Are Shariah Banking Financing Patterns Procyclical?

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Abstract

The recent financial landscape has seen remarkable growth in Islamic banking and finance (IBF). This study investigates the impact of Shariah-compliant finance strategies on economic growth cycles in Asian & Gulf nations, specifically Indonesia, Bangladesh, Saudi Arabia, Oman, and Kuwait. Previous research on the relationship between Islamic financing and economic growth has yielded conflicting results. Data from 2013 to 2021 will be used, with GDP as dependent and various Shariah financing techniques as independent variables. Data is sourced from the IFSB database and the World Development Indicators. Regression analysis will assess the correlation between variables. Hausman test results indicate that the fixed effects model is the most appropriate choice for examining the pro-cyclicality of Shariah banking financing patterns in Asian countries. The findings suggest a significant influence of Islamic financing practices on Asian nations' economic growth cycles. The study emphasizes the importance of considering diverse funding options offered by Islamic banking to support economic growth and contributes to existing knowledge by shedding light on the effectiveness of specific funding strategies in stimulating economic growth. These insights can guide financial institutions and policymakers in leveraging Islamic finance to foster economic advancement.

Keywords: Murabaha, Ijarah, Economic Growth, Shariah Financing, Pro-cyclicality.

Introduction

The financial sector's role in the business cycle has been studied for centuries, but its significance has increased in recent years (Lowe & Stevens, 2006). Islamic banking emerged 14 centuries ago with the rise of Islam, broadening the field of finance between the 1940s and 1950s. In the 1970s, Islamic scholars and jurists pledged to outlaw interest-based businesses and terminate contracts under the definition of Riba (interest) (Alshater et al., 2023). Within the context of today's finance, the expansion of Islamic banking and finance has been extraordinary.

A nation's financial system has a significant impact on its economic growth (Ryu et al., 2012). Shariah-compliant banking, based on Islamic principles, has evolved significantly in the global financial sector. Islamic banks prioritize human welfare, equitable resource distribution, and inclusive economic growth (Mannan, 2015). The Islamic banking and finance (IBF) industry contributes significantly to global product creation, delivery, and services. The IFSI is huge and expected to be worth US $3.06 trillion in 2021 from US$ 2.75 in 2020 (IFSB, 2022).

Furthermore, Saudi Arabia, Kuwait, and Qatar are among the top five nations with the highest proportion of Shariah-compliant assets, with the sector expected to reach $4.94 trillion by 2025.

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Kuwait has the highest percentage of Islamic banking globally, at 39% of all banking assets (IFSB, 2017). According to the value of assets, Saudi Arabia's banking sector ranks second among the Gulf Cooperation Council (GCC) states, and the Kingdom's Islamic banking sector is one of the best in the area (Khan et al., 2018). Its expansion is rapid. When it comes to Islamic countries, Pakistan, for example, is one of the world's fastest-expanding IBF sectors, followed by Saudi Arabia, Iran, and Malaysia (Qadri & Bhatti, 2020).

Shariah, an Arabic term meaning "spring of water," refers to various aspects of Islam, including religion, country, way of life, Sunnah, and Minhaj. Islam is considered the source of spiritual and religious development for humanity (Akhtar et al., 2022). The modern practice of Islamic banking is booming, with many Muslim and non-Muslim countries establishing banking systems in line with Shariah provisions (Odeduntan et al., 2016).

The financial system is excessively procyclical, unnecessarily amplifying swings in the real economy (Borio et al., 2001). Pro-cyclicality refers to financial institutions' tendency to amplify economic cycles through procyclical lending practices, potentially affecting financial stability and the real economy. This phenomenon is crucial in Shariah banking financing, especially in Asian countries. The relationship between the banking system and the economy is mutually reinforcing (Ascarya et al., 2016).

Since the 2008 global financial crisis, there has been a surge in interest in alternative financial systems that offer stability and moral standards, emphasizing the need to evaluate global banking systems' resilience (Beck et al., 2013). Amid this scrutiny, Islamic finance emerged as an alternative banking model guided by the principles of Shariah law. Unlike conventional banking systems, Islamic finance prohibits interest (riba) and emphasizes risk-sharing and ethical investment practices (Askari et al., 2010).

Shariah-compliant banking is popular due to its commitment to Islamic principles, such as risk-sharing, moral investing, and interest prohibition. The Islamic banking sector is fundamentally pro-cyclical, with a history of economic and financial disasters, indicating its pro-cyclical nature. According to (Ambali & Bakar, 2014), the financial sector's insecurity, which is at the root of the recession's problem, is always linked to inadequate management of bank lending operations. Islamic banking and finance vary from traditional banking and finance in that they incorporate an underlying religious governance framework into the financial system's structure (Aliyu et al., 2017).

Islamic banking certainly has great prospects in the global financial landscape (Ali, 2023). The growth of the Islamic banking business in numerous countries has strengthened their economies and resulted in widespread development. It implies that such financial projects have enormous potential. The cyclical nature of bank lending has long been a topic of interest in economic research (El-Hawary et al., 2007) Implementing a strong Islamic banking sector ensures economic progress. The researchers were unable to produce any data to show the superiority of interest-free banking over conventional financing.

According to the findings, the growth of Islamic banking has a favorable impact on economic growth. Islamic banking is thought to be better than traditional banking, particularly in times of recession or sudden changes in the economy (Wijana & Widnyana, 2022). Recent research shows that Islamic money has been expanding worldwide. Islamic finance has been expanding at an average annual pace of 15% to 20% (Abedifar et al., 2016). Furthermore, compared to conventional banking, Islamic finance is more resilient to significant financial shocks during the Global Financial Crisis (GFC) (Bitar et al., 2017). This brought Islamic finance to the attention of academics, professionals, and decision-makers alike.

The Islamic banking model has shown success in Asian regions, particularly the Middle East, subsequently expanding to other Asian and European countries, enhancing economic growth and financial stability (Ali, 2023). Previous studies have highlighted the significant role of Islamic banks in the economy's pro-cycling but have largely overlooked their role in financing and economic links. Later, studies try to investigate whether Islamic banking practices are better off in terms of performance, financial position, and risk level than conventional banking practices during economic crises (Massah & Al-Sayed, 2015). Islamic banks have benefited from their distinct operations in the real sector, which has helped to stabilize economies and have been less affected by the financial crisis (Bourkhis & Nabi, 2013). But neither study made a particular assessment of how pro-cyclical Shariah banking funding trends are.

Across Asia, countries such as Oman, Kuwait, Bangladesh, Saudi Arabia, and Indonesia have witnessed substantial growth in Islamic finance, with Shariah-compliant institutions playing an increasingly influential role in their financial systems (Abduh & Omar, 2012). Islamic finance, renowned for its ethical principles and distinctive financing methods, has gained attention for its cyclical behavior in Asian economies, influencing scholars, practitioners, and policymakers (Grira & Labidi, 2021).

This study highlights two Shariah financing techniques, including Murabaha and Ijarah to examine their role in economic growth. There is a dire need to assess their influence on the economic growth patterns in Saudia Arabia, Bangladesh, Kuwait, Oman, and Indonesia (Pratami, 2022). According to Islamic finance theory, economic development has a direct link with the real economy and it also promotes social justice (Yazdan & Hossein 2012).

Figure 1: Theoretical Model

| Independent variables | Dependent variable |
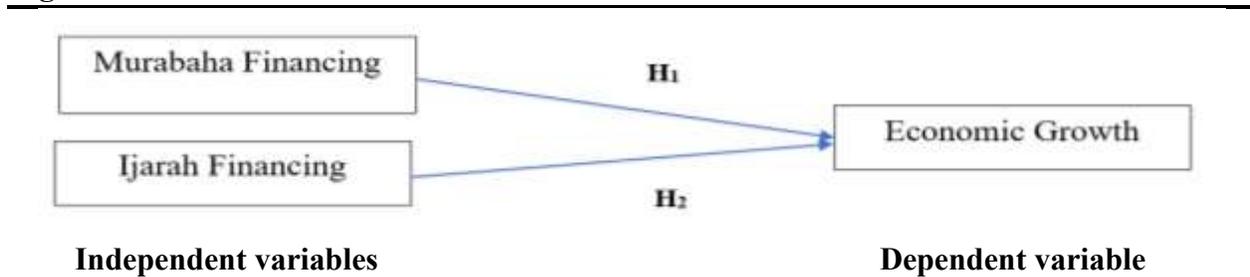
Literature Review
Murabaha
The word *"Murabaha"* comes from the Arabic word "Ribh," which in Islamic law refers to rewards. This refers to the cost of goods sold plus a profit margin. A *Murabaha* is a contract for purchasing and selling that specifies the acquisition price and margin that the seller and the buyer have agreed upon. By considering the costs that the seller has incurred, the agreed-upon profit is considered when calculating the profit from the selling price (Ubaydillah & Rahayu, 2022).

The fundamentals of markup involve a buyer purchasing an asset at a price and selling it for profit, with the seller disclosing the cost and profit percentages. This involves a dual element of confidence between buyer and seller. As demand for shariah-compliant goods increased, some clients struggled to pay in cash, necessitating installment payment plans. In this case, the sale price is postponed until a later date and will be paid in installments by an established payment plan that is typically connected to the revenue source of the individual or company (Nor et al., 2020).

The Murabaha has significantly affected the economy because the use of Murabaha as a tool for online trade transactions considerably aids in the activation of e-commerce services, which have recently grown in importance in the worldwide financial environment (Khotijah & Iswanaji, 2020). There is a distorted relationship between Murabaha finance and economic development (Arifa et al., 2022). According to Muslim opinion, buying and selling are necessary since without them, human life cannot be established (Humaira, 2020).

Murabahah financing involves selling and purchasing products at their original price plus additional negotiated profits, with vendors disclosing the price and profit amount. It allows cash and credit payments but differs from credit, which involves borrowing money and charging interest. Murabaha transactions, unlike credit, involve the sale-purchase of products that yield profits, not borrowing money and charging interest (Ratnasari et al., 2021).

Murabahah financing for microfinance must be able to enhance members' lives and elevate their standard of worship (Ratnasari et al., 2021). In its current incarnation, murabahah has emerged as the most widely used financing method among Islamic banks (Bulutoding et al., 2021). However, some studies have shown a negative association, while others find it to be negligible (Bulutoding et al., 2021).

Murabahah financing poses two hazards for financial institutions: buyer cancellation, which is not guaranteed, and losses due to diminished worth due to storage damage. Other potential risks include carelessness or default, comparative pricing fluctuation, member rejection, and the need for a written contract for commodities to be considered member property. Members have complete control over the asset, including the option to sell it, making default risk high (Alam et al., 2022). Additionally, members may reject the provided items due to transportation damage. The risk of these risks is high due to the inherent risk of a comparative pricing fluctuation (Khalil et al., 2022) and the lack of control over the asset. Hence, its hypothesized that;

H₁: Murabaha financing has a significant effect on economic growth.

Ijarah

Al ajru, or al awadhi, is the root of the term al ijarah. Ijarah is a type of contract in which ownership of the items is not transferred until rental earnings are paid; instead, usufructuary rights over goods and services are transferred. In the context of Sharia banking, an ijarah is a leasing agreement whereby a bank or other financial institution lends equipment to one of its clients in exchange for the assurance of a fixed fee (Iswanaji et al., 2022).

Ijarah, an Arabic term for rent collection and leasing, involves a financial institution purchasing an asset and leasing it to a project developer at a fixed rate (Khan et al., 2022). This arrangement is similar to a financial lease, with the lessor becoming the owner of the asset during the lease term (ur Rehman et al., 2024). The bank purchases a necessity for a customer or client, who is then leased the item for a predetermined period. At the end of the lease, the lessee pays the remaining balance and becomes the owner of the item. Malaysian Islamic banks use this idea of an Islamic banking contract to offer a variety of Shari'ah financing choices (Yahaya et al., 2023).

Ijarah is the leasing of an item, where the lessor owns both the risk and benefit of the ownership. Similar to a financial lease, it involves a financial institution acquiring an asset and leasing it to a project developer at a predetermined rate. The lessee pays the remaining amount and takes ownership of the item. Relevant literature includes the Ijarah contract study. A requirement purchased by a bank for a customer or client is referred to as leased when it is leased to him for a certain period and the lessee pays the outstanding balance on the predetermined price at the end of the term to become the owner of the item (Aburime & Alio, 2009).

Ijarah is a type of lease in Islam, where a customer chooses equipment to be leased back to them for a predetermined period. The lease and terms are predetermined and agreed upon. Islamic banks often use this tactic when customers decide to purchase an item. For home-buying services, the "Ijarah with diminishing Musharaka" contract is often used. This involves a bank reducing its equity in an asset by the extra capital the customer pays. As the customer contributes more capital, the client's ownership of the asset increases, while the bank's ownership falls. The asset is fully transferred to the client. Both forms of Ijarah contracts have minimal liquidity risk due to the inclusion of the selling price in rental installments.

An ijarah contract is a lease agreement between a lessee and the lessor, where the lessee uses an asset for a predetermined period in exchange for a predetermined rental payment. This is similar to a hire-buy arrangement in traditional banking, where a bank leases an asset to a person or business for a specific monthly payment over a predetermined period. What distinguishes an ijarah from a traditional lease (Morni & Lahsasna, 2019).

IFIs frequently use a variety of ijarah contracts, including ijarah thumma alba, ijarah muntahiya bittamleek, ijarah mausufah bi zimmah, and ijarah wa iqtina. These contracts end with a transfer of ownership of the leased asset from the lessor to the lessee at the end of the contract tenor, either by gift from the lessor to the lessee or by payment from the lessee to the lessor (Morni & Lahsasna, 2019). Hence, its hypothesized that;

H₂: Ijarah financing has a significant effect on economic growth.

Methodology

The research design is based on statistical methodology, with demographic research conducted using quantitative methods. The study uses descriptive research, including standard deviation and mean, and correlation analysis for inquiry. The dependent variable is economic growth, while the independent variable is Murabaha and Ijaraha data sources, proxies, and measurement.

This study's descriptive and quantitative characteristics stem from the fact that the hypothesis model was tested empirically This study uses empirical research and secondary data from online sources like IFSB and World Meter to examine the impact of Shariah financing techniques, Murabaha and Ijarah, on economic growth (Khan et al., 2017). The research aims to illustrate the connection between these techniques and economic growth using both quantitative and descriptive methods and to explain the total percentage impact of Murabaha and Ijarah on economic growth. For this study, the countries (Saudia Arabia, Bangladesh, Kuwait, Oman, and Indonesia) whose data was available were selected as a target population. The group of five countries named "Asian & Gulf countries" was taken as a sample from the population. Based on the following criteria; the sample selection of the current study was based on:

i.   Asian & Gulf countries whose data were available on the World Bank Indicators and IFSB from 2013 to 2021.
ii.   Data on countries were collected on an annual (yearly) basis.

This research aimed to examine the relationship between Murabaha and Ijarah variables on GDP per capita using correlational research methods. The descriptive analysis of these variables was used to determine the effect of independent factors on GDP per capita. The study aimed to test the suggested link between the variables and determine the degree of correlation. To fulfill the study objective most appropriate time horizon was selected. In this case, the time horizon was 10 years, spanning the years 2013 to 2021. The cross-sectional time horizon was employed since this research is restricted to a certain period.

This study uses panel data analysis to gather historical or current information for evaluating findings. Panel data, also known as longitudinal data, fluctuates over time and across cross-sections. Lastly, target countries (Saudi Arabia, Oman, Bangladesh, Kuwait, and Indonesia) were selected from the website (Worldometer, 2023). Various statistical techniques, including descriptive analysis, correlation analysis, fixed effect models, random effect models, Hausman tests, and regression, were applied to study the relationship between the variables.

Table 1: Study variables measurement

Sr no	Variables	Type	Proxy	Sources	Measurement
1	Murabaha	Independent	% of total financing	IFSB	(Value of total 10 years Murabaha financing / total value of 10 years economic growth) *100
2	Ijarah	Independent	% of total financing	IFSB	(Value of total 10 years Ijaraha financing / total value of 10 years economic growth) *100
3	Economic growth	Dependent	Natural log of GDP per capita	WDI	US dollar

Data Analysis

Table 2: Descriptive & Correlation Analysis

	LnMurf	LnJarf	LnGDP
Mean	4.3014	3.6265	3.9849
Standard Deviation	1.0519	0.8962	0.5101
LnMurf	1.0000		
LnJarf	0.6771	1.0000	
LnGDP	-0.6277	-0.0274	1.0000

The study reveals significant variability in financing patterns and economic performance across Asian & Gulf countries, highlighting the potential pro-cyclicality of Shariah banking financing. The correlation analysis reveals a strong negative relationship between Murabahah and GDP, with a coefficient of -0.6277 indicating a decrease in economic growth as Murabahah values increase. This robust association is supported by the magnitude of the correlation coefficient (-0.6277). Conversely, the correlation analysis between Ijarah and GDP shows a moderate negative relationship, with a coefficient of -0.0274, suggesting a decrease in economic growth as Ijarah values increase. This weaker association is compared to the Murabahah-economic growth correlation. The negative correlation coefficients in both cases indicate an inverse relationship between the variables, suggesting that changes in Murabahah and Ijarah 44. values are associated with corresponding changes in GDP. However, caution is advised when interpreting correlations, as it does not imply causation. Further analysis is needed to establish any causal connections between the variables.

Table 3: Random Effect ML Regression

Random Effect ML Regression			No. of observations: 45
	Coefficient	**P > |z|**	No. of groups: 5
In Murf	0.1789	0.026	Prob > chi2 = 0.0219
Ln Jurf	-0.2080	0.004	
_cons	3.9695	0.000	

The model's goodness of fit is indicated by the log-likelihood value of 37.211213, with greater log-likelihood values indicating a more favorable fit. The model's overall significance is assessed using Prob > chi2 (0.0219) and LR chi2(2) (7.64), with a 5% level of statistical significance. The coefficients for ln MURF and ln IJARF are -0.2080315 and 3.969511 respectively, representing the value of ln GDP per Capita when all independent variables are 0. The intercept term represents the value of ln GDP per Capita when all independent variables are 0.

The P-values help determine the significance of each independent variable in explaining the variation in the dependent variable (ln GDP per Capita). A lower P-value indicates higher statistical significance and stronger evidence against the null hypothesis, while a larger P-value indicates a lower level of statistical significance and less evidence against the null hypothesis. The intercept term (_cons) is highly statistically significant when all independent variables are zero, with a 95% confidence interval between 3.518536 and 4.549496.

Table 4: Random Effect GLS Regression

Random Effect GLS Regression			No. of observations: 45
	Coefficient	**P > |z|**	No. of groups: 5
In Murf	0.1313	0.114	R-squared: 0.4966
Ln Jarf	-0.1693	0.025	Prob > chi2 = 0.059
_cons	4.0340	0.000	

The model's goodness of fit is indicated by the log-likelihood value of 37.211213. Greater log-likelihood values imply a more favorable fit. Prob > chi2 is (0.0219) and LR chi2(2) is (7.64) respectively, which assess the model's overall significance. In this instance, the model is statistically significant at the 5% level overall since Prob > chi2 is less than 0.05. The coefficient of ln MURF is 0.1789605. A one-unit rise in ln MURF corresponds to a 0.1789605 unit increase in ln GDP per Capita, holding all other variables equal. The coefficient of ln IJARF is -0.2080315; a one-unit rise in ln IJARF corresponds to a -0.2080315 unit fall in ln GDP per Capita, holding other variables constant. _cons is 3.969511. The value of ln GDP per Capita when all independent variables are 0 is represented by the intercept term. The errors connected to each estimate of a coefficient are called standard errors. They show how accurate the estimated coefficients are. Each coefficient's corresponding p-value is given in the P>|z| column. They put the theory that the coefficient is equal to zero to the test. The values of P>|z| of ln MURF and ln IJARF are 0.026 and 0.004 respectively. Gaussian denotes a Gaussian (normal) distribution for the random effects; the value of sigma_u is 0.6196036. This is the random effect's estimated standard deviation, the value of /sigma_e is 0.073964. This represents the residual error term's standard deviation. The rho value is 0.9859503. This is the estimated intra-class correlation coefficient (ICC), which shows how much of the overall variance can be attributed to variance at the group level. Overall, even after

taking into consideration random effects, this study indicates that lnMURF and lnIJARF are both significant predictors of lnGDPperCapita.

Table 5: Fixed Effect Regression

Fixed Effect Regression			No. of observations: 45
	Coefficient	**P > |z|**	No. of groups: 5
In Murf	0.2131	0.012	R-squared: 0.5919
Ln Jarf	-0.2357	0.002	Prob > chi2 = 0.0086
_cons	3.9231	0.000	

The study examines the impact of two independent variables (ln MURF and ln IJARF) on the dependent variable (ln GDP per Capita) within each group. The independent variables account for around 22.16% of the variance in ln GDP per Capita, with the variance resulting from group differences being around 66.22%. The total explanatory power of the independent variables is represented by the R-squared (0.5919). The overall statistical significance of the model is demonstrated by the F-statistic (5.41) and the accompanying p-value (0.0086), both below the conventional significance level of 0.05.

The coefficient for ln IJARF is statistically significant at the 5% level, with a 95% confidence interval spanning from -0.3823869 to -0.0890964. The null hypothesis, which states that the coefficient is equal to zero, is strongly refuted by the evidence. The coefficient of ln MURF has a 95% confidence interval ranging from 0.0502395 to 0.3760068, indicating a 95% confidence interval around which the true impact of ln IJARF on ln GDP per Capita lies.

The fixed-effect model predicts a 0.2131232 unit rise in ln GDP per Capita for every unit increase in ln MURF, and a -0.2357417 unit drop in ln GDP per Capita for every unit increase in ln IJARF. The predicted value of ln GDP per Capita when all independent variables are zero is represented by the _cons intercept, with an estimated standard deviation of 0.71961076 and an intra-class correlation coefficient of 0.98905332.

Table 6: Hausman Test

Hausman Statistics	
Prob > chi2	0.0004

The Hausman test results offer valuable insights into the choice between fixed effects (FE) and random effects (RE) models for research on the pro-cyclicality of Shariah banking financing patterns in Asian countries. The test compares the coefficients estimated from both models to determine if the differences are statistically significant. The results show that the random effects model has a coefficient for ln MURF of 0.1313343, while the fixed effects model has a coefficient of 0.2131232 and a coefficient of -0.2357417. The difference between the coefficients indicates whether the variables are better explained by the random effects or fixed effects model. The standard errors for ln MURF and ln IJARF in the FE model are 0.0206983 and 0.0213962, respectively. The Hausman test statistic, Chi2(2) = 15.63 with a p-value of 0.0004, indicates that the differences between the RE and FE models are statistically significant. The fixed effects model is preferred over the random effects model, as it accounts for country-specific factors influencing the relationship between Shariah banking financing patterns and economic cycles across Asian & Gulf countries.

The regression equation for the research article on the pro-cyclicality of Shariah banking financing patterns in Asian countries can be formulated as follows:

Economic Growth $=\beta 0+\beta 1\times\ln\text{MURF}+\beta 2\times\ln\text{IJARF}+\beta 3\times$Control Variables$+\mu i+\varepsilon it$

Where:

- Economic Growth represents the dependent variable, which reflects the economic growth of Asian countries.
- ln MURF and ln IJARF denote the independent variables, representing the natural logarithms of Murabaha and Ijarah financing patterns in Shariah banking, respectively.
- Control Variables encompass other relevant factors that may influence economic growth, such as GDP per capita, inflation rate, and government spending.
- $\beta 0$ represents the intercept term, capturing the baseline level of economic growth when all independent variables are zero.
- $\beta 1$, $\beta 2$, and $\beta 3$ denote the coefficients associated with the respective independent variables, indicating the magnitude and direction of their impact on economic growth.
- μi represents the unobserved country-specific effects, which are accounted for by the fixed effects model to control for heterogeneity across countries.
- εit denotes the error term, capturing unexplained variations in economic growth that are not accounted for by the independent variables and country-specific effects.

This regression equation allows us to examine the extent to which Murabaha and Ijarah financing patterns in Shariah banking contribute to economic growth in Asian & Gulf countries while controlling for other relevant factors and country-specific effects.

Conclusion

The study represents a critical turning point in the investigation of Islamic banking financing practices and their possible influence on economic expansion in the various economies of Kuwait, Oman, Bangladesh, Indonesia, and Saudi Arabia. We find ourselves compelled to consider the many facets of our findings and their wider implications for academia and policymaking as a scholar who are heavily involved in the study of finance and economics.

The study explores the relationship between Murabaha and Ijarah financing and economic growth in Asian countries. Descriptively, Murabaha financing is widespread, while Ijarah financing is less common, indicating diverse behaviors impacting economic growth. The Hausman test suggests a fixed effects model is more suitable, revealing country-specific factors affecting the relationship between Shariah banking financing and economic cycles. All models agree that ln MURF and ln IJARF are vital for predicting ln GDP per capita, with random effect models emphasizing ln IJARF and fixed effect models giving equal weight to both variables. Correlation analysis highlights a strong negative link between Murabahah and GDP, and a moderate negative link for Ijarah. Panel regression confirms the significant impacts of both Murabahah and Ijarah on GDP, stressing the importance of tailored approaches to assess Islamic finance's influence on Asian economies.

Although our results provide insightful information on the dynamics of funding patterns in Islamic banks, they also highlight significant issues and suggest directions for further investigation. Our study's main weakness is that it only looks at two variables (Murabaha and Ijarah) which may not fully represent the range of Islamic financing. Future studies should examine other factors like Istisna, Musharakah, Mudarbah, and Sukuk to give a more thorough knowledge of the complexities of Islamic banking practices and how they affect economic growth.

The study emphasizes the importance of regulatory frameworks and legislation tailored to the unique characteristics of Islamic banking. As Islamic banking continues to gain popularity

globally, governments must adopt a comprehensive approach that promotes innovation, consumer protection, and financial stability. Regulatory actions should focus on ethical behavior, risk-sharing, and transparency to boost stakeholder confidence and support the sector's long-term viability. The study provides insights into the dynamics of Murabaha and Ijarah financing modalities, which can guide investment decisions and regulatory decisions in Islamic finance. Further empirical studies and multidisciplinary academic partnerships are needed to understand the complexity of Islamic finance and its potential for equitable economic growth.

This research has numerous applications in the real world. The insights offered can help financial institutions, particularly those that adhere to Shariah, optimize their financing strategy to reduce pro-cyclicality and promote economic stability. These results can be used by policymakers to create regulatory frameworks that encourage banks adhering to Shariah to implement counter-cyclical policies, resulting in a more robust and inclusive financial sector that promotes sustainable growth. Furthermore, increased knowledge of the relationship between Shariah banking financing patterns and economic cycles among investors and stakeholders can help to better guide risk management techniques, corporate finance strategies, and investment decisions, thereby bringing stakeholders' interests into line with larger economic goals.

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