

Is the Islamic Banking Sector Effective on the Volume of Industrial Production? Empirical Evidence from Turkiye Compared to Conventional Banking

Hasan Kazak¹, Muhamad Abduh², Ahmet Tayfur Akcan³, Mehmet Akif Gunduz⁴
and Ugur Adiguzel⁵

ABSTRACT

The objective of the study is to examine the possible impact of Islamic banks (IBs) on industrial production capacity in comparison with the conventional banking sector. The study is based on the case of Turkey and the impact of trade credits provided by the conventional and IB sectors on selected industrial production volume indices between 2005Q1 and 2022Q4 is analyzed using the Fourier Quantile Granger Causality Test. The results of the empirical analysis clearly reveal that there is a mutual causality relationship between the conventional banking sector and the sectoral indices analyzed in the study. When the situation in terms of Islamic banking is evaluated, it is determined that its power to influence the real sector has not yet been established. However, there is a causality from the real sectors to Islamic banking and the relevant real sectors serve the development of the Islamic banking sector. The results of the study show that the field of IB in Turkey is still in its infancy and has not yet had the expected impact. The findings of the study also suggest that real sector support is needed in the early stages of IB development. As seen in the literature reviewed in this study, the developing field of IB is likely to have a positive impact on the volume of industrial production in the future. For all these reasons, it is recommended that policymakers make the necessary arrangements for the development of the IB field.

Keywords: Islamic banking; Participation banking; Industrial output; Financial development; Quantile Granger Causality Test

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¹ Finance Banking and Insurance Department, Necmettin Erbakan University, Konya, Turkiye. E-mail: hsnkazak@gmail.com

² Universiti Brunei Darussalam, Gadong, Brunei Darussalam.
E-mail: muhamad.abduh@ubd.edu.bn

³ Department of International Trade and Finance, Necmettin Erbakan University, Konya/Turkiye. E-mail: tayfurakcan@hotmail.com

⁴ Department of Aviation Management, Necmettin Erbakan University, Konya/Turkiye.
E-mail: akifgunduz@gmail.com

⁵ Department of International Trade and Finance, Necmettin Erbakan University, Konya/Turkiye. E-mail: uadiguzel@erbakan.edu.tr