

Impact of Modarba Contract on Current Accounts and Saving Accounts in Pakistan

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Abstract:

Modarba financing is investigated by the famous researcher to relate it with commercial financing. The core essence of the subject matter is Islamic financing and commercial financing. This exploration consists of two independent variables which are current accounts and saving accounts and a dependent variable modarba contract. The 25 banks and companies that are involve modarba financing are considered as a source of data evidence from the state bank that involve in commercial financing and Islamic financing .The unit root test, regression analysis and cointegration is applied for data analysis which indicate the relationship of Modarba contract which is dependent variable and current accounts and saving accounts which depicted by taken as the independent variables in the model for measurement.

Key words: modarba contract, current accounts, saving accounts

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INTRODUCTION

The purpose of conducting the research based on the impact of Modarba financing on current accounts and saving accounts becoming a bottom line issue because we are basically note that the Islamic financing is playing an important role in the recent years in the modern business in terms of making legal profits in legal businesses so that it is effecting on commercial ways of financing that are operated on the commercial banks. We know that the commercial banks are offering the fixed interest rates that comparatively very low with higher level of deposits as compared to Islamic financing that provide a legal profit with equal sharing of profit and loss by investing in specific business [1]. A lot of the customer of the bank owns the current accounts that are willing to get the legal profit according to Islamic rules and regulations but due to unavailability of proper information he is not able to switch. When a customer know about the information that he can increase its wealth by investing in a legal and secure business through Islamic financing he immediately switch to Islamic ways of financing in which Modarba is the best financing that provides best profits to its customers. Many customers in the commercial banks own the saving accounts and they also want legal profits, when they know about these modes of financing they can also switch to Islamic banking [2]. Banks and financial institutions are very efficient in making the profits by the Modarba financing. Profit efficiency in the Modaraba companies of Pakistan is found 87.2%, which suggest that modaraba industry can produce same level of profits with the utilization of 12.8% lower inputs to produce their outputs[3]. The highest profit efficiency is found in Crescent Standard Modaraba, First Al Noor Modaraba and Allied Rental Modaraba with the efficiency score of 96.6%, 94.3% and 92.7%, respectively [4]. The global crisis of finance of 2008 to 2009 has shown that a lot of efforts doing on new thinking and performing analysis in search of an alternative

ways of financing under which the innovative aspects of the international financial system can be created and promoted while the destabilizing and negative aspects are eliminated, or at least their negative impact is minimized. Islamic financial service industry (IFSI) is growing more than 50 % faster than the commercial financing. The average annual growth rate of Islamic finance has been about 20 % [5]. But the total investments of these assets are about \$ 1.8 trillion accounts for an insignificant proportion of the global financial assets. There are two innovative features of Islamic Finance that lending and credibility requirements are (i) the financing is create by real assets such as the financial returns are linked to a real financing sector activity and (ii) there is no any type of fixed and pre-determined rate of returns on any volume of investment such that the investor's return is based on the actual returns of the investor's assets. Financial instruments that are artificially contrived such as Collateralized loans that create obligations to square and cube root are banned in the global Islamic financial system [6]. These two strong characteristics are potentially overcoming the apparent short hand commercial financial system and providing a stability that has proved elusive so far [7]. It is very heartening to note that the UK Government was acting as cohost of the recently World Islamic Economic Forum held in London. The British Government wants to make London as a global hub of Islamic Financial system. Treasury department of UK is issuing the sukuks of worth 200 million pounds becoming the first sovereign to issue an Islamic bond outside in the Islamic world (Thomsan Reuters, 2015). These examples are proving that there exists a money multiplier effect in the international Islamic sukuks market that provides depth to the market [8 and 9].

BACKGROUND, OBJECTIVES AND SIGNIFICANCE OF THE STUDY

Background of this study is we know that Islamic financing is growing now a days in the financial markets instead there is high chance of returns in the commercial markets. People are more interested in the Islamic financing to get their returns according to sharia compliance.

Our main objective is to find out the relation between Islamic and commercial financing, to know about either the growing Islamic financing is also effecting the commercial financing and either it is positively affected or negatively affected.

Significance of this study is that why the people are more interested in the Islamic financing if it is negatively affect the commercial financing and we also know that the factors by which people are attracting towards the Islamic financing.

RESEARCH METHODOLOGY AND SOURCES OF DATA

Research Methodology

The unit root test, vector auto regression and cointegration is applied for data analysis mostly used in econometrics.

Source of Data

The data for the study are time series data covering the time period 1994-2014. They were gathered from the State bank of Pakistan

Methods of Econometrics

To find out Impact of modarba contract on current accounts and saving accounts in Pakistan, in this research we use the time series that is collected from the state bank of Pakistan so we the tool of econometrics are the vector auto regression the investigation of data to check the cause and effect relationship

in the time series data. of data. In 1969 an econometrician whose name was Granger developed a model to check this cause and effect relationship. We also should have to confirm about the stationarity of the data in the time series either the shocks are exist in it or not. The first we have to remove the shocks by using the VAR test and this test also tells us about the impact of independent variable on dependent variable either it positive or negative. Then we apply the cointegration test on the data which tells us the co movement of dependent variables and independent variables.

Unit Root Test

The number of unit roots in each variable is determined by performing the Augmented Dickey-Fuller (ADF) test.

Null Hypothesis: Unit root (individual unit root process)

Automatic lag length selection based on SIC: 0 to 4

Total number of observations: 57

Cross-sections included: 3

Method	Statistic	Probability
ADF - Fisher Chi-square	277.874	0.0000
ADF - Choi Z-stat	-11.0637	0.0000

Probabilities for Fisher tests are computed using an asymptotic Chi-square distribution. All other tests assume asymptotic normality.

Intermediate ADF test results UNTITLED

Series	Prob.	Lag	Max Lag	Obs
MODARBA CONTRACT	0.0018	0	4	21
CURRENT ACCOUNTS	0.0000	4	4	17
SAVING_ACCOUNTS	0.4019	2	4	19

Before the first difference data of modarba contract and current account is stationary and shocks are not exist in the data because their probabilities are less than .05. But the data of saving account is none-stationary because its probability is

greater than .05 so shocks are exist here in the Saving accounts.

Null Hypothesis: Unit root (individual unit root process)

Automatic lag length selection based on SIC: 0 to 3

Total number of observations: 56

Cross-sections included: 3

Method	Statistic	Probability
ADF - Fisher Chi-square	51.1340	0.0000
ADF - Choi Z-stat	-6.04826	0.0000

Probabilities for Fisher tests are computed using an asymptotic Chi-square distribution. All other tests assume asymptotic normality.

Intermediate ADF test results UNTITLED

Series	Prob.	Lag	Max Lag	Obs
MODARBA CONTRACT	0.0020	1	4	19
CURRENT ACCOUNTS	0.0000	0	4	20
SAVING_ACCOUNTS	0.0006	3	4	17

After the first difference data of modarba contract, current account and saving is stationary and shocks do not exist in the data because their probabilities are less than .05.

VAR Test

Included observations: 20 after adjustments, Standard errors in () & t-statistics in [].

LAGS	MODARBA CONTRACT	CURRENT ACCOUNTS	SAVING ACCOUNTS
	Beta 0.215875	0.078013	0.057544
	(0.20345)	(0.09384)	(0.11055)
MODARBA CONTRACT(-1)	[1.06105]	[0.83134]	[0.52053]
	0.208306	0.080541	0.021772
	(0.20065)	(0.09254)	(0.10902)
MODARBA CONTRACT(-2)	[1.03818]	[0.87030]	[0.19970]
	1.482290	0.403879	1.456223
	(1.59754)	(0.73684)	(0.86804)
CURRENT ACCOUNTS(-1)	[0.92786]	[0.54812]	[1.67761]
	3.082533	0.519521	0.569857
	(1.78812)	(0.82475)	(0.97159)
CURRENT ACCOUNTS(-2)	[1.72390]	[0.62992]	[0.58652]
	-2.852281	-0.426945	-0.336130
	(1.33183)	(0.61429)	(0.72366)
SAVING ACCOUNTS(-1)	[-2.14163]	[-0.69503]	[-0.46449]
	0.833826	0.042707	-0.162967
	(0.55526)	(0.25611)	(0.30171)
SAVING ACCOUNTS(-2)	[1.50169]	[0.16675]	[-0.54015]

Hypothesis Assessment Summary

S.NO:	Hypothesis	Beta	t-value	Result
1	H1: There is significant impact of previous year of modarba contract on its current year of modarba contract.	.215875	1.06105	Rejected
2	H2: There is significant impact of previous to previous year of modarba contract on its current year of modarba contract.	.208306	1.03818	Rejected
3	H3: There is no significant impact of previous year of current account on its current year of modarba contract.	1.48229	.92786	Rejected
4	H4: There is significant positive impact of previous to previous year of current account on its current year of modarba contract.	3.08253	1.72390	Accepted
5	H5: There is significant negative impact of previous to previous year of saving account on its current year of modarba contract.	- 2.852281	- 2.14163	Accepted
6	H6: There is significant positive impact of previous to previous year of saving account on its current year of modarba contract.	.833826	- 1.50169	Accepted

Cointegration Rank Test

Included observations: 20 after adjustments

Trend assumption: Linear deterministic trend

Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized CE(s)	No. of Eigenvalue	Trace Statistic	Critical Value .05	Prob.**
None *	0.666967	34.09678	29.79707	0.0150
At most 1	0.436845	12.10652	15.49471	0.1519
At most 2	0.030647	0.622528	3.841466	0.4301

Trace test indicates 1 cointegrating eqn(s) at the 0.05 level

denotes rejection of the hypothesis at the 0.05 level

MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized CE(s)	No. of Eigenvalue	Trace Statistic	Critical Value .05	Prob.**
None *	0.666967	21.99026	21.13162	0.0378
At most 1	0.436845	11.48399	14.26460	0.1316
At most 2	0.030647	0.622528	3.841466	0.4301

Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.05 level

Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegrating Coefficients (normalized by b*S11*b=D):

MODARBA CONTRACT	CURRENT ACCOUNTS	SAVING ACCOUNTS
1.62E-07	-2.31E-06	1.10E-06
1.02E-07	2.42E-07	-3.55E-07
1.12E-07	4.15E-07	-1.91E-08

Cointegration test shows that there is one cointegration equation I exist at the 0.05 level of significance because the value of probability is less than .05 and value of trace statistics is less than the critical value .Eigen value is also less than one which shows that stationary points are achieved and one equation is cointegrated. Standard error is also two times of Coefficient and relationship is long term between the variables.

H0 : $r = 0$ Rejected (Stationarity is exist)

H1 : $r \leq 2$ Accepted (None Stationarity)

DISCUSSION

In today's business economy everyone has wants to earn more and more and it wants to optimum results for the maximization of wealth. Everyone wants to get maximum returns on its investment either it is follow to sharia compliance or against the sharia compliance. There is large need to expand the Islamic financing on the basis of investments which gives us returns on monthly basis ,quarterly basis ,semiannually basis and annually basis because mostly the market's investors wants the returns on these basis.

CONCLUSION

The core finding would be by summing up in a net should that modaraba contract has significant impact on the current and saving account, which shows that modaraba contract has positive impact on the current account and negative impact on the saving account.

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