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3 IMPACT OF THE ISLAMIC BANKS' PERFORMANCES ON ECONOMIC GROWTH OF BANGLADESH: PANEL DATA ANALYSIS

Abstract

The research aims to investigate the impact of the Islamic banks' performances on the economic growth of Bangladesh. The study analyzed panel data from selected Islamic Banks in Bangladesh from 2010 to 2019. The quantitative approach to research uses financial ratio analysis (FRA) because the data is secondary. To analyze the panel data, the study shows 'Covariance Analysis: Ordinary, Unit Root test, ARDL test and Granger Causality Analysis' among variables. Five Islamic banks have been selected conveniently as samples. The results indicate that the effects on economic growth from 2010 to 2019 were positive and significant. It has also been revealed that profitability has increased significantly in the banking sector in the last ten years. According to research results, financial performance indicators substantially impact economic growth. For this reason, policymakers should be concerned with the variables that influence financial performance and they should concentrate on promoting rapid economic growth via risk-recovery strategies. The current analysis is a modest attempt to comprehend the current financial performance of Islamic banks. This research helps everyone involved in the financial system conceive the issues of profitability and its roles.

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

Manuscript type: Original article.

61 INTRODUCTION

In recent decades, the Islamic banking system 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). Islamic banks provide financial services and products that are in line with Islamic law, making it possible for Muslim people and businesses to access financing or transition from an unofficial to a formal financial system. In other words, Islamic banks can reduce financial exclusion and make financial services available to a larger population. Additionally, this may encourage more effective approaches to reduce poverty (Rajan, 2006). Particularly in recent years, Islamic banking has grown significantly in popularity. The main distinction between the Islamic banking system and the conventional banking system is that the former lacks interest. In other words, when people deposit money with traditional banks, they are guaranteed to receive the predetermined amount of interest when it is 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).

Empirical evidence largely supports the association between financial development and economic growth, but it is intriguing to consider how Islamic finance practices may contribute to economic growth. Islamic financial practices, particularly in nations with a vast majority Muslim population, can make it possible for people who do not want to use interest-related financial instruments to transfer money to the financial system. Financial diversification and the growth of Islamic finance could have a positive impact on economic growth by deepening the financial system. Furthermore, it is possible that the deepening of the financial system will help maintain financial stability, which will have a positive indirect impact on economic growth. Contrarily, in nations with a dual banking system, the Islamic banking system may support conventional banking and prevent a potential slowdown in economic growth, particularly when the conventional banking system is unstable or unable to adequately promote economic growth (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 motivations. Muslims require a banking system without interest because it is strictly forbidden in Islam. In addition to religious motivations, social factors were a major factor in the development 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 has a significant impact on 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).

In the context of Bangladesh, the study's objective is to investigate, impact of the Islamic banks' performances on economic growth. Following is an outline for this article. First section, discusses the introduction. The goal of the second section is to draw attention to the significant studies that Islamic banking and finance have conducted as they have progressed from being merely theoretical to a rapidly evolving different time period. The third section discusses various empirical studies and provides a summary of the contributions that Islamic finance has made to economic growth. The fourth section includes results, and findings; where fifth section covers the discussion of the study. At the end, sixth section draws a conclusion, and covers any suggestions for future research.

LITERATURE REVIEW

Islamic banks become a matter of concern that has attracted the interest of many researchers (Yüksel & Canöz, 2017). Numerous empirical studies have been conducted, and in these studies, researchers have used various statistical methodologies to assess 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, Dumitrescu and Hurlin Causality Test, Engle Granger Cointegration Analysis, 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 growth are related. ⁴⁹
Abduh and Chowdhury (2012)	Bangladesh	Granger Causality Analysis	They found that the Islamic finance system and economic growth have a significant and favorable association. ⁹³
Abduh and Omar (2012)	Indonesia	Johansen Cointegration Analysis	They stressed the close connection between the development of Islamic finance and economic growth. ⁴⁵
Yazdan and Sadr (2012)	Iran and Indonesia	ARDL	According to analysis, there is a significant link between Islamic financing and economic growth. ²
Johnson (2013)	345 Islamic banks	Regression	It was found that there is no connection between the development of the economy and the Islamic banking system. ⁷⁰
Sarwer et. al. (2013)	Pakistan	Survey	They draw the conclusion that Islamic banking is strongly and favorably and positively related to economic growth. ⁴
Tajgardoon et. al. (2013)	12 Asian countries	Granger Causality Analysis	In the short term, it was found that there is a considerable association between economic growth and the Islamic banking system, however this relationship is not applicable over the long term. ²

Yazdan and Dastan (2013)	9 Islamic countries	Granger Causality Analysis	They defined that Islamic banking stimulates economic growth. ⁸⁹
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. ²²
Tabash and Dhankar (2014a)	Qatar	Johansen Cointegration Analysis	Economic growth and Islamic banking were found to be strongly correlated. ⁵⁵
Tabash and Dhankar (2014b)	Qatar, Bahrain, UAE	Granger Causality Analysis	It was discovered that Islamic finance and economic growth have a significant association. ⁸²
Tabash and Dhankar (2014c)	UAE	Johansen Cointegration Analysis	They established a causal link between economic growth and the Islamic banking system. ⁷
Gheeraert and Weill (2015)	70 countries	Stochastic Frontier Approach	A correlation between Islamic finance and economic growth was found. ⁹
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	Market share of Islamic banks and economic growth were found to be related. ²
Kassim (2016)	Malaysia	ARDL	It has been determined that the Islamic banking system supports economic activity by funding investment initiatives. ⁶⁶

Lebdaoui and Wild (2016)	Southeast Asian countries	Regression	It was discovered ¹² that there is a considerable long-term association between economic growth and Islamic banking, although that relationship ² is not applicable in the short-term.
Tunay (2016)	19 Islamic countries	Dumitrescu and Hurlin Causality Test	Islamic banks play very important role for economic growth.
² Wahab et. al. (2016)	Malaysia and Pakistan	Engle Granger Cointegration Analysis	In Malaysia, but not in Pakistan, there is a considerable ⁸¹ correlation between Islamic financing and economic growth.
Yüksel and Canöz (2017)	Turkey	VAR Granger Causality Analysis	¹¹ 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 ⁸³ between Islamic (participation) banking and economic growth
Jawad and Christian (2019)	24 countries	Panel Co-Integration Test and	They recognized that ²⁸ Islamic Banking Development (IBD) affect economic growth positively and was a long run relationship ²⁸ between IBD and economic growth.

		Granger Causality Test	
Afandi and Amin (2019)	Indonesia	Regression	The findings indicate that Islamic bank financing has no bearing on economic growth. ¹³
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. ⁸
⁷⁵ Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan (2020)	Malaysia	ARDL	They demonstrated a connection between economic growth and Islamic finance. ⁷⁹
M. Anwar et. al. (2020)	Indonesia	ARDL	¹⁰ There is a strong correlation between IIB offices and deposits and economic growth in both the short- and long-term. There is proof that the Islamic bank and economic growth are mutually reinforcing.
Osmanovica et. al. (2020)	UAE	Qualitative Research Paradigm	Around ⁴⁴ 8.3% of the GDP in 2018 was contributed by Islamic financial institutions.
Bendriouch et al. (2020)	GCC countries	Structural Equation Model	² A significant correlation between economic growth and Islamic banks, notably in the years following the global financial crisis.

Sekmen (2021)	Turkey	ARDL	They determined the financial sector still only includes a very modest amount of Islamic banking.
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Table 1 demonstrates the abundance of studies highlighting the link between the Islamic banking system and economic growth. Furqani and Mulyayn (2009) directed investigation in case of Malaysia to find out this connection. To accomplish this, they thought about using ‘Johansen Co-integration Analysis’. According to their findings, Islamic banking promotes economic growth. Abduh and Omar (2012), Tabash and Dhankar (2014a), & Tabash and Dhankar (2014c) also arrived at this conclusion using the same methodology. However, Abduh and Chowdhury (2012), Yazdan and Dastan (2013), Tabash and Dhankar (2014b), Atici (2018), & Jawad and Christian (2019) highlighted the identical outcome by considering ‘Granger Causality Analysis’. Besides, Kassim (2016), Yazdan and Sadr (2012), Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan (2020), & M. Anwar et. al. (2020) conducted ARDL test and figured out that Islamic finance and economic growth have a causal significant relationship. Sarwer et. al. (2013) have drawn the conclusion that Islamic banking is strongly and favorably and positively related to economic growth by arranging a survey. Furthermore, Yusof and Bahlous (2013) shown that long-term and short-term economic growth are both facilitated by the Islamic banking sector. Gheeraert and Weill (2015), Abedifar et. al. (2016), Tunay (2016), Boukhatem and Ben Moussa (2018), Osmanovica et. al. (2020), Bendriouch et al. (2020) also found a correlation between Islamic finance and economic growth. In addition to those studies, Nasution et al. (2019) discovered that CAR, NPF, FDR, and BOPO have a marginally negative direct impact on ROA and ROA has a positive and substantial direct impact on economic growth.

Despite these research, additional studies have also been conducted that have come to conclusion that Islamic banking has little to no impact on economic growth. Johnson (2013) a study was conducted on 345 different Islamic banks. According to the findings of regression analysis, there is no connection between the Islamic banking system and economic growth. Lebdaoui and Wild (2016) used the same technique, they also came to this conclusion. Besides, Tajgardoon et. al. (2013), by utilizing a different methodology, it was determined that Islamic banks do not, in the

long run, support economic growth. Wahab et. al. (2016) determined that Pakistan's economic growth is unaffected by Islamic banking. Hachicha and Amar (2015), this point was stressed for Malaysia. On the contrary, Yüksel and Canöz (2017), Afandi and Amin (2019), emphasized that Islamic bank financing has no bearing on economic growth. Sekmen (2021) determined the financial sector still only includes a very modest amount of Islamic banking by applying ARDL method.

The most suitable empirical model and the most widely used variables for both the financial performances of Islamic banks' and the factors that influence economic growth were used in this study, in accordance with the literature. Additionally, in contrast to earlier studies, this research helps to link the financial performances of Islamic banks to economic growth in the context of Bangladesh. As a result, this study is unique in that, it uses this methodology to investigate the relationship between Islamic banks' financial performances and economic growth. Consequently, it is thought that the findings were more reliable and accurate.

METHODOLOGY

Samples

There are 61 scheduled banks among these 43 private commercial banks, 8 state-owned commercial banks, 3 specialized banks, 33 conventional private commercial banks, 10 Islami Shariah based private commercial banks, 9 foreign commercial banks in Bangladesh that offer full supervision and control of banking services, with Bangladesh Bank being the only exception as it is central bank of Bangladesh. Five Islamic banks have been selected conveniently as samples. 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 Demirgüç-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:

$$Y_{it} = \alpha_i + \beta_{it}ROA_{it} + \chi_{it}ROE_{it} + \delta_{it}EPS_{it} + \phi_{it}ETA_{it} + \eta_{it}CAR_{it} + \theta_{it}IER_{it} + \gamma_{it}AU_{it} + \varepsilon_{it}$$

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 researchers have been conducted numerous studies to find out the effect of Islamic banking on the economic growth, where they have used several types of analysis methods, such as, Johansen Cointegration Analysis, ARDL, Survey, Regression, VAR Granger Causality Analysis. In this study, a different statistical method has been used, to access, how the sample banks performances effect on economic growth. The study used ‘Covariance Analysis: Ordinary, Unit Root test, ARDL test and Granger Causality Analysis’ among variables to measure the performances of selected banks and its effects on economic growth in perspective of Bangladesh.

RESULTS AND FINDINGS

Covariance and Co-relation Total

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

Covariance Correlation	GDP	ROA	ROE	EPS	ETA	CAR	IER	AU
GDP	0.546138 1.000000							
ROA	-0.047775 -0.416452	0.024097 1.000000						
ROE	0.531769 0.253321	0.269881 0.612052	8.068708 1.000000					
EPS	0.229694 0.469280	0.029132 0.283353	1.393718 0.740810	0.438664 1.000000				
ETA	-0.648689 -0.621842	0.063973 0.291950	-2.127944 -0.530705	-0.491396 -0.525606	1.992555 1.000000			
CAR	-0.057541 -0.041535	-0.172462 -0.592646	-4.157153 -0.780688	-0.589036 -0.474416	1.232629 0.465812	3.514256 1.000000		
IER	3.888258 0.176134	2.909113 0.627360	62.94281 0.741793	9.759689 0.493297	-12.11509 -0.287316	-43.39305 -0.774894	892.3246 1.000000	
AU	0.174470 0.463977	0.012725 0.161098	1.123137 0.777067	0.223543 0.663320	-0.612009 -0.852079	-0.745044 -0.781076	10.96948 0.721693	0.258908 1.000000

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

Covariance Correlation	GDP	ROA	ROE	EPS	ETA	CAR	IER	AU
GDP	0.496754 1.000000							
ROA	-0.125887 -0.632212	0.079817 1.000000						
ROE	-1.231619 -0.526816	0.878776 0.937743	11.00254 1.000000					
EPS	-0.363236 -0.474141	0.235681 0.767478	3.214539 0.891583	1.181466 1.000000				
ETA	-0.399958 -0.630039	0.170787 0.671167	1.131979 0.378892	0.162158 0.165635	0.811247 1.000000			
CAR	-0.011164 -0.012415	0.067794 0.188084	-0.248871 -0.058808	-0.466887 -0.336675	0.666959 0.580406	1.627724 1.000000		
IER	-4.913381 -0.170431	6.842567 0.592121	56.50251 0.416448	1.580752 0.035554	23.57487 0.639900	35.76133 0.685271	1673.099 1.000000	
AU	0.013625 0.030195	0.064283 0.355381	0.363439 0.171133	-0.101873 -0.146385	0.294739 0.511104	0.587208 0.718870	23.30121 0.889747	0.409923 1.000000

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

Covariance Correlation	GDP	ROA	ROE	EPS	ETA	CAR	IER	AU
GDP	0.496754 1.000000							
ROA	-0.249907 -0.631230	0.315529 1.000000						
ROE	-1.941870 -0.527057	2.338952 0.796544	27.32650 1.000000					
EPS	-0.200084 -0.263914	0.304399 0.503785	4.163822 0.740494	1.157064 1.000000				
ETA	-0.646099 -0.491657	0.736871 0.703568	1.395919 0.143220	-0.197884 -0.098666	3.476411 1.000000			
CAR	0.350106 0.286273	-0.321822 -0.330179	-6.016607 -0.663303	-0.866989 -0.464502	0.632469 0.195491	3.010896 1.000000		
IER	-3.617968 -0.088938	18.21164 0.561723	58.35094 0.193397	-4.428487 -0.071330	77.42353 0.719450	3.828321 0.038226	3331.301 1.000000	
AU	-0.048181 -0.104533	0.022987 0.062577	0.866962 0.253604	0.025562 0.036338	-0.113858 -0.093378	-0.226104 -0.199254	12.37260 0.327795	0.427666 1.000000

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

Covariance Correlation	GDP	ROA	ROE	EPS	ETA	CAR	IER	AU
GDP	0.496754 1.000000							
ROA	-0.209400 -0.443770	0.448225 1.000000						
ROE	-1.969484 -0.315192	5.433186 0.915376	78.59833 1.000000					
EPS	-2.744676 -0.225833	8.001858 0.693122	97.75557 0.639443	297.3484 1.000000				
ETA	-0.733955 -0.455704	0.713362 0.466279	3.119228 0.153966	25.73520 0.653098	5.221945 1.000000			
CAR	0.729211 0.599052	-0.779532 -0.674167	-9.624257 -0.628553	-12.12204 -0.407028	-0.810559 -0.205376	2.982886 1.000000		
IER	-6.967850 -0.171591	29.88727 0.774828	387.3644 0.758369	292.9422 0.294861	10.65679 0.080943	-46.80800 -0.470402	3319.440 1.000000	
AU	-0.011707 -0.022586	0.299712 0.608714	3.830395 0.587482	11.74299 0.925984	0.980147 0.583220	-0.277964 -0.218841	16.05007 0.378793	0.540860 1.000000

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

Covariance Correlation	GDP	ROA	ROE	EPS	ETA	CAR	IER	AU
GDP	0.496754 1.000000							
ROA	-0.090899 -0.395703	0.106229 1.000000						
ROE	-0.319049 -0.142845	0.859031 0.831701	10.04250 1.000000					
EPS	0.657257 0.226974	0.285851 0.213467	6.270855 0.481634	16.88020 1.000000				
ETA	-0.691005 -0.550529	0.440156 0.758325	1.599851 0.283484	-0.832732 -0.113812	3.171461 1.000000			
CAR	0.664583 0.645377	-0.046466 -0.097578	-0.312773 -0.067553	-0.156265 -0.026032	-0.101788 -0.039120	2.134663 1.000000		
IER	1.889268 0.048438	13.66749 0.757763	126.6066 0.721941	49.87749 0.219372	44.11514 0.447635	13.48003 0.166722	3062.443 1.000000	
AU	-0.023320 -0.064094	0.114230 0.678906	1.263752 0.772486	0.705076 0.332427	0.294617 0.320463	0.206822 0.274209	20.84328 0.729594	0.266503 1.000000

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 relationship between economic growth and the performances of Islamic banks' is evaluated, for the selected banks.

Unit Root Tests

If the variables are integrated of order zero or one, the ARDL approach to cointegration is applied, i.e. $I(0)$ or $I(1)$. However, stationarity tests are still required to ensure that no variables are integrated of order two, i.e. $I(2)$. Phillips-Perron (PP) tests are used to determine stationarity because of this.

Table 7: Results of Phillips-Perron Tests (on GDP)

Particulars	level			1 st 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 values and p-value is greater than α . The first difference, however, caused it to become stationary. Since at 1st difference, t-statistic is greater than 5% or 10% level of significance's critical values and p-value is less 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.

VAR Lag Order Selection Criteria

The lag-length criteria technique from unrestricted VAR are used to determine the optimal number of lags to be included in the model.

Table 08: Results of VAR lag order selection criterion

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-7.252154	NA*	0.461384	2.063038	2.072969	1.996063
1	-5.105780	3.219561	0.349726*	1.776445*	1.796305*	1.642495*
2	-5.042921	0.078574	0.454440	2.010730	2.040521	1.809805

5 indicates lag order selected by the criterion
 LR: sequential modified LR test statistic (each test at 5% level)
 FPE: Final prediction error
 AIC: Akaike information criterion
 SC: Schwarz information criterion
 HQ: Hannan-Quinn information criterion

The AIC lag selection criterion was used to choose the appropriate lag before applying the ARDL test. The results show that, the “*” symbols are mostly located on the first lag. Therefore, it was discovered that, lag-1 was appropriate and optimal.

ARDL Test

1 The estimates ARDL long-run form and bound test are presented in Table 9. The guidelines are that once the F-statistic is computed, it is compared to two asymptotic critical values corresponding to polar cases of all variables being purely I (0) or purely I (1). If the test statistic is below the lower critical value, accept the null hypothesis of no cointegration. In contrast, if the test statistic is above the upper critical value, reject the null and conclude that there is existence of cointegration between the variables. Alternatively, if the test statistic falls between the lower and upper critical values, testing is inconclusive.

80 Table 9: Results of Bounds F-test for Long-run Relationship

Sample Banks	4 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	2.54	3.91

			5	1.97	3.18
			10	1.7	2.83
SJIBL	1	251.4649	1	2.54	3.91
			5	1.97	3.18
			10	1.7	2.83
SIBL	1	5.512573	1	2.54	3.91
			5	1.97	3.18
			10	1.7	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. Which, when compared with the asymptotic critical values, lower bound and upper bound that corresponds to the polar cases of all variables being purely I (0) or purely I (1) respectively, is higher than the upper bound I (1) in case of IBBL, AIBL, SJIBL, and SIBL at 1%, 5% and 10% significance level. Besides, in case of FSIBL, the F-statistic is lower than the upper bound at 1% significance level and higher than the upper bound at 5% and 10% significance level. 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. There is evidence of a long-term relationship between Islamic banks' financial performances and economic growth of Bangladesh, as shown by the overall F-statistic, which indicates that the null hypothesis of no cointegration between Islamic banks' financing is rejected at various levels of significance.

Granger Causality Analysis

This section displays result of the pairwise Granger causality test conducted to investigate whether any causal relationship exist between Islamic banks performance and Economic growth of Bangladesh. The maximum number of lag length included in the test is 1, and the F-statistics with the corresponding p-values were used to determine whether to accept or reject the null hypothesis. The decision rule is to reject the null hypothesis of causal relationship between GDP and ROA, GDP and EPS in case of FSIBL and IBBL respectively, and between GDP and AU in case of AIBL, SJIBL and SIBL, if the p-value is less than 0.05 ($P < 5\%$) significant level.

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)

The results of granger causality analysis in table 10, show that, we cannot reject the causal relationship between GDP and ROA; return on assets lead to GDP in case of FSIBL. Besides, we can reject the null hypothesis and accept the causal relationship between GDP and EPS; earning per share lead to GDP in case of IBBL. On other hand, in case of AIBL and SJIBL, we can see the causal relationship between GDP and AU, and can reject the null hypothesis; asset utilization lead to GDP. In the contrary, in case of SIBL, we can reject null hypothesis and can accept the causal relationship between GDP and AU; GDP lead to asset utilization. In every case, we can identify that, there is a unidirectional relationship between GDP and financial ratios. Observe from Table 10 that, there is a significant causal relationship between GDP and financial ratio of Islamic banks of Bangladesh. This is evident in the p-value being less than any conventional level of significance. GDP and financial ratios appear therefore to be statistically dependent for the study period from

2010 to 2019. It is also evident that the performances of Islamic banks affect positively and significantly on the economic growth of Bangladesh.

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. As a result of the Granger Causality Analysis, it was also determined that there is a causal link between Bangladesh's economic growth and the performance of Islamic banks. In other words, Bangladesh's Islamic banking sector is a factor in the country's economic growth. The findings are similar to the outcomes found by Furqani and Mulyayn (2009), Abduh and Omar (2012), Tabash and Dhankar (2014a), & Tabash and Dhankar (2014c), 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), Lebdaoui and Wild (2016), Tajgardoorn et. al. (2013), Wahab et. al. (2016), Hachicha and Amar (2015), Afandi and Amin (2019).

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. A new banking system without interest is also necessary because many researchers think that interest worsens income inequality between individuals. 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 main goal of this study. 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 results show that the financial ratios of the sample banks and GDP had a long-term relationship, indicating that the performance of Islamic banks had a major impact on Bangladesh's economic growth. Furthermore, a causal relationship between the performance of Islamic banks and Bangladesh's economic growth was established. Put differently, the growth of Bangladesh's economy is influenced by the Islamic banking industry.

It will therefore be preferable to conduct this analysis once Bangladesh's Islamic banks have increased in size. Even though many studies have examined the connection between Islamic banks and economic growth, none specifically examine the impact of Islamic banks' performance on economic growth. By taking this factor into account during the analysis, this study contributes significantly to the literature. However, a new study that concentrates on large banks with a longer time horizon will be more helpful.

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