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Financial System Stability in Islamic Economic Perspectives: A Global Literature Review

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Abstract: This research aims to examine the stability of the financial system in the perspective of Islamic economics through a qualitative approach based on Library Research or Integrative Review. This study synthesizes findings from various global literature on the role of Islamic banking in maintaining financial stability after the global crisis. Data was obtained from reputable national and international journals in the period 2015–2024, with strict inclusion criteria to ensure quality and relevance. The search process is carried out systematically using thematic keywords and Boolean combinations. The analysis was carried out with a thematic approach to identify patterns, gaps, and theoretical contributions. The results show that Islamic financial stability is not only based on economic efficiency, but also on ethical values and social justice. Product innovation, digitalization, and the role of zakat have been proven to strengthen the resilience of the Islamic financial system. This study suggests the need for further research related to the integration of technology and macroprudential policies in supporting Islamic financial stability in the future.

Keywords: Financial Stability, Islamic Bangking, Integrative Review, Islamic Economics, Post-Global Crisis.

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A. INTRODUCTION

Financial system stability is a condition in which financial institutions can carry out intermediation functions effectively, manage risks, and absorb external shocks without causing systemic disturbances. In the perspective of Islamic economics, this stability is strengthened by sharia principles such as the prohibition of usury, gharar, and maysir, as well as the application of a fair profit-sharing system. These principles aim to create fairness and balance in financial transactions, thereby reducing speculative risk and excessive uncertainty (Belouafi, Bourakba, & Saci, 2015). In addition, the Islamic economic approach emphasizes macroeconomic stability through the avoidance of practices that can lead to financial crises, such as excessive leverage and the mismatch of asset and liability maturities (Ahmed, 2010).

Empirical research shows that Islamic banks tend to have a higher level of stability compared to conventional banks, especially during periods of financial crisis. The study by Cihak and Hesse (2010) found that small Islamic banks have higher stability compared to conventional banks, although large Islamic banks show lower stability. Furthermore, Hasan and Dridi (2010) showed that Islamic banks showed better resilience during the 2007-2009 global financial crisis, especially in terms of profitability and asset growth. Research by Beck, Demirgüç-Kunt, and Merrouche (2013) also supports these findings, stating that Islamic banks have better asset quality and higher intermediation rates during the crisis.

The development of a financial stability index specific to the Islamic financial system has been the focus of research in recent years. The study by Abduh and Chowdhury (2012) developed an Islamic Financial Stability Index (IFSI) that incorporates indicators such as capital adequacy ratio, asset quality, and liquidity. Research by Hosen and Muhari (2022) used a dynamic factor model to build an Islamic financial stability index in Indonesia, which reflects the financial system's response to the global crisis and the COVID-19 pandemic. In addition, the study by Ariffin, Archer, and Abdel Karim (2009) emphasizes the importance of developing stability indicators that are compliant with sharia principles to accurately measure the resilience of the Islamic financial system.

Systemic risk in the Islamic financial system is a major concern, especially in the context of the global crisis. A study by Ali and Puah (2019) showed that Islamic banks have a lower contribution to systemic risk compared to conventional banks, thanks to their more stable and real asset-based financial structure. Research by Farooq and Zaheer (2015) also found that Islamic banks exhibit higher resilience to external shocks, especially during the global financial crisis. However, a study by Beck, Demirgüç-Kunt, and Merrouche (2013) showed that although Islamic banks have an advantage in stability, they are still vulnerable to liquidity and operational risks that could affect systemic stability.

A comparison between Islamic and conventional financial systems suggests that Shariah principles may provide additional protection against financial instability. The study by Khan and Bhatti (2008) states that the Islamic financial system, with its prohibition of usury and speculation, tends to be more stable and less vulnerable to financial crises. Research by Chapra (2008) also supports this view, stating that Islamic financial systems can reduce market volatility and promote sustainable economic growth. However, a study by El-Gamal (2006) cautions that the implementation of Shariah principles in banking practices still faces challenges, such as the lack of uniform standards and the need for Shariah-compliant product innovation.

From the above literature review, it appears that the Islamic financial system has the potential to improve financial stability through sharia principles that emphasize fairness, transparency, and excessive risk aversion. However, there is a gap in the literature regarding the measurement of Islamic financial system stability comprehensively and direct comparison with conventional systems in various economic contexts. In addition, more research is needed on the implementation of sharia principles in banking practices and its impact on systemic stability. Therefore, the objective of this study is to conduct a comprehensive global literature review on financial system stability from an Islamic economic perspective, identify factors that influence such stability, and explore policy implications that can be applied to strengthen the Islamic financial system at the global level.

B. METHOD

This research uses a Library Research or Integrative Review approach with the aim of identifying, evaluating, and synthesizing findings from various studies related to the financial stability of Islamic banking after the global crisis. This approach was chosen because it allows researchers to collect comprehensive information from various secondary sources to gain an in-depth understanding of the phenomenon under study. This method is widely used in social and economic research to bring together various theoretical and empirical perspectives (Snyder, 2019).

The data sources used in this study were obtained from reputable databases, namely Google Scholar, Scispace, Directory of Open Access Journals (DOAJ), and Scopus. The articles retrieved consisted of national and international journals relevant to the topics of financial stability, Islamic banking, and economic crisis. Inclusion criteria included articles published between 2015 and 2024, in English or Indonesian, and containing relevant empirical or conceptual studies. Exclusion criteria included non-peer reviewed articles, editorials, opinions, and literature that did not directly address the main topic of the study.

The literature search process was conducted systematically using keywords such as: “Islamic banking stability,” “financial crisis and Islamic finance,” “comparative banking stability,” and “Islamic banks vs conventional banks post-crisis.” The search was conducted using Boolean combinations (AND, OR) to expand or narrow the results. Furthermore, the literature selection procedure was conducted in two stages: (1) initial screening based on title and abstract; and (2) full-text review to assess the appropriateness of the article content to the research focus. Only articles that met the inclusion criteria and were of sufficient methodological quality were included in the final synthesis.

The analysis method used in this research is qualitative with a thematic approach. The researcher grouped the research results based on focus, method, and main findings, then synthesized them to find patterns, gaps, and theoretical and practical contributions. To increase validity and reliability, a data triangulation process was conducted by comparing findings between studies as well as re-testing the synthesis by two independent reviewers. In addition, the entire process was conducted with full transparency so that it could be replicated in further research (Whitemore & Knafl, 2005).

C. RESULTS AND DISCUSSION

1. The Concept of Financial Stability in Islamic Economics

The concept of financial stability in Islamic economics refers to the capacity of the Shariah-based financial system to operate within a stable framework and support sustainable economic growth. Financial stability is recognized as a key factor in maintaining the integrity of the financial system and avoiding economic crises. In contrast to the conventional financial system, which is often caught up in speculation and risky practices, Islamic economics focuses on fundamental moral and ethical values. According to research, Islamic financial institutions (IFIs) showed a significant degree of resilience during the 2007-2008 global financial crisis, despite being affected by the global financial crisis. oleh eksposur yang tinggi terhadap real estat dan keterbatasan dalam transaksi berbasis ekuitas

Bourkhis & Nabi (2013). In this context, Islamic economics recommends the channeling of funds to the real sector, i.e. the production of real goods and services, which contributes to "undefined" financial stability (2016). A study conducted in Indonesia confirms that Islamic banks play an important role in maintaining the stability of the national financial system through financing based on the principle of profit-sharing, rather than interest-bearing debt which has the potential to increase the risk of (Aini et al.,2017; Law&Ridhwan 2022).

Furthermore, the role of the Islamic financial system in supporting economic performance is also seen in its impact on economic growth in Indonesia. Research shows that deepening the Islamic financial system can improve overall economic performance Law & Ridhwan (2022). This is in line with the idea that Islamic financial products provide a safer and more transparent alternative for economic actors, while encouraging more meaningful and sustainable investments (Nazori et al., 2024; Through an approach that prioritizes moral values, Islamic finance seeks to reduce the risks faced by the financial system, such as institutional failures and market uncertainty. This is achieved by emphasizing on the principle of sharing risks and benefits, which benefits society as a whole Hussain et al. (2015); Asutay (2025). In the same way, instruments such as zakat and waqf are recognized as having the potential to improve people's welfare and support stability.

Overall, the concept of financial stability in Islamic economics describes an interconnected ecosystem, where financial practices not only uphold ethical values, but also contribute to the achievement of broader economic goals. This creates a new paradigm in which finance can serve as an instrument for social good and sustainable development.

2. Dynamics of Islamic Banking Stability at the Global Level

The stability of Islamic banking at the global level is experiencing significant dynamics in line with the rapid growth of the Islamic financial sector. From 2014 to 2018, Islamic banking in Indonesia recorded a Compounded Annual Growth Rate (CAGR) of 15%, higher than the growth of conventional banks which only reached 10% Indah & Supri (2023). This shows a strong attraction to Islamic banking, which is not only influenced by the aspect of financial profit but also by Islamic ethical principles that uphold justice and transparency.

As part of the global financial system, Islamic banking also faces various challenges and opportunities. According to Muharam, the integration of the Islamic economy in the global financial system shows a wide impact and potential, as well as challenges that need to be faced, especially in terms of diversification of Islamic investment instruments in the international market (Muharam, 2023). With rapid growth, Islamic banking is expected to be able to contribute to more inclusive and sustainable international banking policies (Ananta et al., 2024).

In the context of stability, studies show that internal and external factors greatly affect the performance of Islamic banking. Some of the significant aspects include profit-sharing-based financing, Non-Performing Financing (NPF), as well as macroeconomic conditions such as inflation and gross domestic product growth (Fatoni & Sidiq, 2019). Research by Ananta et al. underscores the importance of the stability of an Islamic banking system that not only focuses on the domestic market, but also has aglobal impact (Ananta et al., 2024).

In addition, the merger of a number of Islamic banks in Indonesia, such as Bank Syariah Mandiri, Bank BNI Syariah, and Bank BRI Syariah, has been carried out with the aim of increasing market share and competitiveness, as well as creating synergies to strengthen the position of Islamic banking at the global level (Nugroho et al., 2022). However, challenges in developing innovative products and services must still be overcome in order to compete with conventional banks (Abdul et al., 2022).

To build a better understanding of Islamic banking, education and socialization among the public are very important. Through training programs aimed at community leaders, such as mosque administrators, it is hoped that they will be able to educate the public about the advantages and working mechanisms of Islamic banking (Faizi et al., 2022). Good financial literacy will create trust and increase public participation in this sector (Syarifuddin et al., 2023).

Overall, the dynamics of Islamic banking stability at the global level are influenced by various factors, ranging from significant market growth, integration in the global financial system, and active role in policy development that supports inclusion and sustainability. Given the potential that exists, Islamic banking is committed to maintaining the stability of its financial system and adapting to the challenges that continue to arise.

3. Challenges and Opportunities for Strengthening Sharia Financial Stability

Strengthening Islamic financial stability faces significant challenges and opportunities in the global context. Some of the challenges that affect this stability include the ever-changing dynamics of the global economy, different regulations, and limitations in public understanding and acceptance of Islamic financial products. On the other hand, the great potential for development in this sector is very visible, including the innovation of financial products and the contribution to social and economic development.

One of the main challenges faced by the Islamic financial sector is regulatory policies that have not fully supported strengthening system stability. Ananta et al. note that there is a need for continuous scrutiny of the existing regulatory structure to create a stable environment for Islamic banks (Ananta et al., 2024). Regulatory uncertainty can lead to a lack of trust from investors and the public in Islamic banks. Meanwhile, Imsar and Siregar underscore the importance of a policy approach that focuses on macroeconomic stability, given that Islamic banking must adapt to the volatile economic situation (Imsar & Siregar, 2023).

In addition, low public financial literacy is an obstacle in strengthening the financial stability of this sector. Education about sharia concepts and their benefits needs to be carried out on an ongoing basis. In this context, Subardin et al. show that the socialization program that involving the local community has shown positive results in increasing understanding of Islamic finance and zakat (Subardin et al., 2024). This education also serves to create a greater level of trust among potential users for Islamic financial products.

The opportunity to strengthen Islamic financial stability is also very promising. For example, the application of financial technology (fintech) in the Islamic finance industry is a very strategic step. Marginingsih emphasized that its use can increase financial inclusion and provide access to previously marginalized communities Marginingsih (2021). This new technology helps Islamic banking to become more efficient, as well as offer more innovative and relevant products according to the needs of the community.

Banks and financial institutions also have an important role to play in supporting inclusive economic development. Ismamudi et al. emphasize the importance of close cooperation between Islamic banks, financial institutions, and governments to ensure sustainable and inclusive growth, as well as maintain economic stability Ismamudi et al. (2023). In addition, the implementation of the concept of maslahah in sharia economic policy also has the potential to encourage the welfare of the community as a whole, in line with the broader goals of sharia (Harun, 2022).

By leveraging opportunities such as inter-institutional collaboration, financial product innovation, and adoption of new technologies, Islamic banking can create a more stable and sustainable ecosystem. The contribution of zakat in distributing wealth and supporting monetary policy can also increase the stability of the value of money and supply basic needs of the community, especially in the midst of global economic challenges (Cintana, 2022). The combination of all these factors shows that with proper planning and strategy, Islamic financial stability can be strengthened to face challenges while taking advantage of existing opportunities.

D. CONCLUSIONS AND SUGGESTIONS

The stability of the financial system in the perspective of Islamic economics forms a paradigm that emphasizes not only economic efficiency and resilience, but also on ethical values, social justice, and sustainable development. Islamic banking is showing positive dynamics globally with a significant contribution to financial stability through growth market, product innovation, and technology integration. Support for wealth distribution such as zakat strengthens the social function of this system, making it a promising alternative to facing global economic challenges.

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