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QUALITATIVE RESEARCH

Impact of Islamic Finance and Islamic Banking on Financial Stability: A Systematic Literature Review

Bisma Omar[1], Alija Avdukic[2], Awais Farid Khan[3]
[1,2] University of Dundee, UK.
[3.] Griffith University, Gold Coast, Australia.

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Abstract

Purpose: Islamic Finance has emerged as a significant tool for financial development, with a 12% annual increase. It is regarded as a prominent component in achieving financial stability, grounded in the concepts of risk-sharing and profit-sharing. With its rapid expansion, previous research has sought to ascertain its impact on financial stability. However, there has been considerable uncertainty regarding which areas or concepts warrant further focus. This review responds to gaps left by Belouafi et al., (2015) and others, offering a comprehensive synthesis of recent studies (2016–2023) to re-evaluate Islamic finance's contribution to financial stability.

Research Design: The authors conduct an in-depth analysis of existing journals to create a systematic review of Islamic finance and its impact on financial stability, with a focus on studies published from 2016 to 2023.

Findings: The review reveals that Islamic banking, underpinned by principles such as profit-sharing, risk-sharing and the prohibition of interest (Ribā), offers distinctive advantages in fostering financial stability. These characteristics have positioned Islamic banks as resilient entities, especially during periods of economic distress, aligning with previous findings that highlight their robust performance in times of crisis.

Significance: The findings emphasise Islamic finance's value in promoting global banking resilience and ethical finance.

Future Research: Future research should aim to deepen the understanding of Islamic finance's unique characteristics, explore its adaptability to diverse economic environments, and develop strategies for integrating it into a more cohesive and resilient global financial system.

KAUJIE Classification: J0, L0, L33, Q91
JEL Classification: F65, G00, G02

*Corresponding author: Bisma Omar
†Email: omar.bisma@yahoo.com; ORCID: 0000 0001 5645 9708

INTRODUCTION

Background of study

Islamic Finance is considered an effective tool for development in Muslim and non-Muslim countries and has been growing by an estimated 12% annually (World Bank, 2015). The total assets of global Islamic Finance markets aggregated to $4.5 trillion in 2021, which is expected to increase to $6.6 trillion by 2027 (Puri Mirza, 2024). In the existing literature, it has been argued that the success of this concept lies in its efficiency, accuracy, and ability to address issues related to moral hazard and adverse selection (Al-Jarhi, 2017). Additionally, it has been observed that following the global financial crisis, the annual growth rate of Islamic banks increased to 25 per cent worldwide, surpassing that of conventional banks (Lewis, 2013). Previous studies investigate the financial stability of Islamic and conventional banks, indicating business practices as the source of differences between these two monetary systems (Slimen et al., 2021). Based on the sample data of 136 banks in the Gulf region, Chakroun and Ghalali (2015) found that small Islamic banks are more stable than small conventional banks. Similarly, Wahid and Dar (2016) examined the stability of 17 Islamic and 21 conventional banks in Malaysia through financial soundness indicators and Z scores. They found that small Islamic banks were more stable than their conventional counterparts.

The term 'financial stability' is broadly defined as a 'steady state in which the financial system efficiently performs its role of allocating resources, spreading risk and settling payments' (Schinasi, 2004). On the other hand, Allen and Wood (2006) emphasise that public interest should be the key factor in facilitating economic performance, depicting the concept of ethical and social responsibility that is embedded in Islamic finance. The concept of Islamic finance stems from the belief in social justice through the equal distribution of wealth and risk; hence, the practice of *Gharar* and Ribā is strictly prohibited under this framework (Hayat & Malik, 2014). Under the Islamic trade structure, business can be conducted through profit-sharing contracts, including Musharakah and Mudarabah, or debt-based contracts, including Murābaḥah and *Tawarruq* (Alqahtani & Mayes, 2018).

In the literature on Islamic finance and financial stability, considerable uncertainty still exists regarding the philosophy of Islamic finance and its contribution to achieving financial stability. Based on risk-sharing financing, Askari (2012) posits that stability in the Islamic finance structure can be unravelled through the 'lenses' of the instability of conventional banks; hence, the risk in Islamic banks is less than that in their counterparts due to their interest-free nature, leading to a lesser impact of the global financial crisis on the Islamic banking system (Shafique et al., 2012). However, there are still conflicting opinions on whether Islamic finance contributes more to financial stability.

Regarding financial stability, previous studies have provided conflicting opinions on whether Islamic banks are more stable than traditional banks (Alqahtani & Mayers, 2018). For instance, using panel data from 101 Islamic banks in Gulf Corporation Council economies from 1998 to 2012, Alqahani et al (2016) found that Islamic banks outperformed conventional banks in terms of capitalisation, profitability, and efficiency in the early stages of the crisis; however, they performed worse in the later stages. Similarly, Cihak and Hesse (2008) found that Islamic banks were more stable when operating on a small scale, but less stable in large-scale operations. A limited number of studies have concluded that Islamic banks did not outperform conventional banks (Azmi et al, 2019; Naryan & Phan, 2019). On the other hand, some researchers argue that for a stable financial system, a risk-sharing approach instead of a risk-shifting approach is more favourable; hence, Islamic banks are more 'immune to negative shocks' (Boumediene and Caby, 2008; Askari, 2012) and less fragile due to their asset-backed business model (Cihak & Hesse, 2010).

In the new global economy, competition has become a significant component among financial institutions worldwide. In a recent research study, Ali et al., (2020) further elaborate that the debate on banking and competition has been divided into two theories: competition-fragility theory and competition-stability theory, where competition-fragility theory describes how new players in the market lead banks to increase their risky assets to offset losses (Allen and Gale, 2000; Hellmann et al., 2000), and competition-stability theory elucidates the increase in market power leading to an increase in bank risk (Stiglitz & Weiss, 1981). Based on the competition-stability theory, they conclude that Islamic banks improve the stability of the banking industry system but have no effect on profitability. Similarly, Ibrahim et al., (2019) suggested that Islamic banks could mitigate bank risk due to the absence of market power stability. Hence, previous studies have examined Islamic banks' resilience during financial crises (Lewis, 2013), yet conclusions remain fragmented. For instance, Wahid and Dar (2016) and Chakroun and Ghalali (2015) found Islamic banks to be more stable, especially smaller ones, while others (Cihak & Hesse, 2008) noted instability at larger scales.

Objectives of the Current Study

The authors aim to explore the factors within Islamic finance that contribute to overall financial stability by conducting a systematic literature review. The aforementioned reviews present a wide range of opinions regarding the influence of Islamic finance on financial stability. Based on the risk-sharing and profit-sharing concept, Islamic finance is believed to be a significant element for financial stability (Boumediene & Caby, 2008; Askari, 2012). This is a humble attempt to respond to the gaps left by Belouafi et al., (2015) and others, offering a comprehensive synthesis of recent studies (2016–2023) to re-evaluate Islamic finance's contribution to financial stability with the following objectives: 1. To analyse and determine the purpose of the articles 2. To examine the relationship between Islamic finance and financial stability, highlighting the conceptual framework and the relevant variables for financial stability 3. To identify the key element based on research outcomes 4. To propose directions for future research.

Conceptual Structure of Research

The authors conduct an in-depth analysis of existing journals to create a systematic review of Islamic finance and its impact on financial stability, leading to some exogenous research topics, illustrated in Figure 1. This diagram outlines key thematic areas frequently explored in the literature on Islamic finance and financial stability. The flow highlights how research tends to cluster around financial contracts, corporate governance, risk factors, and competition, often under the broader umbrella of Islamic versus conventional banking discourse. The dotted arrows point to a critical observation: these studies consistently converge on the issue of inadequate regulatory context, underscoring it as an underexplored yet essential component for advancing the field.

Moreover, this study uses coding to summarise and structure the available data, with the risk of neglecting relationships between different categories (Denzin & Lincoln, 2010). Following the identification of pertinent research topics, the authors systematically categorise the articles according to various criteria, including journal specifications, the comprehensiveness of the literature review, the research methodology employed, and the outcomes achieved. This structured categorisation enhances the systematic literature review by aligning it with a series of research questions, thereby contributing to a more rigorous and organised analysis of the existing literature. While Belouafi et al., (2015) conducted a comprehensive review of Islamic finance and financial stability up to 2015, the rapidly evolving post-crisis regulatory and macroeconomic landscape necessitates an updated synthesis. Our study fills this gap by incorporating recent contributions from 2016–2023, including insights on Islamic banking's performance during the COVID-19 pandemic.

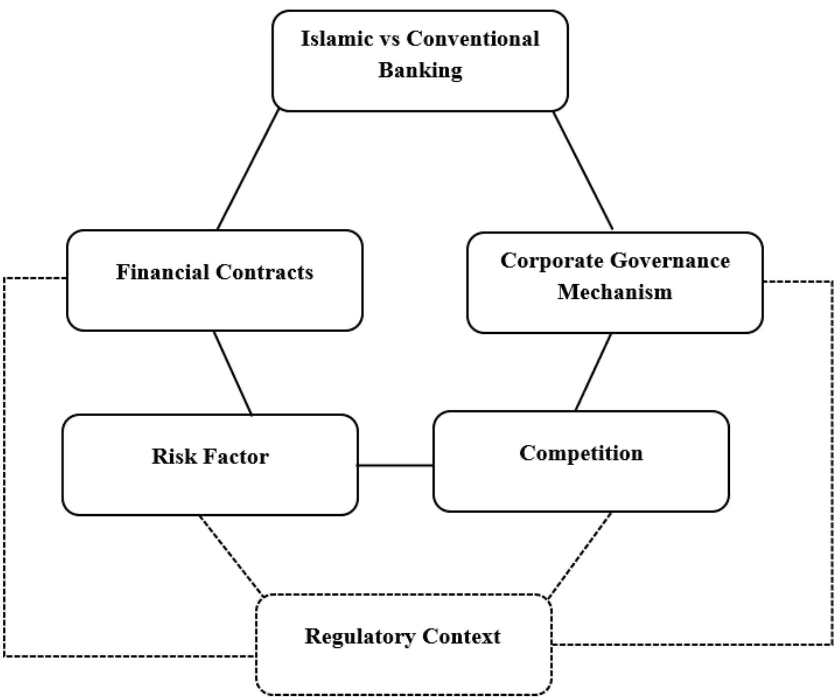

FIGURE 1: Structuring Exogenous Research Topic in Islamic Finance Literature

Research Questions

The selected series of research questions is as follows:

- How has the research focus on Islamic Finance evolved between 2016-2023, and what are the dominant themes emerging in contemporary scholarship? Does Islamic Finance have a positive or negative impact on financial stability?
- Under what conditions and contexts does Islamic Finance demonstrate positive effects on financial stability, and what factors may limit these benefits?

- What internal (governance, operational) and external (regulatory, market) factors influence the effectiveness of Islamic finance in promoting financial stability
- How has the performance of Islamic banks relative to conventional banks evolved during recent economic crises, including the COVID-19 pandemic?

RESEARCH METHOD

Data Identification and Retrieval

This study employs a systematic literature review to establish a comprehensive knowledge base (Kumar et al, 2019). The previous studies included various types of systematic literature reviews, such as structured reviews (Rosado-Serrano et al., 2018), meta-analyses (Goyal et al., 2022), and bibliometric reviews (Donthu et al., 2021). This study provides a thorough review with content analysis to summarise the concept, trends, influencing factors, and policies associated with Islamic finance and its impact on financial stability (Beloufi et al., 2015).

To conduct the study, the authors have used three of the largest platforms for indexed articles, including Scopus, ProQuest, and Web of Sciences. This compound was executed by adapting the methodology used by Mukherjee et al., (2022) within the context of bibliometric analysis. The authors used the search terms 'Islamic finance' and 'financial stability', and 'Islamic banking' and 'financial stability' to run the search in title, keywords, and abstract from 2016 to 2023. The rationale for selecting this timeframe stems from the most recent research on this topic, utilising the specified methodology undertaken in 2015 by (Beloufi et al., 2015).

We retrieved 482 articles from ProQuest, 91 from Web of Sciences, and 74 from Scopus. The initials 647 were screened, based on the suitability of titles and abstracts to be included in the research sample. Covidence has identified eighty-nine duplicates, leaving 558 studies screened. During this stage, each article was thoroughly examined by inclusion and exclusion criteria based on the review, as shown in Table 1. Inclusion criteria focused on peer-reviewed studies in English from 2016–2023. Only those articles were included in the review study which focused on how Islamic finance and banking impact financial stability. Articles were excluded due to a lack of relevance (not addressing Islamic finance or financial stability), non-English language, duplicate entries, or insufficient methodological rigour. The selection strategy was based on the methodology outlined by Xio et al., (2022). A final sample of 21 was selected due to strict adherence to relevance and quality criteria, consistent with PRISMA-SLR standards. Figure 2 presents a detailed illustration of the structure for the retrieval and selection of the articles. It illustrates the identification, screening, and final inclusion of 21 articles from an initial pool of 647 retrieved from Scopus, Web of Science, and ProQuest, applying predefined inclusion and exclusion criteria.

While the final sample size of twenty-one studies may appear modest, its analytical value is underpinned by the rigour and transparency of the selection process, which adhered closely to established PRISMA-SLR protocols. The emphasis on methodological quality, thematic relevance, and peer-reviewed scholarship ensured the inclusion of studies that contribute substantively to the discourse on Islamic finance and financial stability. Rather than aiming for volume, the review prioritised depth and conceptual clarity, a practice consistent with established standards in systematic literature reviews.

Despite the limited number of studies, thematic saturation was achieved across key areas such as risk-sharing mechanisms, governance structures, dual banking systems, and crisis resilience. These recurring themes suggest a convergence of scholarly perspectives that validates the sample's representativeness. Moreover, the selected studies encompass diverse methodological approaches and regional contexts, thereby enhancing the generalizability of the findings. Previous high-impact reviews, including Belouafi et al., (2015), have demonstrated that smaller, carefully curated samples can yield significant theoretical and practical insights.

Consequently, this review offers a focused and coherent synthesis of recent developments in the field, particularly capturing emerging dynamics in the post-2015 period, including responses to the COVID-19 pandemic and innovations in Islamic financial regulation. The combination of methodological transparency, thematic coherence, and contextual diversity affirms the review's academic robustness despite its concise scope.

Methods of Study

In this study, we conducted a comprehensive analysis of search trends on Islamic finance and financial stability as documented in leading academic journals. To strengthen the literature review, this study now incorporates additional systematic literature reviews (SLRs) relevant to Islamic finance and financial stability. Notably, the work by Belouafi et al., (2015) serves as a foundational reference, offering a pre-2015 synthesis. More recent contributions, such as Kumar and Mukherjee (2019) and Alam and Rizvi (2017), have also been examined to highlight evolving themes and unresolved issues. By critically engaging with these prior reviews, the present study identifies key research gaps, particularly the lack of focus on recent economic shocks, regulatory developments, and the performance of Islamic banks in dual banking environments. This enhanced review provides a clearer justification for the study's contribution and scope. Utilising databases such as Scopus, ProQuest, and Web of Science, we identified prominent authors and the most cited articles in this domain. The data were systematically compiled and analysed using Microsoft Excel, facilitating a nuanced understanding of the current landscape of research in Islamic finance and its implications for financial stability. The Excel spreadsheet encompasses several components, including a detailed journal entry sheet, a comprehensive literature review for each article, an analysis of the methodologies employed, and an evaluation of research outcomes accompanied by pertinent recommendations.

TABLE 1: Inclusion and Exclusion Criteria

Criteria for Acceptance	Criteria for Rejection
Only published papers related to Islamic Finance, Islamic banking, and financial stability were selected.	Non-English articles were excluded.
Only published papers sourced from digital databases such as Scopus, Web of Sciences, and ProQuest were selected.	Master’s and doctoral theses, conference papers, reviews, reports, short surveys, unpublished papers, and editorial notes
	Missing record papers were also excluded.

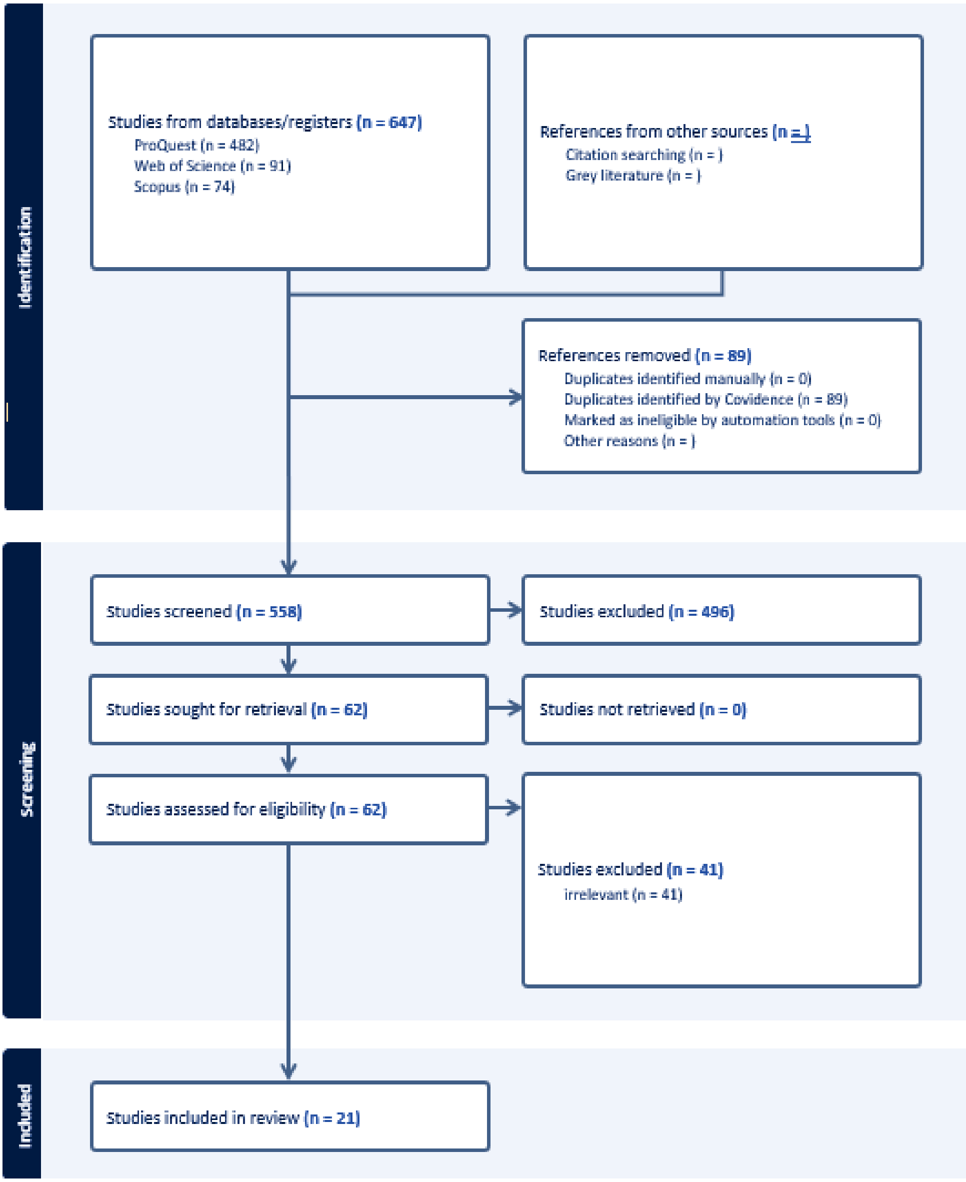

FIGURE 2: Data Retrieval and Selection of the Article

RESULTS AND DISCUSSION

Prolific journals, journals, authors, and their impact factor

Table 2 presents a summary of journals that have published on Islamic finance and financial stability during the 2016–2023 period, including their Scimago rankings. Scimago journal rankings depict the annual evaluation of scholarly articles in terms of their accounting of the number of citations they receive and the prestige of the articles that cite them. As illustrated in Table 2, most of the selected articles on Islamic Finance demonstrate notable rankings, indicating a significant level of influence and impact within the field. It can also be noticed from Figure 3 that between 2016 and 2020, the publication of the annual paper was low, meaning a period of lack of research activity or interest. However, between the years 2020 and 2023, 11 research papers were published, which signifies the growing interest and emergence of the field among Muslim scholars and non-Muslim researchers. Furthermore, this significant increase may be a consequence of the COVID-19 crisis, as the previous studies found that Islamic finance performs better in times of crisis than its counterpart banks (Lewis, 2013).

The themes in Islamic finance, reflects possible collaboration patterns among authors or institutions, with some authors, such as Safiullah and Mollah, repeatedly appearing. This recurring presence suggests that these authors or their affiliated institutions may be recognised research hubs within the domain, actively contributing to the advancement of knowledge in Islamic finance and financial stability.

TABLE 2: Journals Publishing on Islamic Finance and Financial Stability (2016–2023)

Publisher	Journal Name	Year of Publication	Scimago Journal Ranking
Emerald Publishing Ltd	Journal of Financial Services Research	2022	Q2
Elsevier	Journal of Financial Stability	2019	Q1
Wiley	Journal of International Financial Management & Accounting	2022	Q1
Emerald Publishing Ltd	Journal of Islamic Accounting and Business Research	2022	N/A
MDPI	Economies	2018	Q3
Emerald Publishing Ltd	Review of Middle East Economics and Finance	2023	Q1
Emerald Publishing Ltd	Corporate Governance	2017	Q2
Akasemica Platforma Czasoposim	Int. J. of Islamic and Middle Eastern Finance and Management	2021	N/A
Serials Publications Pvt. Ltd.	Pacific Basin Finance Journal	2021	Q3
Bank Indonesia Institute	International Journal of Economic Research	2021	Q3
Elsevier	Journal of Asian Finance, Economics and Business	2019	Q2
Elsevier	Economic Systems	2020	Q2
Elsevier	[Unspecified Elsevier Journals]	2016, 2018	Q1 / N/A
De Gruyter	Managerial Finance	2016	N/A
Conference Publication	International Conference for Islamic Economics and Finance	2013	N/A

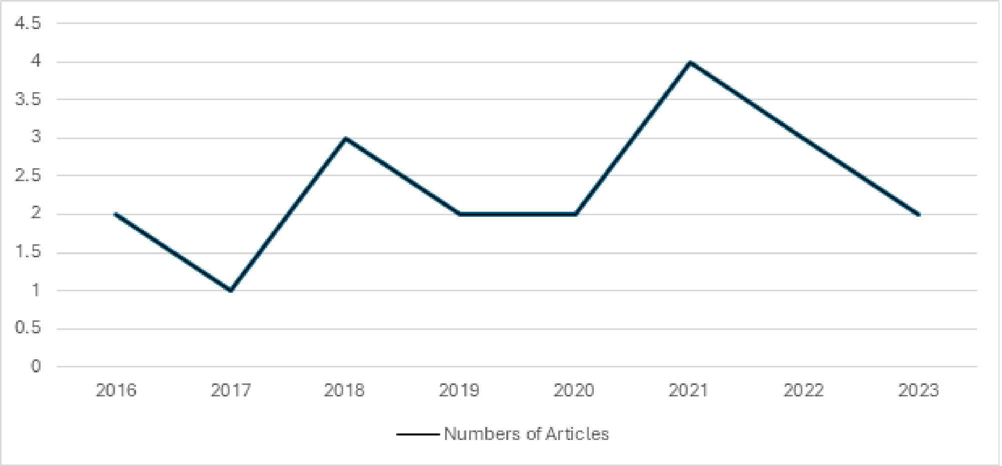

FIGURE 3: Number of Articles per Year

Most influential articles on Islamic finance

Citations are the standard measurement of an article's impact (Chabowski et al., 2013). To identify the most influential articles, we used Research Rabbit to record the highest number of citations. Table 3 lists down 6 most frequently cited papers. It supports the identification of leading publication outlets and thought leaders, which is essential for understanding current research trends and scholarly impact in this domain.

TABLE 3: Top Cited Publication on Islamic Finance (2016-2023)

Author(s)	Title	Year	Citations
Berger, Boubakri, Guedhami, & Li	Liquidity creation performance and financial stability consequences of Islamic banking	2019	53
Rashid, Yousaf, & Khaleequzzaman	Does Islamic banking really strengthen financial stability? Empirical evidence from Pakistan	2017	36
Ibrahim, Salim, Abojeib, & Yeap	Structural changes, competition and bank stability in Malaysia's dual banking system	2019	29
Lassoued, M.	Corporate governance and financial stability in Islamic banking	2018	21
Safiullah, M.	Financial stability and efficiency of Islamic and conventional banks	2021	12
Mamatzakis, Alexakis, Yahyaee, Pappas, Mobarek, & Mollah	Does corporate governance affect the performance and stability of Islamic banks?	2023	2

Source: Google Scholar (2024)

Themes in Islamic Finance

To investigate the significant connections and themes emerging within the literature on Islamic finance and banking over the past decade, this study employed Research Rabbit, an advanced tool designed to analyse citation patterns in selected scholarly papers. The investigation of these themes reveal that Safiullah (2021) and Kabir (2018), demonstrate their high impact within this research area through dense interconnections with other works. The prominence of these studies suggests they serve as foundational texts, likely providing essential frameworks or comparative analyses between Islamic and conventional banking. Their centrality implies that these studies are widely cited and have shaped the discourse on the stability, principles, and economic impact of Islamic finance. In addition, the studies conducted by Mollah (2017) and Abdikarim (2019) are closely interconnected, suggesting a shared focus on the financial stability of Islamic banks compared to conventional institutions. This grouping may include discussions on corporate governance, practices, regulatory frameworks, and structural changes.

Emerging studies, such as those by Fadoua (2023), Bektas (2022), and Rashid (2017), likely explore more recent developments such as corporate governance, institutional quality and competitive conduct in Islamic finance, potentially addressing the impact of Islamic finance on financial stability and contemporary challenges like capital and liquidity level of Islamic banks, legal system and financial soundness. This suggests ongoing efforts to expand the knowledge base, adapt traditional Islamic finance concepts to contemporary economic contexts, and assess their impacts across diverse global markets.

Overall, the themes in Islamic finance indicate that only 1,255 scholarly works have been on Islamic finance and banking over the past decade. The themes appears relatively insufficient when one considers the significant impact of Islamic finance on financial stability, both in the pre-crisis and post-crisis contexts (Alqahani et al., 2016). Given the growing recognition of Islamic finance's role in the global financial landscape, the limited number of research outputs suggests a need for more comprehensive academic inquiry.

Authors' Keywords Analysis

The data provides a bibliometric analysis of several research topics and their correlation. The authors emphasise financial stability and how Islamic finance contributes to it. Most articles have frequently used keywords, including financial stability, Z score, Islamic finance, competition, liquidity risk, and profitability. These terms suggest that in the last decade, scholars have focused on how Islamic financial principles and practices influence the resilience of financial systems. Moreover, keywords such as dual banking indicate the importance of understanding the embedded Maqāṣid al-Sharīʿah and how the unique features of Islamic finance can lead to financial stability as compared to the conventional counterpart. The study presents a well-rounded examination of the interplay between regulatory frameworks, governance structures, and profitability within the financial sector. Although the findings provide partial support for the hypothesis, they suggest that topics related to Islamic finance contribute meaningfully to the broader domain of financial research. Moreover, there is evidence of a growing scholarly interest in this area, indicating its relevance and importance in contemporary financial discourse.

CONCLUSION

This systematic review provides a comprehensive analysis of the impact of Islamic banking and Islamic finance on financial stability, with a focus on studies published from 2016 onwards. This focus stems from the fact that the most recent peer-reviewed synthesis on this topic was conducted in 2015 by AK Odeduntan and AA Adewale, warranting an updated exploration to capture contemporary developments in the field. Additionally, this review addresses gaps identified by Belouafi et al., (2015) and others, providing a comprehensive synthesis of recent studies (2016–2023) to reassess Islamic finance's contribution to financial stability.

The relevance of Islamic finance in promoting financial stability has become increasingly significant, particularly in the wake of global economic disruptions such as the 2008 financial crisis and the COVID-19 pandemic. While previous reviews have explored this domain, many are either outdated or limited in scope. This study provides an updated synthesis of literature from 2016 to 2023, capturing recent developments, regulatory shifts, and emerging challenges. By focusing on post-crisis scholarship, the review offers timely insights that justify the need for a renewed and focused investigation into the role of Islamic finance in sustaining financial stability.

As Islamic finance continues to expand globally, its implications for financial stability remain a critical area of investigation, particularly in the aftermath of the global financial crisis and amid ongoing economic fluctuations. The review concludes that Islamic banking, underpinned by principles such as risk-sharing and the prohibition of interest (Ribā), offers distinctive advantages in fostering financial stability, especially post-COVID-19 pandemic. These characteristics have positioned Islamic banks as resilient entities, especially during periods of economic distress, aligning with previous findings that highlight their robust performance in times of crisis (Boumediene & Caby, 2008; Shafique et al., 2012). Smaller Islamic banks have been shown to exhibit greater stability than their conventional counterparts, largely due to their asset-backed and profit-sharing structures (Chakroun & Ghalali, 2015; Wahid & Dar, 2016). However, the stability of larger Islamic banks remains an area of ongoing debate, with some studies suggesting that scale may influence stability outcomes (Cihak & Hesse, 2008; Alqahani et al., 2016).

The review also underscores the complexity of competition within the banking sector. While some studies adhere to the competition-stability theory, suggesting that Islamic banks may enhance overall financial system stability without compromising profitability, the findings are not uniformly conclusive (Ibrahim et al., 2019; Ali et al., 2020). This ambiguity reflects the broader need to consider various contextual factors, including regional economic conditions, regulatory environments, and bank size, which may influence the performance of Islamic financial institutions relative to conventional banks.

The authors have identified several emerging trends and themes that have become focal points in recent research on Islamic finance and financial stability. These include the role of corporate governance, the development of regulatory frameworks tailored to Islamic finance, and the challenges associated with dual banking systems, where Islamic and conventional banks operate side by side. Corporate governance has been a particular area of interest, as robust governance structures are seen as essential to ensuring the ethical and stable operation of Islamic banks (Mollah et al., 2017). Effective governance is crucial in maintaining stakeholder trust and safeguarding against practices that could compromise the financial stability of Islamic institutions. The literature suggests that adherence to Shariah-compliant principles enhances transparency and accountability within Islamic banks, thereby fostering greater financial stability (Mongi Lassoued, 2018).

Moreover, regulatory frameworks also play a pivotal role in shaping the stability of Islamic banks. The absence of a unified regulatory body for Islamic finance poses challenges in standardising practices and ensuring consistent adherence to Islamic principles across different regions (Alqahtani & Mayes, 2018). This lack of standardisation can lead to discrepancies in the interpretation and application of Islamic finance laws, potentially impacting the stability and credibility of the system. Researchers have called for the development of a more cohesive global regulatory framework that can accommodate the unique features of Islamic finance while integrating it with the broader financial system. Such a framework would facilitate the harmonisation of practices, promote financial stability, and enhance the competitiveness of Islamic banks on a global scale.

In conclusion, this systematic review offers a comprehensive analysis of the current state of research on Islamic banking and its impact on financial stability. The findings highlight both the strengths and limitations of Islamic finance, suggesting that while it provides a viable alternative to conventional banking, its stability advantages are not universally applicable and may be influenced by factors such as institutional size, market conditions, and regulatory frameworks. Despite these complexities, the growing interest in Islamic finance indicates its relevance and potential as a stabilising force in the global financial landscape.

Limitations

This study is subject to several limitations that should be acknowledged. First, although the selection process followed a rigorous PRISMA-SLR framework, the final dataset was limited to 21 studies, which may not fully capture the diversity of perspectives in the wider body of literature. Second, the review was confined to three major academic databases—Scopus, Web of Science, and ProQuest—potentially excluding relevant research available in other repositories such as SSRN or regional indexing services. Third, the analysis was restricted to English-language publications, which may have led to the omission of valuable studies published in other languages, particularly those relevant to key Islamic finance jurisdictions. Fourth, the temporal scope of the review spanned 2016 to 2023, thereby excluding earlier foundational studies as well as very recent research beyond this range. In addition, only peer-reviewed journal articles were included, omitting grey literature such as policy papers and practitioner reports that could have added practical insights. Lastly, while the review identified recurring themes across the selected studies, some findings may not be generalisable across different regulatory, economic, or cultural contexts due to regional disparities in Islamic finance implementation.

Future Research Direction

Future research should consider expanding the scope of systematic reviews to include more diverse data sources, such as regional databases, non-English publications, and grey literature, to capture a broader and more nuanced understanding of Islamic finance practices. Longitudinal studies could provide deeper insights into the evolution of financial stability indicators in Islamic banks across different economic cycles, including pre- and post-crisis periods. Additionally, comparative studies across jurisdictions with varying degrees of Islamic finance integration could help assess the influence of regulatory environments and institutional quality. Given the growing role of digital finance, future research may also explore how fintech, blockchain, and digital banking are transforming risk-sharing mechanisms within Islamic finance frameworks.

Moreover, the development and empirical testing of unified regulatory models that align with both Shariah principles and international financial standards would be valuable. Finally, there is a need for further investigation into how Islamic financial institutions contribute to broader socio-economic goals, including sustainability, inclusion, and the achievement of the Sustainable Development Goals (SDGs), particularly SDG 8 (Decent Work and Economic Growth) and SDG 16 (Peace, Justice, and Strong Institutions). This comprehensive review underscores the significance of Islamic finance in contemporary financial discourse, calling for a more extensive empirical exploration to validate its role as a viable alternative to conventional banking and to better understand its potential for contributing to a more stable and ethical financial system.

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