

Islamization of Banks in Pakistan: A review on Challenges and Prospects

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Abstract:

Islamic finance has emerged as an important research area for the past few decades especially across the Muslim-majority countries. Pakistan has experienced major transitions towards adoption of a fully Shariah-compliant financial system. The transition also includes changes in regulatory framework. Since the independence of Pakistan, it was clearly described in the objectives of the country that laws would be made in the light of Shariah principles. Efforts to Islamize the banking sector can be traced back to the very first constitutional workings under the Objective Resolution of 1949 to the 26th amendment in the Constitution of 1973 in 2024. Moreover, potential challenges faced by Islamic Banks in Pakistan in the context of social, economic and religious consequences have also been examined extensively by prior studies. This paper aims to provides multiple guidelines by offering a comprehensive review about the regulatory, social, economic and religious consequences of Shariah compliant banking in Pakistan. For this purpose, the constitutional documents and research papers published in peer review journals are reviewed by applying the SPAR-4 literature review methodology. This paper has several valuable theoretical and practical implications as well as research directions for future studies in this field.

Keywords: Economic consequences, Islamic banking, Islamic finance, religious consequences, social consequences