in the period of withdrawal, the Islamic financial industry stayed fortified in its resource bases and further capital spending in Islamic merchandise was noticed (Rogoff, 2011). Various examiners have thusly recommended that conventional banking has a few assets to gain from Islamic banking. A country's monetary advancement is an ascent in assembling and administrations starting with one time then onto the next. It very well may be controlled by methods for ostensible conditions under which swelling is comprehensive, while expansion is adjusted in genuine terms. Strength, security and human
Prosperity can be promptly gotten a handle on by following each nation's economy (Rafay and Farid, 2019). On the off chance that the country's economy is prosperous and rising consistently and a few foundation programs have as of late been finished, it shows that the nation is steady, quiet and that the nation's kin carry on with a respectable life. The economy is a combination of variables that are full scale and microeconomic. Numerous instruments and strategies have been utilized to confirm the proficiency of the economy. Gross domestic product is the most well-known and legitimate hotspot for computing each country's economy. It clarifies the yearly creation of a nation's products and enterprises. On the off chance that GDP rises, the flourishing economy is considered to be (2012 by Chow and Li). The western business banking framework is exclusively founded on revenue, while intolerable sin is explicitly prohibited and broadcasted in light of a legitimate concern for Islamic banking. Islamic banking was created to give an elective space liberated from Gharar (outright possibility of result), Myser and Qimar (a type of betting), pork deals and absence of benefit and misfortune sharing (Salman Ahmad Sheik, 2012).

Enhancements in an economy's monetary framework contrastingly affect its real creation development. This outcome in an improvement in the economy's burning through potential and investment funds volume (Goldsmith, 1969). The estimation of the Islamic financial framework was asserted during the nineteenth century comparable to the measure of public pay and advancement rate for a given country's monetary development close by the Islamic financial framework. Of late, with the goal of investigating explicit, this particular examination has been further experimentally explored. The way of thinking of Islamic banking depends on the thought of revenue free banking, as premium is restricted in Islam. Islam has given ideas identifying with the construction and activity of the financial framework (Tabash et al., 2022).

Theoretical Framework
The examination showed that there is a stockpile side connection in Pakistan between financial turn of events and Islamic banking. This examination offers significant information on the components that could impact and prompt the dynamic selection of Islamic financial frameworks and their effect on the country's monetary turn of events, for example (Islamic financial items). The research likewise showed that the Islamic financial area hugely affected monetary turn of events.

Theory of Islamic Banking
Principles of Islamic Banking
Islamic banks are a mix of business and venture banks until they become confounded; however, they work as per Islamic standards (Tabash et al., 2022). The center of this is that the loan fee, as a technique for apportioning monetary capital, is supplanted by the pace of return on singular exercises, which has a scope of danger based and benefit sharing systems and devices (Sharing Benefit and Loss-PLS) (Zineldin, M. 1990, p.11). PLS works in an extremely clear way where benefit is divided among the bank and the colleague, and afterward benefits from the banks is divided among the bank and speculation store holders (Zineldin, M. 1990). The Four Islamic Banking Values (Al-Omar, 1996, p.24)

Ideally, all assets should back financially helpful projects whether credits are utilized in monetary or beneficial ventures, there should be a danger. Premium is rejected in light of the fact that, paying little heed to the consequence of the business endeavor in which the cash is utilized, there is a foreordained, fixed sum owed to the financial backer. • Financial danger should lie completely with the capital loan specialist and not with the capital moneylender.

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Financial Products offered from Islamic Banking

Musharakah
As indicated by Usmani (1999), Musharakah is Arabic word which proposes sharing, this is an ideal distinctive way for interest based for the most part subsidizing. "Musharakah will assume a significant part in partner degree economy upheld Muslim standards" (Usmani, 1999, p.203). Besides, musharakah doesn't have secured pace of return, the speed of return depends on genuine benefit achieved by the endeavor and it will endure misfortune if the endeavor neglects to succeed (Usmani, 1999). Steady with Usmani (1999), the profits of the financier in agreement of musharakah zone unit joined straightforwardly with real result nonheritable by the undertaking. Musharakah might be a relationship that is set up through common agreement between the gatherings. The agreement is done with free assent of the gatherings with none extortion or misdirection. Additionally, reliable with Usmani (1999), the extent of benefit is disseminated between accomplices is joined at the hour of agreement of musharakah, if it’s not decided by then the agreement of musharakah isn't substantial. besides, the quantitative connection of benefit is chosen with extent to the specific benefit to the business and isn't partitioned with extent of capital blessed by the individual or accomplice, benefit will not tend a great deal of if the supplied capital is a ton of for the inverse. It’ll be isolated on the reason of understanding. It’s not permitted fixing an installment amount or giving the benefit on fix rate to anybody of the accomplice, or any pace of benefit extent to the speculation of the accomplice in agreement of musharakah. Also, predictable with Usmani (1999), in agreement of musharakah, on the off chance that misfortune occurs inside the business, the misfortune is imparted reliable to the quantitative connection of the venture, for instance in the event that entrepreneur has invested thirty percent of the capital inside the business, the accomplice ought to endure thirty percent of the misfortune, less or less in any case the agreement can get invalid. The benefit quantitative connection will differ from the speculation subsequently to the agreement understanding between the accomplices while misfortune ought to be split between the accomplices in real extent of venture. Predictable with (Usmani, 1999, p.208), "Benefit depends on the understanding of the gatherings; anyway misfortune is regularly dependent upon the quantitative connection of venture".

Mudarabah
Mudarabah is a course of action between the moneylender (the rabbul-maal, the financial backer) and the business visionary (the mudrib, the person who takes the credit or the bank), as indicated by Imtiaz (1990), in which the financial backer offers the assets to the business visionary who utilizes those assets either to fire up a business without any preparation or to create existing organizations with the goal of making benefit. The advantage is separated by a set rate by the two sides, however the lender needs to bear the weight alone on account of misfortune. As indicated by Usmani (1999), the financial backer carries on as a dozing partner in mudarabah and has no privilege to join or have a job in organization the executives. It is done distinctly from the bank. In examination, the deficiency of the asset is just the facial hair of the moneylender and not the chief, so if the misfortune was made by the supervisor's blunder, the misfortune is the facial hair of the bank director. As though work had been to no end and no achievement had been refined by his work. Furthermore, if the loan specialist wishes to sell the stake or drop the arrangement, the director doesn't get his work share except if the firm is sold for benefit thus the chief isn't qualified for guarantee his offer (Zafar and Sulaiman, 2020).

Ijara
Ijara refers to the arrangement in which Islamic bank buys an asset and then it provides it to customer on rent (Sihotang and Hasanah, 2021), and the rent agreement shows the renting period, amount, time of payments and responsibilities of all collections during the presence of the rent. Financing Ijara, where the bank purchases the resource and urges the designer to utilize it at a fixed cost. In a lease to-claim bargain, the responsibility for resource either stays with the bank
or is in the long run passed to the business visionary. The regular agreement for what is known as renting today is Ijara financing. As per Imtiaz (1990), financing and running are separated by the Ijara game plan amid Islamic banks. Islamic bank acts as warrantor of resource in providing lease and the customer is solely responsible for the endeavor of utilization of the resource and its upkeep. In the opposite side, in financing the agreement, "the client should haggle together with the producer and supplier in issue identifying with leased properties and the chance of loss of proprietorship under the particulars of the rent understanding" (Imtiaz, 1990).

**Riba (Interest)**

As per the Holy Qur'an, paying and receiving of interest (riba) is prohibited and seen as a major evil. Interest ban is a medium through which justice is made sure between the finance provider and the businessman. Investors are assured an optimistic return without having to bear the cost (Gani and Bahari, 2021). There are three main reasons for the ban of interest intervals. Conventional arrangement between borrower and lender is based on interest where the borrower has the possibility to have all the gains along with the possibility to bear all the losses that can occur, whereas moneylender earns money whatever (Warde, 2000). Riba is exploitative as it aids the rich as a wealth excess is what causes the destitute and the fragile to borrow money (Warde, 2000).

**Research Methodology**

The goal of this research is to explore the effects of Islamic banking on Pakistan's economic development. The quantitative method has been used here to assess the relationship between Islamic banking and the economy, as well as economic growth (GDP). The GDP and GFCF data are taken from the World Economic Indices.

**Hypothesis**

**H1:** There is an important long-term relationship between Islamic Banking and economic Growth.

**H2:** There is an important long-term relationship between Islamic banking and Islamic Banking Products.

**H3:** The Islamic banking and Total Asset shave a significant long-term relationship.
Research Design
The Quantitative methodology was used in this paper to calculate the connection between Islamic Banking and Economic Development. For this study, two dependent variables were chosen to measure the relationship between Islamic Finance and the (GDP) Economy: GDP and Islamic Financial Goods, and two independent variables: private loans by Islamic banks and total assets held by Islamic banks.

Data Collection
Data derived from numerous authentic sources is included in this text. The State Bank of Pakistan has released a quarterly Islamic banking bulletin from which the gross assets and net funding of Islamic banks are derived. The secondary data approach is employed to analyze the 30 observations based on periodical time series statistics on Islamic finance and economic growth proxies selected to verify the relationship between exogenous and endogenous variables. This research focuses on a period of nine years between Oct 06 and Sep 15.

This study, in line with Oqool, Okab, and Bashayreh (2014), based on the literature review, has chosen the relationship between Economic Growth and Islamic Finance through the subsequent models:

On following equations, the statistical procedure for calculation and analyses done:

\[
IB(PK) = \beta_0 + \beta_1 R + \beta_2 P + \beta_3 T + \beta_4 GDP + e_{it}, \\
E(PK) = \beta_0 + \beta_1 R + \beta_2 P + \beta_3 T + \beta_4 GDP + e_{it}, \\
G(PK) = \beta_0 + \beta_1 IB(PK) + \beta_2 E(PK) + e_{it},
\]

Here GP refers to progress of Pakistan Islamic monetary system while IB(PK) and E(PK) represents goods of Islamic banks growth of the country.

Independent variables:
- \( M(PK) = \) Mudarabah
- \( DM(PK) = \) Falling Musharaka
- \( T(PK) = \) time intermission
- \( GDP(PK) = \) Gross Domestic Product

Mediating variables:
- \( IB(PK) = \) Islamic Banking Products.
- \( E(PK) = NAV / Islamic equity fund. \)

Dependent variable:
- \( G(PK) = \) Impact of growth of Islamic banking.

Data Analysis and Results
Descriptive Statistics
Table 1 represents the detailed summary of all the factors of the research through detailed data provided by Pakistani database. This reflects the standard deviation, skewness, mean, kurtosis, and alteration of every factors on opted Islamic financial institution of Pakistan that include
survey banking goods, Net Asset Value and four variables of development. The mean is the Variable showing average level of data. Detailed data propose impression of difference in yield (M = 7.61, SD = .387) is additional to disparities in GDP development. In short, statistics of Pakistan showed that population and Mudarabah have more influence equated to free variables discussed in this research. The growing of capital account is linked with progress of Islamic banking to a much level. Although there is an optimistic association between equity and progress of Islamic financial system, it is smaller compared to bank resources. Amount of change reveals correct way towards economic development. Thus, the (+) sign shows positively tilted data and (0) symbol means that the data are steady.

Table 1: Descriptive Statistics

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean Statistics</th>
<th>Std. Deviation Statistics</th>
<th>Variance Statistics</th>
<th>Skewness Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time</td>
<td>.656</td>
<td>.318</td>
<td>.101</td>
<td>-1.04</td>
</tr>
<tr>
<td>Mudarabah</td>
<td>7.61</td>
<td>.387</td>
<td>.150</td>
<td>.427</td>
</tr>
<tr>
<td>Diminishing Musharaka</td>
<td>8.56</td>
<td>.280</td>
<td>.079</td>
<td>.880</td>
</tr>
<tr>
<td>Ijara</td>
<td>2.84</td>
<td>.210</td>
<td>.046</td>
<td>-2.560</td>
</tr>
<tr>
<td>GDP</td>
<td>.532</td>
<td>.340</td>
<td>.116</td>
<td>-2.779</td>
</tr>
<tr>
<td>Growth</td>
<td>18.67</td>
<td>.660</td>
<td>.430</td>
<td>-.046</td>
</tr>
</tbody>
</table>

Validity and Reliability Constructs
A measure of variance portrays that greater distribution for a time intermission (.101) and return (.150), individually, from data central tendency. The right direction toward economic progress is shown by skewness coefficient. Hence, for definitely tilted statistics, the (+) symbol direction plus 0 sign portray that the statistics are constant. However, identifying research approaches possess hereditary limits, biased intrinsic in study results in drop in dependability plus accuracy of findings of results. Thus, the reliability and validity of this study are definite in the statistical test specifications.

For investigating the reliability of the variables, the Cronbachs alpha was used. The reliability coefficient of the data collected for each Pakistan data sample variable is shown in the table here. In addition, results show angels from low to moderate coefficient level, i.e. 200 to .620 for underlying items in cronbachs alpha, i.e. population, growth, growth, Equity outcomes are at an acceptable level for GDP (> .6).

Table 2: Cronbach’s Alpha Coefficient

<table>
<thead>
<tr>
<th>Variables</th>
<th>Cronbach’s Alpha Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time</td>
<td>.200</td>
</tr>
<tr>
<td>Mudarabah</td>
<td>.617</td>
</tr>
<tr>
<td>Diminishing Musharaka</td>
<td>.605</td>
</tr>
<tr>
<td>Ijara</td>
<td>.614</td>
</tr>
<tr>
<td>GDP</td>
<td>.620</td>
</tr>
<tr>
<td>Growth</td>
<td>.166</td>
</tr>
</tbody>
</table>

Structural Equation Model
The next stage is to clarify the concepts’ dimensions by discovering reliability and accuracy of data. Analysis has been provided to the measurement model for the Pakistani dataset. Structural Equation modeling refers to an amalgamation of multiple regressions and exploratory factor analysis (EFR). For confirmatory factor analysis, though, SEM proves ideal in terms of CFA. In this section, model measurement evaluates the built model of this study. The AMOS software is being carried out to estimate. A model dataset was stated first.

6 observed variables (Timing, Mudarabah, Population, Gross Domestic Product, and growth, capital Net Value Asset and growing of the Islamic financial system) were employed for SEM
while exogenous variables included Time, Mudarabah, Population and Gross Domestic Product. Banking assets, Net Value Asset of equity and growth with 3 error terms were endogenous variables in this study.

Statistically, for various incentives, the fit indices were recommended. As per the Hooper et al, in the face of a vast volume of research output, readers and critics are burdened. The GFI, CFI and RMSEA have been employed in most literature to assess and measure the effect of Islamic banking on economic development and apt statistical indices for data.

<table>
<thead>
<tr>
<th>Table 3: Level of Model Fit</th>
<th>Recommended for further analysis if</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of Model Fit</td>
<td></td>
</tr>
<tr>
<td>Relative Chi square to degree of freedom $\chi_2/df$ (CMIN/DF)</td>
<td>&gt; 2</td>
</tr>
<tr>
<td>Goodness-of-fit index (GFI)</td>
<td>&lt; .90</td>
</tr>
<tr>
<td>Normed fit index (NFI)</td>
<td>&lt; .90</td>
</tr>
<tr>
<td>Incremental fit index (IFI)</td>
<td>&lt; .90</td>
</tr>
<tr>
<td>Tucker–Lewis index (TLI)</td>
<td>&lt; .90</td>
</tr>
<tr>
<td>Comparative fit index (CFI)</td>
<td>&lt; .90</td>
</tr>
<tr>
<td>Root mean square error of approximation (RMSEA)</td>
<td>&gt; .05</td>
</tr>
</tbody>
</table>

Firstly, six variables were defined for the model. The SEM model encompasses six variables. The square variable (Timing, Mudarabah, Ijrah, and Diminishing Musharaka) reflects the variables observed and the circles (e1, e2, and e3), describing the terms of error. The exogenous variable number was 6, while the endogenous variable number was 3. The input data consists of 297 observations while the path diagram, with standardized regression coefficient, was built to interpret the structural model fit for data.

**Discussion, Conclusion and Recommendations**

**Banking Product Mudarabah**

The coefficient for the Structural Equation Modelling path between monetary products and mudarabah in last model deliver strong important support for H1.

The philosophical hypotheses of literature are reinforced by these outcomes. It is matched with the data. These findings also confirm that the efficacy of macroeconomic factors and mudarabah in Islamic banking is also significant for boosting the growth of the Islamic financial system. This also meant that more of the total industry's share also means more leverage for the bank to manage the prices and services it delivers to maintain clients.

**Banking Products and Time**

The hypothesis H2 was not confirmed by the beta coefficients for the Structural Equation Modelling path between financial commodity variables and the time interval with a non-significant value of $p = .924$.

These results of empirical research also affect the trust of Islamic banking investors, which brings a positive direction to the level of growth. Till now, this research reflects the priceless connection between time and Islamic banking products. The sample features and difficulty of SEM model to assess the variables may be a reason of such findings.

**Banking Products and GDP Rate**

Gross domestic product (GDP) and economic growth are generally linked to the definition of financial assets and positively linked to each other. The relationship between increases in the proportion of bank deposits to GDP is discussed in a vast amount of literature.
Still, in this study, the hypothesized connection between Islamic banking products and GDP is not important at the .05 level. The H4 was not supported by the SEM model results. This finding casts off the mediating part of products and services in firming the GDP-IF growth relationship. The outcome of final model for the association between Islamic banking and GDP is also rather unique. This inferred that the exterior environment factor, GDP, has direct influence on rising and falling of the size of assets of Islamic banking organizations and its products.

**Banking Products and Diminishing Population**

The SEM direction coefficient between the financial product and the population with a non-significant value of p = 0.76 did not support the H2.

This discusses the philosophical hypotheses of literature linked to the relationship between the population and Islamic banking goods. Islamic banking and its products are going in the right direction, so that the society is interrelated with Islamic banking products.

**Banking Products and Development of Islamic Banking**
The SEM direction coefficients between Islamic banking products and the IF growth vector in the concluding model offer good support for H10. The development of the Islamic banking system in Pakistan is directly affected by Islamic banking goods.

One percent rise in Islamic banking products contributes to a 59 percent increase in Islamic finance, which further implies that this study's vector Islamic banking product confers that Islamic product are an important factor in the country's overall growth. The philosophical hypotheses of past literature arise from these observations.

**Conclusion**
The research was carried out to determine the effect of Islamic banking on Pakistan's economic development and the impact of Islamic banking goods on economic growth. The study's result closes that there is long-standing co-integration between the variables. The report finds indication here that Islamic finance is strongly and greatly associated with economic development in the long term. Economic development is positively encouraged in the study of Islamic banking goods by “Ijarah, Mudarabah, and Deminishing Musharakah". Several research results indicate that Islamic banking is an important way of building an equitable monetary structure for the country's economic development and advancement. Currently, Islamic financial goods in most essential markets around the world and 3.3 percent of global banking resources are rising at 15-20 percent a year. With the advent of Islamic banking economics worldwide, the study of development is increasingly growing and all variables have gradually appeared in the last few decades. This idea improved both depositors and investors' understanding and knowledge to incorporate ethical, spiritual preferences in their saving and business motivations to improve the country's growth rate. This research verified the arbitrating position of Islamic banking goods and the firming up and constructive association between the level of economic growth and Islamic banking. The outcome of the SEM final model revealed that, as discussed above, H1, H2, H3, H4 are supported. H1 is agreed here, i.e. that specifically shows that there is a substantial relationship that affects profitability calculating. H5, thus, reflects a considerably similar association between data variables affecting Islamic banking and investment. Overall, 4 directions were considered to be important in the final model and the country's growth/progress seems optimistic. This research gives a valuable understanding of the factors that could have a beneficial effect and lead to the strong implementation of the Islamic banking system and its influence on the country's economic development, but the focus of this study is restricted to Pakistan's financial banking system. It can be extended in this topic by contrasting the growth of various countries with approximately.
Recommendations
This research would aim to expand the reach of brief discussions at various levels in the Islamic banking and economics field. First, based on previous experience, this is a clear review in relation to the examination of Pakistan's economic influences in the Islamic banking and finance field. As this thesis not only explored the role of growth factors at a general level, it also opened a path in a particular direction for future studies.

Secondly, Islamic banking goods and services are built on the basis of the principles of Shariah compliance. The study of development factors impacting Islamic financial institutions gives an understanding into the drawbacks resulting from particular economic factors.

Third, the interaction between inner and outer development drivers with Islamic banking success provides the strong point for the importance of new Islamic agency concept contracts. The results of this paper increased the consciousness among Pakistani organizations of the significance of solid identification of the existing Islamic banking system as a mechanism for the economic growth.

References