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International Journal of Current Research
Vol. 7, Issue, 03, pp.13490-13497, March, 2015

INTERNATIONAL JOURNAL OF CURRENT RESEARCH

ISSN: 0975-833X

RESEARCH ARTICLE

FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH IN MUSLIM COUNTRIES AN EMPIRICAL EVIDENCE BETWEEN ISLAMIC AND CONVENTIONAL FINANCE

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ARTICLE INFO

Article History:
Received 25th December, 2014
Received in revised form
03rd January, 2015
Accepted 18th February, 2015
Published online 17th March, 2015

Key words:
Economic Growth (expansion),
Muslim Countries,
Islamic Financial Development and
Conventional Financial Development.

ABSTRACT

Purpose: The main purpose of the study is to examine the effects of Islamic financial development and conventional financial development on economic growth, and compare the effects of these two, in six Muslim countries (Pakistan, Saudi Arabia, Malaysia, Qatar, Indonesia, and UAE).
Methodology: Using panel data regression model, this paper engage different measures of financial development over the period 2001-2010.
Findings: We will find that the conventional financial development has significant relationship with growth of economy, whereas Islamic financial development has positive but not significant relationship with economic growth in selected Muslim countries.
Practical Implications: The effects with this paper suggest the requirement to increase the swiftness on the personal reforms intended for Islamic which have been introduced inside these kind of countries given that very least a couple 10 years as well as given that very last 10 years to improve your performance of such countries. Islamic financial system is to induce investment as well as, as a result, long-term economic increase.
Originality: This specific analyze possesses various efforts to the recent researches. The paper analyze in which examines empirically the effects involving Islamic fund upon fiscal development inside Muslim countries. Likewise, that papers would be the few of them to compare different effects involving Islamic fund as well as typical fund upon fiscal development over a circumstance involving international locations finding the most produced Islamic economic climate on earth functioning side-by-side using a typical economic climate.

INTRODUCTION

A major subject in the field of development economics more than recent times could be the connection among monetary development along with financial progress. We can discovered the theoretical base in this connection where the job regarding Frederick Schumpeterian the start of the 20th century, Velupe (1952) along with after for you to Goldsmith (1969), McKinnon (1973) along with Shaw (1973). The researchers promotes the domestic saving and hence investment to achieve the financial liberalization. Amongst others, Roubini and also Sala-I-Martin (1992) and also Full and also Levin (1993) additionally analyze this impact involving monetary advancement within long-run economical progress. This kind of studies shows that the financial field plays an important part any time with the ability to allocate financial resources for the industries that will demand that majority of. A better allocation of financial resources into productive use can be achieve through a developed financial sector and contributes positively to the economic growth. Around the bases of preceding data we evaluate the consequence of Islamic money about economical increase in Muslim countries. Moreover the previous studies show that financial development has not worked as an engine of economic development in MENA and exclusively in GCC countries (Grassa Rihab and Gazdar Kaouthar, 2012). What about Islamic banking?

Islamic financial system for its rapid growth on global scale over recent years that's the reason economists pay special attention to Islamic finance. In Muslim countries Islamic financial system has been developed as participate able and competitive part of the all round economic climate as an engine of economical increase and economic development. Islamic financial system for its rapid growth and play major role in economic growth in Muslim countries that's way non Muslim countries also developed Islamic financial system in their own countries. The size of Islamic banking industry has grown twice than the conventional banking industry. According to the International Monetary Fund (IMF) Islamic financial business at the global stage had been near $820

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million towards the end associated with 2008. Also, with term connected with fiscal progress with Muslim places provides excellent history connected with uniformity substantial progress in past times about three generations. The GDP growth accelerated in Muslim countries to more the 4 percent in 2010. Financial organizations worldwide want to preserve rapidity while using developing demand intended for Sharia'h issue services and products. Therefore, Islamic financial system attracts our attention to investigate the effect of Islamic finance on growth of economy. The main purpose of this paper is to investigating the different effects of financial systems on economic growth. Additional particularly, this papers attempts to look at the consequence regarding total financial system progress upon economical increase, after which it to compares the consequence regarding Islamic financing method progress in addition to conventional financial system progress on economic growth of six Muslim countries (Pakistan, Saudi Arabia, Malaysia, Qatar, Indonesia, and United Arab Emirates) for the period of 2001-2010. Our primary concentrate is to demonstrate sturdy data for your constructive impact connected with Islamic financial system development on monetary growth with Muslim countries. For the basics of such results, declare that Islamic finance do greater than the traditional finance. Using this type of, Islamic finance is the greater financial system that will showcase an improved monetary development.

We hope this study donate to the existing literature. You'll find hardly any studies that analyze the effects of Islamic economic climate on financial development in Muslim nations around the world. In addition to this report are usually couple of them whom examine all the consequences involving Islamic economic climate in addition to traditional economic climate upon economic increase with a wording involving countries getting created Islamic economic climate in the world functioning hand and hand with the entire traditional economic climate. The conclusion of this paper suggests that each Islamic financial transaction is based on real economic activity. Islamic financial systems are giving an increasingly wide range of the many financial solutions, for instance chance change for better, assets part, account mobilization, repayment and trade negotiation solutions nevertheless these kind of financial moderators accomplish purchases about the time frame Sharia'h ideas. With this, there is must accelerate the actual financial reforms for Islamic fund which have been started off in the actual Muslim Nations due to the fact very last a few ten years in order to help the productivity of these countries. Islamic financial system is usually to improve in the financial development and therefore, long lasting fiscal increase.

Literature Review

Analysts maintain various viewpoints around the relationship involving personal growth along with fiscal development. As you move the initial scientific tests focused on the result of personal growth upon fiscal development, beyond these types of many scientific studies dependant on financial system plus a market primarily based financial system upon fiscal development. This specific concept has been lengthy by means of stressing the actual not for linearity of finance-growth nexus. The first works regarding Schumpeterian, Gurley in addition to Shaw (1995) in addition to Goldsmith (1969) in financial in addition to advancement are generally significant. They talk about that personal advancement is significant inside identifying economical progress which in turn implicate that the building economic climate sluggish the particular economical progress. On the basis of theoretical evidences, quite a few scientific tests embossed focusing on investigating the relationship between fiscal development and economical increase. These studies have proceeded from using country level data, to help using marketplace stage information along with corporation stage information. According to the econometric methodologies we categorized this subject into four groups: genuine cross-country, instrumental variable, period string (time series), and firm and household level approaches. We investigates that Goldsmith (1969) contribute on the relationship concerning financial along with expansion. He find that finance effect growth and whether the control variables operating in an economy effects on economic growth. For this he rely on data related to financial institutes relative to GNP and data on the sum of bonds and securities issued plus changes in loan relative to GNP for 35 countries over the period 1860-1963.

He finds that there are clear relationship concerning financial along with expansion. However, as referred to in Levine (1997, p.704; 2005, p. 40) this study suffers from many weaknesses. As a result, many research workers have taken methods to cope with some admonitions. King along with Levin (1993a) please take a taste associated with seventy seven international locations above the amount of 1960-1989 along with command pertaining to different elements which affects end growth. His studies service for your Schumpeterian look at that financial concerns with regard to growth. In fact, King and Levine (1993b) find that fiscal development promote economical increase. For this purpose King and Levine used alternative econometric methods and considering both the finance and expansion indicators for a small sample of 80 international locations. While the above studies referred to the finance-growth relationship through the collision of banking sector on economic expansion. A vital follicle regarding research attempted by Atje and also Jovanovic (1993) which check out the particular impact regarding both inventory marketplaces and also traditional bank about fiscal growth.

Atje and Jovanovic (1993) study based on an annual observation for 94 countries over the period of 1960-1985, they find that though share promotes have both beneficial degrees and growth results with monetary pastime, but they fail to find a similar effect for bank lending. Doing like a bottom associated with Atje as well as Jovanovic (1993) analyze, Levine as well as Zervos (1998) examined that the existing as well as upcoming prices associated with economic growth, capital build up, production enhancements as well as personal savings are usually clearly linked together with both equally checking as well as stock trading game symptoms. For this study they take a sample of 49 countries period over 1960-1989 and pertaining the OLS technique of estimation. Levine and Zervos (1998) discover that stock trading game sizing, unpredictability in addition to integration are not powerfully linked with increase but stock trading game liquidity will be confidently in addition to significantly correlated with latest in addition to long term rates connected with fiscal increase, investment capital accumulation, in addition to productivity. Additionally, they know that the original levels of stock exchange liquidity as well as banking field advancement predict upcoming rates connected with growth, investment capital build up as well as productiveness growth. The classical approach adopted to overcome the biases related to OLS in cross country growth regressions is to identify an instrumental variable (IV) that describe cross-country distinctions within fiscal progress but are uncorrelated having fiscal increase further absent when compared with their particular link having fiscal progress along with other increase elements. For that reason, Levine (1998) look at whether cross-country variants inside exogenous components of banking market advancement reveal cross-country variants inside pace connected with economical advancement. Therefore, this individual works by using the particular legitimate factors regarding checking development because crucial specifics for checking industry development signal in addition to this individual know that the particular exogenous part of checking development is positively related to most indications regarding financial progress. Levine (2000) likewise discovers the exogenous component of banking institutions progress is usually really related to economical progress.

Later on researchers have used dynamic panel regressions as an alternative to cross-sectional IV regressions. In our best knowledge, the first studies that have used the dynamic panel regressions model conducted by Levine (1999), Rousseau and Wachtel (2000), Beck *et al*. (2000). A lot more specifically Holtz-Eakin *et al*. (1988), Arellano and Bond (1991) and Arellano and Bover (1995) is promoting generalized means of occasions (GMM) estimators. Moreover, in addition the traditional cross-section, IV procedures, Levin *et al*. (2000) use the recent Dynamic Panel Models "system estimator" to look at the relationship involving financial institutions as well as economical growth. As compare to the traditional cross-section, the result of active panel data indicates of which exogenous adjustments throughout loan companies' growth sexual large adjustments throughout monetary growth. Considering the GMM panel estimator they set up a panel data averaged around each of the seven five-year times 1960-1995. They located that we now have sturdy constructive connection among financial institutions along with fiscal development along with overall factor production development.

Within brand Spider vein Beck in addition to Levine (2004) by using GMM estimator verifies the partnership among development in addition to both equally inventory promotes in addition to financial institution development. According to their findings share markets and banking companies affect significantly economic growth. In more recently researches, Kar *et al*. (2011) examine the actual path connected with causality among financial and economic expansion by using the sample of 15 MENA countries over 1980-2007. For this specific purpose they've already used the not long ago offered section causality examining strategy that takes into account cross-sectional dependence through the nations around the world. His or her finding present that there's zero clear solidarity on the way associated with causality in between economic development in addition to economic increase which is furthermore witnessed how the studies are usually economic development in addition to country certain. Moreover, Hasan *et al*. (2009) is to analyze your position involving legitimate institutions, economic deepening along with politics pluralism with development charges for the regional levels, specifically in China. Hasan *et al*. (2009) find that the effect of banks lending is insignificant and occasionally negative while capital market, authorized surroundings, knowing of low income privileges and also political pluralism employ a solid have an effect on about financial growth. Ghirmay (2005) examine the actual causal hyperlinks in between monetary advancement and economic progress in the small sample regarding 13 sub-Saharan African countries by using time series setting. This individual locates there's a substantial along with years to come connection in between financial advancement along with financial development in 12 out of 13 countries. They in addition locates how the causality jogging via fiscal improvement for you to economical growth in 8 out of 13 countries. Hondroyiannis *et al*. (2005) applying the vector autoregressive (VAR) models in case of Greece over the period of 1986-1999, they suggests that the two traditional bank and shares market can certainly build development within long haul.

Thangavelu and James (2004) studied in term of financial institution primarily based and also market place primarily based financial structures to determine the relationship between fiscal improvement and economic expansion in Australia. For the judgment the relationship, these people employ time period string strategy connected with VAR type along with granger causality analyze for the amount of 1960-1999 along with if you use quarterly data. Their own conclusions ensures that the lending company structured program and market structured program have various purpose inside establishing development in the economy. As expected, the empirical results of bank based system indicators supported the Robinson's theory that economic expansion promotes fiscal improvement. Moreover, the results of market based financial system indicators supported the Schumpeter view that current market centered system promotes financial increase inside Australia economic system.

The researcher's main focus on the effect of financial improvement on economic expansion has been discussed in large body of literature on economy and finance. Moreover there are few researchers have studied the effect of Islamic finance on economic expansion. Islamic finance based on profit and loss sharing mechanisms which eliminate all form of interest that way researchers believed that Islamic finance must have a positive impact on the economic expansion. Al-Hallaq (2005) examine the role of Islamic financial system on the economic expansion in the Jordanian for the period 1980-2000 and used two stages ordinary least square method. He found that Islamic finance have a constructive but insignificant effect on economic expansion. Sadr *et al*. tried to examine the effect of agriculture credits given by the agriculture by the agriculture banks on the value added in this sector in Iran for the period 1961-1996 in context of Islamic economic. He finds that interest free banking has a constructive and significant impact on the value added in agriculture sector. Furqani and also Mulyany (2009) look at the connection between Islamic banking and also economic increase in Malaysia. They used the Co-integration test and Vector Error Model (VEM) over the period of 1970-2005. Their finding shows that Islamic banking financing have significantly correlated with economic expansion and capital accumulation of Malaysia. More recently, Abduh and Omar (2012) determine the effect of Islamic fiscal improvement on economic expansion in short run and in long run. Their findings reveal a constructive and also significant relationship between Islamic financial development and economic growth in short run and long run.

In the same line, Grassa and Gazdar (2013) conduct a study to inspect the relationship between financial development and economic expansion as well as a comparison between the conventional financing and Islamic financing in 5 GCC countries. They used cross-sectional OLS regressions, Hausman test and generalized least square method (GLS) over the period of 1996-2011. Surprisingly their findings show that there is negative and insignificant of overall fiscal improvement and conventional financial development on economic growth, but there is constructive and significant impact on economic growth. This study opens a new discussion for the researchers for the future. Goaied and Sassi (2010) examining the Islamic finance and growth relationship for MENA region. Their findings do not support the previous studies. They considered a sample of 16 MENA countries for the period 1962-2006 by using GMM estimation of a dynamic panel model. Goaied and Sassi (2010) provide evidence that like conventional financing and Islamic financing does not donate to economic growth in MENA region.

Research Question

This paper tries to inspect the relationship between financial development and economic growth in six Muslims countries (Pakistan, Saudi Arabia, Malaysia, Qatar, Indonesia, and United Arab Emirates). Moreover, this study tries to compare the different effects of conventional financing and Islamic financing on economic growth.

MATERIALS AND METHODS

The data for different variables used in the study was obtained from IFS (International Financial Statistics) CD-ROM 2014, World Development Indicators (World Bank database 2014), Financial Statements of Central Banks of all six countries, and Quarterly bulletins issued by the Central Bank. These sources were selected to get reliable and unbiased figures. The estimation period for this study is from 2001-2010. This period is robust because all the countries that were included in the sample went through different economic cycle during this time period. This provide us will an ideal opportunity to get more robust and generalized results that incorporate both crisis and non-crisis period. The total of six Islamic countries was considered in the studies the inclusion of countries was subjected to the availability of data for different variable in the study. Only those countries were included that satisfied the above mention criteria. Total of 60 firm year observations for each of the variables will enable us to gauge the effects of independent variables on dependent variable.

Base-Line Regression Models

We will estimate base-line regression models:

$$(GTH)_{i,t} = \sigma_0 + \sum_1 (TAssets)_{i,t} + \sum_2 (DC)_{i,t} + \sum_3 (GE)_{i,t} + \sum_4 (TRO)_{i,t} + \sum_5 (ILD)_{i,t} + \varepsilon_{i,t} \quad \text{eq. (a)}$$

$$(GTH)_{i,t} = \sigma_0 + \sum_1 (CAssets)_{i,t} + \sum_2 (DC)_{i,t} + \sum_3 (GE)_{i,t} + \sum_4 (TRO)_{i,t} + \sum_5 (ILD)_{i,t} + \varepsilon_{i,t} \quad \text{eq. (b)}$$

$$(GTH)_{i,t} = \sigma_0 + \sum_1 (ISAssets)_{i,t} + \sum_2 (DC)_{i,t} + \sum_3 (GE)_{i,t} + \sum_4 (TRO)_{i,t} + \sum_5 (ILD)_{i,t} + \varepsilon_{i,t} \quad \text{eq. (c)}$$

Where,

GTH = is the economic growth measured as real GDP divided by total population in the ith country for given time period. This is dependent variable and is also used by Vein Beck and Levine (2004) as measure of economic growth.

TAssets = is the total assets of money banks divided by the GDP. This variable is one of the proxies for financial development used by Grassa and Gazdar (2013). This is our primary variable of interest to study the impact of fiscal development on economic growth. It is expected positive co-efficient as is evidenced in the study conducted by Grassa and Gazdar.

DC = is local credit to private sector by banks as percentage of GDP. This is our second variable for financial improvement used by King and Levine (1993b). There is positive impact on economic growth.

GE = to government final consumption expenditure. We control GE with the ratio of government expenditure to GDP. Government consumption utilized being a proxy for the level of political corruption in the country. This is also used for the direct effects of non-productive public expenditures Cook and Uchida (2003). There is insignificant relationship between the government consumption and economic growth.

TRO = trade openness is an important determinant of economic growth Harrison (1996), Hasan (2010). It is measured as imports of merchandise as well as products and services plus exports of merchandise as well as products and services of a country over GDP of the country. We expect a constructive relationship between trade openness and economic expansion.

ILD = is the initial level of development measured as logarithm of initial income per capita. And there sign of co-efficient is negative according to the neo-classic theory.

CAssets = is the total assets of conventional banks as a percentage of GDP. This variable is used as proxies for financial development in case of conventional financial system along other variables are same.

ISAssets = is the total assets of Islamic banks as a percentage of GDP. This variable is used as proxies for financial development for Islamic financial system, while other variables are unchanged.

Panel Data Regression Models

We will estimate the panel data regression models.

1) Common Effect Models:
We will estimates the following models:

$(GTH)_{i,t} = \sigma_0 + \sum_1 (TAssets)_{i,t} + \sum_2 (DC)_{i,t} + \sum_3 (GE)_{i,t} + \sum_4 (TRO)_{i,t} + \sum_5 (ILD)_{i,t} + \varepsilon_{i,t}$ eq. (a)
$(GTH)_{i,t} = \sigma_0 + \sum_1 (CAssets)_{i,t} + \sum_2 (DC)_{i,t} + \sum_3 (GE)_{i,t} + \sum_4 (TRO)_{i,t} + \sum_5 (ILD)_{i,t} + \varepsilon_{i,t}$ eq. (b)
$(GTH)_{i,t} = \sigma_0 + \sum_1 (ISAssets)_{i,t} + \sum_2 (DC)_{i,t} + \sum_3 (GE)_{i,t} + \sum_4 (TRO)_{i,t} + \sum_5 (ILD)_{i,t} + \varepsilon_{i,t}$ eq. (c)

We may not get robust and generalizable results from common effect models because it assumes the homogeneity of cross-sectional variables. However, our countries have only few similarities in that they are Islamic and practicing Islamic banking system along with conventional banking system. But they differ in economic growth culture and attitude towards development. Thus, assumption of homogeneity is overly simplistic.

2) Fixed Effect Models:
We will estimate the fixed effect models.

$(GTH)_{i,t} = \sigma_i + \sum_1 (TAssets)_{i,t} + \sum_2 (DC)_{i,t} + \sum_3 (GE)_{i,t} + \sum_4 (TRO)_{i,t} + \sum_5 (ILD)_{i,t} + \varepsilon_{i,t}$ eq. (a)
$(GTH)_{i,t} = \sigma_i + \sum_1 (CAssets)_{i,t} + \sum_2 (DC)_{i,t} + \sum_3 (GE)_{i,t} + \sum_4 (TRO)_{i,t} + \sum_5 (ILD)_{i,t} + \varepsilon_{i,t}$ eq. (b)
$(GTH)_{i,t} = \sigma_i + \sum_1 (ISAssets)_{i,t} + \sum_2 (DC)_{i,t} + \sum_3 (GE)_{i,t} + \sum_4 (TRO)_{i,t} + \sum_5 (ILD)_{i,t} + \varepsilon_{i,t}$ eq. (c)

Fixed effect model is favored over common effect model because it allows for heterogeneity of the cross-sectional units. Thus, it also allows for controlling the biased that may be faced by the omitted variables.

3) Random Effect Models:
We will estimate the random effect models.

$(GTH)_{i,t} = \sigma_0 + \sum_1 (TAssets)_{i,t} + \sum_2 (DC)_{i,t} + \sum_3 (GE)_{i,t} + \sum_4 (TRO)_{i,t} + \sum_5 (ILD)_{i,t} + \varepsilon_{i,t}$ eq. (a)
$(GTH)_{i,t} = \sigma_0 + \sum_1 (CAssets)_{i,t} + \sum_2 (DC)_{i,t} + \sum_3 (GE)_{i,t} + \sum_4 (TRO)_{i,t} + \sum_5 (ILD)_{i,t} + \varepsilon_{i,t}$ eq. (b)
$(GTH)_{i,t} = \sigma_0 + \sum_1 (ISAssets)_{i,t} + \sum_2 (DC)_{i,t} + \sum_3 (GE)_{i,t} + \sum_4 (TRO)_{i,t} + \sum_5 (ILD)_{i,t} + \varepsilon_{i,t}$ eq. (c)

Random effect model is a powerful estimation technique and controlled by the caused by the error term.

4) Hausman Test:

Sometimes the common effect models and fixed effect models give us conflicting results. In order to select the best models for generalizability and robustness we will conduct Hausman test under the following hypothesis.

H1 = fixed effect model results are accepted.
H0 = random effect model results are accepted.

A p-value of 0.05 or less will allow us to select fixed effect models and vice versa.

RESULTS AND DISCUSSIONS

Using the Panel Data Regression Models mention above, this segment presents relapse results concerning the impacts of different measures of budgetary improvement on financial development. The results are displayed in after three sub-segments.

Financial Development and Economic Growth

Table 1 is showing the results of estimation examining the effect of financial improvement on economic expansion in the Muslim countries (Pakistan, Saudi Arabia, Malaysia, Qatar, Indonesia, and United Arab Emirates) using the panel data regression models (common effect, fixed effect and random effect models). In common effect model the dependent variable is economic growth which represented by GTH. The first indicator of financial development is the money banks assets (TAssets) to GDP ratio. The results of common effect model and random effect model show that there constructive and significant impact of TAssets on economic growth. In case of fixed effect model TAssets have insignificant. The second indicator of financial development domestic credit to private sector by banks as a percentage of GDP (DC) has positive but not significant in common effect model and random effect model but it have constructive and significant impact on economic expansion. This is in accordance with the results when the deposit money bank is considered as an indicator of financial development.

Table 1.

ALLAsstes				
Common Effect Model: Dependent Variable= GTH				
Independent Variables	Coef.	Std.Err.	t	P>|t|
TAssets	225072	101498.4	2.22	0.031
DC	0.0063707	0.0037715	1.69	0.097
GE	0.0322038	0.0082846	3.89	0.00
TRO	-0.0025081	0.002132	-1.18	0.245
ILD	1.160318	0.0258249	44.93	0.00
_Cons	2.100144	0.4310325	4.87	0.00
Fixed Effect Model: Dependent Variable= GTH				
Independent Variables	Coef.	Std.Err.	t	P>|t|
TAssets	31097.86	61463.91	0.51	0.615
DC	0.0064893	0.0030652	2.12	0.039
GE	-0.0286469	0.0135644	-2.11	0.04
TRO	0.0029398	0.0022589	1.30	0.199
ILD	1.677157	0.0700262	23.95	0.00
_Cons	-3.748903	0.9596856	-3.91	0.00
Random Effect Model: Dependent Variable= GTH				
Independent Variables	Coef.	Std.Err.	t	P>|t|
TAssets	225072	101498.4	2.22	0.027
DC	0.0063707	0.0037715	1.69	0.091
GE	0.0322038	0.0082846	3.89	0.00
TRO	-0.0025081	0.002132	-1.18	0.239
ILD	1.160318	0.0258249	44.93	0.00
_Cons	2.100144	0.4310325	4.87	0.00

Table 2.

CONAsstes				
Common Effect Model: Dependent Variable= GTH				
Independent Variables	Coef.	Std.Err.	t	P>|t|
CAssets	290584.9	138131.2	2.10	0.04
DC	0.0025557	0.0039252	0.65	0.518
GE	0.0300004	0.0085088	3.53	0.001
TRO	0.0001366	0.0022604	0.06	0.952
ILD	1.154807	0.0251316	45.95	0.00
_Cons	2.154623	0.425649	5.06	0.00
Fixed Effect Model: Dependent Variable= GTH				
Independent Variables	Coef.	Std.Err.	t	P>|t|
CAssets	91799.15	91207.7	1.01	0.319
DC	0.006561	0.0029949	2.19	0.033
GE	-0.0271942	0.013559	-2.01	0.05
TRO	0.0037561	0.0024215	1.55	0.127
ILD	1.67607	0.0694272	24.14	0.00
_Cons	-3.861427	0.9594519	-4.02	0.00
Random Effect Model: Dependent Variable= GTH				
Independent Variables	Coef.	Std.Err.	t	P>|t|
CAssets	290584.9	138131.2	2.10	0.035
DC	0.0025557	0.0039252	0.65	0.515
GE	0.0300004	0.0085088	3.53	0.00
TRO	0.0001366	0.0022604	0.06	0.952
ILD	1.154807	0.0251316	45.95	0.00
_Cons	2.154623	0.425649	5.06	0.00

Table 3.

ISLAsstes				
Common Effect Model: Dependent Variable= GTH				
Independent Variables	Coef.	Std.Err.	t	P>|t|
ISAssets	82727.8	144543.9	0.57	0.569
DC	0.0063584	0.0044945	1.41	0.163
GE	0.0347224	0.0086205	4.03	0.00
TRO	-0.0024536	0.0026301	-0.93	0.355
ILD	1.139989	0.0252563	45.14	0.00
_Cons	2.492823	0.4083761	6.1	0.00
Fixed Effect Model: Dependent Variable= GTH				
Independent Variables	Coef.	Std.Err.	t	P>|t|
ISAssets	-58414.07	128411.4	-0.45	0.651
DC	0.0071365	0.0031096	2.30	0.026
GE	-0.0280668	0.013687	-2.05	0.046
TRO	0.0031469	0.0023762	1.32	0.192
ILD	1.681048	0.0699948	24.02	0.00
_Cons	-3.807099	0.9700416	-3.92	0.00
Random Effect Model: Dependent Variable= GTH				
Independent Variables	Coef.	Std.Err.	t	P>|t|
ISAssets	82727.8	144543.9	0.57	0.567
DC	0.0063584	0.0044945	1.41	0.157
GE	0.0347224	0.0086205	4.03	0.00
TRO	-0.0024536	0.0026301	-0.93	0.351
ILD	1.139989	0.0252563	45.14	0.00
_Cons	2.492823	0.4083761	6.1	0.00

Whether, the control variables, ratio of government expenditure on GDP (GE) results shows the constructive and significant affect on economic growth in common effect and in random effect models. In fixed effect model GC have not significant impact on economic growth. Trade openness as the ratio of GDP (TRO) results shows that TRO is insignificant in all models (common effect, fixed effect and random effect models). And the third control variable initial level of development (ILD) has significant impact on the dependent variable economic growth, while it is common effect, fixed effect or random effect models.

Conventional Financing and Economic Growth

Table 2 represents the results of estimation analyzing the effect of conventional financing on economic growth. There are two indicators of conventional financing are total assets of conventional banks as a percentage of Gross Domestic Product (CAssets) and private credit to GDP (DC). The Table 2 results show that the CAssets play a significant role in developing economic growth according to common effect and fixed effect models. According to fixed effect model there is no role of CAssets in developing economy. But in the other end the second variable of conventional financing fixed effect model results show that DC playing a significant role in developing economy, while common effect and random effect results showing there is no effect of DC on economic growth. Whereas, Table (2) shows that GE have constructive impact on economic growth in common effect and in random effect models but in fixed effect model there is negative impact of GE on economic growth. Table (2) shows TRO coefficient not significant to economic growth in all cases or models (common, fixed and random effect). In all cases ILD has positive and significant for economic growth.

Islamic Financing and Economic Growth

In Table (3) we inspect the relationship between the Islamic finance and economic growth. Total assets of Islamic banking system (ISAssets) and private credit (DC) are the main indicators of Islamic financial system. The results of Table (3) show that ISAssets insignificantly correlated with economic growth. Fixed effect model shows the significant value of DC. Whereas, common and random effect models show the insignificant value of DC. In control variables, GE is significant in common effect model and random effect model and insignificant in fixed effect model. Table (3) also shows that TRO be insignificant in all three models and ILD have significant values in all three models. In various above tests, we found a productive nexus between overall financial development and growth of economy. Now we can say if the financial system (banking system) is well-functioning there is an increase in the rate of growth of economy.

As we discuss above there are many empirical studies confirm that there is a strong relationship between financial increase and economical increase. Our results support the thought of Roubini and Sala-I- Martin (1992) that created money related framework advances a superior distribution of financial resources into productive use and contributes positively to the economic growth. As we consider panel data estimation, our findings show that two indicators of conventional finance development affect positively and significantly economic growth. As shown with the overall financial development, conventional financing also relevant determinant of economic growth in Muslim countries. The results of Islamic financing have positive but it has no effect on economic growth help to support the findings of Al-Hallaq (2005). The reason is that in our selected countries the Islamic banks are few in numbers as compared to conventional banks. From the results we analyze that conventional financing plays a major role in financial development in our selected countries. The results shown the positive value of ISAssets so, at future time there is a point when the ISAssets have significant value because Islamic banking system growing rapidly as compare to conventional banking system. The Islamic financing system based on Sharia'h and our selected countries majority people are Muslim and they preferred Islamic banking on conventional banking. For the further evidence we run the Hausman test. Hausman test suggest us to go with the random effect model because the p-value is less 0.05 in case of random effect model. Turning to the three macro-economic variables (Table 1, 2 and 3) we find that the coefficient of government consumption to GDP (GE) have significant with positive sign in most regression. Trade openness to GDP ratios (TRO) enters most regressions insignificantly with negative sign which is against the theoretical expectations. The coefficient of initial level of development (ILD) surprisingly has significant positive sign in most regressions which is reject Barro's (1991) intention that poor countries tend to grow more rapidly than the rich countries.

Conclusion

The purpose of our paper is to inspect the effect of financial development on economic growth in Muslim countries. More specifically the in this paper we tries to examine the effect of overall financial system development on economic growth, and there is a comparison between the effect conventional financing system development and Islamic financing system development on the economic growth for the six Muslim countries (Pakistan, Saudi Arabia, Malaysia, Qatar, Indonesia, and United Arab Emirates) over the period of 2001-2010, using the panel data regression model of estimations. Our findings disclose that: first, the overall financial system development positively affects the economic growth of Muslim countries. Second, conventional financing system development also affects positively and significantly on economic growth of Muslim countries. Third, while Islamic financial development has positive but insignificant factors of economic growth in Muslim countries. Our empirical results give the strong evidence that conventional banking system appear a relevant determinant of economic growth in Muslim countries. On the other side, Islamic finance is superior system that can promote a better economic growth. The positive sign of Islamic financing result suggest that there is need of better reform for Islamic financial system and to enhance the effectiveness of the Islamic budgetary framework to animate speculation, sparing and for the long haul financial development.

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