

Accepted Manuscript

Title: Inflationary Shocks and Real Output Growth in Nine Muslim-Majority Countries: Implications for Islamic Banking and Finance

Author: Akhand Akhtar Hossain



PII: S1049-0078(16)30046-X
DOI: <http://dx.doi.org/doi:10.1016/j.asieco.2016.06.004>
Reference: ASIECO 1028

To appear in: *ASIECO*

Received date: 26-2-2015
Revised date: 25-6-2016
Accepted date: 28-6-2016

Please cite this article as: & Hossain, Akhand Akhtar., Inflationary Shocks and Real Output Growth in Nine Muslim-Majority Countries: Implications for Islamic Banking and Finance. *Journal of Asian Economics* <http://dx.doi.org/10.1016/j.asieco.2016.06.004>

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

Inflationary Shocks and Real Output Growth in Nine Muslim-Majority Countries: Implications for Islamic Banking and Finance

Akhand Akhtar Hossain

Newcastle Business School, The University of Newcastle, NSW 2308, Australia

Email: akhtar.hossain@newcastle.edu.au

Phone: 61-2-49218842 Fax: 61-2-49216911

Abstract

Low and stable inflation is important for maintaining the viability of Islamic banking and finance within a dual banking system. Inflationary shocks when transmitted to real output growth cause a shift of investment to fixed return products as a hedge against the uncertainty of returns on equity investment under Islamic profit-loss sharing contracts. This study examines the transmission of inflationary shocks to the real economy for nine Muslim-majority countries (Bahrain, Bangladesh, Egypt, Indonesia, Iran, Malaysia, Pakistan, Saudi Arabia, and Turkey) that have introduced Islamic banking, all except Iran within dual-banking systems. A structural vector autoregressive (SVAR) framework is deployed to understand macroeconomic relationships using annual data from the late 1970s to 2014. The key finding is that inflationary shocks affect real interest and exchange rates which in turn impact real output growth. The paper argues that the absorption of inflationary shocks in real interest and exchange rates is the outcome of rigidities in nominal interest and exchange rates within repressed financial systems. Policy regimes that allow for greater adjustment in nominal interest and exchange rates under a deregulated financial system would offer better shock absorption capacity which would lead to less volatility in inflation, real interest and exchange rates, and real output growth. The resulting more stable macroeconomic environment would be more conducive to the development of an Islamic financial sector that would promote economic growth.

JEL: E31, E41

Keywords:

Inflation volatility

Islamic banking and finance

Muslim-majority countries

Rule-based monetary policy

Flexible exchange-rate system

Boom-bust cycles

Download English Version:

<https://daneshyari.com/en/article/5087204>

Download Persian Version:

<https://daneshyari.com/article/5087204>

[Daneshyari.com](https://daneshyari.com)