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The Impact of Financial Inclusion on the Economic Growth of Pakistan: Evidence from Pakistan

Abstract: *The core objective of this research work is to explorer the link of financial inclusion with the economic growth of Pakistan. The data for this research is too collected from the time period of 2010 – 2021. The main dependent variable of this research study is economic growth (% GPD OF Pakistan). Financial inclusion was measure through the financial inclusion indicator. The research works found that financial inclusion has positive and significant influence on economic growth. The research work suggest to the policy maker that accelerate the financial inclusion inductors and enhance economic growth.*

Key Words: Financial Inclusion, Economic Growth and Pakistan

Introduction

The globe's population is 7.6 according to the figures, evinces in March 2018, there is only 2.7 adults approached financial facilities (Demirguc-kunt, levine Ross 2008). According to the 2020 projects of financial inclusiveness defined financial inclusion as the right to use to quality financial facilities throughout the globe after the provision by the financial intermediaries with a useful way, affordable amount, honors and nobility. In the competitive financial market, the intermediaries provides their financial services to its customers, a survey conducted in the year 2011, the center of financial inclusion extended that the customers of the intermediaries should be financially cultured (Gardeva & Rhyne, 2011).

The financial inclusion and deepening are used as the synonyms of each other but both terminologies seem to be similar but have difference. Financial inclusion is the provided facilities by the financial bodies to society while deepening is the increasing ratio of the GDP or price-index through the supply of the money and also refers to the liquidity of the money. As much liquid money available in the economy it shows continuous growth in the economy of a country. It also has a significant role in the hazard decreasing and weakness aimed at deprived groups and enable individuals and households to approach to the elementary services such as; education, health and protection which are the elements that reduce the poverty. While the financial deepening can occurs without financial inclusion when the volume of the financial streams increase while just a small amount of the populace takes part. The basic and essential process is to increase financial institutional mediations or involvements in the financial structure / system (Ardic & Damar, 2006).

In the developed economy financial system has its essential role while in the modern era the theories stress the important role to approach and contact to financial facilities. The basic purpose of the provided financial services is to take place a transaction safe, cheap, and quick when needed

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and also evade the barter system and cash payment where these transactions does not includes mentioned qualities.

According to the state bank of Pakistan financial inclusion is the pathway towards the development of the economy that enables individual and organizations to properly access the financial products which includes investment, savings, financing and insurance facilities. Supported long-term financial advancement at both the household individuals and the whole economy wise, these dimensions relies upon access to financial related products and services. Access to financial facilities is an essential driver of expanded household Individual's income and the country economy increases the global economy (Stijn Honohan, & RojasSuarez, 2009).

Financial Inclusion

Financial inclusion is a debated phenomenon among scholars in the current time. Financial inclusion is the provision, and usage of quality financial services by individuals and firms which is the measures of the developed economy process. Financial inclusion leads to reducing poverty, develop the country's economy by enabling the country's individuals to make easier, safer and quicker transactions and also includes investment in many sectors such as; enterprises, businesses and the education (Beck, 2007; Bruhn, 2014). Similarly, SBP identify financial inclusion as the provided services and their use by an individuals and firms where the services include financing, credits, transactions, savings and insurance related services which is the need of the community as a whole (SBP).

Past studies identifies financial exclusion as the processes or the provided services to individuals and the community of a society to prevents them from the financial system (for the detail see; leyshon and thrift, 1995), Hanning and Jenson (2010) BIS (2010), in other words, failure of a society from the accessibility to the financial services and financial system (Caro et. al, (2005). Similarly, Convoy (2005) identifies financial exclusion as; the poor society and disadvantaged community of a country who are not aware to gain advantages by accessing to formal financial services. Mohan (2006) identifies the measures of financial exclusion; unawareness of society to contact the financial facilities delivered by the financial organizations of a country to society in the form of cheaper, easy, secure and suitable financial products. Furthermore, the Indian government committee defines financial inclusiveness is the practices for the accessibility to the provided financial facilities by the economical Instructions as the suitable credit needed by a community of the society with an inexpensive price (Rangarajan Committee, 2008 & nirupam et al 2009).

Financial inclusion in actually a process to ensure the easily availability, accessibility and use of financial facilities, and instruments by individuals of the economy. Martinez (2011), accessibility to financial facilities is an imposed governmental policy tool to face and accelerate the economic growth of a country by allocating its dynamic assets and reduce the cost of the principal assets. Financial inclusion also refers the improvement in the day by day financial management. In most of the country's financial inclusion recognized as a preferred policy and initiated to regulate its financial system and improves it management and services provided day by day with the help of governmental authorities and banking industry regulators. In leading countries as the United States community reinvestment Act (1997) initiated to regulate the framework which is required from the banks and prohibition to not only offer credits to the rich community but also to target the poor neighborhoods in the area where the banks operates. While France legislation on financial exclusion (1998) stress on the rights of an individual who have accounts in the banks, in the case of the United Kingdom an undertaking strength constituted in 2005 to monitor the financial inclusion expansion. In other emerging nations as India the reserve bank initiated for financial inclusion in 2005 and also the central bank of Nigeria as a regulatory authority initiated for the Micro financing.

Financial inclusion is the accessibility and usage of inexpensive financial facilities and goods such as, e-banking, Point of sales (POS), m-banking and automated teller machines (ATMs) etc. low income individuals and the needy people of society. The basics of financial inclusive services is to access the provided goods and facilities of the business sector in the country and also regulatory authorities initiated strategies to improve their services as credit providence and savings services to the individuals that attain benefits from the financial inclusion. By providing these financial inclusive services also have some other benefits to the deprived people of the society as well as the banking system get advantages. Services as loan providence, profit maximization, the quality services provided to the customers, security from the dimensional restrains improves the domain of the banking sector as well as improve the profitability of the banks which always depends on the usage of the provided services. Society can be empowered through financial inclusive services when the population of a community aware and have capability to use financial services in an effective way.

Economic Growth

The economic growth of a country is the growth in their productivity and services in a specific time period. Economic growth can be calculated from different factors as, per capita income and consumption, unemployment rate, inflation and GDP where GDP and inflation is the comprehensive and real factors. There are such huge numbers of macroeconomic factors can be utilized to check the development in the economy. Stability, harmony, and human prosperity are effectively recognized by checking the economy of any nation (Rostow, 1990).

During a stable economy of a country and having fast growth rate and competition their targets by accomplishing their projects successfully then the country is known to be stable which shows the better and more peaceful life of a country's citizens. The economy contains both microeconomic and macro-economic variables and there are different tools and techniques by which the economic performance of a country can be checked. Where GDP is the most known source to measure the country economy and also announced an authentic source. In actual, the GDP shows the country's good production during the year and also the services provided in the country. When the GDP grows means the country's economy is blooming or growing (Chow & Li, 2012).

Sampson, (2012) the development in the economy can be defined in term of its objectives. The most common objective which is well known is job creation and wealth creation and quality of life improvement. Development of the economy is the process that influences the country economy through the demand and welfare of the society. In a larger sense the development of the economy covers three key area; governmental policies that govern economic development with respect to its objectives and control inflation, grow employment rate and viable growth, and other infrastructural policies and programs that includes; making building and highways, parks for the society and provision of access to medicine and medical services. Other services and programs that improves the business environment through specific policies regarding business, finance and marketing, neighborhood countries development, business preservation and improvisation, technological exchange, etc. the main purpose of economic growth is to improve the economy of the society through improvisation in business activities and environment, and job creation to the unemployed degree holders, and extend the tax to enhance the quality of life.

Financial Inclusion and Economic Growth

Financial inclusion is an issue of the modern world which aims and addresses to compete the lack development of the economy and the confirmation to get benefits from the developed economy. Globally, this issued been discussed more recently in the sense to decrease inequality, the high altitude of unemployment, continuous

poverty and an increase in suitable human development in society.

Sarma and Pais, (2010) identifies that financial inclusion is a system which allocates efficient resources to facilitate and reduce the potential reduction in the capital cost, also facilitates and improve day to day financial means through its management, and reduces the financial informal means and resources. Inclusive finance also improves the household savings of the community, develops accessibility to the credits, provision of capital to invest, promotes private enterprises, and let the community to invest in their own interest businesses and for their families. It Is observed that financial inclusiveness is the important key to ensuring the development of the economy and financial performance growth of the country (Trkiki & faye, 2013), further, increasing in the financial structured resources that can develop the savings of the community which shows a dynamic part in the expansion of the economy (Joseph & Varghese, 2014).

Financial inclusion is an effective way to promote the saving culture and mechanism of payment by solidification of the financial mediator's resources base and all these are the characteristics and objectives to economic growth. Financial inclusion is the mobilization of savings in the community besides the promotion of financial literacy in the rural area's population and also a guidance to secure them from undecided and deceitful situations during economical transactions by availing financial services, hence it is the improvement of the community's livelihood.

Through financial inclusion the economy can grow up, also develop money creativity and develop economic growth accordingly. Rajan and Zingales, 2003; Levin and Zervos, (1998); present that financial inclusion is the accessibility to financial facilities which improve the community's living standard of life, the welfare of the society and these are the factors which promote economic growth. The saving mobilization also fruits can get from financial inclusiveness as a survey conducted on the role savings in the growth of the economy where it is concluded that with comparing to low saving rates of the country have low economy as compared the high saving rates. World Bank hypothesis that the policies of a country that promotes the savings of the country will lead to a high growth rate (World Bank, 1993).

Financial Inclusion and Economy Growth in Pakistan

Financial inclusion is assistance and its objective is to achieve smoothing in income, its consumption, financial stability and empowerment of the community. Regarding *the shariah* prohibition of interest there is a need of innovation in the financial modes and its structure which follow *shariah* rules. For the purpose Islamic banking system been established in 1960 but the continuous growth started onward 2002. Recently, the Islamic banking sector works wisely in the East, Middle East, Central Asia and South Asia. Even though Islamic banks been established in the majority of non-Muslim Countries as; Europe and Northern America.

In 1980 the first step was taken by Zia-ul-Haq to establish an Islamic banking system in Pakistan but that step on that time was not succeeded. The second step taken to maximize the *shariah* scholars that they can under understand how to regulate, supervise, product designing and audit with respect to *shariah* rulings and had progress while having rapid growth in the banking sector growth. In a decade, the Islamic banking market achieved 11.7% shares in Pakistan where lender and borrower share the profit and loss according to *shariah* rulings with the rightful approach (sheikh 2018).

Agreeing to the report of Pakistan's state bank (SBP) the most recent figure in September 2017 the Islamic banking sectors, 18.1% return on equity been achieved which shows a solid commitment of the government to promote Islamic banking (sheikh 2018). Further, for the establishment in the Islamic monetary structure and its excellence in the centers and academics

been established across the country that they can supply quality of human resources to serve and works for the growth of this industry.

For seeking a better future, it is an opportunity to the community to access financial services that leads to financial stability, one way to be approached is depositing safely in the banks for their difficult times (Han & Melecky, 2013). Deposits in the banks not only lead to the financial stability of an individuals but also contributes in the growth of the economy in the country and through easy access to financial facilities that needed to the people also a way to uplift the community or society and improve their quality of life. In the modern era there is a need of savings, loans on time when needed, payments and transferring money is the necessities of the people. Governments are interested to get people involves by having access to the banking sector for the purpose government have more concern to innovate the products of banking and provide more services to the poor society as well. Recently, the government announced that workers who are in foreign countries should send their remittances to their families through banking channel rather than the use of any other service and the reason given as to stabilize the country's economic growth. Further, micro financing is another way to involve the unbanked community with financial institutions.

Financial inclusion is the key for economic growth as United Nations recently recognized and implemented in the Sustainable Development Goals (SDGs) which have much more importance in the expansion of financial inclusion. Worldwide there are approximately 2 billion individuals that doesn't having proper accessibility to financial services as, insurance, credits, savings etc. there are 25 countries who have mainly concerned to involve the community in financial services Pakistan is included in that countries where 5.2% unbanked population exist.

State Bank as a regulatory authority of Pakistan and a policy maker promoting financial inclusion as a policy for the growth in the economy, the main known objective of financial inclusion is the provision of financial services widely across the country, having access to those services and through financial inclusion achieves the required growth in the economy (SBP). Purpose to achieve the objectives, SPB driven a strategic plan for the financial inclusion divided into three approaches; that covers responsive and new regulations, the developed market information, arrangement and aptitude structure of institutions and their clients. In Pakistan there is 60% of the residence population has fundamental financially attached with financial institutions and as a whole Pakistan is a part of the south Asian countries and have its own contribution in the collective economy while having a massive market, dynamic resources and economical potential.

The financial inclusive framework and strategy by Pakistan's state bank (SBP) for financial intuitions explains that there is a need of; to expand the accessibility to digital transaction accounts (DTAs), the transactions should feasible, motivation to the clients and improve the digital structure of payments. Expand the area of transaction points and sure accessibility; launching new products should be profitable well developed and awareness of the community for whom new product innovated (SBP).

Questions of the Study

1. Is Bank Branches having any relationship with the growth of the economy?
2. Are Deposits of the Bank's having any relationship with the growth of the economy?
3. Is Remittances through Banks having any relationship with the growth of the economy?
4. Is SMEs Financing of the Banks having any relationship with the growth of the economy?

Objective of the Study

5. To explore the relationship in the Bank's Branches and the Growth in the economy.
6. To explore the relationship in the Deposits of Banks and the growth in the economy.
7. To explore the relationship in Remittances through Banks and the Growth in economy.
8. To explore the relationship in the Financing to SMEs of the Banks and the Growth in the economy.

The previous studies conducted where the researchers relates financial expansion and the growth in the economy (Odedokm, 1989; Ighadaro and Oriaki, 2011). Expansion in the financial sector is the key cater in the growth of an economy which have indirect relationship with poverty reduction and inequity while provided Financial facilities improves the low standard life style which the contribution of welfare for the society, (Hanning and Jansen, 2010). As such financial inclusiveness and provided services is therefore a drive for the economic growth. These studies show the importance and suggest conducting studies on the Financial expansion and the growth in the economy.

Pakistan perspectives, scholarly works on the impact of financial inclusion and economy growth and development is very scares regarding Islamic banking sector so here is an attempt for the contribution in the literature by conducting a relevant study. In the study we will inspect the influences of the financial inclusion on the growth in the economy of Pakistan which is an essential area and gap of the study which should be addressed. The study aims to undertake and check and inspect the effectiveness of financial inclusiveness on the economy growth of Pakistan over ten (10) year period of time from 2008 to 2017.

The determination of this research study is to address the Islamic banking influences of Pakistan in the financial inclusion, And to find the impact of financial inclusion on the Pakistan's growth in the economy.

Pakistan perspective, financial inclusion, its importance and the economy growth relationship were under research, only a decade or less. This study is the addition where, it is aimed to explore the relationship in the financial inclusion and the economy growth. Financial inclusion has its gains which is affects finance of a country which is directly proportion to the economy development.

Financial inclusion is relatively wider concept to the monetary development that affects the growth of the economy positively (Odedokm, 1989; Ighadaro and Oriaki, 2011). Pakistan's perspective it is a new concept while globally it is discussed and researcher has studies for only a decade. This study will have a contribution in the studies and will make a path to the practitioners and academia which will acknowledge them from their policies regarding to the practices towards the financial inclusion and economic growth.

The study includes five chapters; first chapter contains introductory words of the study and the second chapter having the relevant studies and on the base of those texts we designed our assumption. The third chapter is the methodology; where the model is discussed as which variable been selected and how it measures. The fourth chapter is analysis and empirical results and on the basis of chapter four we concluded our results which is mentioned in the fifth chapter and the chapter is named by conclusion.

Literature Review

Ogunleye (2009) investigated the connection

between financial inclusion and the stability of the financial system. He came to the conclusion that the former stimulates the latter by making the financial development more consistent. Inclusion in the financial sector is critical to the maintenance of economic participation because the development of the financial sector is the primary driver of economic growth because it encourages the accumulation of savings and investment in the productive sector. (Johnson & Nino-Lazarawa 2009).

Literature on the economic development, association between Economic growth and financial deepening, strategies and its models is available only in the advanced economies by which the country can achieve their complementarities. Hence, it is somehow new in the established economies as well under establishment where to examine the relationship between financial inclusion and economic development, it is needful to attract the researchers toward the financial inclusion and economic growth. Here we can measure financial access of individuals who has bank account.

Access to financial services does not relate to the growth of an economy as well it empowers the poor by demolishing inequality and improves welfare in the society (Demirguc et al, 2008). In a wider sense, creating small business has an impact positively on the enhancement of human development indicators as; health, nutrition and education-that is to reduce poverty and inequality. On that financial inclusion have contribution in economic development (CIMP, 2011), obstfield (1994) and ghali (1999).

According to Swarmy (2010), the majority of economists are in agreement that the expansion of financial markets is beneficial to the economy. In the meantime, a few studies have empirically examined the effectiveness of financial inclusion approach on the expansion of the Nigerian economy. Utilizing cross-country and time-series analyses which employ industrial and firm level data to assess the mechanism that links finance and economic growth, Levin (2005) relates financial services provided by financial interrnediaries and financial markets on first order affects long run economic growth. In 2003, Rajan and Zingales pointed out that it is not possible to refute the idea across countries' processes where long-term economic growth is a significant component to be interpreted by differences in their financial development. They said this idea cannot be refuted.

It's been acknowledge by Mohan (2006) that, when there is growth in the financial services it is beneficial for the customers, regulator bodies and grows economic growth as a whole. Access to a bank account is not only a safe means to be accessed for transferring or save funds but also to use other convenient means as low cast means of transactions. Moreover, transparency in transaction inflows makes the easy way to monitor and make transaction compliance an easier to customers. Banking sector efficiency and growth boost GDP growth. Several scholars found that the size of the banking sector could predict future growth, especially for long-term projects. (Vaona, 2005). Alen et al. (2013) found that Kenyan commercial banks can empower the poor by improving financial access to a family. Project G20 has rigorously tested three financial inclusion indicators. Financial services, uses, quality, and delivery (GPEI, 2012).

According to Drehmann et al. (2002) there is a negative relationship between POS dispersion and money demand. A significant amount of studies have been done on diffusion of payment technologies which is one that is related to technical changes in economics that adopted in industry as a specific technologies and also investigated its determinants (Hannah, 1987 & Humphrey, 1996). Switching to new forms of payments will cost both document risk and cost reductions. Consistently, Columba (2009) the transaction costs can be decrease with the Spreading of ATMs. It is the availability of payment means assessed by technology, efficiently and effectively payment process. Additionally, Brito and Hartley (1995) claimed the clients and customers gain from use of cards in term of a reduction in the opportunity cost of holding cash.

With the view above, Williams et al. (2017)

explored the role of financial inclusion and reduction in poverty as well as economic growth over the time period of 2006 to 2015. Where the indicator used for the financial inclusion of the banks were; ATM, branches, borrowers, depositor, while Government impact peroxide by domestic credit to GDP, as control variable their result states that all the indicators (variables) have impacted positively on the country's economic growth.

Okoye et al. (2017) examined the impact of financial inclusion on Nigeria's GDP, assessed by deposit ratio and bank branch network. The outcome boosted economic growth. Joseph and Varghese study banking inclusion and Indian economic growth. (2014). From June to November 2013, they studied five Indian private sector banks and five state banks operating in rural and semi-urban areas. Number of bank branches, onsite and offsite ATM uses, debit cards, and credit cards per customer were financial inclusion proxies. Their study shows that many Indians still lack financial services despite open finance.

Toxopeus and Lensink (2007) study directs the importance of studying the effects of remittances in developing nations, remittances is one of the main inflow source in term of size in the developing nations, frequently, it is more over substantial than office development assistance, which have robustly positive relationship that effects the economic growth. The experts found limited remittance data, which is a drawback. Thus, foreign remittances should improve.

Financial and banking development are positively correlated and strongly affect economic growth. (Levine 2003). Thus, remittances may boost economic growth, financial inclusion should be improved, and studies should be done to prove this theory.

Qayyum, et al. (2008) examined transfers and Pakistan's economic growth. The scholar analyzed 1937–2007 ARDL data to determine how financial inclusion affected economic growth and poverty. Remittances favorably and significantly affect economic growth.

Ben Naceur (2014) examined central Asian, Caucasus, and MENAP countries' low SME access to funding. The region's financial sector had the lowest SME loan percentage in the world at 10%. The global proportion is lowest. Risk allowances and strict collateral requirements motivate regional banks to lend to SMEs, which lowers the ratio.

Alfilabi, (2013) For 1980–2010, Nigerian commercial banks examined the impact of SMEs loans on economic growth. SMEs output and funding at 1% critical level positively and significantly affect Nigeria's economic growth. Small and medium businesses in developing countries worry about financing. (osoba, 1987). Asta and Zaneta (2010) studied the effects of SMEs on economic growth in Lithuania, focusing on processes, tendencies, and views and requiring effective SMEs performance measures.

Kim et al. (2018) found that financial inclusion boosts economic growth. Financial inclusions were crucial to financial sector study. Financial inclusion boosts economic growth, reduces poverty, and increases disparity, according to Anwar and Amrullah (2017). Mandel and Seydl (2016) define financing as asset velocity used in economic activity. Islamic and conventional banks conduct these economic activities. (Daly & frikha, 2016). According to Vaithilingam et al. (2003), bank funding of the private sector increases real income.

Financial inclusion improves financial security, according to Mandel and Seydl (2016) and Demirguc and Klapper (2012). Chen (2008) found that GDP/capita is volatile and Deposit/GDP is weakly relevant. Investment growth rate is also insignificant. AbuBader and AbuQarn (2008) found that financial inclusion boosts economic growth. Cameron and et al. (1967) found that the financial system positively affects production, which boosts economic growth.

Brigirmna and Hongy (2018) examined financial inclusion and economic growth from 2004 to 2016. Data research used ARDL. Long-term financial inclusion was linked to Rwanda's GDP. Shabbir (1997) examines financial intermediation and economic growth. Financial intermediation by investments efficacy boosts per-capita growth. Xu,Z (2000) examined how financial expansion affected domestic spending from 1960 to 1993. Financial stability has a good effect on economic growth, domestic investment, and financial development.

Financial inclusion, governance, and economic growth in Nigeria are positively correlated with infrastructural investment, according to Omojolaibi (2017). Governance indices and commercial bank deposits boost per capita GDP, and financial inclusion reduces the wealth gap. Financial inclusion can boost economic progress, according to Hariharan and Marktanner (2012). Financial inclusion was strongly correlated with total factor output, suggesting it can create capital. Financial inclusion boosts capital, entrepreneurship, and economic growth.

Sharma (2016) examines financial inclusion and economic growth from 2004 to 2013. Financial inclusion—availability, adoption, and depositing—is positively correlated with economic growth. Emerging countries have a weak financial inclusion indicator-positive relationship. (Migap et al, 2015). Michael and Sharon (2014) study Nigeria's financial system, financial inclusion, and economic growth. Their results suggest financial inclusion boosts economic growth.

Evans (2015) examines how economic growth and financial development affect financial inclusion using 2005–2014 data. Economic growth favorably and significantly affects financial inclusion. Financial inclusion enchantment may rely on economic and financial development. Inflation also adversely affects financial inclusion, though not across all factors. Financial equality is not positively correlated with deposit interest rates. African inclusive banking systems are unaffected by low deposit rates. Internet use boosted financial equality. Like other factors, adult literacy is statistically essential for financial inclusion. Islamic banking also increases financial equality.

Financial inclusion boosts OIC economies, according to M.Kabir Hassan et al. (2017). There are mutual fatalities and dynamic panel estimations.

Khan Arshad (2008) estimates Pakistan's financial development and economic growth, finding a positive connection between financial development, investments, and economic growth in the short and long term. In the long run, real deposits have no effect on the economy, but in the near term, they do. The low real interest rate relative to financial development indicator suggests funds availability is more essential than cost. The author suggests confident, committed liberalization to achieve lasting economic growth in Pakistan.

Yusof and Rafindadi (2013) examine the long-term and short-term effects of finance development on South Africa's economic growth. The factors' monotonicity is also examined. 1980–2011 data was used.The study shows that an open trade market boosts bank lending to private sectors, which directly affects GDP and long-term and short-term economic growth. South African financial progress and GDP growth are non-monotonic. Short-term effects are negative, but long-term effects are vital because low county production hinders economic growth.

Upadhyaya and Dhungana (2013) found a long-term link between GDP, gross capital formation, broad money, and private sector domestic credit. Broad money had a bidirectional causal connection with GCF and DCPS had a unidirectional relationship. Gross capital formation, broad money, domestic loans to private sectors, and GDP were not causally related.

Financial inclusion was examined by Okoye et al. (2016). Financial inclusion hurts economic growth, but savings help. For 1981–2013, Nkwede (2015) found a negative relationship between financial inclusion and Nigerian economic growth. Aduda and Kulanda (2012) found that financial inclusion is necessary for economic growth because financial security drives financial development.

Yüncü (2007) found good and statistically significant effects of banking and stock markets on developing markets. Banking development, an aspect of financial development, only affects economic growth after a threshold level, according to Cavenaile et al. (2014). Beck et al. (2000b) examine financial intermediary expansion and economic growth. Financial intermediaries positively affect real per capita

GDP growth. Kaushal and Ghosh, (2017) finding shows a long run relation of financial intermediaries with economic growth while in short run, there ia bi-directional relation of the insurance companies and economic growth of the country and there is no such impact of the banking sector development on the economy.

Triner (1996) examined industrialization-era finance and economic growth. Real bank deposits positively correlate with economic output. Demetriades and Luintel (1996) also noted that financial deepening policies may impact economic growth. Swamy (2012) found that emerging countries benefit from bank-led financial inclusion.

Ahmed and Ansari (1998) studied how financial sector development affects economic growth in India, Pakistan, and Sri Lanka. The study used pooled time-series and cross-sectional data. Regression equations and Granger causation tests analyze data. Causality analysis shows finance sector drives economic growth. Regression analysis shows a positive and significant effect of financial sector development on economic growth in selected nations. Angadi (2003) found that financial sector progress affects Indian economic growth. Bigirimana & Hongyi (2018) examined Rwanda's growth and financial inclusion. They found a long-term connection between GDP, ATMs per adult and per square km, bank branches per adult, outstanding loans, deposit accounts per adults, and outstanding deposits per adults.

Schmeidel, et al. (2012) found a positive link between retail payment and economic growth. Card payments have a stronger relationship, transaction technology is associated with real economic, and cheque payments have low macroeconomic effect. 1995–2009 survey size from 27 European countries. According to (Shihadeh, et al 2018) find significant impact of financial inclusion on profit and performance of bank, the data collected from Jordanian banks for the period 2009 to 2014, they used different indicators SMEs deposits and credits, ATM s, ATM services, and new services, and credit cards as predictors to investigate that which variable have significant impact on bank performance in Jordan.

Hypothesis of the Study

Based on the above literature this research uses the following hypothesis.

H_1: There is positive association between BB and Economic growth.

H_2: There is positive association between DB and Economic growth.

H_3: There is positive association between RB and Economic growth.

H_4: There is positive association between SMEF and Economic growth.

Theoratical Framework

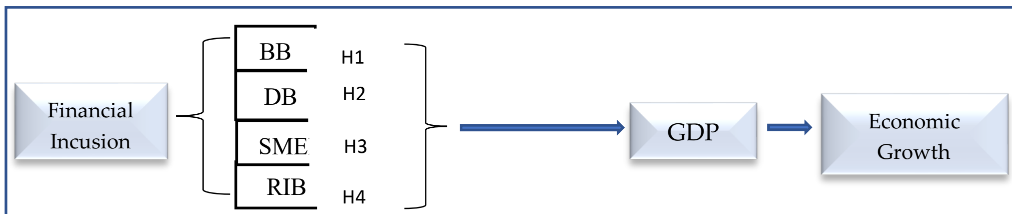

Figure 1

In the framework the economic growth is the dependent variable while financial inclusion is an independent variable. For the financial inclusion in the light of past literature we selected the indicators as; bank branches, deposits of the banks, remittances through banks and financing to the SMEs (for further see Toxopeus, 2007, Joseph 2014, Okoye et al. 2017 Ghali, 1999).

Methodology

Research is the development through an innovative contribution to the existing studies (Kothari, 2004). In other words, Research also an organized attitude and systematic way that approaches regarding overviews and invention of a theory. Research is a way to solve the problem whenever an issue occurs, generate hypothesis with respect to the problem, for the purpose collect the data, through analyzing that data will leads you to assured conclusion. The conclusion could be in the form solution related to the problem or will generate a theory.

Kothari (2004) defines research design as a theoretical framework as a way to conduct the study which includes the way of data collection, measurement of that data and further to analyze. The definition explains the approach and methodology for the collecting needful information and its analysis. The study is exploratory and carries Meta-Analysis (Shields, 2013).

In the field of research, statistically Meta-Analysis is an evidence and combines quantitative studies. This pattern using for combining and contrasting the multiple studies result (Greenland, O'Rourke 2008). The purpose of conducting this study, I have to investigate the relationship between the financial inclusion and economic growth of Pakistan. The meta-analysis tool will be used which known and accepted research tool in the economic and financial phenomena's, which been proven as useful for the evaluation of the policy (Stanley, 2001). With this perspective meta-analysis is a suitable approach and most effective statistical tool for the correlation of the dependent and independent variable.

Kothari, (2014) answering the questions which been generated as assumptions to conduct the study, to examine new evidence through collection of an information(s) known as data collection. In this study data will be collected for the period of 10 years from 2008 to 2017; the first source is bank annual reports and the second source is the State Bank of Pakistan (Islamic banking annual bulletins). The study is quantitative where the data is Secondary (panel). And the purpose of the secondary data collection is easily availability and not consume much time rather than to collect the primary data which is expensive and consume much time (White, 2010)

The study is quantitative in nature and mainly focuses on the Islamic banking industry which is the population of the study. The study sample comprises of 4 full fledge Islamic banks functioning in Pakistan and along with conventional banks Islamic windows.. Further, the data is collected from the annual financial reports of respective banks and the state bank (SBP) over the time period 2008 to 2017. In the study the relation among the variables is checked on the E-views software.

The secondary data is investigated using descriptive statistical analysis, Multiple Regression analysis and correlation analysis. The framework includes certain financial inclusive indicators been selected for our model as variables; branches of the banks (BB). Deposits of the bank (DB) and the remittances from other countries through the banks (RB), the banks also financing to small medium entrepreneurs.

Data Analysis

Before the analysis of data statistically the data should be reviewed complete and consistent as Mugenda (1990) the data analysis will give meaningful reports when the data collected properly, clean, and analyzed orderly. In this study the secondary data will be used as mentioned and the data will be analyzed by using the descriptive statistical approach, regression, and correlation. Further, before using E-views to analyze the data Microsoft office will be used to transform the data in the suitable format and after applying E-views on the quantitative data that will provide results.

Statistical Model

This study adapts multiple regression model.

RGDP = F (BB, DB, RB, SMEF)

$GDP = \beta_0 + \beta_1 (BB) + \beta_2 (DB) + \beta_3 (RB) + \beta_5 (SMEF) + \mu$

RGDP = Real Gross Domestic Product

BB is the bank's branches

DB is the deposits of the banks

RB is the remittances through the banks

SMEF is the financing of the banks to small medium entrepreneurs.

β is the Intercept Parameter

μ Is the Stochastic Error Term

MEASURMENT OF THE VARIABLES:

GDP Gross Domestic Product of the country

BB log of the total number of banks branches

DB log of the total deposits of the bank for the year

RB log of the total amount of remittances for the year

SMEF log of the total amount of the SME financing for the year

Results and Analysis

Table 1. Descriptive Statistics

Variable	Mean	Min	Max	Std. Dev.	Skewness	Kurtosis
GDP	9.93	9.46	10.37	0.31	-0.20	2.10
Branches	3.97	1.61	6.40	1.26	0.12	2.31
Deposits	16.84	14.23	18.41	1.03	-0.58	1.93
SMEF	19.11	9.20	35.63	5.54	0.72	-1.86
Remittances	9.45	8.77	9.89	0.38	-0.42	2.09

Table 4.1 explains the descriptive statistics of the variables. All the values are on the same rows and in front of the presenting variable. The mean value is the average value calculated for each variable. The minimum value is the smallest value of each variable while maximum value is the largest value of each variable. The standard deviation is the square root of the variance. The skewness explains the asymmetry and the kurtosis explains whether outlier is present or not.

Table 2. Correlation

Variable	GDP	Branches	Deposits	SMEF	Remittances
GDP	1.00				
Branches	0.51	1.00			
Deposits	0.29	0.58	1.00		
SMEF	0.71	-0.43	-0.25	1.00	
Remittances	0.69	0.47	0.19	-0.53	1.00

Table 4.2 explains the correlation of variables between one another. The correlation value between GDP and Branches is 0.51 which explains that there is moderate positive relationship between them. The value of deposits and GDP is 0.29 which explains that there is a weak positive relationship between them. The correlation value between SMEF and GDP is 0.71 which means that there is strong positive relationship between these two and the correlation value of Remittances and GDP is 0.69 which also means that there is strong positive relationship between them. The correlation value of deposits and branches is 0.58 which also means that there is a moderate positive relationship between them. The correlation value between SMEF and branches is -0.43 moderate negative relationships between them. The correlation

value of remittances and branches is 0.47 which means that there is a moderate positive correlation between them. The correlation value of SMEF and deposits is -0.25 which explains that there is weak negative correlation between them. The value of remittances and deposits is 0.19 which explains that there is weak positive correlation between them. The correlation value of SMEF and remittances is -0.53 which explains that there is moderate negative relationship between them. All of the values between variables are less than 0.80 which means that there is no issue of correlation between them.

Table 3. Variance Inflation Factor (VIF)

Variable	VIF	1/VIF
Remittances	2.39	0.42
SMEF	2.27	0.44
Branches	1.84	0.54
Deposits	1.51	0.66
Mean VIF	2.00	

The value of variance inflation factor in table 4.3 explains the multicollinearity of the variables. The variables' VIF values are no more than 10 which means that there is no issue of multicollinearity in them.

Heteroscedasticity

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of GDP

chi2(1) = 3.02

Prob > chi2 = 0.74

Table 3 explains the Hetero-scedasticity of the model. The probability value of 0.74 explains that there is no issue of Hetero-scedasticity because it is more than 5%.

Normality Test (Quantile-Quantile Plot (QQ Plot))

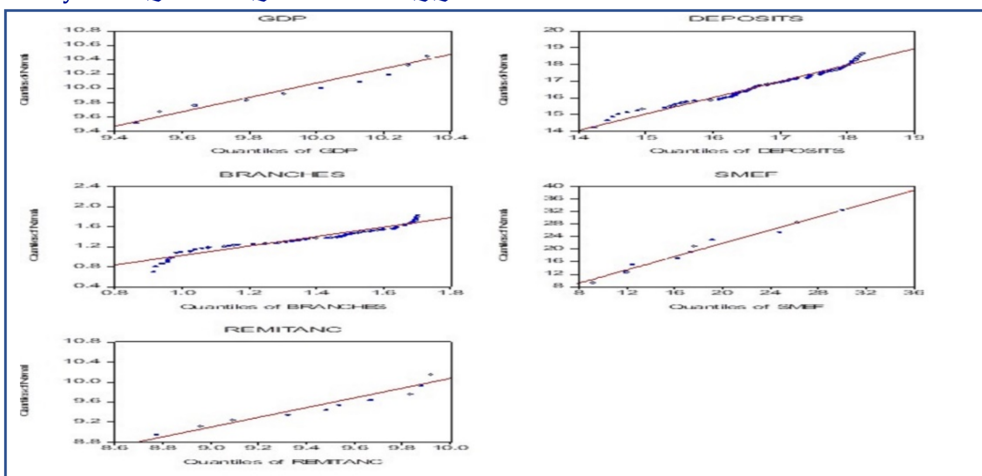

Figure 2

Table 4. Regression

Var	Co-eff	St.-error	T-Stat.	Prob.
Branches	0.05	0.02	2.06	0.04
Deposits	0.12	0.02	3.89	0.00
SMEF	0.08	0.00	2.23	0.03
Remittances	0.83	0.04	2.81	0.00
R-squared	0.79			
Adjusted R-squared	0.77			
P-value	0.00			

Table 4.5 explains the association of dependent variable and independent variables. Probability value of the branches which is 0.04 explains that there is significantly positive relationship of independent variable which is branches with the dependent variable at 5% significance level and the coefficient value explains that if independent variable branches increases or decreases by 1 unit it will affect the dependent variable by 0.05 units either positively or negatively. The probability value of independent variable deposits which is 0.00 explains positive impact of the independent variable on the dependent variable at 1% significance level and the coefficient value explains that if the independent variable increases or decreases by 1 unit it will increase or decrease the dependent variable by 0.12 units. The probability value of independent variable deposits which is 0.03 indicates a significant influence of independent variable on dependent variable at 5% significance level and the coefficient value explains that if the independent variable increases or decreases by 1 unit it will increase or decrease the dependent variable by 0.08 units. The probability value of independent variable deposits which is 0.00 indicates a higher significant influence of the independent variable on the dependent variable at 1% significance level and the coefficient value explains that if the independent variable increases or decreases by 1 unit it will increase or decrease the dependent variable by 0.83 units. The R-squared value is 0.79 which explains the overall fitness of the model since it is near to 1 it means that the model is good fit. The P-value explains the overall significance of the model and since the value is 0.00 which means that the overall model is significant.

Conclusion and Recommendations

This research investigates the impact of financial inclusion on the economic growth with respect to Islamic banking sector in Pakistan. As the prior research studies conclude that inclusiveness of financial sector has a positive impact and a key cater to the economic growth (Kim et al. 2018; Mandel and Seydl 2016; Abu-Bader and Abu-Qarn 2008). Further, it is discussed that where a country have inclusive financial services, economy of that country is improves means by focusing the financial inclusiveness in reward the country economy grows with respect to its indicators. During this study we abled to know that financial inclusion have impact on the economic growth of the country as the previous conducted study (Onaolapo, A. R. 2015). The researcher explains that during this as much financial inclusion grown yearly that much growth occurs in the economy of the country.

Prior studies found linkage between financial inclusion and economic growth (Odedokm, 1989). To know and investigate that is there any impact of Islamic banking financial inclusion on the economic growth of Pakistan. Economic growth is the dependent variable which depends on the Islamic banking financial inclusion as generated hypothesis. For the purpose we select Islamic banking sector of Pakistan as population and sample of the study were 9 banks selected randomly. Statistical package for social sciences (SPSS) used as a statistical tool for analysis.

The results after analysis show significant impact of financial inclusion on the economic growth. The prior studies explained, according to their

generated hypothesis and results there is a significant and positive effect of inclusive financial services and products on the financial performance of the banks. This study is an attempt to check and examine the impact of financial inclusion and economic growth of Pakistan. Bank generally generates much revenue and profit while providing financial products and services in the territory of a country. The variables selected as indicator to financial inclusion and checked their impact on the economic growth. A country banking system shows the economy stability of a country and the innovation in the banking system attract the customers, clients and consumers. Providing new services is catching new customers to the banking net, it is necessary for the financial institutions and also needful to innovate their products and services to improve their banking network and facilitate located people.

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