

The Impact of Selected Islamic Banking Performance on Economic Growth of Bangladesh

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ABSTRACT

The aim of this study is to provide empirical evidence regarding the influence of Islamic bank performance on economic growth. As per the research, the effects of selected 9 Islamic bank performances on economic development of Bangladesh between 2016 and 2022 using panel data were both significant and considerable. This paper uses random-effects GLS regression for panel data analysis following the model used in the research paper of Badri et al. (2016) and Rashid et al. (2017). The present analysis incorporates the following variables: performance measurement variables (ROA, ROE, BOPO, and CAR); ethical measurement variables (RPR, RPZ); and macroeconomic variables (IPI, CPI, and TMM) comprise the three categories of dependent variables. As an independent variable, GDP is utilized.

Islamic banks' financial performance has a substantial impact on the economic development of Bangladesh, according to the findings of this study. Regarding the performance variables, however, the coefficients are negative because Islamic banks of Bangladesh have not performed well, with many blaming low investment prospects, liquidity crisis, inefficient cost structures, non-performing loans, etc.

Keywords: Islamic finance, Economic growth, Performance Islamic banks, GLS regression analysis

INTRODUCTION

Over the past two decades, Islamic finance has experienced a tremendous expansion. Islamic finance is growing, on average, by 15% to 20% a year, as per the World Bank website 2023. Globally, commercial banks held \$1, 7 trillion in Islamic banking assets as of 2023. Numerous factors have contributed to this expansion, but Muslim people's consciousness stands out as the most significant. Since Islamic Shariah forbids paying interest, profit-sharing and equity have become the pillars supporting the actions of its operational structure. Moreover, the idea of risk-sharing offers a potentially superior long-term distribution of capital for initiatives that have higher risk-return profiles, leading to increased economic growth. However, they are now forced by competition to mostly use fixed return instruments such as Ijara, Murabahah, and Diminishing Musharakah. Islamic banks primarily employ Mudaraba to solicit deposits; they also occasionally use Qard al Ithmar or wakalah bases. Savings and investment deposits are raised based on Mudarabah/Musharakah, whilst current deposits are collected as Qard (loan). These resources are utilised for a range of investment purposes, such as murabahah, ijarah, mudarabah, and diminishing musharakah. (Source: World Bank and The Daily Star).

In summary, Islamic banks can help a larger population receive financial services and lessen financial exclusion. Better methods of reducing poverty may also result from this (Ahmed, 2010).

In light of the recent financial crisis that ensued after the subprime credit crisis, there has been a heightened level of interest among academics, clients, and legislators in the Islamic banking system over the last few decades.

There has been some research on Islamic banks contribution on economic growth such as (Abdul-Majid et al., 2009) Bangladesh's economic growth was positively impacted in both the short and long term by the total funding and deposits of Islamic banks, it was determined. The Islamic banking system is, nevertheless, better capitalized, according to the available evidence. Consequently, the capital buffer accounts for the sector's higher liquidity reserves and relatively robust performance amidst the world banking crisis (Ahmed, 2010). The profitability metric was found to have a positive correlation with inflation found by Boukhatem & Ben Moussa (2018).

In Bangladesh, 2,217 branches and windows operate 2,217 units of Islamic banking at the moment. Using a Tk 17,880.02 crore deposit, around 4,000 agent banking locations are currently run by Islamic banks, accounting for 59% of all agent locations in the nation. With 43.63 lac accounts under Islamic banks, the number of agent outlets secured a 25% market share. The agent outlets of Islamic Banks mobilized Tk. 66,796 crore in remittances for the year 2022, accounting for 58% of the total amount mobilized through agent banking. By the end of 2022, the Islamic banking sector had approximately Tk. 410,000 crore in total deposits, or 26% of the market, while Tk. 405,000 crore in total investments (loans and advances) secured about 30% of the market. Approximately 50,000 individuals, or about 25% of the banking industry's workforce, were employed in the Islamic banking sector overall. (Source: BB website).

IBBL is still the industry leader in the Islamic banking sector across all business metrics. It owns 34.452% of the deposits made by the Islamic banking sector as follows: Al-Arafah Islamic Bank at 10.251%, EXIM Bank at 10.422% and First Security Islamic Bank at 11.544%. Slightly more than 7% of the total comes from Islamic banking windows and branches. First Security Islamic Bank (13.271%), EXIM Bank (10.963%), Al-Arafah Islamic Bank (9.751%), and IBBL (33.883%) are the top three banks in terms of investments. Slightly more than 5% of investments come via Islamic banking windows and branches. (Source: Financial Express)

The Islamic banking sector makes a significant contribution to the remittance and foreign exchange industries. With a 26% and 24% market share, respectively, Islamic banks handled Tk1, 687 billion in imports and Tk. 1,171 billion in exports in 2022. In the same time frame, it mobilizes Tk. 751 billion in remittances, accounting for 39% of the market. During that time, IBBL handled about 25% of the banking industry's remittances on its own. Small ticket size deposits (Ten Tk. deposit accounts) were first offered by Islamic banks in 1995, well before Bangladesh Bank issued the directive to do so. 2.85 crore deposit accounts were held by Islamic banks as of this writing, or approximately 21.01% of all deposit accounts in the banking industry, of which 14.06% were held by IBBL alone (Source: Financial Express).

In 2022, the national exchequer received around Tk. 6,700 crore from Islamic banks in the form of excise duty, VAT, advance income tax, corporation tax, and other levies. The contributions of Islamic institutions have substantially augmented the foreign exchange reserve, particularly IBBL. The government announced 28 stimulus measures totalling Tk 1.92 trillion to address the numerous and severe effects of COVID-19 while also preserving and boosting corporate expansion. Of the aforementioned, the banking industry undertook ten stimulus packages totalling Tk 1.69 trillion, with Islamic banks playing a major role (Source:BB Website).

The rise in Islamic banking is outpacing that of traditional banking, both in Bangladesh and internationally. There are currently 526 Islamic financial organizations operating in 72 different countries. \$4.01 trillion in assets related to Islamic finance were valued overall, with \$3.03 trillion originating from Islamic banking and accounted for 6% of the world market (Source: Financial Express). The question now arises as to why Islamic banking is expanding more quickly than traditional banking. Islamic banking has undoubtedly gained popularity in several non-Muslim nations, such as the UK, USA, Germany, Argentina, Denmark, Luxembourg, and Switzerland, due to its inherent beauty and qualities.

There have been some researches on banking performance impact on economic growth of Bangladesh and some of them I have mentioned in the previous section. But those are not enough to show the current liquidity crisis situation. So now, examining how Islamic Bank performance affects economic growth in the recent years in Bangladesh is the goal of this research. The main section deals with the different empirical works and provides a summary of the contribution that Islamic banks make to economic expansion from 2016 to 2022. Selected banks are the following PLCs: Shahjalal Islami Bank, PLC, Social Islamic Bank, PLC, Standarded

Bank, PLC, Union Bank, PLC, Global Islami Bank, PLC, First Security Islami Bank, PLC, and Al-Arafa Islami Bank. The financial performance of a few chosen Islamic banks that provided Islamic financing in Bangladesh during that time will be the focus of this research.

Objective of the study

The research purpose of the study is to investigate the influence of specific Islamic banking performance on Bangladesh's economic growth.

LITERATURE REVIEW

A number of empirical studies have utilized regression analysis and ratio analysis as statistical methods to assess the performance of the banking sector. Moreover, a significant amount of study has attempted to explore the empirical components that impact bank performance globally. A summary of the studies on the financial, macroeconomic, industry-specific, and bank-specific variables influencing banks' financial performance is presented in this section. The gaps relevant to this inquiry have been identified after the literature has been reviewed. The inadequacies of the existing empirical research have also been highlighted.

According to Badri et al. (2016), economic growth in Abu-Dhabi, Saudi Arabia, Bahrain, Great Britain, and Tunisia was positively and significantly impacted by Islamic banks' performance between 2001 and 2012. Return on equity (ROE), or profitability, is the sole influential factor affecting endogenous economic development and the financial performance of Islamic finance, as demonstrated by Masood et al. (2016). The results of the trial also demonstrated that other Islamic financial performance aspects needed to be encouraged finance in order to make a noteworthy impact on economic expansion.

A few studies also examined the connection between Islamic money and economic expansion. Kassim (2016) for Malaysia and Mansour et al. (2017) for Jordan were among those that discovered proof of the presence of a reciprocal connection between them. Nurain et al. (2015) attempted to calculate the factors that influence Malaysia's Islamic banks profitability. According to Siti et al. (2015), "the sole factor that matters in determining the profitability in a favorable relationship. Rashid et al. (2017) made an effort to gauge how the 2008–2009 financial crisis affected Pakistan's Islamic banking sector's financial results. Even while the financial crisis had little effect on Pakistan's Islamic bank's performance during the crisis, Rashid et al. (2017) found that it did have a major impact following the crisis.

According to Tabash and Anagreh's (2017) findings, financial development is a prerequisite for economic growth in the United Arab Emirates. Using quarterly information from Q1 2006 to Q4 2013, Al-Harbi (2019) found that banking products and Islamic financing contributed positively to Pakistan's economic growth. Tabash (2017) also An analysis utilizing pooled ordinary least squares and variables representing GDP, ROA, and ROE revealed a noteworthy and positive correlation between the net revenue margin (NRM) of a representative sample of operational full-sized Islamic banks in the United Arab Emirates and the financial performance of Islamic banks as well as economic growth in the county.

For Bangladesh, Hosen et al. (2020) came to the conclusion that total financing and the total deposits deposited with Islamic banks exert a favourable influence on both the immediate and extended periods of economic expansion. However, evidence of higher capitalization in the Islamic banking system has been shown; thus, the capital buffer explains the sector's comparatively strong performance during the global financial crisis and its greater liquidity reserves (Nazirul Islam Sarker, 2015). Safiullah (2010) established a positive correlation between the profitability metric and inflation.

Previous research has primarily focused on cross-sectional countries, but in this case, I wish to examine the impact of Bangladeshi Islamic banks' performance on economic growth exclusively. Variables frequently employed in the elements of the most pertinent empirical model impacting economic growth as well as the Islamic finance sector's financial performance were chosen for this research in adherence to existing scholarly works. Additionally, this is the initial investigation in contrast to prior research to see the connection between economic expansion and Islamic banks' financial performance using these additional

variables with recent year's data. Most recent data from 2016 to 2022 and additional variable RPR and RPZ has been used for fulfilling the gap in Bangladesh for this issue. It did so by linking the Islamic financial sector's financial performance under the model's framework using financial performance ethique performance (RPR, RPZ) and macroeconomic (IPI, CPI, TMM) variables with the growth of the economy within an economic growing framework. As a result, it is thought that the findings were more precise and useful than those of previous research.

METHODOLOGY

Data Source and Sampling

Mostly secondary data were employed in my analysis. Secondary data refers to information that has already been gathered and is easily accessible. In situations where it is extremely difficult to obtain original data from primary sources, that information would be more first-hand and less expensively collected than primary information, and it might even be collectible. I have gathered 7 years' worth of annual reports (2016–2022) from selected 9 Islamic banks (Islamic Bank Bangladesh PLC, Global Islamic Bank PLC, First Security Siam Bank PLC, Al-Arafa Islami Bank PLC, Exim Bank PLC, Shahjalal Islami Bank PLC, Social Islami Bank PLC, Standard Bank PLC, and Union Bank PLC). Of Bangladesh, obtained from the Dhaka Stock Exchange library and the company's website, the Langkabangla financial portal, IMF, World Bank and Bangladesh Bureau of Statistics.

Variable Description

Dependent variable:

- GDP (Source: World Bank): It serves as a stand-in for the BD economy's growth.

Independent Variable:

Variables	Abbreviations	Measures/source	Literature(Source)
Macro-economic variables			
Industrial production index	IPI	IMF	Ernst and young (2013-2014), Idris and al. (2011), Izhar and Asutay (2007), Sraïri (2009)
Consumer Price Index	CPI	World bank	
Money Market Rate	TMM	IMF	
Financial performance			
1	CAR	Bank capital/aggregated risk-weighted assets (for credit, operational, and market risk)	Karim et al. (2018); Wanke et al. (2016); Altan et al. (2014)
2	ROA	* Net profit divided by total assets is returns on assets.	Alharbi, 2017; Olson and Zoubi, 2017; Setyawati et al., 2017; Tabash, 2019; Yazdani, 2011; Khan et al., 2014; Adekola, 2016; Djalilov and Piesse, 2016; Rabaa and Younes, 2016; Zarrouk et al., 2016
3	ROE	* Net profit divided by total equity is returns on equity.	
4	BOPO	* Bank operating income and operating expense ratio	

Ethique Performance

5	RPR	* Ratio of the division of the income = (financing moudaraba + financing moucharaka) /Total financing.	Ernst and young (2013-2014), Idris and al. (2011)
6	RPZ	* Zakat / Net assets is the ratio of Zakat's performance.	Izhar and Asutay (2007), Sraïri (2009)

Hypothesis development:

According to Masood et al. (2016), return on equity (ROE), or profitability, is the sole factor that significantly affects the financial performance of Islamic financing and endogenous economic growth. Furthermore, Tabash (2017) discovered a positive and robust relationship between the financial performance of Islamic banks in the United Arab Emirates and the growth of the country's economy, as well as the NRM of a sample of all full-sized, operational Islamic institutions.

Analysing their studies we can develop our hypothesis:

H₀= Selected Islamic banks in Bangladesh haven't demonstrated a strong correlation with economic growth in the field of Islamic banking

H₁= Selected Islamic banks in Bangladesh have demonstrated a strong correlation with economic growth in the field of Islamic banking.

Model Specification

The information is gathered, organized, and computed by a review of the chosen Islamic Banks annual reports. Both descriptive and statistical methods are used in the data analysis. Here, a correlation matrix is used to determine the link between the independent and dependent variables. The association between ROA, ROE, BOPO, RPZ, RPR, and likely factors is examined using a statistical technique known as correlation matrix. The most important effect of Islamic banks' performance on Bangladesh's GDP is likewise confirmed by many regression models. By applying Demirgüç-Kunt's (2013) research, we can analyze the data and identify the factors that are directly related to the economy as a whole, such as the implementation by Islamic banks. Following a careful examination of the numerous ratios and the different ways in which they might be related, the issue of selecting the explanatory variable was resolved. Here, Panel data are the results of combining cross-sectional and adjusted time-series data. When analysing panel data, various methods would be used. There are three types of regression models: pooled regression models, random effects models, and fixed effects models. The link between the variables is fixed for both time intervals and entities, according to the pooled regression model.

Consequently, this methodology is not used in our research. We first evaluate the data using an OLS regression model to see which model is best for our study. Next, we compare fixed and random effect models using the Hausman test. Here 4 variables (ROA, ROE, CAR and BOPO) are used to measure the financial performance [as stated by Yazdani (2011), Khan et al. (2014), Adekola (2016), Djalilov and Piesse (2016), Rabaa and Younes (2016), and others]. and 2 variables (RPR&RPZ) are used to measure ethique performance of Islamic banks [Ernst and young (2013-2014), Idris and al. (2011)]

Further variables were integrated into the model in order to assess the potential consequences of utilizing additional growth factors, as recommended by prior research, in order to prevent the problem of bias resulting from excluded variables; IPI,CPI,MMR[Ernst and young (2013-2014), Idris and al. (2011),Izhar and Asutay (2007), Sraïri (2009)]

The model used for this study following Badri et al.(2016):

$$\bullet \quad \text{LnGDP}_{it} = \alpha_0 + \beta_1 \text{CAR} + \beta_2 \text{ROA} + \beta_3 \text{ROE} + \beta_4 \text{BOPO} + \beta_5 \text{RPR} + \beta_6 \text{RPZ} + \beta_7 \text{LnIPI} + \beta_8 \text{LnCPI} + \beta_9 \text{TMM} + \varepsilon_{it}$$

Here,

GDP=Gross domestic product of BD

α_0 =Intercept of this model

β_1 =Coefficient of CAR, β_2 =Coefficient of ROA, β_3 =Coefficient of ROE, β_4 =Coefficient of BOPO (Bank operating expense/ income ratio), β_5 =Coefficient of RPR (Financing moudaraba + financing moucharaka /Total financing), β_6 =Coefficient of RPZ (Zakat / Net assets), β_7 =Coefficient of LnIPI, β_8 =Coefficient of LnCPI, β_9 =Coefficient of LnMMR, ε_{it} =an error term, and it refers to the unobserved financial performance effects in Islamic finance.

DATA ANALYSIS AND FINDINGS

Descriptive statistics:

The aforementioned table includes a list of all the variables in the dataset, their respective minimum and maximum values, mean, standard deviation, and number of observations.

Variable	Obs	Mean	Std. Dev.	Min	Max
ID	63	5	2.602728	1	9
Year	63	2019	2.016065	2016	2022
ROA	63	.0062283	.0032638	.0010461	.0241049
ROE	63	.1000358	.0454515	.0039058	.3206546
CAR	63	.1253344	.0144827	.0997	.1563
BOPO	63	.5374585	.18546	.0936482	1.716272
RPR	63	.8086946	.840161	.0344904	7.226899
RPZ	63	.0085334	.0147135	.0003308	.1196056
LnIPI	63	5.409133	.170616	5.147157	5.620187
LnCPI	63	1.736815	.0377252	1.70729	1.823581
LnTMM	63	1.338666	.2995012	.7438403	1.824711
LnGDP	63	14.87565	.213945	14.54587	15.19471

Table-1: Descriptive statistics

There are 63 observations for all of the variables. Now let's examine the third variable ROA's summary stat. The dataset's average ROA of the Islamic banks is .00623, while the variable's standard deviation is .00326. The dataset comprises elements whose minimum return on assets (ROA) is.00105 and maximum ROA is.024105. It might be the source of the Islamic bank's worse results in 2016–22, as well as the reason behind the government's restricted regulations. Mean and Std. Dev. Comply with the previous research. The Islamic

Banking Guidelines-2009 is currently being revised by Bangladesh Bank. Furthermore, the central bank must establish an independent Shari'ah Board in order to oversee the Islamic financial system as a whole.

Correlation Matrix:

The correlation matrix results for every variable used in this research are displayed in Table-5.

Table-5 shows that the LnGDP has a substantial and positive connection with CAR, BOPO, and RPZ at the 5% level of significance, as predicted.

Variables	LnGDP	ROA	ROE	CAR	BOPO	RPR	RPZ	LnIPI	LnCPI	LnTMM
LnGDP	1									
ROA	-0.393	1								
ROE	-0.2102	0.228	1							
CAR	0.2933	-0.0427	-0.1622	1						
BOPO	0.0931	-0.2162	0.1251	-0.0746	1					
RPR	-0.131	-0.1039	0.0679	-0.1577	0.0335	1				
RPZ	0.131	0.1364	-0.2904	-0.0746	-0.0763	-0.0519	1			
LnIPI	0.6205	-0.2632	-0.1093	0.3122	0.0188	-0.1125	0.2442	1		
LnCPI	-0.5704	0.3703	0.0946	-0.2127	-0.0126	0.2115	-0.139	-0.4844	1	
LnTMM	-0.7192	0.3813	0.1438	-0.134	-0.0663	0.163	0.0133	-0.0856	0.721	1

Table-2: Correlation Matrix

This result supports our argument that Islamic banks can leverage BOPO, RPZ, and CAR to boost their contribution to Bangladesh's economic growth. Furthermore, all the other three of the components have negative correlations with LnGDP, according to Table 5's results. Furthermore, a statistically significant positive correlation of 5% is observed between LnGDP and the macroeconomic variables., including LnIPI, LnCPI, and LnTMM. There has no multicollinearity as no correlation is greater than .80.

Badri Rabaa and Younes(2016) showed that there is positive correlations exist between LnGDP and ROA, LnGDP and ROE, LnGDP and RPR. The negative correlation observed between LnGDP and ROA, ROE, and RPR in this study can be attributed to the substantial leverage and elevated proportion of non-performing loans prevalent in Islamic banks.

Additional test summary:

To check for multicollinearity, I first ran the VIF test and the Pearson correlation matrix. The results indicate that there isn't any multicollinearity because the VIF is 1.78, which is less than 10, and A correlation of any magnitude exceeding 80% does not exist among our independent variables. In order to determine whether heteroscedasticity exists, I also ran the Brush Pagan and White tests. The results indicate that heteroscedasticity exists because the p value is less than.05.. So to removes heteroscedasticity I have used GLS model. And after that I have test for unit root in LnGDP as it is a time series data. The result shows that the p value< .05 there has no unit root. Finally I have performed autocorrelation test using Durbin-Watson d-statistic and the result shows (10, 63) = 1.736596 (less than 2 positive autocorrelation exist). So to remove autocorrelations I have used Difference transformation method through using a lagged value in the dependent

variable and the result shows that Durbin-Watson d-statistic(10, 62) = 2.326727. All of the test result has been shown in the Appendix part. These tests have been performed to make the panel data suitable for the analysis purpose.

Regression Analysis:

Hausman Test

The results of the requirements tests indicate that our model may be expressed as a random-effect panel. In order to examine our model from 2016 to 2022, we will employ approaches from random effect and fixed effect model. The chart below will summarize these two estimating processes in the linear equation that links economic growth in accordance with the explanatory variables is described by the observation of static relations. To distinguish between the two estimation techniques, the random effect and fixed effect models, we will employ Hausman's statistics (1978). Numerous econometric specification difficulties can be addressed with the generic Hausman test of specification. The most frequently addressed application, nevertheless, is the test for defining each particular effect on a panel.

According to the Hausman test, the fixed effects model is the null hypothesis and the random effect model is the alternative hypothesis.

Hausman Test		
	Prob>chi2	Decision
GDP	.9999	.9999>.05
Effect	-	Random Effect

Table-3: Hausman Test

H_0 =both of the model coefficients are constant; Failing to reject the null hypothesis in this case indicates that the random effect model is suitable. (P value> .05)

Random Effect Model:

The results indicate that Islamic banking performance has a significant impact on the economic growth of Bangladesh, as the p value of the random effect model is below 0.05. Furthermore, the results suggest that the dependent variables (ROA, ROE, BOPO, CAR, RPR, RPZ, IPI, CPI, and TMM) account for 92.2% of the observed variability in economic growth. We may conclude that the regression model is sufficiently predictive, given that the aggregate R^2 is 92.02 percent.

LnCPI, LnIPI and LnTMM have a significant impact on LnGDP that have been also found in some research such as Erol et al. (2014), Tabash (2017). RPR and RPZ also found insignificant in some research such as Badri Rabaa and Younes(2016), Mansour Khalaf Alkhazaleh (2017).

dLnGDP	Coef.	Std. Err.	z	P>z	[95% Conf. Interval]
ROA	-.2070359	5.35212	-0.04	0.969	-10.697 10.28293
ROE	-.1479843	.2566873	-0.58	0.564	-.6510822 .3551137
CAR	-.545283	.7841717	-0.70	0.487	-2.082231 .9916653
BOPO	-.0262572	.0576467	-0.46	0.649	-.1392427 .0867282

RPR	-.0096363	.0125609	-0.77	0.443	-.0342552 .0149827
RPZ	-.805609	.8172772	-0.99	0.324	-2.407443 .7962248
LnIPI	.3978109	.0813638	4.89	0.000	.2383408 .557281
LnCPI	-5.050142	.499702	-10.11	0.000	-6.02954 -4.070744
LnTMM	.1276149	.0568	-2.25	0.025	-.2389408 -.0162891
_cons	6.904208	1.10892	6.23	0.000	4.730765 9.077651
sigma_u	0				
sigma_e	.08447266				
rho	0				

Table-4: Regression result

Table-7 illustrated that ROA, ROE, CAR, BOPO, RPR and RPZ has a statistically insignificant effect on economic growth, with a $p\text{-value} > 0.05$. Therefore, although we are unable to determine if ROA, ROE, CAR, BOPO, RPR and RPZ are substantially At a significance level of 5%, significant to economic growth, which contradicts Bourke's (1989) finding that profitable banks continue to be well-capitalized, which raises capital stock as a result of banking profitability and

spurs economic growth and also inconsistent with researches by Tabash (2017) and Rabaa and Younes (2016). LnTMM and LnGDP is positively correlated because of the impact of Monetary Policy: Expansionary monetary policies, such as cutting interest rates or raising the money supply, are often implemented by a nation's central bank, in this case, the Bangladesh Bank, with the aim of promoting economic activity.

This causes businesses and consumers to borrow more money and spend it more, which accelerates GDP growth. Investment and Consumption: reduced interest rates brought about by an increase in the money supply enable both individuals and corporations to borrow money at reduced costs. This promotes consumption of goods and services as well as investment in capital projects like factories and infrastructure. Increasing consumption and investment both help the GDP grow. Credit Availability: Banks often have more money available to lend to consumers and businesses when the money supply is larger. This improved access to financing can support entrepreneurship, consumer spending, and corporate expansions—all of which boost GDP growth. Impact on Exchange Rates: Exchange rates may also be impacted by an increase in the money supply. Inflationary pressures may arise if the money supply expands more quickly than the economy

The GDP and total amount of economic activity rise as a result of this increased money circulation. Policies aimed at expanding the money supply frequently coincide with initiatives to promote economic growth in Bangladesh, where economic development is prioritized. However, in order to prevent negative consequences like inflation or financial instability, it is crucial to make sure that such expansionary policies are well handled. (Source: The Daily Star and The Financial Express)

LnCPI and LnGDP are negatively correlated because of inflationary Pressure: There is usually a greater demand for goods and services in economies with high GDP growth. This increased demand may push prices higher and result in inflation. Because of this, high GDP growth periods are typically accompanied by an increase the Consumer Price Index (CPI), which metric tracks the average price changes of a variety of goods and services for urban consumers over time.

Cost-Push Inflation: Fast GDP growth could also put pressure on production-related labour and raw material costs. This cost-push inflation could drive up the price of goods and services produced locally, raising the CPI. The value of the home currency may decline if inflation is higher there than it is in the nations that are trading partners. A declining value of the currency could lead to higher import prices, which would increase CPI-measured inflation. All things considered, a high GDP growth rate is a sign of a robust economy, but it can also bring about a number of problems, including inflationary pressures, if stable prices are not also present. As a result, Bangladesh's negative GDP-CPI relationship illustrates the intricate interactions that manage macroeconomic stability between monetary policy, inflation, and economic growth. (Source: The Daily Star and The Financial Express)

LnIPI and LnGDP is positively correlated because of GDP contribution of the Industrial Sector: In Bangladesh, the construction, manufacturing, and utility sectors all make up the industrial sector, which is important to the country's economy. As a result, rising industrial production usually has a direct impact on GDP growth. **Multiplier Effect:** An increase in industrial production frequently has a favourable knock-on effect on the whole economy. A rise in industrial activity boosts demand for intermediate goods, services, and raw resources, which helps a number of industries including transportation, agriculture, and services. The initial rise in industrial production is amplified by this multiplier effect, raising GDP overall.

Employment and Income Creation: Industrial growth raises income levels and produces work opportunities, especially in the manufacturing and construction industries. Gains in income and employment stimulate consumer spending, which accelerates economic growth and increases GDP. **Investment and Infrastructure Development:** When the industrial sector is strong, both international and local capital is drawn to it, which promotes the growth of infrastructure, technological advancements, and capacity expansion. These investments raise industrial productivity and efficiency, which boosts output and GDP growth. **Export Growth:** Products for export, including textiles, medications, and ready-made clothing, account for a sizable amount of Bangladesh's industrial production. Increased exports, which come from higher industrial production, both directly and indirectly, boost GDP through export revenues and the multiplier effect on linked industries. **Government Policies and Support:** Investments in infrastructure, tax breaks, trade facilitation measures, and skill-development efforts are just a few examples of government policies and programs that can help foster industrial development and boost GDP growth. **Integration into Global Value Chains:** Bangladesh's industrial sector, especially in the textile and clothing sector, is becoming more and more integrated into global value chains. Due to this integration, Bangladeshi firms are able to take advantage of global demand and market access, which boosts GDP and industrial production. Overall, Bangladesh's GDP and IPI have a positive correlation, which highlights the role that industrial development plays in propelling the nation's economic expansion and prosperity. This beneficial link must be sustained over time by sustainable policies that promote industrial expansion and increase productivity. (Source: The Daily Star and The Financial Express)

The reasons behind insignificant results in Bangladesh are the June closing profit data of Islamic banks, which were released lately, show a very poor performance. The growth rate of Islamic banks was approximately 1.0%, whilst the majority of conventional banks reported growth of roughly 5.0% according to BB. The image is in line with the historical pattern. The primary reasons for Bangladesh's Islamic banks' poor performance are listed as low investment possibilities, excess liquidity, ineffective cost structures, non-performing loans, etc. The BB report states that in June of FY22, the deposit and loan growth rates of ten fully operational Islamic banks were 10.93% and 15.32%, respectively. Their lending growth was 9.63 percent in June FY23, but deposit growth was only 2.13 percent. By the end of June 2023, these banks' excess liquidity had decreased from Tk 21,009 crore in FY22 to Tk 2,493 crore. The excess liquidity for the Islamic banking industry reached a record high of Tk 31,655 crore in FY21 according to BB. According to a Bangladesh Bank (BB) report, excess liquidity of ten fully operational Islamic banks fell by more than 88% in FY23 compared to FY22 as a result of non-performing loans (NPL), rapid lending growth, and sluggish deposit growth. According to industry observers, these Islamic banks made large loans in FY22, while the country's banking sector's overall deposit growth decreased in FY23. Also, because NPLs are increasing, there is a greater provision against NPLs than there was previously. As a result, several Islamic banks presently lack liquidity. A researcher at the Bangladesh Institute of Bank Management claimed that aggressive lending to a sizable segment was the reason why Islamic banks' portfolios deteriorated. (Source: Bangladesh Bank)

They were also fined by BB for not keeping up the required liquidity ratio. Because of BB's liquidity support, the banks' circumstances are still not too dire. However, some media reports have damaged these banks' reputations and created a crisis of confidence, which is why clients are continuing to take their money out of them. According to the researcher, these five banks are experiencing a lack of liquidity for all these reasons. By March 2022's end, the surplus liquidity of the Islamic banking industry was Tk 304.09 billion, up 31.66% from the previous year. The Islamic banking industry's holy house is flooded with deposits, yet its living expenses are increased by the excess cash. Thus, a competitive advantage turns into a sector disadvantage. By the end of March 2022, the industry average for deposit rates was 4.14 percent, whereas the average rate for Islamic banks was 4.95 percent. Nonetheless, Islamic Banks' loan operations showed a worse percentage (7.30%) compared to the industry average (7.40%). The Islamic banks' total asset quality saw a slight decline in 2022. The most important factor contributing to the bank's deteriorating asset quality is an increase in default and postponed investment ratios. 2022 saw a 7.50 percent asset growth rate, a decrease from the two years prior. The gross non-performing loan ratio (NPL ratio), which rose somewhat in 2022 mostly as a result of rises in NPL rates, also indicated a decline in the overall asset quality of the banking industry. (Source- Financial express and The Daily Star)

Global Islami Bank had Tk 465 crore in 2023, Social Islami Bank had Tk 1,059 crore, First Security Islami Bank had Tk 826 crore, and Union Bank had Tk 483 crore, according to the report. As of September's end, Islami Bank Bangladesh had a Tk 658 crore liquidity shortfall. The Shahjalal Islami Bank reported an excess of Tk 2,526 crore in liquidity for the September quarter, according to a report from the central bank. Exim Bank received Tk 1,178 crore and Al-Arafah Islami Bank received Tk 127 crore of the surplus. Standard Bank, ICB Islamic Bank, and additional institutions have surplus funds available at their Islamic banking branches.

The central bank imposed penalties on the five banks as a result of their inability to uphold the requisite level of cash and liquidity. Islami Bank, Social Islami Bank, First Security Islami Bank, and Union Bank's statutory liquidity ratio (SLR) and cash reserve ratio (CRR), respectively. and Global Islamic Bank had deficits as a result of their exposure to loan irregularities in the previous year. The scams caused many depositors to withdraw their money. The excess liquidity held by Islamic banks in September was Tk 7,767 crore, as reported by BB. Compared to the same month last year, this represents a 56% decline to Tk 17,525 crore. In September, Islamic institutions recorded a substantial year-over-year increase in total deposits, which amounted to Tk 431,989 crore. (Source: Bangladesh Bank)

Based on my research, these factors account for the lack of economic growth significance attributed to the coefficient of performance variables of Islamic institutions. $P < 0.05$ signifies a significant result; therefore, the null hypothesis is rejected and statistical significance is established; a substantial correlation is therefore indicated between economic growth and the performance of the nine selected Islamic banks in Bangladesh.

CONCLUSION

In this study, the financial performance of Islamic finance was assessed using the performance measurement ratio. The objective was to obtain reliable estimated results regarding the relationship between Islamic finance's financial performance and economic development within the context of Bangladesh's expanding economy. Profitability has been identified as the primary determinant of Islamic finance's financial performance, according to the majority of studies (Al Khulaifi et al., 1999; Yazdani, 2011; Djalilov and Piesse, 2016; Rabaa and Younes, 2016; Alkhazaleh, 2017; Olson and Zoubi, 2017; Setyawati et al., 2017; Tabash, 2019).

Since the random effect p value in this study is less than .05, we can conclude that the Islamic banking industry's financial performance and economic growth are significant when we use profitability as the only metric of the sector's financial performance. Our research has shown that LnCPI, LnTMM, and LnIPI significantly affect economic development. This finding aligns with previous research by Tabash (2017) and Erol et al. (2014).

Despite the fact that we discovered that one specific Islamic banking performance indicator is not significant and that all of the performance factors have negative coefficients, (ROA, ROE, CAR, BOPO, RPR, RPZ). And

because of the higher provision for non performing loan, ROA and ROE will be significantly lower for those banks. For inefficient management of cost BOPO will be also reduced significantly. Because of lower deposit and higher withdrawals RPR and RPZ will also be reduced significantly. As all of the variables have been reduced significantly for these Islamic Banks, their potential contribution may be negative and significantly lower in magnitude compared to the financial industry as a whole. Islamic banks comprise approximately 14.95 percent of the banking industry in Bangladesh. Given their relatively low coverage percentage, it is logical to anticipate that their influence on economic development will be comparatively diminished.

This research offers significant empirical support for the endeavours of policymakers, regulators, affiliated authorities, and legislators across multiple nations to improve the financial performance of Islamic finance. Specifically, it sheds light on concerns such as liquidity, capital adequacy, asset quality, management, and market risk susceptibility. Thus, Islamic institutions will be able to capitalize on their connections within the financial sector in order to stimulate substantial economic expansio

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