**IMPACT OF THE ISLAMIC BANKS’ PERFORMANCES ON ECONOMIC GROWTH OF BANGLADESH: PANEL DATA ANALYSIS**

**Abstract**

The research investigates the impact of Islamic banks' performance on Bangladesh's economic growth by analyzing panel data from selected banks between 2010 and 2019. A quantitative approach was used, focusing on financial ratio analysis (FRA) due to the secondary nature of the data. The study employed various methods such as Covariance Analysis, Unit Root tests, ARDL tests, and Granger Causality Analysis to evaluate the data from five Islamic banks selected as samples. The findings show a positive and significant impact on economic growth during this period, with a notable increase in profitability within the banking sector over the last decade. The research indicates that financial performance indicators play a crucial role in influencing economic growth. Therefore, policymakers should pay attention to the factors that affect financial performance and prioritize strategies that support rapid economic growth through effective risk management. This study offers valuable insights into the financial performance of Islamic banks, highlighting the significance of profitability in their roles within the broader economic system.

**Keywords:** Islamic Banks, Bangladesh, Economic Growth, Panel Data, Financial Ratio Analysis.

**Manuscript type**: Original article.

**INTRODUCTION**

In the past few decades, the system of Islamic banking has become increasingly popular with consumers, policymakers, and researchers. In any economy, the banking sector helps to improve financial performance and resource efficiency (Ahmed, 2010; Rabaa & Younes, 2016). Banks that are profitable consistently maintain a healthy level of capital and have easy access to funds. Resource allocation, economic growth, and financial performance are all significantly influenced by a healthy banking system. Better financial performance also encourages investment growth, which is good for shareholders and the economy as a whole (Bourke, 1989; Rabaa & Younes, 2016). Muslims and their businesses can now obtain funding or make the switch from an informal to an official financial system thanks to Islamic banks, which offer financial services and goods compliant with their faith. Stated differently, Islamic banks can increase the accessibility of financial services to a wider range of people while also reducing financial exclusion. Furthermore, as suggested by Rajan (2006), this could stimulate more successful methods of reducing poverty. In recent times, there has been a notable surge in the acceptance of Islamic banking. The Islamic banking system differs from the regular banking system primarily in that it is interest-free. Put another way, depositors who use traditional banks are assured of receiving the agreed upon interest amount when it becomes due. However, when depositing money into Islamic banks, people do not feel secure in this regard. Depending on how profitable these banks are, they receive a certain amount in profit sharing (Hassan & Bashir, 2003; Yüksel & Canöz, 2017).

The relationship between financial growth and economic expansion is mainly supported by empirical data, but it's interesting to think about the potential contributions of Islamic banking practices to economic progress. People who do not want to employ interest-related financial instruments can nonetheless transfer money into the financial system thanks to Islamic financial practices, especially in countries where Muslims make up the majority population. By strengthening the financial system, financial diversity and the rise of Islamic finance may benefit economic expansion. Moreover, the expansion of the financial system might contribute to the preservation of financial stability, which would indirectly boost economic growth. Conversely, in countries that have two banking systems, the Islamic banking structure might assist the traditional financial system and avert a possible halt in economic expansion, especially if the conventional financial services system is unreliable or unable to sufficiently foster economic expansion (Sekmen, 2021). Regarding the emergence of the Islamic banking system, there are a few factors. The first and most important factor in this situation is religious motivation. Muslims require a banking structure with no interest as it is strictly forbidden in Islam. In addition to religious motivations, social factors were a major factor in the growth of the Islamic banking system. Interest is thought to be the root of income disparity. A new banking system without interest is therefore required to solve this issue (Yüksel & Canöz, 2017). The Islamic banking system is thought to be superior to the conventional banking system in many ways. Because Muslims deposit money in banks, it firstly increases market liquidity. Additionally, because these banks hire new employees, it substantially contributes to lowering the nation's unemployment rate. In addition to these elements, lending money to businesses also contributes to a rise in national production. Given this circumstance, it can be said that the Islamic banking system helps that nation's economy to grow (Furqani & Mulyany, 2009; Yüksel & Canöz, 2017).

The study aims to examine the influence of Islamic banks' performance on economic growth within the setting of Bangladesh. This article's outline is provided below. In the first portion, the introduction is covered. The second section aims to highlight the important research that Islamic banking and finance have done as they have developed from a theoretical field to one that is fast changing in our modern era. A summary of the contributions Islamic finance has contributed to economic growth is given in the third part, which also analyzes a number of empirical research. The study's discussion is covered in the fifth portion, while the results and findings are included in the fourth section. The sixth and last section offers recommendations for more research after drawing a conclusion.

**LITERATURE REVIEW**

Islamic banks become a matter of concern that has attracted the interest of many researchers (Yüksel & Canöz, 2017). Numerous empirical investigations have been conducted, and in these investigations, researchers have used various statistical methodologies to evaluate the performance of the banking sector, such as, Johansen Cointegration Analysis, Granger Causality Analysis, ARDL, Regression, Survey, Pedroni Cointegration Test, Stochastic Frontier Approach, Descriptive Statistics, VAR Granger Causality Analysis, Westerlund Panel Cointegration Test, Mediation of Profitability, Qualitative Research Paradigm, Structural Equation Model. The empirical factors that influence bank performance around the world have also been the subject of various studies, as well as in terms of a set of countries or a particular country. This section summarizes the literature on the financial, macroeconomic, and industry-specific factors that affect banks' financial performance. The gaps pertinent to this study have been found after a review of the literature. Additionally, the shortcomings of the available empirical investigations have been emphasized (Rabaa & Younes, 2016).

Table 01: Review of the literature

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Authors** | | **Field** | **Method** | **Results/ Findings** |
| Furqani and Mulyayn (2009) | Malaysia | | Johansen Cointegration Analysis | They analyzed that Islamic banking and economic expansion are connected. |
| Abduh and Chowdhury (2012) | Bangladesh | | Granger Causality Analysis | The researchers found that the Islamic finance structure and economic growth have a substantial and favorable association. |
| Abduh and Omar (2012) | Indonesia | | Johansen Cointegration Analysis | They stressed the close relation between the development of Islamic finance and economic expansion. |
| Yazdan and Sadr (2012) | Iran and Indonesia | | ARDL | According to analysis, Islamic financing is significantly associated with economic growth. |
| Johnson (2013) | 345 Islamic banks | | Regression | The study found that there is no connection between the development of the economy and the Islamic banking system. |
| Sarwer et. al. (2013) | Pakistan | | Survey | They draw the conclusion that Islamic banking is strongly and favorably and favorably related to economic growth. |
| Tajgardoon et. al. (2013) | 12 Asian countries | | Granger Causality Analysis | Economic growth and the Islamic banking system have been proven to be significantly correlated in the short term, but this relationship is not true in the long run. |
| Yazdan and Dastan (2013) | 9 Islamic countries | | Granger Causality Analysis | They defined that Islamic banking boosts economic growth. |
| Yusof and Bahlous (2013) | Malaysia, Indonesia and GCC countries | | Pedroni Cointegration Test | They have shown that long-term and short-term economic growth are both facilitated by the Islamic banking sector. |
| Tabash and Dhankar (2014a) | Qatar | | Johansen Cointegration Analysis | Economic growth and Islamic banking were found to be strongly correlated. |
| Tabash and Dhankar (2014b) | Qatar, Bahrain, UAE | | Granger Causality Analysis | It was discovered that Islamic finance and economic growth have a significant association. |
| Tabash and Dhankar (2014c) | UAE | | Johansen Cointegration Analysis | They established an association between economic growth and the Islamic banking structure. |
| Gheeraert and Weill (2015) | 70 countries | | Stochastic Frontier Approach | A connectivity between Islamic finance and economic growth was found. |
| Hachicha and Amar (2015) | Malaysia | | Johansen Cointegration Analysis | They determined that Islamic financing has no impact on economic growth. |
| Abedifar et. al. (2016) | 22 Islamic countries | | Descriptive Statistics | Economic growth and the market share of Islamic banks were shown to be correlated. |
| Kassim (2016) | Malaysia | | ARDL | It has been determined that the Islamic banking system supports economic activity by funding investment initiatives. |
| Lebdaoui and Wild (2016) | Southeast Asian countries | | Regression | It was shown that, while not being relevant in the near term, there is a significant long-term correlation between Islamic banking and economic growth. |
| Tunay (2016) | 19 Islamic countries | | Dumitrescu and Hurlin Causality Test | Islamic banks play very important role for economic growth. |
| Wahab et. al. (2016) | Malaysia and Pakistan | | Engle Granger Cointegration Analysis | In Malaysia, but not in Pakistan, there is a considerable correlation between Islamic financing and economic growth. |
| Yüksel and Canöz (2017) | Turkey | | VAR Granger Causality Analysis | The study found that the growth of the economy and industry was not significantly impacted by loans from Islamic banks. |
| Boukhatem and Ben Moussa (2018) | 13 countries in the MENA region | | Pedroni and Westerlund Panel Cointegration Test | The expansion of the banking system encouraged economic growth in the MENA countries that were chosen, and impact positively. |
| Atici (2018) | Turkey | | Granger Causality test | They identified considerable long-term unidirectional connection between Islamic (participation) banking and economic growth |
| Jawad and Christian (2019) | 24 countries | | Panel Co-Integration Test and Granger Causality Test | They recognized that Islamic Banking Development (IBD) affect economic growth positively and was a long run relationship between IBD and economic growth. |
| Afandi and Amin (2019) | Indonesia | | Regression | The findings indicate that Islamic bank financing has no bearing on economic growth. |
| Nasution et al. (2019) | Indonesia | | Mediation of Profitability | They discovered that CAR, NPF, FDR, and BOPO have a marginally negative direct impact on ROA. However, ROA has a positive and substantial direct impact on economic growth. |
| Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan (2020) | Malaysia | | ARDL | They demonstrated a connection between economic growth and Islamic finance. |
| M. Anwar et. al. (2020) | Indonesia | | ARDL | Short- and long-term economic growth are closely correlated with IIB offices, deposits, and expansion. There is evidence to support the relationship between economic expansion and Islamic banks. |
| Osmanovica et. al. (2020) | UAE | | Qualitative Research Paradigm | Around 8.3% of the GDP in 2018 was contributed by Islamic financial institutions. |
| Bendriouch et al. (2020) | GCC countries | | Structural Equation Model | A strong relationship between Islamic banks and economic expansion, especially in the years after the global financial crisis. |
| Sekmen (2021) | Turkey | | ARDL | They determined the financial sector still only includes a very modest amount of Islamic banking. |

Table 1 provides an overview of the substantial research that highlights the connection between the Islamic banking system and economic growth. Furqani and Mulyayn (2009) conducted a study in Malaysia, where they applied the ‘Johansen Co-integration Analysis’ to investigate this relationship and concluded that Islamic banking plays a pivotal role in promoting economic growth. Other studies, such as those by Abduh and Omar (2012), Tabash and Dhankar (2014a), and Tabash and Dhankar (2014c), also used this methodology and arrived at similar findings. Furthermore, researchers like Abduh and Chowdhury (2012), Yazdan and Dastan (2013), Tabash and Dhankar (2014b), Atici (2018), and Jawad and Christian (2019) confirmed the positive impact of Islamic banking on economic growth through ‘Granger Causality Analysis.’ In addition, studies by Kassim (2016), Yazdan and Sadr (2012), the Faculty of Entrepreneurship and Business at Universiti Malaysia Kelantan (2020), and M. Anwar et al. (2020) employed the ARDL test to establish a significant causal relationship between Islamic finance and economic growth. Sarwer et al. (2013), through a survey, also determined that Islamic banking is strongly and positively correlated with economic growth. Yusof and Bahlous (2013) showed that both long-term and short-term economic growth are supported by the Islamic banking sector. Further research by Gheeraert and Weill (2015), Abedifar et al. (2016), Tunay (2016), Boukhatem and Ben Moussa (2018), Osmanovica et al. (2020), and Bendriouch et al. (2020) reinforced the correlation between Islamic finance and economic growth. Additionally, Nasution et al. (2019) found that while CAR, NPF, FDR, and BOPO have a slightly negative direct effect on ROA, ROA itself has a positive and significant impact on economic growth.

Despite the body of research supporting a positive link between Islamic banking and economic growth, several studies have concluded that Islamic banking has little to no effect on economic growth. For example, Johnson (2013) analyzed 345 Islamic banks and, using regression analysis, found no significant connection between the Islamic banking system and economic growth. Lebdaoui and Wild (2016) reached a similar conclusion using the same methodology. Additionally, Tajgardoon et al. (2013) used a different approach and determined that Islamic banks do not contribute to long-term economic growth. Wahab et al. (2016) found that Islamic banking does not impact economic growth in Pakistan, a finding echoed by Hachicha and Amar (2015) for Malaysia. Yüksel and Canöz (2017) and Afandi and Amin (2019) also emphasized that Islamic bank financing does not influence economic growth. Lastly, Sekmen (2021) applied the ARDL method and found that the Islamic banking sector remains a small part of the financial system, suggesting its limited influence on economic growth.

In line with the literature, the most appropriate empirical model and frequently used variables for the financial results of Islamic banks as well as the variables influencing economic growth were employed in this study. Furthermore, this study contributes to the understanding of the relationship between economic growth and the financial performances of Islamic banks in Bangladesh, which sets it apart from previous research. This makes the study special since it employs this methodology to look into the connection between the financial performance of Islamic banks and economic expansion. As a result, it's believed that the results were more trustworthy and precise.

**METHODOLOGY**

**Samples**

Bangladesh has a total of 61 scheduled banks, which are categorized into various types. Out of these, 43 are private commercial banks. These private commercial banks can be further divided into 33 conventional private commercial banks and 10 that operate based on Islamic Shariah principles. Additionally, the banking sector includes 6 state-owned commercial banks and 3 specialized banks. There are also 9 foreign commercial banks that provide a full range of banking services in the country. All of these banks operate under the supervision and control of the central bank, Bangladesh Bank, which oversees the entire banking system. For the purpose of this study, a sample of five Islamic banks was selected using a convenient sampling method.These Islamic banks are following:

1. First Security Islami Bank Limited (FSIBL).
2. Islami Bank of Bangladesh Limited (IBBL).
3. Al-Arafah Islami Bank Limited (AIBL).
4. Shajalal Islami Bank Limited (SJIBL).
5. Social Islami Bank Limited (SIBL).

A vast majority population of Bangladesh are Muslim. Most of them, prefer to Sharia’h based principles in banking system rather than interest-based principles. This preference rate is increasing over time. The randomly selected Islamic banks or sample banks are private, which provide a lion share services of the banking sector of Bangladesh.

**Variables**

In this study, GDP is considered as the dependent variable. Whereas, Profitability (P), Credit Risk Performance, Managerial Efficiency, Management Ability, which are the study's independent variables, are all measured using various financial ratios. Here, profit ratio consists of Return on Assets (ROA), Return on Equity (ROE) and Earning Per Share (EPS). Besides, Credit Risk Performance includes Equity to Total Assets (ETA), Capital adequacy Ratio (CAR). On the other hand, Managerial Efficiency and Management Ability include Income Expense Ratio (IER) and Asset Utilization (AU), respectively.

**The model**

For the period of 2010 to 2019, the model's estimated economic growth in the panel. By analyzing the results, we are able to identify factors that are directly related to the state of the economy, such as the adoption by Islamic banks by utilizing the study of Demirgüc-Kunt (2013). The issue of selecting the explanatory variable was resolved after a thorough examination of the various ratios and the various connections that could exist between them.

The econometric model is following:

Yit =αi + βitROAit + χitROEit + δitEPSit + φitETAit + ηitCARit + θitIERit + γitAUit + εit

Where,

Y = GDP

ROA = Return on Assets

ROE = Return on Equity

EPS = Earnings Per Share

ETA = Equity to Total Assets

CAR = Capital adequacy Ratio

IER = Income Expense Ratio

AU = Asset Utilization

i = Country

t = Time

**Research Method**

Many studies have been carried out by researchers to determine the impact of Islamic banking on economic growth. These studies have made use of a variety of analysis techniques, including survey, regression, ARDL, VAR, Granger causality analysis, and Johansen cointegration analysis. To find out how the performance of the sample banks affects economic growth, a different statistical technique was employed in this study. The study measured the performance of particular banks and their influence on economic growth from Bangladesh's perspective using a variety of factors, including "Covariance Analysis: Ordinary, Unit Root test, ARDL test, and Granger Causality Analysis."

**RESULTS AND FINDINGS**

**Covariance and Co-relation Total**

The covariance and correlation data for First Security Islami Bank Limited (FSIBL) are displayed in Table 2. According to the findings, GDP is positively correlated with ROE, EPS, IER, and AU and negatively correlated with ROA, ETA, and CAR.

Table 02: Covariance and correlation of First Security Islami Bank Limited (FSIBL)

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The results of Islami Bank of Bangladesh Limited's (IBBL) covariance and correlation are displayed in Table 3. The findings imply that AU has a positive correlation with GDP and that ROA, ROE, EPS, ETA, CAR, and IER have negative correlations.

Table 03: Covariance and correlation of Islami Bank of Bangladesh Limited (IBBL)



The results of Al-Arafah Islami Bank Limited's (AIBL) covariance and correlation are displayed in Table 4. The findings imply a negative correlation between GDP and ROA, ROE, EPS, ETA, AU, and IER, and a positive correlation with GDP and CAR.

Table 04: Covariance and correlation of Al-Arafah Islami Bank Limited (AIBL)



Table 05: Covariance and correlation of Shajalal Islami Bank Limited (SJIBL)



The covariance and correlation statistics for Shajalal Islami Bank Limited (SJIBL) are displayed in Table 05. The findings imply that CAR has a positive correlation with GDP and that ROA, ROE, EPS, ETA, AU, and IER have negative correlations.

The covariance and correlation statistics for Social Islami Bank Limited (SIBL) are displayed in Table 06. The findings imply that EPS, CAR, IER has a positive correlation with GDP and that ROA, ROE, ETA, AU have negative correlations.

Table 06: Covariance and correlation of Social Islami Bank Limited (SIBL)



The above results in table 02 to table 06 show the correlation and covariance of sample banks. Using a regression specification with GDP as the dependent variable and various financial ratios of Islamic banks as the explanatory variable, the direct association between economic growth and the performances of Islamic banks’ is evaluated, for the selected banks.

**Unit Root Tests**

The ARDL method of cointegration, that is, I (0) or I (1), is used if the variables are integrated of order 0 or 1. Nonetheless, in order to guarantee that no variables are integrated of order two, or I (2), stationarity tests are still necessary. For that reason, stationarity is assessed using Phillips-Perron (PP) tests.

Table 07: Results of Phillips-Perron Tests (on GDP)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Particulars | level | | | 1st difference | | |
| Prob.\* | 0.7646 | | | 0.0369 | | |
| t-Statistic | -0.813580 | | | -3.553228 | | |
| Level of significance | 1% | 5% | 10% | 1% | 5% | 10% |
| Critical values | -4.420595 | -3.259808 | -2.771129 | -4.582648 | -3.320969\*\* | -2.801384\* |

**Note:** \*significant at 10% alpha; \*\*significant at 5% alpha; \*\*\*significant at 1% alpha (at 1st difference)

According to Table 7's unit root test results, the variable is not stationary at levels, basis on GDP for all sample banks, as the Phillips-Perron Test’s t-Statistic is less than 5% level or any level of significance’s critical thresholds and p-value is greater than α. The first difference, however, caused it to become stationary. Since at 1st difference, t-statistic is higher than 5% or 10% level of significance’s critical thresholds and p-value is lower than α, which indicates GDP is stationary at there and suggests that GDP is integrated of order I (1). The ARDL approach to cointegration has been chosen because of the mixture of I (0) and I (1), if all variables of given sample banks are considered.

**Lag Selection Criterion**

To ascertain the ideal number of lags to incorporate in the model, the lag-length criteria approach from unrestricted VAR is employed.

Table 08: Results of lag selection criterion

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The AIC lag selection criterion was used to identify the right lag before executing the ARDL test. The findings show that, the “\*” marks are predominantly situated on the first lag. Therefore, it was found that, lag-1 was appropriate and ideal.

**ARDL Test**

Table 9 displays the bound test and long-run form estimates for the ARDL. According to the rules, the F-statistic is compared to two asymptotic critical values that represent the polar instances in which all variables are either fully I (1) or purely I (0). Accept the null hypothesis that there is no cointegration if the test statistic is less than the lower critical value. On the other hand, reject the null hypothesis and draw the conclusion that there is cointegration between the variables if the test statistic is higher than the upper critical value. On the other hand, testing is deemed inconclusive if the test statistic lies between the lower and higher critical values.

Table 09: Results of Bounds F-test for Long-run Relationship

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Sample Banks | Lag | F-statistic | Sig. level (%) | I (0) | I (1) |
| FSIBL | 1 | 3.241240 | 1  5  10 | 2.54  1.97  1.7 | 3.91  3.18  2.83 |
| IBBL | 1 | 5.329820 | 1  5  10 | 2.54  1.97  1.7 | 3.91  3.18  2.83 |
| AIBL | 1 | 6.982378 | 1  5  10 | 2.54  1.97  1.7 | 3.91  3.18  2.83 |
| SJIBL | 1 | 251.4649 | 1  5  10 | 2.54  1.97  1.7 | 3.91  3.18  2.83 |
| SIBL | 1 | 5.512573 | 1  5  10 | 2.54  1.97  1.7 | 3.91  3.18  2.83 |

Observe from Table 09 that, the F-statistics are 3.241240, 5.329820, 6.982378, 251.4649, and 5.512573 for FSIBL, IBBL, AIBL, SJIBL, and SIBL respectively. In the cases of IBBL, AIBL, SJIBL, and SIBL at the 1%, 5%, and 10% significance levels, this is greater than the upper bound I (1) when compared to the asymptotic critical values, lower bound and upper bound that correspond to the polar cases of all variables being purely I (0) or purely I (1), respectively. Also, the F-statistic for FSIBL is larger at the 5% and 10% significance levels and lower at the 1% significance level relative to the upper bound. Hence, the results indicate evidence of long-run relationship among the variables of FSIBL, IBBL, AIBL, SJIBL, and SIBL, except a short run relationship among the variables of FSIBL only at 1% significance level. The overall F-statistic indicates that there is evidence to support a long-standing connection between Bangladesh's economic growth and the financial performances of Islamic banks. This relationship is significant enough to reject the null hypothesis that there is no cointegration among Islamic banks' financing.

**Granger Causality Analysis**

This section presents the findings from the paired Granger causality test, which was used to determine whether the performance of Islamic banks and Bangladesh's economic growth are causally related. The test has a maximum of one lag duration. To decide whether to accept or reject the null hypothesis, the F-statistics and accompanying p-values were consulted. The decision-making process involves rejecting the null hypothesis that there is a causal association between GDP and ROA, GDP and EPS in the cases of FSIBL and IBBL, respectively, and between GDP and AU in the cases of AIBL, SJIBL, and SIBL, provided the p-value is lower than the 0.05 (P < 5%) significant threshold.

Table 10: Results of Granger Causality Analysis

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Pair | Null Hypothesis | Obs. | F-statistic | Prob. | Causal Relationship |
| FSIBL | GDP/ROA | ROA does not Granger Cause GDP  GDP does not Granger Cause ROA | 8 | 33.6724  2.31370 | 0.0088  0.2467 | Exists  (unidirectional) |
| IBBL | GDP/EPS | EPS does not Granger Cause GDP  GDP does not Granger Cause EPS | 8 | 15.3552  1.99531 | 0.0265  0.2811 | Exists  (unidirectional) |
| AIBL | GDP/AU | AU does not Granger Cause GDP  GDP does not Granger Cause AU | 8 | 16.4731  1.34567 | 0.0241  0.3827 | Exists  (unidirectional) |
| SJIBL | GDP/AU | AU does not Granger Cause GDP  GDP does not Granger Cause AU | 8 | 6.02411  0.18563 | 0.0495  0.6816 | Exists  (unidirectional) |
| SIBL | GDP/AU | AU does not Granger Cause GDP  GDP does not Granger Cause AU | 8 | 0.13167  58.8854 | 0.8814  0.0039 | Exists  (unidirectional) |

According to Table 10's Granger causality study results, return on assets leads to GDP in the case of FSIBL, and we cannot rule out the causal relationship between GDP and ROA. Furthermore, we can accept the causal association between GDP and EPS and reject the null hypothesis, meaning that in the instance of IBBL, earning per share leads to GDP. The null hypothesis—that asset utilization causes GDP—may be rejected in the cases of AIBL and SJIBL, however, where we can clearly observe a causal relationship between GDP and AU. On the other hand, in the SIBL scenario, we are able to reject the null hypothesis and acknowledge the causal relationship between GDP and AU, in which case asset usage is a result of GDP. We can conclude that there is a one-way relationship in all cases between financial ratios and GDP. Table 10 shows that there is a substantial causal relationship between Bangladesh's GDP and the financial ratio of Islamic banks. The p-value is below any traditional level of significance, which makes this clear. Therefore, it appears that during the 2010–2019 study period, GDP and financial ratios are statistically linked. It is additionally apparent that the economic progress of Bangladesh is positively and considerably impacted by the functioning of Islamic banks.

**DISCUSSION**

The ARDL test's findings indicate that there is a long-term relationship between GDP and the sample banks' financial ratios, which means that, Islamic banks' performance significantly influenced Bangladesh's economic growth. The Granger Causality Analysis also revealed a causal relationship between the performance of Islamic banks and Bangladesh's economic expansion. Put another way, Bangladesh's Islamic banking industry contributes to the nation's economic expansion. The results are similar to the outcomes found by Furqani and Mulyayn (2009), Tabash and Dhankar (2014a), Abduh and Chowdhury (2012), Yazdan and Dastan (2013), Tabash and Dhankar (2014b), Atici (2018), Jawad and Christian (2019), Kassim (2016), Yazdan and Sadr (2012), M. Anwar et. al. (2020), Sarwer et. al. (2013), Yusof and Bahlous (2013) and many more. On the other hand, the findings are dissimilar with the investigation done by Johnson (2013), Hachicha and Amar (2015, Afandi and Amin (2019) and many others.

**CONCLUSION**

Islamic banking is becoming more and more well-liked almost everywhere. The structure of this banking system is influenced by a wide range of factors. It is necessary to have a banking system without interest, for instance, because Muslims are sensitive to Islamic laws. According to several studies, interest exacerbates wealth inequality between individuals, which makes a new interest-free banking system imperative. A majority-Muslim nation, Bangladesh has a large number of Islamic banks that operate there. Compared to traditional banks, their percentage is high, and their popularity has increased significantly most recently. Examining whether Islamic banking performance supports Bangladesh's economic growth is the major objectives of this investigation. Panel data were considered within this scope for the periods from 2010 to 2019. To accomplish this, additional methods such as the unit root test, ARDL test, and Granger causality analysis were used. The findings indicate a long-term association between the sample banks' financial ratios and GDP, suggesting that Islamic bank performance significantly influenced Bangladesh's economic expansion. Moreover, a causal link was shown between Bangladesh's economic growth and the Islamic banks' performance. Stated differently, the Islamic banking sector affects Bangladesh's economic growth.

It will therefore be preferable to conduct this analysis once Bangladesh's Islamic banks have increased in size. Although the relationship between Islamic banks and economic growth has been the subject of numerous studies, none have precisely looked at how Islamic banks' performance affects growth in the economy. This work makes a substantial contribution to the literature by accounting for this component in the analysis. Still, a more recent study focusing on larger banks over a longer period of time will be beneficial.

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