



Islamic Banking and Economic Growth: A Panel Data Approach

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Abstract

The purpose of this investigation is to determine how Islamic banking affects economic expansion. To delve deeper into the research, a total of 90 Islamic institutions from 21 countries were chosen in accordance with specific criteria. An analysis of 953 observations was subsequently conducted. Explanatory variables include Return on assets, Return on equity, the ratio of a company's market value to its assets, asset quality, total deposits, total assets, bank size, and bank age. The Ordinary Least Square (OLS) estimation procedure is employed. The results of the study suggest that several economic indicators have a significant influence on GDP, including Return on Assets (ROA), Tobin's q, Asset Quality, Total Deposits, Total Assets, Bank Size, and Bank Age. The outcomes of this research provide a significant contribution to the body of knowledge regarding the influence of Islamic banking on economic expansion. This contribution to the scientific literature addresses a knowledge vacuum, thereby facilitating the formulation of novel theories and approaches concerning the interplay between Islamic finance and economic expansion. In addition, policymakers and practitioners involved in the management of the Islamic financial sector should consider these implications.

Keywords: Asset Quality, Bank Performance, Islamic Bank, Islamic Finance, Tobin's q.

JEL Classification: E23, E44, G21, O16, P45.

1. Introduction

Central to the dynamic realm of contemporary finance has arisen a unique paradigm that is positioned to reconfigure the trajectory of economic expansion. The intersection of Islamic banking principles and their influence on economic dynamics constitutes an intriguing area of study. This expedition explores the complex dynamics that exist between Islamic financial instruments and the course of economic advancement (Allah Pitchay et al., 2020; Khan, 2019; Khan and Badjie, 2022; Mustapha et al., 2021). In an effort to reveal novel perspectives and potential drivers for sustainable development, this research delves into the

complex corridors of Islamic finance in an effort to shed light on the mutually beneficial association it has with the wider economic landscape.

Amidst the global economic crisis, Islamic banking maintains its position as a steadfast alternative financial ecosystem grounded in Sharia-compliant and ethical principles (Abbas et al., 2020; Belal et al., 2019; Mergaliyev et al., 2021; Zainuldin and Lui, 2020). The rapid ascent of this subject not only initiated a resurgence of intellectual discourse but also initiated a shrewd discussion regarding its capacity to drive economic expansion. Equipped with an array of empirical methodologies, the research undertakes a paradigm-shifting expedition in an effort to reveal the intricate interplay between Islamic banking practises and the wider macroeconomic fabric.

The emergence of Islamic banking represents a fundamental change in the financial landscape, in which profit-driven models are abandoned in favour of an ethos grounded in ethical obligations. In accordance with the tenets of Sharia, Islamic finance integrates the notions of asset-backed transactions, risk-sharing, and equity (Dolgun et al., 2019; Hati et al., 2020; Hidayat et al., 2021; Musa et al., 2021; Šeho et al., 2020). This ethos surpasses traditional banking paradigms, garnering support from ethical investors, corporations, and policymakers.

In the context of the complexities of international finance, Islamic banking offers a complex array of prospects and obstacles. Its economic framework is founded upon distinctive risk-sharing mechanisms, asset-backed financing, and interest prohibitions (Riba), which serve to prevent speculative excesses (Burhanudin, 2022; Mateev et al., 2021, 2022; Musa et al., 2021). Concurrently, the infancy of Islamic banking engenders a fertile environment replete with prospects for groundbreaking advancements, financial investments, and comprehensive development.

The research is not conducted independently; instead, it is situated within a wider international dialogue. An extensive range of scholarly investigations has contributed to the understanding of the inherent potential of Islamic finance. As we stand on this precipice of exploration, we acknowledge the intellectual labour that has been planted by the contributions of academicians, practitioners, and policymakers. Recent research has examined the impact of Islamic banking on economic growth in the following ways: Banna and Alam, 2020; Hernawati et al., 2021; Mergaliyev et al., 2021.

Initially, a study was undertaken encompassing ninety global Islamic institutions across twenty-one countries and a total of 953 observations during the period 2021-2022. Secondly, the examined countries are diverse; therefore, it is

anticipated that Islamic banking will make a positive contribution to the economies of numerous nations. Researchers endeavour to furnish empirical evidence regarding the impact of Islamic banking on the economic development of numerous nations by utilising this distinctive context. Furthermore, a comprehensive analysis of the correlation between the contributions of Islamic banks (as assessed by Total Assets, Total Deposits, and Asset Quality), unemployment, and economic development, remains a challenging task to locate.

Despite the considerable importance of this subject matter in relation to Islamic finance and economic expansion, a comprehensive scientific literature addressing each of these aspects remains scarce. The existing research limitations on this subject provide an opportunity for further comprehensive and meticulous investigation. Hence, this research study substantially enhances our comprehension of the manner in which Islamic banking influences economic expansion via variables including total assets, total deposits, and total quality of assets. Thus, in the context of Islamic finance and economic growth, your research may pave the way for the development of novel theories and strategies by filling voids in the scientific literature. This is a significant step that has the potential to provide academics, practitioners, and policymakers in this field with invaluable new insights.

Significantly advancing economic policy, this study contributes significantly to the field of Islamic banking and economic expansion. The significance of this research's contribution is substantial across various critical dimensions. The study begins with an overview of the distinctive environment in which Islamic banking is conducted. By conducting research across twenty-one countries and analysing ninety global Islamic institutions, we successfully developed a robust empirical framework. Furthermore, the variety of nations examined substantiates the conclusion that Islamic banking possesses considerable potential for fostering economic growth in numerous countries. By means of this distinctive methodology, we present compelling empirical data that underscores the substantial impact that Islamic banking has had on worldwide economic expansion. Furthermore, this research makes a significant contribution by addressing deficiencies in the current body of scientific literature. This research comprehensively examines the correlation between the impact of Islamic banks on economic growth, unemployment, and inflation, as assessed by Asset Quality, Total Deposits, and Total Assets. Within the framework of Islamic finance and economic development, this research offers a more profound and all-encompassing comprehension. Therefore, the investigation not only enhances

scholarly understanding but also offers practical recommendations for policymakers, academics, and practitioners who are intrigued by the intersection of Islamic finance and economic expansion.

The structure of the paper is delineated as follows. The paper proceeds from the introduction with a literature review examination concerning Islamic banking in the context of economic expansion, unemployment, and inflation. In the third section, the investigation methodology is described. In section four, the findings and discussion section were addressed. In the subsequent sections, limitations and recommendations for further research are presented subsequent to the conclusions.

2. Literature Review

The economic expansion of a nation is enhanced by the presence of adequately capitalised financial institutions, thus emphasising the need of a robustly developed banking sector. A well-capitalized bank can be defined as a financial entity that possesses substantial capital reserves and demonstrates significant financial robustness. The banking industry, when well-developed, assumes a crucial role in facilitating and bolstering economic progress. The presence of well capitalised banks within a robust banking sector can yield substantial financial resources for the purposes of investment, lending, and facilitating a diverse array of economic endeavours. Due to their robust financial standing, they are capable of offering sufficient financial resources to support enterprises, entrepreneurs, and projects, thereby fostering economic growth. The number of highly capitalized banks that will have a favourable effect on a country's economic growth must be present in a well-developed banking industry (Bernard Azolibe, 2022).

Banks play a crucial role in the economy since they gather and distribute people's money. Financial institutions have enjoyed fairly competitive, quick, and dynamic growth in recent (Boukhatem and Djelassi, 2022; Hoque et al., 2022; Nomran and Haron, 2022; Tok and Yesuf, 2022). The fundamental tenet of Islamic banking is that interest is strictly prohibited, and all Islamic banks adhere to this principle. Islamic banking is widely regarded as a dependable and resilient financial system that possesses the capacity to foster enduring economic well-being and facilitate the generation of employment opportunities. Islamic banking is a financial system that adheres to the principles of Islamic law, often known as Sharia. These rules prioritise ethical and socially responsible financial practises. Islamic banking is characterised by several significant attributes. Firstly, it

strictly prohibits the practise of charging or receiving interest, commonly referred to as usury. Secondly, it emphasises the concept of profit and loss sharing, wherein both the bank and the customer mutually participate in the outcomes of their financial transactions. Lastly, Islamic banking actively avoids engaging in speculative and exploitative activities, so promoting ethical and responsible financial practice. It is widely considered that these concepts play a significant role in fostering both financial stability and sustainability. The stability of Islamic banking is anticipated to arise from its emphasis on transactions backed by tangible assets and processes that distribute risk among stakeholders. This method has the potential to mitigate excessive risk-taking behaviours and decrease the probability of a financial crisis, thereby cultivating a more robust financial landscape.

The promotion of ethical and responsible financial practises in Islamic banking is widely thought to have a positive impact on the long-term economic well-being of society. Investment and financing in areas that adhere to Shariah principles, encompassing productive enterprises, infrastructure initiatives, and socially advantageous endeavours, have the potential to foster sustained economic expansion and advancement. Furthermore, the prioritisation of fairness, equitable wealth distribution, and the promotion of productive economic activity within the realm of Islamic banking can potentially lead to a rise in job opportunities. Islamic banking plays a pivotal role in fostering economic activity and facilitating job creation within communities through the provision of financial resources to enterprises and initiatives that yield favourable outcomes for the economy. Islamic banking is thought to be a stable financial system capable of encouraging long-term prosperity and job creation. In favor of productive activity and the real economy, it prohibits interest, speculation, hoarding, contractual uncertainty, and the secondary loan market (Alqahtani and Mayes, 2018; Ganguly, 2021; Kreamer, 2022; Zabavnik and Verbič, 2021). It was unaffected by credit expansion and did not result in the type of speculation associated with traditional finance. Securitization and unrestricted credit growth were well-known causes of the recent financial crisis, as were the huge bankruptcies that exacerbated the situation.

The crisis brought to light the urgent need for financial stability, as demonstrated by Islamic financing rules, for example. Banking sectors in emerging and developing markets are characterized by the magnitude of market power. Sharia banks operate under different principles compared to a conventional system. Sharia banks perform on the basis of Islam principles

oriented to profit–loss sharing (Abbas, 2019). Although there is no considerable competition between Islamic banks and conventional banks at the time, Islamic banking has its own distinct characteristics among the community. As a result, research into the degree of productivity in the Islamic banking sector has become a significant element of the banking literature (Lina Nugraha, 2020). The Islamic Bank encompasses both the Islamic Bank and the Shariah Business Unit. It encompasses institutions, corporate activities, and the methods and processes by which they are carried out (Dina Fitriasia Septiarini, 2020).

When the Islamic Development Bank was established in 1975, it served as an announcement to the rest of the world that Islamic finance had entered the arena on a worldwide scale. Since then, both the number of Islamic financial institutions and the number of countries in which they operate have grown significantly (Abrorov and Imamnazarov, 2021). The purpose of banking activities in the real sector is to finance the business sector. Islamic banks are more focused on the actual economy than traditional banks. Finance distribution initiatives to expand the venture capital industry. In the Islamic economic perspective, capital difficulties are crucial. Capital is wealth that contributes to the generation of additional riches; it includes everything that provides personal satisfaction and also contributes to the generation of wealth. Capital is capital acquired through one's own efforts and then used to develop additional riches (Sri Herianingrum, 2019).

Islamic banking plays a key role in fostering economic development. Islamic banking is characterized by its adherence to sharia principles, which prohibit *riba* (interest) and emphasize fairness in transactions. As a result, Islamic banking tends to priorities productive financing activities, such as investment in the real sector and micro, small, and medium enterprises (MSMEs). These endeavors have the potential to stimulate economic growth and facilitate job creation. By implementing sharia principles, Islamic banking has the potential to foster a more equitable and stable business milieu, mitigate economic uncertainties, and promote enduring investments that contribute to sustainable development. Moreover, Islamic banking has the potential to provide assistance to specific industries such as housing, agriculture, and renewable energy, all of which adhere to sharia principles. This, in turn, can facilitate economic diversification and enhance competitiveness. The principles governing the equitable allocation of wealth in Islamic banking contribute to the mitigation of economic inequality and the enhancement of overall welfare, hence serving as a crucial determinant of sustainable economic growth. Islamic banking goes

beyond being a mere financial institution, as it exerts a wide-ranging positive influence by enabling individuals to gain access to sharia-compliant financial services. Consequently, this facilitates inclusive and sustainable economic development. Islamic banking has an important role in encouraging economic development (Wasiaturrahma, 2020). Consequently, we must ask ourselves, "Why are we so interested in a topic that has been thoroughly discussed in the literature?" The majority of research on the association between banking development and economic growth has been based on samples from industrialized nations with banking systems and financial markets typified by less information asymmetry, lower transaction costs, and more effective banking regulation. It is also uncertain if the conclusions gained from these studies regarding the effect of financial development on economic growth apply to systems where Islamic banks play a prominent role.

2.1 Bank Performance and Economic Growth

Economic expansion and bank performance are two crucial pillars of a nation's economic dynamics. As the primary financial intermediaries, banks facilitate the distribution of funds from individuals or entities with surplus funds to those or entities that require those funds for investment or consumption. They facilitate diverse financial transactions and manage financial risks (de Barros et al., 2021; Nguyen and Ryu, 2022). However, economic growth encompasses activities such as augmenting output and gross domestic product, fostering employment opportunities, and stimulating investment and innovation. A reciprocal relationship exists between the two: robust economic expansion stimulates increased financing demand, whereas banks bolster economic expansion by supplying the requisite financial resources for productive endeavours. The stability of the financial system and monetary policy are significant regulators of the relationship between bank performance and economic expansion. Ensuring sustainable economic growth and sound bank performance are critical components in the pursuit of stable economic development and the betterment of society.

Return on Assets (ROA) is an important indicator of a bank's financial performance. ROA indicates the efficiency with which a financial institution makes a profit from its assets. A bank shows superior performance in converting its assets into profits when ROA increases (Almulhim and Aljughaiman, 2023; Porto et al., 2023; Setiawan et al., 2023). A high return on assets (ROA) signifies that a bank has the ability to provide financing with competitive profit sharing,

facilitate business investment, and encourage development in productive sectors, all of which are related to economic expansion. Conversely, a low ROA may indicate that the bank is experiencing profit pressure, which may adversely affect its ability to sustain economic expansion. Simply put, bank performance, especially as measured by ROA, is critical in building a strong financial framework that facilitates long-term economic expansion.

Return on Equity (ROE) is a significant metric utilised to assess the financial performance of a financial institution. ROI assesses the effectiveness with which a financial institution generates net income using equity or capital contributed by shareholders or proprietors. A bank demonstrates superior financial performance in utilising its capital to generate profits, as indicated by a higher return on equity (ROE) (Gutiérrez-Ponce and Wibowo, 2023; Sathyamoorthi et al., 2023; Sharma and Dhiman, 2023). A high return on equity (ROE) signifies that the bank is capable of generating substantial returns on its capital, which may be utilised to finance financing expansion and productive project investments, with respect to economic growth. Additionally, investment is more likely to be attracted to banks with a robust ROE, which enables them to mobilise funds to support economic expansion as a whole. Conversely, a low ROE may suggest that the financial institution is struggling to generate sufficient returns on its invested capital. The capacity of banks to extend financing and facilitate business investment may be constrained, thereby potentially impeding economic expansion. Since such, ROE is a pivotal metric for determining whether a financial institution possesses the stability of its assets to sustain long-term economic expansion. Banks that consistently attain high return on equity (ROE) tend to have a positive impact on long-term economic growth.

Tobin's q is an economic concept that quantifies the correlation between the book value (or market value) of assets disclosed in financial statements and the market value of a company or asset (Anas et al., 2023; Lee et al., 2023; Ozdemir et al., 2023; Ricca et al., 2023). Tobin's q pertains to the correlation between the market value of a bank and the book value, which represents the value of assets as documented in its financial statements. A Tobin's q value exceeding one ($q > 1$) signifies that the market assigns a higher valuation to the bank in comparison to its book value or asset value. This may suggest that the market has confidence in the bank's ability to effectively manage its assets and generate profits in excess of their value. This may incentivize financial institutions to pursue additional investments or expansions, given the prospect of higher returns. On the contrary, a Tobin's q value below one ($q < 1$) indicates that

the bank is undervalued by the market in comparison to its book value or asset value. This may serve as an indication of market skepticism regarding a bank's capacity to effectively manage its assets or generate satisfactory returns on their value. Banks may encounter circumstances where they are compelled to enhance their performance or modify their strategies in order to augment their market value.

2.2 Asset Quality and Economic Growth

The banking sector's asset quality is a significant indicator that influences the economic growth of a nation. It assesses the degree to which a financial institution effectively oversees its loan portfolio through the maintenance of punctual payments from borrowers. A high level of asset quality indicates a diminished likelihood of default, which in turn empowers financial institutions to extend financing with greater assurance (Adelopo et al., 2022; Kočenda and Iwasaki, 2022; Saleem et al., 2021; Tok and Yesuf, 2022). This phenomenon fosters consumer expenditure and investment, thereby potentially stimulating economic expansion. In addition, high-quality assets contribute to the stability of the financial sector by mitigating systemic risks that could have an effect on the economy as a whole. Good asset quality fosters customer confidence and contentment, which in turn encourages corporations to engage in fruitful investment activities. In general, their contribution to economic development is greater because they facilitate investment in growth-stimulating projects through the provision of funds. Therefore, the quality of bank assets plays a crucial role in fostering sustainable and sound economic expansion, whereas substandard asset quality can impede development and amplify economic risks. Therefore, monitoring and maintaining asset quality is essential for ensuring that institutions play a positive role in the economy.

H1. There is a significant influence between the asset quality of Islamic banking and economic growth

2.3 Economic Growth and Islamic Bank Deposits

The entire number of deposits is a source of funds from which banks may provide financing. In addition to deposits from clients, there are also deposits from other banks. After receiving deposits (current accounts, savings accounts, and time deposits) from the general public, banks reinvest the funds into the economy through a number of financing processes (Appiah-Otoo and Song, 2022; Butt et al., 2023; Louembé et al., 2023; Maebayashi and Tanaka, 2022;

Sadeghi et al., 2023). The greater the number of deposits retained, the greater the potential to provide finance to clients, which has a positive impact on economic growth via production or consumption channels. Islamic banks utilize deposits to fund productive projects that align with sharia principles, including investments in the real sector, housing, and micro, small, and medium enterprises (MSMEs). Therefore, these deposits possess the potential to stimulate economic expansion through the facilitation of investment and advancement in pivotal industries. Additionally, Islamic financial institutions have the potential to contribute to a more equitable distribution of wealth within a given society, as they adhere to principles of justice and sustainability. This measure has the potential to mitigate economic inequality and enhance overall societal well-being.

The deposit placed in the custody of Islamic banks can exert a significant impact on economic growth through multiple channels (Belkhaoui, 2023; Butt et al., 2023; Halim et al., 2023; Soedarmono and Yusciantoro, 2023). Firstly, it is common for Islamic banks to dedicate their deposits towards financing tangible economic activities and projects that are in accordance with Shariah principles. Consequently, this methodology has the potential to foster heightened entrepreneurial activities, yield employment prospects, and enhance the general economic vitality. Moreover, Islamic financial institutions frequently advocate for the support of small and medium firms (SMEs) by enabling their access to financial resources. This not only promotes the development of entrepreneurship and innovation but also contributes to the advancement of the economy. Moreover, deposits in Islamic banks frequently function as sources of funding for vital infrastructure initiatives, public services, and community-driven projects that significantly contribute to economic advancement. Islamic banks have the ability to allocate deposits towards initiatives that aim to improve marginalised populations, therefore lowering economic disparity and promoting comprehensive prosperity, by adhering to Sharia principles that advocate for a fair allocation of wealth. The unwavering dedication of Islamic banks to uphold ethical and transparent financial practises has the potential to enhance financial stability as well. The aforementioned stability serves as the fundamental basis for a robust economic environment capable of effectively assimilating unforeseen disruptions and fostering long-term, sustainable expansion.

Islamic banks are very important to economic growth because they help move money around (Albusheekh Saleh and Alaallah, 2022; Kismawadi, 2023a, 2023b; Kismawadi et al., 2023; Ledhem and Mekidiche, 2022; Siddique et al., 2022). These include helping to fund projects that are morally acceptable,

encouraging loans, promoting financial stability, and getting people to save money. Islamic banks help the economy grow by doing things like giving business capital in the real economy, which is more productive than just lending money. Also, they have a more positive effect on the growth of the economy (Anwar et al., 2020). When total deposits grow in Islamic banking, banks can make more investments, which helps the economy grow. High regulatory and prudential standards for changes in macroeconomic variables will also help manage bank assets and raise national income (Mohamad et al., 2018). Based on the discussion above, I propose the following hypothesis:

H1. There is a significant influence between total Islamic banking deposits and economic growth

2.4 Assets and Economic Growth

Within the realm of banking, the term "Total Assets" pertains to the comprehensive sum of resources possessed by an institution, encompassing currency, investments, granted loans, and additional financial assets. It is related to economic expansion in the following way: The total assets of a bank are a significant contributor to the economic expansion of a nation. Banks, being prominent financial institutions, possess the ability to amass funds from the general public for the purpose of allocating them towards fruitful investments (Azzam and Rettab, 2022; Priyadi et al., 2021). As a bank's total assets increase, so does its capacity to extend financing to individuals and organizations in need of capital for investment purposes, expansion endeavors, or consumption financing. It generates new employment opportunities, augments national income, and stimulates the production of products and services, thereby positively influencing overall economic activity.

The total assets of the bank serve as an indicator of the financial institution's robustness and stability (Mansour et al., 2022; Rizvi et al., 2020; Saif-Alyousfi and Saha, 2021; Trinh et al., 2020). In general, financial institutions that possess substantial total assets are better equipped to manage economic crises and incur risks. This decreases the probability of significant disturbances in the financial system, which may detrimentally affect the expansion of the economy as a whole.

Given the imperative of achieving sustainable economic growth, prudent investment and expenditure decisions by banks are of utmost significance. Banks that effectively manage their total assets can contribute to risk mitigation and foster stable and balanced growth. Nevertheless, it is critical to guarantee that

banks have implemented suitable risk management policies and measures to prevent excessive jeopardy to financial stability posed by their substantial total assets. The total assets of the bank are instrumental in fostering sustainable economic growth through the provision of investment capital, the establishment of financial stability, and the reduction of potential risks. Proficiently managed total assets by banks can make a substantial contribution to the promotion of sustainable and sound economic expansion.

H1. There is a significant influence between Islamic banking assets and economic growth

2.5 Bank Size and Economic Growth

The size of a bank, which is frequently measured by its total assets, has a significant impact on the economic development of a nation. Major financial institutions possessing substantial total assets are capable of exerting a substantial influence on the tides of economic expansion. Large banks possess an inherent advantage in terms of their ability to procure funds from the general public and extend financing to both corporations and individuals. This facilitates substantial corporate investments in infrastructure, production, and innovation, thereby stimulating the expansion of economic sectors. Furthermore, major banks possess the capacity to significantly contribute to the facilitation of global commerce and the allocation of capital to sectors that are imperative for fostering economic expansion (Bolarinwa et al., 2021; Kumar et al., 2022; Kumar and Bird, 2020; Martens et al., 2021; Sari et al., 2022). They possess robust infrastructure and networks to facilitate cross-border business transactions, which stimulate worldwide economic expansion and broaden product and service markets.

It is essential to observe, nevertheless, that substantial banks may also pose threats to financial stability. Failures or issues that arise within major institutions can potentially have severe consequences for the entire financial system and the economy at large, thus constituting "systemic" risks. Strong oversight and regulation are thus required to guarantee that large banks can function securely, foster economic expansion, and do so without jeopardizing the stability of the financial system.

Conversely, tiny and medium-sized banks play a significant role in bolstering economic expansion. Typically, their focus lies on providing financial support to small and medium-sized enterprises (SMEs), which frequently serve as the fundamental engines of an economy (Khalaf and Alajlani, 2021; Khan, 2023). By offering financing and financial assistance to small and medium-sized

enterprises (SMEs), these banks contribute to job creation, innovation, and economic competitiveness.

The expansion of the economy is substantially influenced by the scope of the bank. Major financial institutions amass substantial capital infusions to bolster the expansion and investment of critical sectors within the economy (Ibrahim et al., 2022; Sari et al., 2022; Soedarmono and Yusgiantoro, 2023). The backbone of the economy, small and medium-sized enterprises (SMEs), however, are significantly aided by the financial support provided by small and medium-sized institutions. Hence, the preservation of equilibrium and the enforcement of sound banking practices are fundamental in fostering sustainable economic expansion.

H1. There is a significant influence between the size of Islamic banking and economic growth

2.6 Bank Age and Economic Growth

Financial institutions that have been in operation for an extended duration can significantly contribute to fostering economic expansion. To begin with, financial institutions that have been in operation for a prolonged duration generally possess greater expertise and the confidence of both individuals and organizations. They build a solid reputation in the financial services industry, which can result in increased client and consumer interest. It has the ability to raise increased public funds for investment in productive initiatives that drive economic expansion.

Banks with a lengthier operational history have established relationships and broader networks with numerous economic sectors (Charoenrat and Amornkitvikai, 2021; Gómez et al., 2021; Pham, 2021). This enables them to enhance their comprehension of market demands and prospects, thereby facilitating the provision of financial solutions that are more suitable in light of the evolving economic climate. They typically possess a greater quantity of data and information pertaining to the performance of businesses. This can be utilized to more effectively evaluate financing risk and extend financing.

Nevertheless, it is critical to bear in mind that youthful institutions may also contribute significantly to the expansion of the economy. New and innovative financial institutions frequently introduce innovative concepts and technologies to the industry. In addition to expanding access to financial services for previously unreachable groups or regions, they can introduce new products and services to satisfy the demands of expanding markets.

Elderly banks generally possess greater expertise in risk management

with regard to navigating diverse economic circumstances and financial crises. They may have implemented and validated risk policies and strategies, enabling them to manage risk more effectively. Alternately, more recent institutions might be more adaptable in their adoption of cutting-edge risk mitigation technologies and procedures.

Economic growth is profoundly influenced by the age of banks. Established financial institutions possess network advantages, reputation, and experience that they can utilize to foster economic expansion by offer financing and financial services (Biru, 2021; Gupta and Mahakud, 2020). Younger institutions, conversely, are capable of introducing novel concepts and satisfying the demands of an expanding market. The contribution of both traditional and modern institutions to the promotion of sustainable and robust economic expansion is substantial.

H1. There is a significant influence between bank age of Islamic banking and economic growth

2.7 Islamic Banks and Inflation

Numerous facets of the operations of Islamic institutions are significantly impacted by inflation (Fakhrunnas et al., 2021; Kamarudin et al., 2022; Mabkhot and Al-Wesabi, 2022; Mensi et al., 2020; Priyadi et al., 2021). Islamic banks, in accordance with sharia principles, abstain from the practice of riba and advocate for the integrity of financial transactions. When contemplating inflation, Islamic institutions must take into account the ramifications for the purchasing power of currency. An increase in inflation rates has the potential to diminish the purchasing power of currency, which could result in a gradual depreciation of funds deposited or invested in Islamic banks. Hence, it is imperative for Islamic financial institutions to exercise prudent management of their investment portfolios in order to safeguard consumer funds against the detrimental consequences of inflation.

Furthermore, Islamic banks ought to incorporate the inflation rate into a reasonable profit margin calculation for their financial instruments. Alternatively stated, it is their responsibility to ensure that the profit share they establish yields satisfactory returns for customers, taking into account the dynamic nature of currency values resulting from inflation. When considering financing, Islamic institutions must additionally consider the ramifications of inflation on the repayment capacity of borrowers. In light of the possibility that borrowers will face greater strain due to rising inflation, Islamic banks must ensure that the

financing they extend is compliant with sharia law and remains sustainable. Therefore, it is imperative for Islamic banks to meticulously contemplate the ramifications of inflation when formulating investment strategies, determining profit-sharing, and assessing financing risk. This will guarantee the endurance and equity of their operations amidst fluctuations in the economic landscape.

H1. There is a significant influence between inflation and economic growth

2.8 Islamic Banks and Unemployment

Islamic banks contribute significantly to the struggle against unemployment by implementing a variety of initiatives that emphasize economic inclusion and community development (Selim and Hassan, 2020; Yuli and Rofik, 2023). To begin with, they offer exclusive financial assistance to small and medium-sized businesses (SMEs). SMEs are frequently the driving force behind the creation of new employment in a variety of economic sectors. Through the provision of more affordable capital and financing to small and medium-sized enterprises (SMEs), Islamic banks foster their expansion and progress, thereby generating sustainable employment prospects (Bilal et al., 2020; Doruk, 2023; Saif-Alyousfi, 2022; Tayem, 2022). Furthermore, Islamic banks advance financial inclusivity by granting entry to demographics that were hitherto inaccessible to traditional financial institutions. These groups consist of the impoverished, rural communities, and those with restricted availability of conventional financial services. Islamic banks facilitate opportunities for these individuals to manage their finances, obtain loans, and invest in home-based enterprises or small projects in accordance with sharia law, thereby contributing to the reduction of the unemployment rate.

H1. There is a significant influence between unemployment and economic growth

The main objective of the study was to investigate the influence of Islamic banking on the economic growth of twenty-one countries, with eighty-three Islamic banks. This study used a Ordinary Least Square (OLS) analysis panel and utilized the E-Views statistical program

3. Research Methodology

The purpose of this study is to examine the empirical effect of Islamic banking (ROA, ROE, Tobin's q, Asset Quality, Total Deposits, Total Assets, Bank Size, Bank age) on GDP, Unemployment, and Inflation. The following assumptions

were made in twenty-one countries covering the years 2021 to 2022. This study used 953 observations were selected for further analysis based on these criteria. This survey took a sample of 90 global Islamic banks registered in each country, data obtained from the capital market of each country of origin of Islamic banking and from OSIRIS

To empirically investigate the relationship between Islamic banking (ROA, ROE, Tobin's q, Asset Quality, Total Deposits, Total Assets, Bank Size, Bank age) on GDP, Unemployment, and Inflation., we use the following Ordinary Least Square (OLS), Here is the model:

$$GDP = \alpha_0 + \alpha_1 ROA_1 + \alpha_2 ROE_2 + \alpha_3 Tobins_3 + \alpha_4 AQ_4 + \alpha_5 TD_5 + \alpha_6 TA_6 + \alpha_7 Size_7 + \alpha_8 Age_8 + \epsilon_t \quad (1)$$

$$Unp = \alpha_0 + \alpha_1 ROA_1 + \alpha_2 ROE_2 + \alpha_3 Tobins_3 + \alpha_4 AQ_4 + \alpha_5 TD_5 + \alpha_6 TA_6 + \alpha_7 Size_7 + \alpha_8 Age_8 + \epsilon_t \quad (2)$$

$$Inf = \alpha_0 + \alpha_1 ROA_1 + \alpha_2 ROE_2 + \alpha_3 Tobins_3 + \alpha_4 AQ_4 + \alpha_5 TD_5 + \alpha_6 TA_6 + \alpha_7 Size_7 + \alpha_8 Age_8 + \epsilon_t \quad (3)$$

Table 1 shows where, GDP: Gross Domestic Product, Unp: Unemployment, Inf: Inflation, ROA: Return on assets, ROE: Return on Equity, Tobins: Ratio of the market value of a company divided by its assets, AQ: Asset Quality, TD: Total Deposits, TA: Total Assets, Size: Bank Size, Age: Bank age.

Table 1. The Variables Used in the Study

Variables	Code	Defines	Source
Return on Assets	ROA	Ratio of operating income over assets	(Amrani and Najab, 2023; Chowdhury et al., 2022; Fitri et al., 2022; Prasojo et al., 2022; Qabajeh et al., 2023)
Return on Equity	ROE	Ratio of operating income over equity	(Awad, 2022; Farooq et al., 2023; Khatib et al., 2023; Qabajeh et al., 2023)
Tobin's q	Tobin's q	Ratio of the market value of a company divided by its assets	(Awwad and Al-Qaissi, 2023; Grassa et al., 2023; Wijayanti and Setiawan, 2022)
Asset Quality	Asset Quality	Net income to total assets	(Ali et al., 2021; Aljughaiman et al., 2023; Handayani et al., 2020; Shaikh, 2023)
Total Deposits	Total Deposits	Total Islamic bank's Deposits quarter	(Abduh et al., 2011; Khasharmeh, 2018; Khatib et al., 2023; Mennawi, 2020; Solarin et al., 2018)
Total Asset Islamic Banking	Total Asset	Total Islamic bank's assets quarter	(Khan and Ibrahim, 2022; Nurkhin et al., 2021; Qabajeh et al., 2023; Sidaoui et al., 2022; Utami et al., 2022)
	Bank Size	Natural log of total corporate assets	(Asif et al., 2022; Hasan et al., 2023; Soedarmono and Yusciantoro, 2023; Trichilli et al., 2023)
	Bank age	Bank age The natural logarithm of the number of years since the firm was listed	(Al-Homaidi et al., 2020; Basuony et al., 2014; Hasan et al., 2023; Muhammad and Nugraheni, 2021)
Gross Domestic Product	GDP	GDP per capita (current US\$)	(Abusharbeh, 2020; Hernawati et al., 2021; Kismawadi, 2023a; Sobol et al., 2023)
Unemployment	Unemployment	Total (% of total labor force) (modeled ILO estimate)	(Nugraheni and Muhammad, 2023; Yuli and Rofik, 2023)
Inflation	Inflation	Consumer Prices	(Abdo, 2023; Albusheekh Saleh and Alaallah, 2022; Neifar and Gharbi, 2023)

4. Result and Discussion

Islamic finance refers to a financial system that operates in accordance with the Sharia, or principles of Islamic law. Sharia prohibits, among other practices, usury, speculation, and gambling, and mandates that all financial transactions be based on actual assets and risk-sharing.

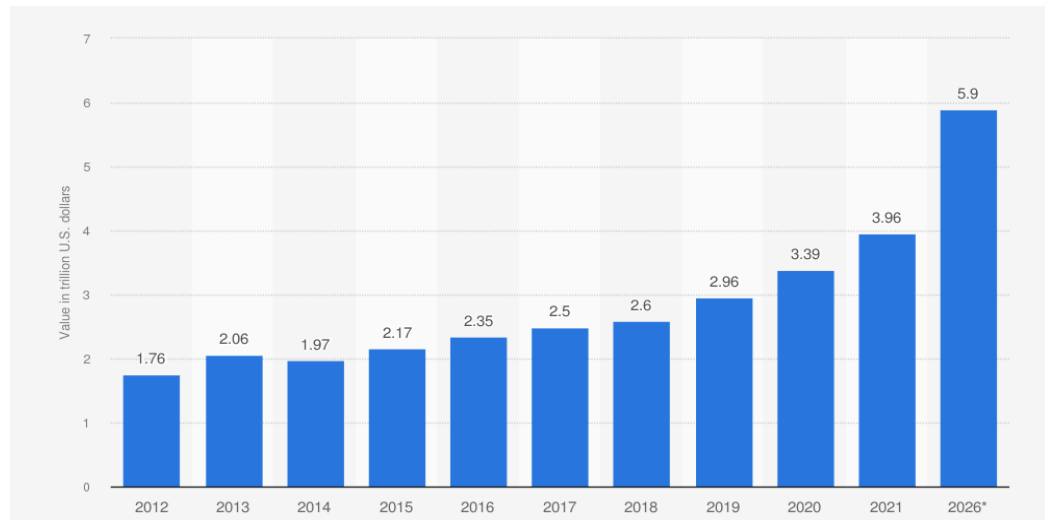


Figure 1. Total Value of Islamic Finance Assets Worldwide from 2012 to 2021 with a Projection for 2026 (in Trillion U.S. Dollars)

Source: ICD Statista, 2023.

In recent years, the Islamic finance industry has expanded significantly and become an integral part of the global financial system. As indicated, Figure 1 above shows the global Islamic finance market's total asset value in 2021 was approximately \$3.95 trillion US dollars. This consists of the assets possessed by Islamic banks, Islamic insurance companies (takaful), and Islamic asset management firms. Significant expansion is also taking place in Africa and Europe. It is anticipated that the global Islamic finance market's total asset value will reach \$5.9 trillion US dollars by 2026. This growth is anticipated to be driven by a number of factors, including a rising demand for Islamic financial products and services, the expansion of Islamic finance into new markets, and an increased awareness of the advantages of Shariah-compliant finance. It is anticipated that the continued expansion of the global Islamic finance industry will have a significant impact on the global financial system as well as the economies and societies of the countries in which it operates.

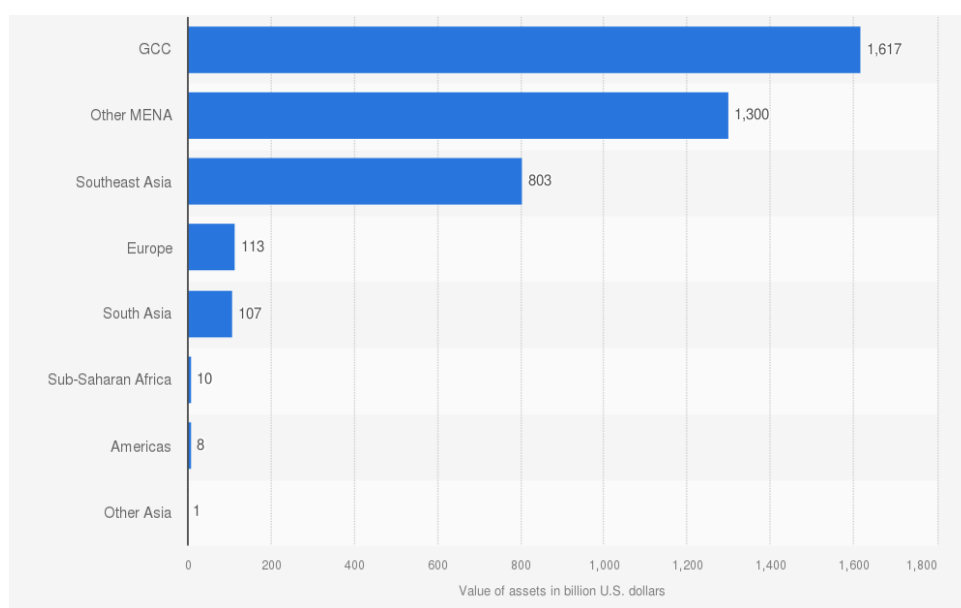


Figure 2. The Value of Islamic Finance Assets Worldwide in 2021, by Region (Billion U.S. Dollars)

Source: ICD Statista, 2023.

Gulf Cooperation Council (GCC) is a regional intergovernmental organization comprised of six Arab nations in the Persian Gulf region: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). The GCC is home to a substantial and rapidly expanding Islamic finance industry, which has become a vital source of capital and investment in the region.

As previously stated, Figure 2 shows the value of Islamic financial assets in the GCC region in 2021 amounted to 1.61 trillion US dollars. This number represents the total value of Islamic financial assets held by GCC-based banks, insurance companies, and other financial institutions. The GCC region is one of the world's largest and fastest-growing Islamic finance markets, propelled by factors such as a robust demand for Sharia-compliant financial products, favorable regulatory frameworks, and an increasing pool of skilled professionals.

In the same year, the total value of Islamic finance assets worldwide amounted to 3.95 trillion US dollars. In 2021, the GCC region accounted for approximately 40% of global Islamic finance assets. It highlights the significant role that GCC nations play in the global Islamic finance industry and their position as crucial players in the sector's development and growth.

Through various initiatives and policies geared at fostering the growth of Sharia-compliant financial products and services, GCC countries have been

active in promoting the development of Islamic finance in the region. The establishment of regulatory bodies for Islamic finance, the development of Sharia-compliant financial standards and guidelines, and the promotion of Islamic finance education and training are among these initiatives. In the coming years, the strong development of the Islamic finance industry in the GCC region is anticipated to be driven by favorable demographics, rising levels of prosperity, and a growing demand for Sharia-compliant financial products and services.

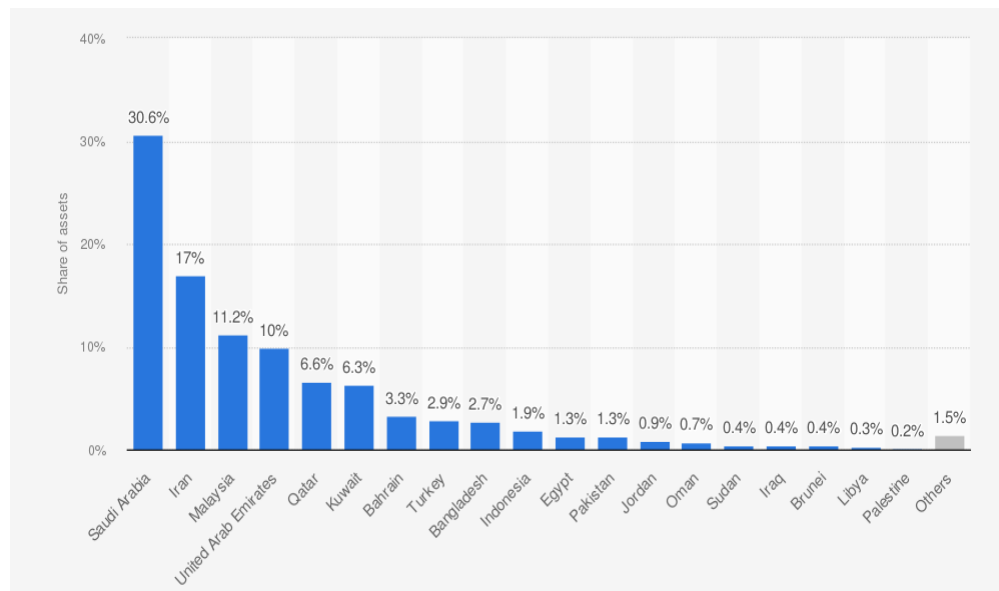


Figure 3. The Distribution of Assets of Islamic Banks Worldwide in 2021, by Country (in Billion Dollars)

Source: ICD Statista, 2023.

Islamic banking is a vital component of the global Islamic finance industry, offering Sharia-compliant financial services and products to clients worldwide. Figure 3 above shows Saudi Arabia and Iran accounted for 47.6 percent of Islamic bank assets in 2021, as stated. Iran follows Saudi Arabia as the largest Islamic banking sector in terms of assets. This indicates that these two nations dominate the global Islamic banking market.

The high concentration of assets held by Saudi Arabia and Iran can be attributed to several factors, including their large and developing populations, favorable regulatory environment, and high demand for Sharia-compliant financial products and services in these countries. Moreover, these nations have made substantial investments in their Islamic finance industries, such as the establishment of Islamic banks and financial institutions and the creation of

Sharia-compliant financial products and services.

Malaysia, on the other hand, accounted for approximately 11.2% of Islamic bank assets in 2021. Malaysia is a major participant in the global Islamic finance industry, with a well-established regulatory framework and a history of innovation and development in Shariah-compliant financial products and services. Malaysia has also made substantial investments in the development of its Islamic banking sector, with a concentration on expanding the availability of Sharia-compliant financial products and services throughout the region. In 2021, no other country possessed more than 10 percent of the total assets held by Islamic banks. This demonstrates the highly concentrated nature of the global Islamic banking market, with a small number of countries accounting for the vast majority of Islamic institutions' assets.

In 2020, Islamic bank assets totaled \$1,844 trillion dollars. This highlights the significant growth and significance of the Islamic banking industry in the global financial landscape, as well as the increasing demand for Sharia-compliant financial products and services around the globe.

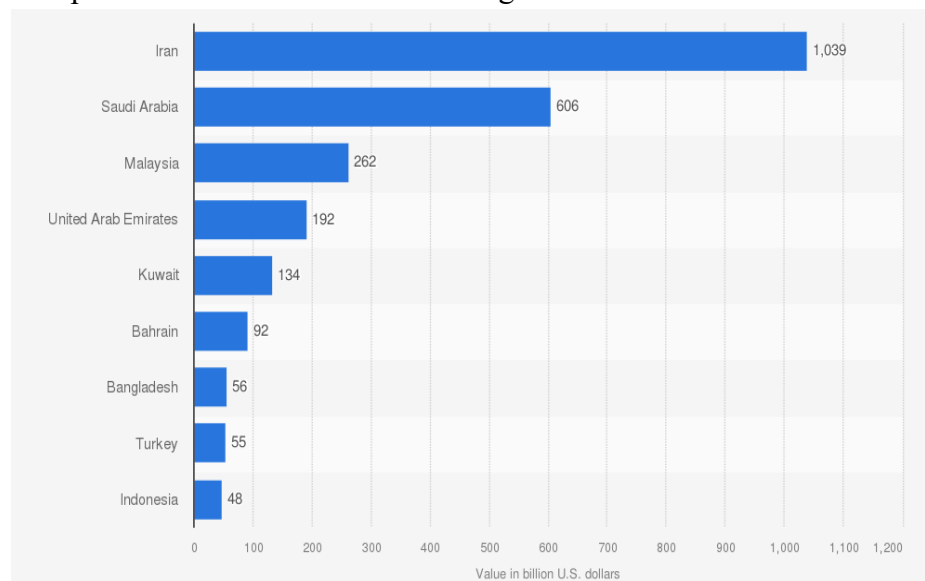


Figure 4. Leading Countries in Islamic Banking Assets Worldwide in 2021, by Value (in Billion U.S. Dollars)

Source: ICD Statista, 2023.

Iran has one of the world's largest Islamic banking systems, with a well-developed network of Sharia-compliant Islamic banks and financial institutions. Figure 4 shows in 2021, Islamic banking assets in Iran totaled 1,039 billion U.S. dollars. It represents the total asset value of Islamic banks and financial

institutions in the country.

Increasing demand for Sharia-compliant financial products and services, a favorable regulatory environment, and a strong emphasis on Islamic finance education and training have all contributed to significant growth in the Islamic banking industry in Iran over the past several years. In 2021, the total global value of Islamic banking assets was \$2.76 trillion. It represents the global total value of assets held by Islamic banks and financial institutions. In recent years, the global Islamic banking industry has experienced significant growth due to factors such as an increasing demand for Sharia-compliant financial products and services, a favorable regulatory environment, and increased awareness and education regarding Islamic finance.

Multiple factors have contributed to the expansion of the global Islamic banking industry, including the rising demand for ethical and socially responsible investment opportunities, particularly in Muslim-majority nations, as well as favorable demographics and rising prosperity. In addition, many governments around the globe are actively promoting the growth of Islamic finance as part of broader efforts to promote economic growth and financial inclusion.

The Islamic banking industry is anticipated to continue to develop and expand due to a number of factors, including favorable demographics, rising prosperity, and rising demand for Sharia-compliant financial products and services. This presents substantial opportunities for Islamic banking institutions and investors seeking to capitalize on the increasing demand for ethical and socially responsible investment opportunities.

Table 2 shows Descriptive Statistics. The default mean and deviation in the Descriptive statistical table for the first bound variable is Gross Domestic Product (GDP) of 2.54 and 2.114, respectively. The second dependent variable Unemployment, the mean is 1.488, and the standard deviation is 1.210. The third dependent variable Inflation is 9,331 and 3,431 respectively. This low deviation mark for all dependent variables indicates that the value of the data set is close to the mean. It is more likely to be distributed normally. The same applies to independent variables except for the Bank age variable which has a relatively high standard deviation indicating that the data is distributed over a wider range.

Table 2. Descriptive Statistics

	Mean	Median	SD	Min	Max	Obs
Return on Assets	1.385	1.100	3.431	-2.759	5.055	953
Return on Equity	7.314	5.310	1.206	-1.276	8.975	953
Tobin's q	0.246	0.081	0.767	0.000	1.034.	953
Asset Quality	0.001	0.005	0.022	1.290	0.241	953
Total Deposits	7.796	8.306	2.382	-0.002	1.215.	953
Total Asset	8.467	8.630	1.778	3.177	1.257	953
Bank Size	8.696	7.204	7.362	-0.002	1.215	953
Bank age	5.056	2.613	3.526	0.634	2.790	953
GDP	2.547	4.609	2.114	-4.863	3.590	953
Unemployment	1.488	1.729	1.210	-2.407	3.680	953
Inflation	9.331	1.100	3.431	-2.759	5.055	953

Source: Research finding.

The Correlation Matrix (Table 3) displays the Pearson correlation coefficients between explanatory variables. All correlation coefficients are less than 0.90, suggesting that collinearity between variables is not a concern, as suggested by (Gujarati and Porter, 2009). Thus, all independent variables are included in the model (Gujarati and Porter, 2009).

Table 3. The Correlation Matrix

	Variable	1	2	3	4	5	6	7	8	9	10	11
1	Return on Assets	1										
2	Return on Equity	0.009	1									
3	Tobin's q	-0.014	-0.060	1								
4	Asset Quality	0.024	-0.086	0.068	1							
5	Total Deposits	-0.033	0.028	-0.108	-0.199	1						
6	Total Asset	-0.053	0.033	-0.112	-0.224	0.711	1					
7	Bank Size	0.120	0.028	-0.108	-0.199	0.800	0.811	1				
8	Bank age	-0.033	0.057	0.032	-0.287	0.373	0.358	0.35	1			
9	GDP	-0.002	-0.039	-0.012	-0.010	0.014	0.013	0.13	0.373	1		
10	Unemployment	-0.027	-0.003	-0.057	0.033	-0.051	-0.091	-0.04	0.014	0.047	1	
11	Inflation	0.071	-0.060	0.068	-0.199	0.711	0.611	0.12	-0.051	-0.017	0.089	1

Source: Research finding.

Table 4. The Influence of Macroeconomic Variables on Islamic Banks

Variable	Model 1	Model 2	Model 3
	GDP	Unemployment	Inflation
Return on Assets	-8.250 (0.000) *	0.006 (0.295)	-0.230 (0.247)
Return on Equity	1.670 (0.006)	0.005 (0.709)	-0.076 (0.176)
Tobin's q	2.840 (0.003) *	0.061 (0.816) *	-0.232 (0.794) *
Asset Quality	4.900 (0.130)	14.841 (0.097)	7270 (0.809)
Total Deposits	0.015 (0.033) *	0.342 (0.621)	0.031 (0.024) *
Total Asset	66210 (0.758)	-9910 (0.095)	4.580 (0.818)
Bank Size	2423 (0.042) **	0.055 (0.032) *	0.013 (0.452)
Bank age	0.034 (0.040) *	0.150 (0.672)	0.523 (0.852)
Constant	2.620 (0.000)	7.124 (0.000)	6.943 (0.000)
R Square	0.431	0.201	0.319
F Stat (<i>p-value</i>)	15.874	5.147	3.891
Obs	953	953	953

Source: Research finding.

Note: ***, **, and * indicates significance at the 1%, 5% and 10% levels, respectively.

In this section, we examine the relationship of Islamic banks to GDP, Unemployment, and inflation. Table 4 shows the results of Ordinary Least Square (OLS) estimates, we find that Return on Assets, Tobin's q, Total Deposits, Bank Size, and Bank age affect GDP. This is in line with (Kantharia and Biradar, 2023; Khatri Chettri, 2022; X. Li and Wye, 2023; Mahmood et al., 2019; Prenaj et al., 2023; Tiwari et al., 2023).

Return on Assets (ROA) is a financial metric utilized to assess the profitability of an Islamic bank, as it pertains to the capacity of the institution or company to generate income from its owned assets (Aslam and Haron, 2020; Buallay, 2019; Musleh Alsartawi, 2019; Tabash, 2019; Ur Rehman et al., 2022). A strong correlation exists between the Return on Assets (ROA) of Islamic banks and economic growth, as measured by the Gross Domestic Product (GDP). The ROA of Islamic institutions is generally enhanced by robust economic expansion,

as evidenced by skyrocketing GDP growth rates. This is as a result of increased business expansion and investment opportunities created by stable economic conditions. On the contrary, periods of economic contraction or recession are characterized by a decrease in business activity and investment prospects, both of which can exert adverse effects on the return on assets (ROA) of Islamic banks. Banks' credit risk and asset integrity are additionally impacted by the state of the economy. Credit risk is typically diminished in a stable economy due to the increased capacity of businesses and individuals to fulfil their financial commitments. However, credit risk may increase during economic downturns as a greater number of borrower's struggle to repay their loans. Understanding and monitoring macroeconomic indicators, such as the expansion of the gross domestic product, is thus essential for gaining a deeper understanding of the financial stability and performance of Islamic institutions.

Tobin's q , a notion in economics that was initially proposed by James Tobin, examines the correlation between the market value of a company and the expense associated with physically replacing its assets (Alaali, 2020; Dao and Nguyen, 2020). A value of one or greater for Tobin's q signifies that the market assigns a greater worth to the assets of the company in comparison to their tangible replacement cost. On the contrary, when Tobin's q is below one, the asset is valued by the market at a level below its tangible replacement cost. The relationship between Tobin's q and GDP is economically significant. A higher value of Tobin's q signifies an increased valuation of the company's market share, which in turn encourages the company to allocate resources towards new ventures. Consequently, this investment may have an effect on economic expansion, as measured by GDP. Furthermore, a low q value for Tobin may serve as an indicator that businesses are capable of enhancing their productivity and efficiency, thereby generating added value and influencing microeconomic growth that contributes to macroeconomic expansion or GDP. Therefore, by utilizing Tobin's q , one can gain not only an understanding of the value of a company, but also the impact that its investment decisions may have on the GDP-measured economic growth.

The total funds held by consumers and account holders in Islamic banks, which comprise total deposits, exert a substantial influence on economic growth, as evidenced by the Gross Domestic Product (GDP) (Afzal et al., 2021; Batrancea et al., 2022; Yoon, 2021). A significant quantity of deposits signifies the presence of substantial funds within the financial system. If invested in or utilized for consumption, these funds possess the capacity to stimulate aggregate

economic activity. In addition to serving as financial intermediaries, Islamic banks receive deposits from clients in order to finance loans for borrowers. Large deposits enable banks to facilitate a greater number of loans and investments, thereby fostering robust economic expansion. The robustness of the financial system and the availability of adequate liquidity are further evidenced by the substantial Total Deposits, which instill confidence in economic participants. This practice aids in mitigating risk and bolsters confidence when engaging in economic transactions. Furthermore, the level of Total Deposits may be influenced by the interest rate setting and other monetary policies implemented by monetary authorities. This policy influences individuals' inclination to save or invest in banking institutions, thereby contributing to the regulation of the funds accessible for the purpose of bolstering economic expansion. Therefore, insofar as changes in a nation's GDP are concerned, Total Deposits in Islamic Banks are instrumental in influencing macroeconomic conditions, fostering economic activity, and supplying the funds required to support robust economic expansion (Akhter, 2023; Ali et al., 2019; Barik and Raje, 2019; Khatri Chettri, 2022; Mahmood et al., 2019; Olubukola et al., 2021).

The magnitude or scope of Islamic bank activities, commonly denoted as "Bank Size," significantly impacts the economic expansion of a nation, as measured by GDP (Gross Domestic Product). Large banks offer a broader selection of financial products and services due to their increased capacity to finance business entities and consumers. Additionally, they are capable of diversifying their portfolios and managing risk more efficiently due to their ample resources (Al-Harbi, 2019; Goswami et al., 2019; Gupta and Mahakud, 2020; Phan et al., 2019). This enables them to preserve financial sector stability, which positively affects the overall stability of the economy. Furthermore, major financial institutions possess the ability to exert substantial sway over the economy. They may provide assistance to enterprises, infrastructure, and other substantial undertakings that possess the capacity to stimulate economic expansion and generate employment. Moreover, by facilitating more complex financial transactions and granting access to a variety of financial instruments, significant banks contribute to the depth of the financial markets. Large banks cannot only serve as a crucial pillar in mitigating risks during challenging economic conditions, but they can also significantly contribute to the preservation of overall economic stability. Bank Size in Islamic Banks: As a result of its contribution to providing funds, mitigating risks, and supporting

diversified economic activities, bank size has a significant impact on the economic development of a nation, which is ultimately reflected in GDP growth.

There exists a strong correlation between the duration of a bank's operations, referred to as its "bank age," and economic expansion, as measured by the Gross Domestic Product (GDP). Prolonged operation of a bank typically results in the establishment of a robust and reliable reputation within the financial markets (Antony, 2023; Biru, 2021; Gupta and Mahakud, 2020). This credibility is transformed into capital of value, enabling financial institutions to engage in larger-scale transactions and attract additional deposits. Furthermore, banks with a lengthy history possess a robust network and a significant presence within the economy. They may exert significant influence over the allocation of resources and the movement of capital across various sectors of the economy. Additionally, the presence of well-established banks is indicative of their past policies and experiences, which have equipped them to surmount intricate economic obstacles. Additionally, long-established banks can offer additional stability during challenging economic conditions or crises, thereby contributing to the preservation of economic stability as a whole. Therefore, the age of a bank not only influences its credibility and competitiveness, but it can also significantly contribute to the stability and development of the economy of a nation, as evidenced by its GDP growth.

Furthermore, Table 4 above also shows that Tobin's q and bank size affect Unemployment. This is in line with (Aqel, 2022; Đaković et al., 2023; Jadah et al., 2020; Li and Strahan, 2021; Mahmood et al., 2019; Naili and Lahrichi, 2022; Wang et al., 2022).

The unemployment rate has a significant correlation with Tobin's q , which assesses the relationship between the market value of an asset or company and its physical replacement costs. An elevated value of Tobin's q , signifying that the market assigns a higher worth to a company or asset than its tangible replacement costs, could potentially motivate the organization to broaden its operational scope. Adding new personnel is a common byproduct of this procedure, which can ultimately help to reduce the unemployment rate (Coleman and Wu, 2020; Dimand, 2018; Warburton and Booser, 2015). Moreover, Tobin's high q motivates organizations to allocate resources towards the development of more effective production technologies and processes, thereby potentially enhancing labor productivity. This may increase the competitiveness of businesses and decrease production expenses, thereby impacting the unemployment rate in a positive way. Important roles are also played by monetary and fiscal policies, in

addition to market factors. The impact of monetary policy on interest rates on Tobin's q can subsequently have a repercussion on investment rates and, by extension, unemployment rates. The relationship between Tobin's q and the unemployment rate is therefore intricate, as economic, policy, and corporate innovation factors all influence the interplay between the two.

The magnitude of a bank significantly impacts the rate of unemployment within an economy. Prominent financial institutions possess extensive access to a wealth of financial resources and the capacity to extend substantial financing. They can provide assistance to economic initiatives that necessitate substantial capital outlays, generate employment opportunities, or sustain reduced levels of unemployment. Furthermore, diversified credit portfolios enable major banks to extend loans across numerous economic sectors. This implies that banks maintain investments in sectors that may be experiencing growth, thereby mitigating the adverse effects of a struggling sector on the unemployment rate. Additionally, large banks wield more sway when it comes to managing economic fluctuations and recessions. Their capacity to furnish supplementary funding or aid organizations experiencing challenging financial circumstances can aid in alleviating the repercussions on the workforce. Additionally, large banks are frequently regarded as more dependable and stable, which provides businesses with the benefit of obtaining credit facilities. Lastly, certain sizable banks might implement initiatives and programmes designed to reduce unemployment, such as workforce skill-building education or training. Therefore, the magnitude of the financial institution significantly impacts the unemployment rate via an array of mechanisms, including its financial prowess, impact on business cycles, and involvement in social initiatives. Prominent financial institutions exert considerable influence over labor management and employment conditions within the economy.

Furthermore, Table 4 above also shows that Tobin's q and Total Deposits affect Inflation. This is in line with (Akhter, 2023; Ali et al., 2019; Fitri et al., 2020; Khatri Chettri, 2022; Tura, 2022). When Tobin's q is elevated, signifying that the market assigns a greater value to a company or asset than its tangible replacement cost, the organization is probable to be incentivized to allocate resources towards the growth or improvement of its activities. Nevertheless, when considering high inflation, the expenses associated with physically replacing assets can escalate significantly, thereby altering the investment landscape. Businesses might exhibit a greater propensity to allocate resources towards novel endeavors as opposed to substituting or enlarging current assets.

Furthermore, elevated levels of inflation may have an impact on the valuation of corporate assets and stock pricing. An increase in productivity or an increase in the face value of assets may not invariably coincide with a corresponding rise in inflation. This may introduce inaccuracies into the market value of the company, thereby influencing Tobin's evaluation q . Moreover, inflation can influence investment decisions; resource allocation policies may be impacted by the economic uncertainty that is generated by high inflation rates. When this occurs, an investment level determined by Tobin's high q may not consistently correspond to the asset's physical replacement rate. As a result, Tobin's q and inflation are interrelated via a variety of mechanisms that can impact the manner in which corporations assess the worth of assets and determine investment strategies, particularly when elevated inflation emerges as a critical determinant in economic decision-making.

Total Deposits, denoting the sum of money deposited by clientele in banking and other financial institutions, exert a substantial impact on the inflation rate of an economy. The quantity of deposits constitutes a significant component of the money supply of a nation. A significant rise in Total Deposits signifies the presence of substantial funds within the financial system (Abduh et al., 2011; Akhter, 2023; Ali et al., 2019; Ben Moussa, 2015; Fitri et al., 2020; Khatri Chettri, 2022; Tura, 2022; Türsoy and Faisal, 2018). Customers who have made sufficient deposits are more likely to engage in spending and investing activities, thereby potentially stimulating demand for products and services. If this surge in demand is not counterbalanced by commensurate expansions in production and economic output, it may lead to elevated prices and the possibility of inflation. Furthermore, total deposits have the potential to impact monetary policy. Monetary authorities' adjustments to interest rates have the potential to impact individuals' saving and investment choices, thereby influencing the quantity of deposits accessible within the financial system. Moreover, banks' capacity to extend credit and lending is impacted by the substantial volume of deposits. Increased liquidity enables financial institutions to extend more credit to consumers, thereby stimulating economic activity and contributing to inflation. An inflationary pressure may ensue when total deposits expand in tandem with robust economic expansion and lax monetary policy, due to the concomitant surge in economic activity and demand. On the contrary, a reduction in deposits observed during recessionary periods has a tendency to mitigate inflationary forces. Hence, the inflation rate of a nation is significantly influenced by Total

Deposits via intricate interplays among consumer demand, monetary policy, money supply, and banking operations.

6. Conclusion

The study's findings indicate that variables such as Return on Assets (ROA), Tobin's q , Total Deposits, Bank Size, and Bank age exert a substantial impact on GDP. The Return on Assets (ROA) of Islamic banks is a direct indicator of economic growth, demonstrating that the financial success of these banks significantly influences the general stability and expansion of the economy. Tobin's q is a significant factor in investment and business decision-making, and it has consequences for economic growth as shown in GDP. The magnitude of deposits in Islamic banks exerts a substantial influence on the expansion of the economy, so influencing the availability of money, the level of consumer demand, and the formulation of monetary policy. The size and age of a bank are significant factors in influencing economic growth. greater banks have the capacity to offer lending on a greater magnitude, while older banks own established reputations and enjoy trust within financial markets.

These data suggest that the performance of Islamic banks has a substantial influence on economic development, financial stability, and monetary policy. The Return on Assets (ROA) of Islamic banks is a crucial indicator of their ability to earn profits from their assets, which directly impacts a country's economic progress. By taking into account variables such as Tobin's q , Total Deposits, Bank Size, and Bank age, economic and monetary policies can be formulated and fine-tuned to optimize the potential for economic growth. Furthermore, the study offers a more profound comprehension of the interconnectedness between macroeconomic indicators, such as inflation, unemployment, and GDP, and the performance of Islamic banks. This can aid economic and financial authorities in making better knowledgeable decisions about monetary policy, banking regulation, and economic development strategies. The findings of this study have important implications for both policy makers and professionals in the financial industry, especially those working in the Islamic banking sector. These insights can be utilized to enhance operational and risk management techniques, as well as uncover investment opportunities that can potentially contribute to economic growth.

A suggestion for future research is to expand the analysis to encompass additional economic variables that could potentially impact the success of Islamic banks, such as interest rates, political stability, and global influences. Moreover,

taking into account these variables within the framework of several financial markets or encompassing multiple countries can yield more complete insights. Moreover, future investigations could delve into the interplay among these parameters and examine how the intricate dynamics among these variables impact the long-term success of Islamic banks.

Statements and Declarations

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- Conflict of interest: The authors declare that there is no conflict of interest.

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