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**THE IMPACT OF ISLAMIC FINANCE ON ECONOMIC GROWTH AND INCOME DISTRIBUTION: A BOOTSTRAP ROLLING WINDOWS (BRW) APPROACH**

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**ABSTRACT**

This paper revisits existing literature on how financial development promotes growth and income distribution focusing on the role of Islamic finance in Malaysia. The main objective of this paper is to investigate the causal nexus between Islamic finance and growth using a bootstrap causality test applied to both full sample and rolling window sub-samples. BRW allows time-varying causal links between Islamic finance and growth, which is the novel contribution of this paper. The trickle-down effect of economic growth is examined via the same method using Islamic finance and income distribution. Islamic finance is represented by Islamic banking assets, loans by Islamic banks and sukuk issuance from 1990Q1: 2017Q4. Economic growth is captured by GDP per capita, GDP and GDP growth whilst income distribution is captured using data income inequality database from WIID. Preliminary results indicate evidence that Islamic finance has spurred financial inclusion which transpires in the reduction of income inequality over the period of study. The recent introduction of value-based intermediation (VBI) by Bank Negara Malaysia in 2017 is the way forward to further develop the role of Islamic finance as a social tool to reduce income inequality.

**Keywords:** Islamic finance, Islamic banking, sukuk, bootstrap rolling windows, income inequality