

**THEORY AND PRACTICE
OF ISLAMIC BANKING
IN PAKISTAN**

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by

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CERTIFICATE

We accept the work contained in this thesis as confirming to the required standard for the degree of DOCTOR OF PHILOSOPHY IN ECONOMICS.

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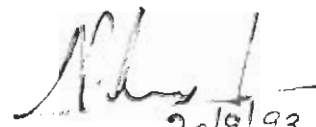
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ABSTRACT

The purpose of this research is firstly, to assess if the process of Islamization of Banking in Pakistan was initiated with proper planning and secondly, to evaluate the implication of elimination of interest from the economy.

In terms of our deductions and results obtained it is evident that since the introduction of Non-Interest Banking system in Pakistan there has hardly been any progress in the sphere of Islamization of banking. The adoption of a fragmented approach to Islamize banking without fully envisaging the complexities of the matter and attending to the prerequisites of the Islamic Economic Order has resulted in only the change of nomenclature and not the essence.

In order to evaluate the implications of equity-based Islamic Banking system we have constructed a macro economic model based upon micro economic foundations, under Keynesian framework. The replacement of interest by variable return has demonstrated the system to be operational with the desirable properties of uniqueness and stability

of equilibrium both in static and dynamic analysis. The system is also more sustainable to shocks and market failures.

The major result of this work has evidently reflected the fact that revolutionary changes require extra ordinary efforts and measures at all levels and a complete support from all segments of the society. Although one of the most important and significant requirements of an Islamic economic system is the prohibition of interest from the economy, it is not the conclusive condition for successful and meaningful operation of the system. What is basically required is honesty and dedication in pursuit of **Divine Will**.