

# The development of Islamic finance literature in response to economic turbulence: A systematic review of financial stability strategies

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## ABSTRAK

### Introduction

Economic turbulence remains a persistent challenge globally, as evidenced by historical crises such as the Great Depression, the 2007–2009 Global Financial Crisis, Brexit, and the COVID-19 pandemic. These events have underscored the necessity for resilient and ethically sound financial frameworks. Islamic finance has gained attention as a viable alternative financial system, potentially offering enhanced stability during periods of economic instability.

### Objectives

This study systematically reviews existing literature on the development and responses of Islamic finance during various economic disturbances. It aims to identify how Islamic financial institutions adapt their strategies, products, and services in response to crises, and highlight areas for future research.

### Method

The systematic literature review method was used, analyzing 76 academic articles published between 2007 and 2023 from high-quality journals (Q1 and Q2) indexed in the Scopus database. Articles were carefully screened using defined inclusion and exclusion criteria to ensure relevance to economic crises and Islamic finance.

### Results

Findings reveal that Islamic financial markets and Islamic banking were the predominant topics, demonstrating varied responses to economic shocks. Islamic banks, employing profit-loss sharing models, exhibited resilience during economic downturns, though

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inefficiencies in profitability and capitalization were noted. Islamic financial markets, characterized by ethical investments and low leverage, provided diversification advantages but remained vulnerable due to limited portfolio diversity. Additionally, Islamic social finance tools such as zakat and waqf were beneficial in supporting economic recovery, especially during the COVID-19 crisis.

### Implications

The study suggests that governments and policymakers should promote profit-loss sharing models in Islamic banking and encourage greater diversification in Islamic financial markets to enhance resilience. Additionally, Islamic social finance should be further integrated into economic recovery strategies to mitigate crisis impacts.

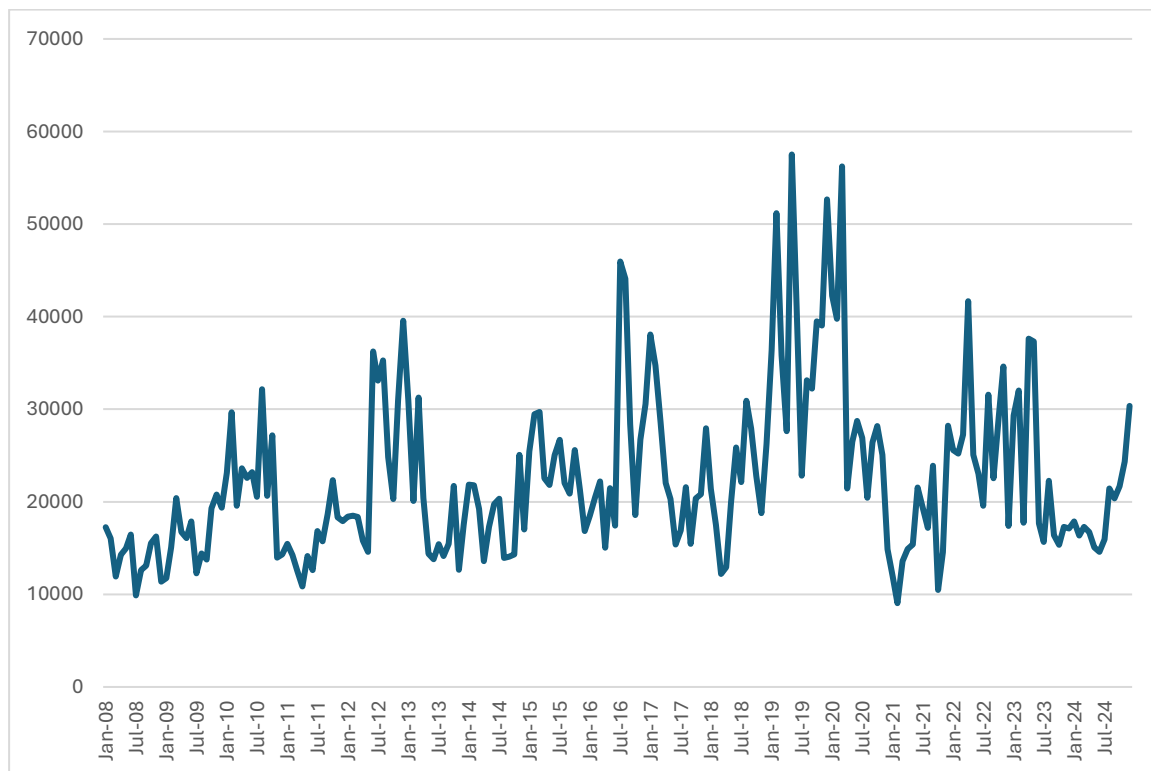
### Originality/Novelty

This research uniquely synthesizes insights into the adaptive responses of Islamic financial institutions across historical economic crises, addressing a significant knowledge gap in Islamic finance literature. By providing comprehensive future research directions, it contributes valuable guidance for scholars, practitioners, and policymakers aiming to develop sustainable and resilient financial systems.

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## INTRODUCTION

Economic turbulences have remained a persistent challenge throughout history, causing disruptions and uncertainties in financial systems across the globe. These periods of upheaval highlight the need for resilient and ethically sound financial frameworks that can weather the storms of instability. The first economic crisis can be traced back to 1929, when the Great Depression had far-reaching effects on the global economy and society and lasted for decades. It caused significant worldwide economic, sociological, and political consequences (Ardan, 2023). Another significant crisis recorded was the Global Financial Crisis, which seemed as intense as the economic downturn experienced during the Great Depression (Shomali & Giblin, 2010). This crisis began after 2007 and continued into 2009 when global output contracted for the first time in nearly three decades. The repercussions of this period of extreme instability continue to significantly impact national economies and various organizations (McCarthy & Sheehan, 2014).

**Figure 1***World Uncertainty Index (WUI): Global, January 2008–December 2024*

Note: The WPUI is computed by counting the percent of word “uncertain” (or its variant) near a word related to policy and politics in the Economist Intelligence Unit country reports. The WPUI is then rescaled by multiplying by 1,000,000. A higher number means higher uncertainty and vice versa.

Source: World Uncertainty Index (2025)

The World Uncertainty Index in Figure 1 highlights global economic uncertainty from January 2008–December 2024, with peaks remarkable events such as Brexit in 2016 (Graziano et al., 2024; T. A. Hassan et al., 2024) and the COVID-19 pandemic in 2020 (Altig et al., 2020; Choi, 2020). Despite a decline in 2022, uncertainty remains higher than pre-2016 levels, reflecting ongoing instability. These fluctuations underscore the persistent challenge of economic turbulence, which echoes historical crises such as the Great Depression and the Global Financial Crisis of 2007–2009. Such recurring instability underscores the need for resilient and ethical financial frameworks, such as Islamic finance, to foster stability and sustainability in the global economy.

In this context, Islamic finance has emerged as a distinct and noteworthy alternative that navigates through economic uncertainties and offers a unique approach rooted in ethical principles. Diaw (2015) stated that Islamic financial institutions demonstrated greater stability than their conventional counterparts during the Global Financial Crisis (GFC). During the crisis, Islamic banks displayed greater resilience when compared to conventional banks, in part because of the unique business model inherent to Islamic banking. Islamic finance is considered more secure than conventional finance and can potentially mitigate the severity and frequency of



financial crises. This is achieved through its built-in checks and balances, which help shield it from risks that could otherwise lead to the escalation of financial crises (Baber, 2018). While conventional financial systems have long been dominant players in global economies, Islamic finance has garnered increasing attention for its potential to provide stability, sustainability, and inclusivity during economic turmoil.

Systematic reviews have primarily emerged in medical science as a means to systematically, transparently, and reproducibly consolidate research findings. They have been recognised as the highest standard among review methodologies (Snyder, 2019). Theoretical models from literature review studies can serve as valuable typologies, foundations, or perspectives for researchers and practitioners in their quantitative or qualitative research studies and/or professional practice (Paul & Criado, 2020). Systematic reviews set themselves apart from traditional narrative reviews through their rigorous, transparent, and replicable approach, which seeks to reduce bias by conducting comprehensive searches of published and unpublished studies (Tranfield et al., 2003).

The existing study of systematic literature review (SLR) has been conducted concerning economic shocks and disasters. Adeniyi et al. (2016) summarises the works of literature about financing and investment aspects for enhancing disaster resilience within the Built Environment. Nevertheless, the study mainly focused on the resilience of the built environment, ignoring the socioeconomic effects of disasters and the broader effects on the financial system. Meanwhile Ererdi et al. (2022) extensively review the research fields within the literature on uncertainty and crises, focusing on their effects on international Human Resource Management (HRM). This paper, however, ignores the potential effects of diverse financial systems, such as Islamic financing, on organizational resilience in countries prone to economic instability. Okuyama (2007) investigated research models used to assess the economic impact of disasters. The study focused on economic modelling methodologies such as input-output and computable general equilibrium models. However, it does not address sector-specific effects, including those observed within Islamic finance or other alternative financial systems. In addition, Sargiacomo et al. (2021) provided an examination of historical published studies about the accounting aspects of natural disasters. This paper did not systematically analyze the financial institutions' responses to economic turbulence but instead focused on historical accounting practices related to natural disasters. Additionally, this article only discusses past accounting procedures rather than how financial institutions have changed in reaction to economic downturns.

The Islamic finance sector has been growing rapidly recently, but there is still an absence of understanding regarding how it has responded to various economic shocks and uncertainties throughout history. This paper fills this knowledge gap by examining how Islamic financial institutions have adapted to economic turbulences regarding their products, services, and operations. Investigating the impact of the economic shock on the Islamic financial sector and its adaptive strategies offers valuable insights into the sector's resilience and survival strategies in future crises. The various economic turbulences analysed in this paper include the Asian crisis, global financial crisis, Brexit,

inflation, oil price shocks, the COVID-19 pandemic, and others. From a practical standpoint, this paper can be used to develop various policies to mitigate risks arising from the crisis and increase the resilience of Islamic financial institutions. Additionally, the study's findings can inform future research directions, bridging gaps in understanding the strategies adopted by Islamic financial institutions to counter uncertainty, economic shocks, and political instability. Ultimately, this research underscores the importance of Islamic finance as a viable framework for building robust, sustainable, and inclusive financial systems in an increasingly volatile world.

Thus, the purpose of this study is to analyze: (1) The impact of the crisis and economic uncertainty on Islamic finance in various periods; (2) Strategies implemented in responding to crises and uncertainties, namely in responding to financial crises, natural disasters, and political uncertainties; and (3) Future research direction aim to bridge gaps in understanding the strategies adopted by Islamic financial institutions (IFIs) to counter economic turbulence, uncertainty, and crises, as discussed in the existing literature. The remaining sections of this study are organised as follows: Part 2 outlines the data and materials employed in this systematic review, encompassing article sources, methodologies, phases of analysis, and interpretation of findings. Part 3 elaborates on the existing research on various discussed topics. Section 4 presents the general features of the study and discussion, while section 5 summarises the findings.

## METHOD

This section outlines the data, sources, and filtering procedures employed in this study. The dataset used in our research comprises literature that has been published and indexed in the Scopus database from 2007 to 2023, accessed on July 4, 2023. Our initial selection for this year's data begins with the earliest publications on economic turbulence and Islamic finance. We conducted searches using a range of keywords, including the following: "Asian AND crisis 1997 AND Islamic AND finance", "financial AND crisis 2008 AND Islamic AND finance", "economic AND crisis AND Islamic AND finance", "Covid-19 AND Islamic AND finance", "Economic AND turbulences AND Islamic AND finance", "Economic AND Shock AND Islamic AND finance", "Financial AND shock AND Islamic AND finance", "Uncertainty AND Islamic AND finance", "Recession AND Islamic AND finance", "Economic downturn AND Islamic AND finance", "Disaster AND Islamic AND finance", "Political instability AND Islamic AND finance", and "Hostile environment AND Islamic AND finance" in (Table 1)

**Table 1**

*Number of Papers Based on Selection Criteria*

No	Keywords	Amount of paper	Subject area	Article only	Language: English	Source: Journal
1.	Asian AND crisis 1997 AND Islamic AND finance	13	10	8	8	8

<b>2.</b>	Financial AND crisis 2008 AND Islamic AND finance	56	37	29	29	29
<b>3.</b>	Economic AND crisis AND Islamic AND finance	131	101	73	72	71
<b>4.</b>	Covid-19 AND Islamic AND finance	102	76	49	49	49
<b>5.</b>	Economic AND turbulences AND Islamic AND finance	4	4	2	2	2
<b>6.</b>	Economic AND Shock AND Islamic AND finance	23	21	18	18	18
<b>7.</b>	Financial AND shock AND Islamic AND finance	51	45	37	37	37
<b>8.</b>	Uncertainty	79	60	36	36	36
<b>9.</b>	Recession	12	9	5	5	4
<b>10.</b>	Economic downturn	8	6	6	6	6
<b>11.</b>	Disaster	7	4	2	2	2
<b>12.</b>	Political instability	5	2	1	1	1
<b>13.</b>	Hostile environment	1	1	1	1	1
Total		492	376	267	266	264

Source: Secondary data. Authors' Analysis.

We obtained 492 publications based on these keywords. Filtering based on subject area (Economics, Econometrics and Finance; Business, Management and Accounting) resulted in 376 papers. Furthermore, we excluded publications in the form of conference papers and books, resulting in publications in journal articles totaling 264 papers.

Furthermore, to ensure the selection of high-quality publications, we assess both the journal's quality (based on its ranking on Scimago) and the publisher's credibility. Specifically, we have chosen journals from the top two quartiles (Q1 and Q2) in the Scopus database<sup>1</sup> and reputable publishers known for their expertise in publishing finance-related papers, including: Elsevier B.V., Taylor and Francis Ltd., Borsa Istanbul Anonim Sirketi, Routledge, Emerald Group Publishing Ltd., Springer Science and Business Media B.V., John Wiley and Sons Inc, and Cambridge University Press. Subsequently, we filtered data by examining content aligning with the research objectives. We excluded papers for several reasons: (1) Papers addressing Islamic finance (IF) issues generally, not during crises; (2) Papers discussing crises but not related to IF; (3) Papers providing only a brief mention of IF and the crisis while focusing on other topics like Islamic economics fundamentals or contracts; and (4) Papers related to IF but placed within the management, marketing, or corporate social responsibility (CSR) sections. After the last filtering round, we ended up with a dataset comprising 76 publications for this research.

<sup>1</sup> Journals in Q1 have the highest impact factor within their respective field and often attract high-quality research article. Q2 journals are considered reputable and can still be a valuable outlet for publishing research. Q1 and Q2 journals tend to have a broader readership, leading to increased visibility and impact for published research.

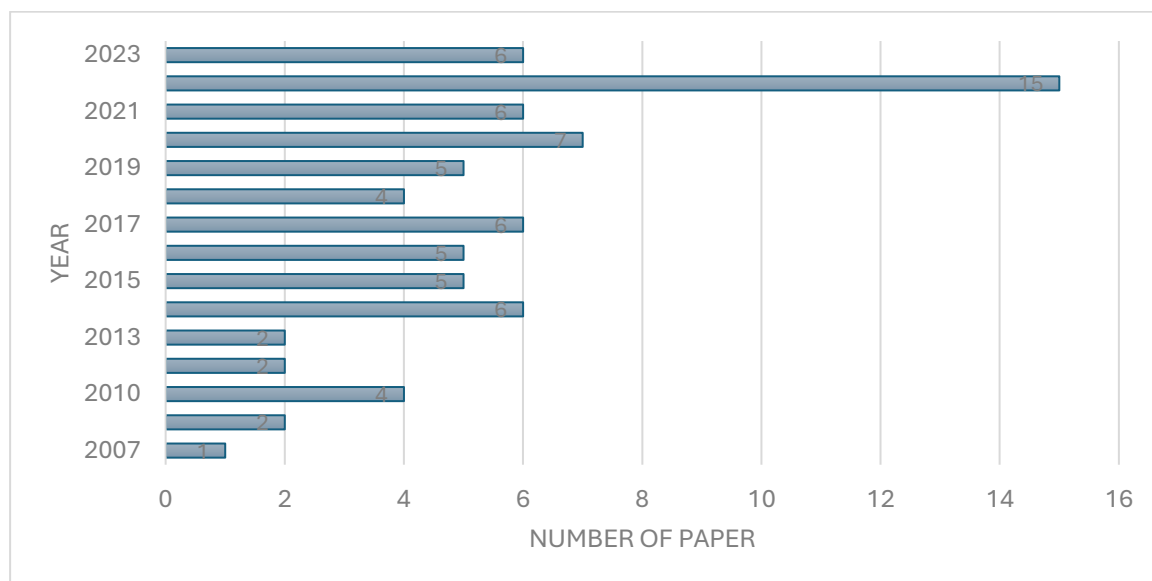
## RESULTS

### Development of Publication by Year

Figure 2 shows that the number of publications on economic turbulence has generally increased. While only a handful of papers were published in 2007, for example, there were over 15 papers published in 2022. This suggests that economic turbulence has become a more pressing concern, or that research interest in the topic has grown. The growth in the number of papers is also in line with economic events throughout history. Starting in 2010, when the number of papers increased along with the Global Financial Crisis phenomenon that occurred in the previous year, as well as in 2021 which is a response to two events: Brexit and the Covid-19 pandemic. The most significant growth in the number of papers occurred in 2022, in response to the Covid-19 pandemic phenomenon, which became a hot topic of discussion, especially regarding fluctuations in the Islamic capital market.

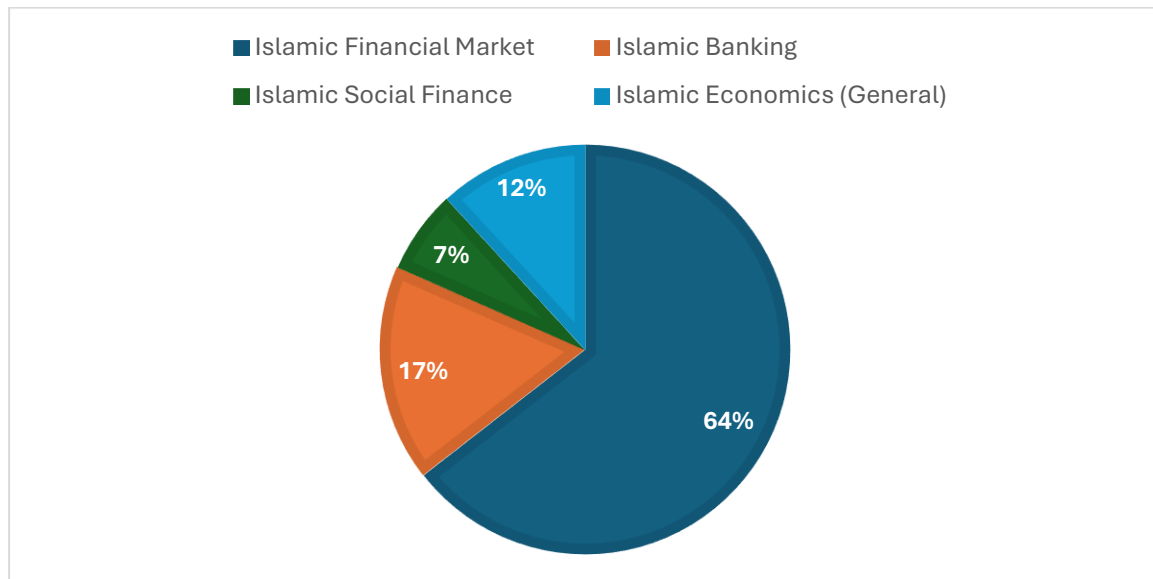
**Figure 2**

*Number of Paper per Year*

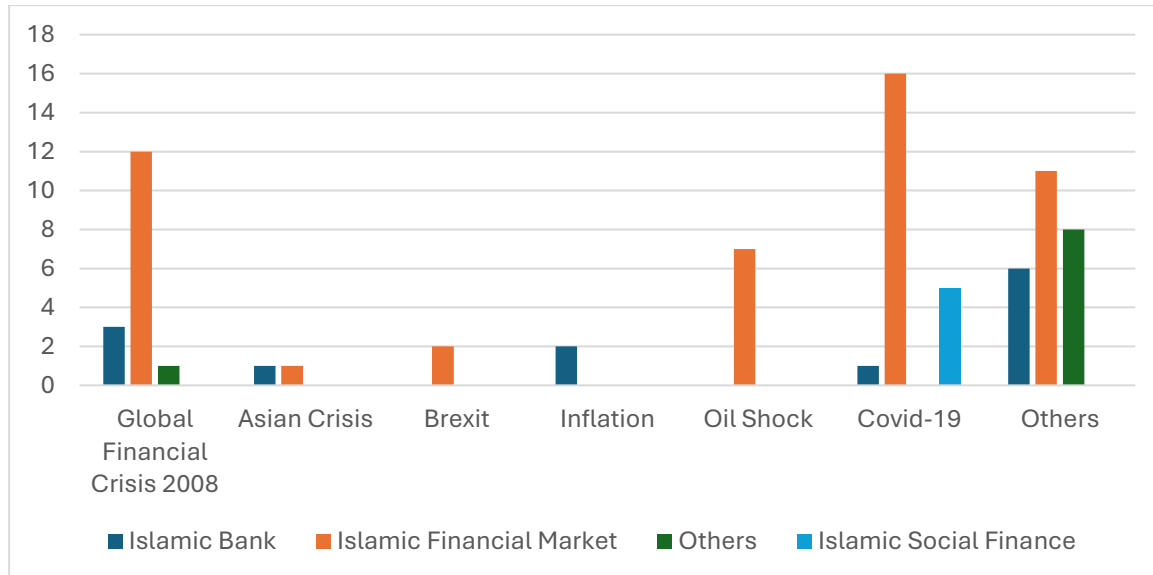


Source: Secondary data. Authors' Analysis.

The subject that has garnered the most attention from researchers throughout economic instability is associated with the Islamic Financial Market, as it remains the most extensively studied topic in response to economic turbulence, as shown in Figure 3.

**Figure 3***Number of Papers Based on Topics*

Source: Secondary data. Authors' Analysis.

**Figure 4***Number of Paper Published based on Economic Turbulences*

Source: Secondary data. Authors' Analysis.

Figure 3 provides additional insight, illustrating that during the economic shock period, the subject of the Islamic financial market stood out as more prominent compared to other subjects like Islamic banking and Islamic social finance. Specifically, discussions related to Islamic banking gained significance as a response to the 2008 Global Financial Crisis as shown in Figure 4.

### Citation Analysis

Table 2 highlights the most cited papers related to the topic of economic turbulences. One highly cited paper, titled "How strong are the causal relationships between Islamic stock markets and conventional financial systems? Evidence from linear and nonlinear tests" (Ajmi et al., 2014), received 159 citations. This paper used linear and nonlinear tests to explore the causal relationships between Islamic stock markets and conventional financial systems. The high number of citations suggests that this study has made a significant contribution to understanding the interconnections and dynamics between these two financial systems.

**Table 2**

*Most Cited Papers*

No	Author	Title	Citation
1	Ajmi et al. (2014)	How strong are the causal relationships between Islamic stock markets and conventional financial systems? Evidence from linear and nonlinear tests	159
2	Jawadi et al. (2014)	Conventional and Islamic stock price performance: An empirical investigation	154
3	Rosman (2014)	Efficiency of Islamic banks during the financial crisis: An analysis of Middle Eastern and Asian countries	132
4	Majdoub & Mansour (2014)	Islamic equity market integration and volatility spillover between emerging and US stock markets	127
5	Dewandaru et al. (2014)	Stock market co-movements: Islamic versus conventional equity indices with multi-timescales analysis	118
6	Saiti et al. (2014)	The diversification benefits from Islamic investment during the financial turmoil: The case for the US-based equity investors	108
7	Rizvi et al. (2015)	Crises and contagion in Asia Pacific - Islamic v/s conventional markets	106
8	Ahmed (2010)	Global financial crisis: an Islamic finance perspective	106
9	Abedifar et al. (2016)	Finance-growth nexus and dual-banking systems: Relative importance of Islamic banks	72
10	Yilmaz et al. (2015)	Cross-sectoral interactions in Islamic equity markets	66

Source: Secondary data. Authors' Analysis.

Among the journals examined, the International Journal of Islamic and Middle Eastern Finance and Management, published by Emerald, stands out as the most cited. It boasts an impressive record of 16 publications, and these works have accumulated a substantial 326 citations. This indicates that the journal has a notable influence and recognition within the field of Islamic finance, highlighting its influence in the academic community.

**Table 3***Most Cited Journals*

Source Title	Publisher	Number of Publication	Citation
<b>International Journal of Islamic and Middle Eastern Finance and Management</b>	Emerald	16	326
<b>Pacific Basin Finance Journal</b>	Elsevier	4	310
<b>Borsa Istanbul Review</b>	Borsa Istanbul Anonim Sirketi	6	214
<b>Journal of International Financial Markets, Institutions and Money</b>	Elsevier	4	172
<b>International Economics</b>	Elsevier	1	154
<b>Others</b>		45	880
<b>Total</b>		76	2056

Source: Secondary data. Authors' Analysis.

**Table 4.***Most Cited Publishers*

Publisher	Number of Publication	Citation
<b>Elsevier</b>	25	1189
<b>Emerald</b>	24	405
<b>Borsa Istanbul Anonim Sirketi</b>	6	214
<b>John Wiley and Sons Inc.</b>	8	61
<b>Palgrave Macmillan</b>	2	60
<b>Others</b>	11	127
	76	2056

Source: Secondary data. Authors' Analysis.

Table 4 shows that Elsevier emerges as the most cited publisher in the dataset, with a remarkable 25 publications and 1,189 citations. This substantial citation count underscores the significant impact and recognition that Elsevier has achieved in the academic landscape. Their publications have played a pivotal role in contributing to the scholarly discourse and knowledge dissemination within the respective field, making them prominent and influential players in academic publishing.

### Existing Research

The intersection of Islamic finance and economic turbulences has been a subject of growing interest within the academic community. We conducted a thorough analysis to gather insights from different studies. Table 5 summarises important key findings from the most cited papers in each topic throughout history.

**Table 5***Key Findings from Most Cited Papers of Each Topics*

Theme	Sub-Theme	Author	Findings
Islamic Banking	Strategy	Nastiti & Kasri (2019)	The stimulus regulation had a positive impact on the acceleration of Islamic bank financing. The fintech-related regulation did not yield immediate effectiveness.
	Impact	Rosman et al. (2014)	Islamic banks effectively managed the financial crisis but faced inefficiencies issues from profitability and capitalisation
		Abedifar et al. (2016)	There is a notable positive correlation between the market share of Islamic banks and financial intermediation, financial deepening, and economic welfare. A higher market share of Islamic banks is linked to the increased efficiency of conventional banks.
		Jobst et al. (2008a)	Islamic banking systems with PLS reduce economic activity, but it is more resilient during crises.
Islamic Financial Market	Connectedness	Ajmi et al. (2014)	There is a significant linear and nonlinear causality between Islamic and conventional stock markets, with stronger effects from the Islamic market to other markets. There is also a strong causality between the Islamic market and financial and risk factors.
		Majdoub & Mansour (2014)	There is a weak correlation between US and Islamic emerging markets. The conditional correlations indicate insignificant transmission of shocks.
	Market behaviour and Portfolio	Jawadi et al. (2015)	Emerging Islamic stock markets exhibit lower efficiency compared to developed Islamic markets. Long-term efficiency for developed Islamic markets is suggested, despite potential short-term inefficiencies.
		Saiti et al. (2014)	Islamic countries provide superior diversification advantages compared to Far East countries, with important implications for domestic and international investors seeking portfolio diversification to mitigate unforeseen risks.
	Impact	Yilmaz et al. (2015)	Islamic equity indexes are susceptible to global shocks affecting the global financial system. Caution is advised when interpreting and forecasting the interaction patterns among Islamic equity sectors.

Islamic Economics (general)	Co-movement	Dewandaru et al. (2014)	Shocks were transmitted through excessive linkages, and the subprime crisis showed contagion based on fundamentals. Islamic markets displayed reduced exposure to the crisis due to low leverage but might be vulnerable to other crises due to less diversified portfolios.
		Rizvi et al. (2015)	Islamic equities and their composition have the potential to function as a safeguard during financial crises.
	Islamic Contracts	Wong & Eng (2018)	Islamic financial contracts can amplify shocks similarly or even to a greater extent than conventional contracts. The effects on entrepreneurs' and banks' leverage differ based on the source of the shock and are opposite to those observed with conventional debt contracts. Favourable aggregate supply and monetary shocks increase overall leverage, while shocks that positively impact preference and marginal efficiency of investment reduce leverage.
		Ahmed (2010)	<i>Musharakah</i> is the least risky contract for the principal compared to <i>Mudarabah</i> and venture capital in both low and high shock scenarios. market frictions lead to higher audit costs and profit-sharing ratios. The increase in the safety index during high shocks is likely due to heightened audit parameters to mitigate agent's behaviour across all contracts.
	ISF Potential	Ascarya (2022)	Islamic social finance (ISF), through instruments like <i>zakat</i> , <i>infaq</i> , and <i>waqf</i> , has the potential to aid in the government and economic recovery from crises.
Islamic Social Finance	Zakat	Hudaefi & Beik (2021)	The inclusivity of digital content plays a crucial role in promoting <i>zakat</i> as a religious obligation, leading to social and financial benefits.

Source: Secondary data. Authors' Analysis.

Table 5 shows various findings on how each Islamic Financial Institutions sector reacts to economic turbulences. In Islamic banking, strategic and impact studies show that stimulus regulations positively impact Islamic bank financing, whereas fintech regulations have a limited immediate effect. According to previous research, Islamic banks performed well during the global crisis despite ongoing inefficiencies in profitability and capitalisation. Higher market share for Islamic banks leads to

increased economic welfare. Also, the PLS system provides resilience during times of economic downturn.

Conversely, Islamic financial markets significantly impact conventional stock markets and other financial and risk factors, particularly in terms of linear and nonlinear causality. Studies show that emerging Islamic equity markets are less efficient than developed markets, yet they provide distinct diversification benefits to investors. The diversification advantages of Islamic countries, especially compared to Far East markets, are high and hence valuable for investors aiming at portfolio risk reduction. Studies also find that the efficiency level in emerging Islamic stock markets is low compared to developed ones. Islamic equity indexes are also vulnerable to global financial shocks, which require cautious interpretations of their performance and forecasts. While low leverage made Islamic markets resilient during inevitable crises, they would remain potentially vulnerable to future crises because portfolio diversification is low. Islamic equities' composition and low leverage tend to act like a hedge in bad economic times. Therefore, in periods of losses that occurred during economic decline, this could be an attractive option for investors desiring stability during turbulent conditions.

To sum up, Islamic finance has demonstrated resilience during crises, serves as a source of diversification for investors, and provides a specialized social finance tool that might be useful for recovery even though inefficiencies and global vulnerabilities continue in some areas, such as in the Islamic financial market.

## DISCUSSION

### The Impact of the Crisis and Economic Turbulence on Islamic Finance in Various Periods

#### *Islamic Bank*

A Sharia banking system that applies the profit and loss sharing (PLS) principle tends to slow down economic activity but shows better resilience in facing crises (Jobst et al., 2008b). The influence of the financial crisis also has implications for the profitability of Islamic banks from a conventional banking perspective (Mohammed & Muhammed, 2017). During the financial crisis between 2007 and 2010, Islamic banks in the Middle East and Asia managed to overcome the financial crisis effectively. Still, they faced obstacles in terms of inefficiencies in profitability and capitalization factors (Rosman et al., 2014). Research conducted by Caporale et al. (2020) in Malaysia from January 1994 to June 2015 found that Sharia credit shows a slower response to changes in interest rates than conventional credit, both in high and low economic growth situations. A striking positive effect from disruptions in Sharia credit can be seen in the production output growth, especially when the economy experiences lower growth. However, in the GCC countries, between 2001–2009 and 2010–2017, Islamic banks showed a stronger positive impact on economic growth than conventional banks before and after the financial crisis. A significant positive influence of ethical principles in Islamic finance on economic growth was found (Elmawazini et al., 2020). In addition, Bilgin et al. (2021)



revealed that Islamic banks are immune to economic uncertainty downturns in countries with explicit deposit insurance protection for Islamic banks, lower foreign presence, and countries with a higher share of deposits and assets in Islamic banks.

The research by Hossain (2016) analyzed the effects of inflationary turmoil on the real economy in nine countries with a majority Muslim population and Sharia banking systems. The impact of inflation fluctuations affects real interest rates and exchange rates, ultimately affecting real output growth. Trabelsi & Trad (2017) found that overall, there is no significant relationship between the inflation rate and the profitability of Sharia-based financial institutions (IB) at the macroeconomic level. Furthermore, Abedifar et al. (2016) found a significant positive relationship between Islamic bank market share and financial intermediation, financial depth, and economic prosperity. When the market share of Islamic banks increases, this is also related to increased efficiency in conventional banks.

During the COVID-19 crisis, Islamic banks experienced a greater increase in financial income and net income compared to conventional banks. This increase is a response to the income support program that was implemented. It can be seen that the share prices of Islamic banks are more positively responsive to income support programs than those of conventional banks. Nonetheless, it is important to note that Sharia compliance principles do not completely protect Islamic banks from the impact of the crisis. In general, Islamic banks show a more positive response to income support efforts than conventional banks (Alabbad & Schertler, 2022).

### **Islamic Financial Market**

#### **a. Global Financial Crisis (GFC)**

The Islamic stock market is not completely immune to the global financial crisis. Even though, Karake-Shalhoub (2008) found that the impact of the GFC on the sukuk market tended to be more limited. Furthermore, industries that follow Sharia principles in Islamic markets, especially the consumer services and financial sectors, have shown better performance than other industrial sectors, both in Islamic and conventional markets. This reflected their resilience since the GFC in 2008 (Liu & Chang, 2021). In terms of resilience, Islamic mutual funds and Islamic equity indexes are vulnerable to global shocks, outperforming conventional investments since the subprime crisis (Jawadi et al., 2020; Yilmaz et al., 2015).

On the other hand, Dewandaru et al. (2014) found that the Islamic financial market is resilience to crises through low leverage exposure, but a less diversified portfolio allowed for vulnerability to other types of crises. Sharia-compliant equities had better overall returns than other portfolios, although they slightly underperformed the market during periods of increased economic growth (Alam & Rajjaque, 2010). Meanwhile, in the sukuk market, global shocks were found to have a significant impact on sukuk spreads in several regions. European and US macroeconomic announcements and policy uncertainty influence sukuk spreads more than conventional bonds (Balli et al., 2020).

During periods of crisis, an important interdependence is observed between conventional stock markets and Islamic stock markets ([Ben Rejeb, 2017](#); [Lai et al., 2017](#)). The level of integration and causality among Islamic stock markets varies over time, especially during financial crises. From mid-2008 to mid-2014, the dynamic correlation between Islamic and conventional stock markets and the oil market increased significantly ([Mezghani & Boujelbène, 2018](#)). Various countries such as the stock markets in the UK, Canada, the US, Malaysia, and India revealed that there is a strong correlation between Islamic and conventional stock markets, indicating limited diversification benefits for investors. During the period of turmoil between 2008 and 2014, there was a significant increase in the dynamic correlation between the Islamic stock market and the conventional stock market, as well as the oil market ([Matthews & Tlemsani, 2010](#)).

#### **b. Brexit**

After Brexit, there was a decreased correlation between the UK Islamic stock market and other selected markets ([M. K. Hassan et al., 2013](#)). Not only that, but the correlation between the British Islamic stock market and other markets is also decreasing. There is a strong correlation between the returns of the UK Islamic stock market and those of the Canadian, US, Malaysian, and Indian markets, indicating limited diversification benefits ([Çikryel et al., 2022](#)).

#### **c. Oil Prices**

Rising oil prices are another cause of economic turbulence. Various studies have confirmed a surge in the Islamic financial market triggered by oil price fluctuations. Alshammari et al. (2019) analysed the influence of oil prices and financial markets on the cost efficiency of the insurance and takaful sectors in GCC countries from 2009 to 2016. As a result, the relationship between oil prices and efficiency changed from positive to negative when oil prices rose. Meanwhile, Lin & Su (2020) found a negative relationship between fluctuations in oil market uncertainty and Islamic stock returns. Islamic stock markets show varying responses to changes in oil prices in different time periods and in various markets. The benefits of diversification and reduction of oil downside risk in an Oil-Islam stock investment portfolio are greater than in conventional markets ([Hadhri, 2021](#)). Study conducted by Bugshan et al. (2023) emphasised that companies that operate in accordance with sharia principles are more sensitive to oil price fluctuations compared to companies that do not follow sharia principles. Increased oil price volatility increases the potential risk of bankruptcy for Islamic companies, and positive or negative changes in oil prices have different impacts on the performance of these companies.

#### **d. COVID-19**

The impact of the pandemic was more severe but short-lived compared to the Global Financial Crisis ([Smolo et al., 2022](#)). COVID-19 affects Islamic and conventional stock markets equally. Only Islamic bonds showed resilience during the crisis ([M. K. Hassan et al., 2022](#)). During the COVID-19 pandemic, there have been significant changes in the level of interdependence between various markets, where there is a strong relationship



between the conventional stock market and the Islamic stock market. Sharia compliance markets, on average, show greater resilience to the pandemic ([Adekoya et al., 2022](#)). Conventional shares have a higher risk premium than Islamic shares. The efficient risk–return relationship applies to all portfolios but is stronger for Islamic stocks ([Hasnie et al., 2022](#)).

The Islamic index showed a negative but insignificant interaction with the disease compared to its conventional counterpart ([Sherif, 2020](#)). Meanwhile, in the sukuk market, in general, the relationship between fluctuations in sukuk prices and global economic and financial risk factors varies in frequency and strength over time. Especially in the short term, there appears to be a stronger correlation between changes in sukuk prices and certain events such as the COVID-19 situation ([Naifar et al., 2022](#)).

### **Islamic Economics in General**

During crises and economic turbulence in general, economies with Islamic finance and conventional systems show similar performance. Nevertheless, countries that adhere to Islamic financial principles tend to be more advantageous in avoiding crises and economic downturns ([Karim, 2010](#)). In his research, Fang ([2016](#)) investigated the evolving views towards Islamic financial products in global markets over the last three decades, to outline the expansion of their presence outside the Muslim community. The findings from this research indicate that Islamic Finance has experienced a shift to become a significant alternative option. After the emergence of the subprime crisis, ethical aspects were included in the context of Islamic Finance, and these two perspectives existed side by side in discussions after the crisis. Countries that adopt Islamic finance demonstrate a strong ability to avoid crises and economic downturns, particularly in certain components of the financial stress index ([Djennas, 2016](#)), Islamic financial contracts have the potential to amplify the impact of shocks, comparable or even more significant than conventional contracts ([Wong & Eng, 2018](#)).

A sharia financial system based on the principle of risk sharing will be immune to the negative detrimental impacts of an interest-based debt financial system ([Alaabed & Masih, 2016](#)). Ahmed's ([2010](#)) study on the least risky profit-and-loss sharing (PLS) contracts under market crises indicate that *musyarakah* is the least risky contract compared to *Mudarabah* and venture capital in low and high-shock scenarios. The Islamic financial market, especially the sukuk market, has attracted substantial attention from countries with both Muslim and non-Muslim majorities. However, there are crucial challenges related to dealing with legal uncertainty as well as regulatory variations that need to be addressed ([Ashraf, 2013](#)).

### **Various Strategies Implemented in Responding to Crises and Uncertainty**

#### **Islamic Bank**

Risk management mechanisms play a significant role in improving corporate governance and risk management efficiency ([Arbouna, 2007](#)). Banking capital has a crucial role in maximizing profits and stability, while minimizing credit risk in the context

of Islamic banks (IB) (Trabelsi & Trad, 2017). Regulatory stimulus policies positively affect accelerating financing in Islamic banks. The indirect influence of regulations related to financial technology (fintech) revealed a less significant impact (Nastiti & Kasri, 2019). Implementing strategies such as macroprudential substantially reduces the probability of a banking crisis by up to 50% (Smith, 2019).

### **Islamic Financial Market**

#### **a. Islamic Equity as Safe Haven during Crisis**

Islamic equities can act as a safeguard during a financial crisis (Rizvi et al., 2015). Sharia-compliant shares can provide diversification benefits by considering different economic groupings (Abbes & Trichilli, 2015). Furthermore, a significant directional connection exists between the Islamic Sharia equity index and the conventional index. The Sharia Index can be a valuable tool for hedging in times of crisis (Ahmad et al., 2018). Overall, Islamic countries offer stronger diversification advantages than Far Eastern countries. This has significant implications for both domestic and international investors who want to diversify their portfolios to reduce unexpected risks (Saiti et al., 2014). Islamic equity commodity portfolios offered better diversification benefits than conventional portfolios during the 1997 Asian Financial Crisis, but these advantages diminished during the 2008 Global Financial Crisis (Kabir et al., 2017).

As in previous financial crises that disrupted financial markets, the search for safe assets has become the main focus for investors and policy decision-makers when facing the impact of the COVID-19 pandemic crisis. During COVID-19, Islamic and conventional indices show similar patterns, but Islamic equities have lower risks. Sharia investment is an alternative choice during the pandemic (Subekti et al., 2022).

During COVID-19, the optimal portfolio includes a combination of Islamic and conventional bonds (M. K. Hassan et al., 2022). Overall, Islamic equities tend to have higher returns and lower risks than conventional equities (Smolo et al., 2022). In general, the Islamic Index demonstrates greater stability and consistency than conventional options. Furthermore, Islamic assets exhibit consistent behaviors across different regions (Khan et al., 2022).

#### **b. Gold and Cryptocurrency**

In anticipating potential losses in times of high uncertainty, investors in the stock market generally utilize protective assets such as gold and cryptocurrencies (Arif et al., 2022). Mzoughi et al. (2022) confirmed that the good performance of portfolios that include gold and Sharia indices occurs both in strong and weak market conditions, confirming gold's role as a stable haven. Gold increases diversification benefits in many cases (Kabir et al., 2017).

Meanwhile, for assets in the cryptocurrency, S. Ali et al. (2024) found that before COVID-19, conventional and Islamic cryptocurrencies had similar performance. However, during the pandemic, there were positive developments where conventional cryptocurrencies dominated. Optimal weight analysis indicates an increase in investment in Islamic cryptocurrencies during COVID-19.



### **Islamic Social Finance**

Islamic social finance (ISF), mainly through instruments such as *zakat*, *infaq*, and *waqf*, can potentially help the government and economic recovery from the crisis (Ascarya, 2022). Cash waqf, as equity, strengthens Islamic banks' capital, addresses under-capitalisation highlighted by Ascarya et al. (2022) and lowers financing costs since it is not sourced from third-party funds. Overall, understanding and knowledge of Islamic social and financial instruments have had a positive impact in reducing poverty levels during the COVID-19 pandemic. Ethical orientation factors also have a significant role in this matter. However, only Islamic microfinance continues to make a real and positive contribution to efforts to significantly overcome poverty (Umar et al., 2022). The inclusiveness of digital content plays an important role in promoting *zakat* as a religious obligation, leading to social and financial benefits (Hudaefi & Beik, 2021). *Zakat* institutions are advised to adopt blockchain technology in management. However, there are important concerns that require attention and resolution (Mohd Nor et al., 2021).

### **Impact of Crisis on Islamic Banks**

Islamic banks operating on the PLS principle show better resistance during crises, although this may slow economic activity compared to conventional interest-based institutions. The risk is not excessively concentrated in the PLS framework because it is shared by the bank and the clients, making Islamic banks more resilient during economic downturns (Jobst et al., 2008a). However, the global financial crisis demonstrated that between 2007 and 2010, Islamic banks were still vulnerable to profitability and capitalisation, particularly in the Middle East and Asia (Rosman et al., 2014). This suggests a need for efficiency improvements to strengthen the sector's long-term sustainability. In Malaysia, for example, sharia-compliant credit reacts slower to interest rate fluctuations than conventional credit, which helps to mitigate the fall in output when the economy is experiencing slow growth (Caporale et al., 2020). This latent stabilizing effect demonstrates Islamic finance's potential as a countercyclical economic tool. Furthermore, ethical ideals inherent in Islamic banking have been connected to favourable economic growth, particularly in GCC countries where Islamic banks play a significant role in stimulating their economies (Elmawazini et al., 2020).

During the COVID-19 crisis, Islamic banks responded positively to government income support measures, increasing their financial and net income more than conventional banks (Alabbad & Schertler, 2022). This highlights Islamic banks' response to fiscal support, emphasising the necessity of targeted government aid in strengthening financial resilience. However, Islamic banks' commitment to Sharia rules does not fully protect them from economic downturns, underlining the importance of ongoing risk management and operational efficiency improvement.

### **Resilience and Vulnerabilities in the Islamic Financial Market**

The Islamic financial market, especially *sukuk*, has been more resilient in the global financial crisis. *Sukuk* has become less susceptible during the crisis than the

conventional bond, reflecting its potential as a financial stabilising instrument in volatile periods (Karake-Shalhoub, 2008). Besides, the Sharia-compliant industries of consumer services and finance outperformed the rest, which once more underlined the resilience of ethical finance models (Liu & Chang, 2021). However, despite this resilience, Islamic mutual funds and equity indexes remain susceptible to global shocks, a vulnerability evident after the subprime crisis (Jawadi et al., 2020; Yilmaz et al., 2015). This highlights the need for enhanced risk mitigation strategies to protect Islamic investments from global economic volatility.

### Islamic Finance's Performance During the COVID-19 Pandemic

Sukuk showed its visible strength during the COVID-19 pandemic and outperformed conventional assets when similar conditions hit these financial assets (M. K. Hassan et al., 2022). However, Islamic stock markets suffer exactly the same way conventional markets do, highlighting their interconnectedness during times of crisis. Despite this, Islamic stocks maintained a lower risk premium and were, hence, one of the safest investments during the pandemic (Hasnie et al., 2022). This finding strengthens the demand for Islamic stocks for risk-averse investors. Sukuk's resilience as a secure asset during crises highlights its potential as a preferred investment vehicle in Islamic finance, particularly during pandemics or other global health crises.

### Broader Implications of Islamic Finance Principles

The Islamic finance model is more resilient to crises and seeks to safeguard economies against sharp downturns due to its risk-sharing and ethical foundation. Countries for which Islamic finance is used in addition to conventional finance tend to hold up better when turbulent times strike their economy than those relying solely on conventional methods (Karim, 2010). Also, an ethical orientation of Islamic finance that gained momentum in the wake of the subprime crisis has presented it as a viable alternative globally (to both Muslim and non-Muslim groups) of recent date (Fang, 2016). Because the risk-sharing model is inherent in Islamic finance, it minimises the vulnerabilities associated with interest-based systems, making it an attractive framework for financial stability during global economic instability (Alaabed & Masih, 2016).

### Islamic Social Finance for Crisis Support

Islamic social finance, such as *Zakat*, *Infaq*, *Sadaqah* and *waqf*, is vital in facilitating economic recovery and poverty reduction during a crisis. COVID-19 has shown that Islamic social finance can reduce poverty, with *zakat* management benefiting from digital content inclusiveness (Ascarya, 2022; Hudaefi & Beik, 2021). Adopting blockchain technology in *zakat* management could further improve transparency and accountability, yet particular difficulties with this innovation must be carefully considered (Mohd Nor et al., 2021). In summary, Islamic social finance remains a powerful mechanism for fostering social welfare and economic stability during periods of difficulty.

These various insights develop and emphasise Islamic finance's robustness, ethical advantage, and adaptability. While Islamic finance has considerable strength in its

ethical foundation and principles of risk-sharing, its total potential contribution to solving financial and social problems could be expressed by enhancing its regulatory clarity, diversification, and risk management.

### **Future Research Agenda**

This study examines the impacts and strategies implemented to respond to various economic turbulences throughout history and highlights future research possibilities. These opportunities focus on addressing gaps concerning strategies used by IFIs during economic turbulence, crises, and uncertainty.

Based on the findings, the following research agenda is suggested:

1. **Resilience and Profitability Assessment:** Further research should be conducted to assess Islamic banks' resilience to specific economic crises in various environments. Given the unique PLS principle of Islamic banking, this could allow a fair comparison of profitability and efficiency between Islamic and conventional banks under various economic conditions, potentially resulting in an ideal model for the PLS principle.
2. **Response of Sharia Credit to Interest Rate Change:** This study looks at how Sharia credit responds to the change of interest rate, particularly in low and high economic growth conditions, with further explanation of how stability can be improved within Islamic finance. Case studies from various countries, particularly emerging markets for Islamic financing, would provide comparative data.
3. **Vulnerability to Global Financial Crises:** another study can determine the mechanisms by which Islamic financial markets, particularly Islamic mutual funds and equity indexes, are exposed to global shocks. The study may focus on individual vulnerabilities and potential mitigation measures for strengthening crisis resilience.
4. **Portfolio diversification as a crisis-risk reduction strategy:** Portfolio diversification studies in Islamic financial markets can be done to develop a diverse strategy that decreases crisis risk. Analysis of various sectors within Islamic markets, such as consumer services and finance, can help investors and regulators make informed decisions about performance.
5. **Impact of Macroeconomic Announcements on Sukuk Markets:** Detailed investigations on how specific macroeconomic announcements and policy changes in the US and Europe impact sukuk spreads instead of conventional bonds could help predict market behaviours and inform regulatory policies.
6. **More research needs to be conducted to develop robust risk management models,** including models related to credit risk, liquidity risk, and unique operational risks for Sharia-compliant institutions.

Additionally, according to the analysis findings, subjects related to Islamic financial entities beyond traditional banks and financial markets have received limited attention from researchers. Future researchers can explore Islamic insurance (takaful), Islamic

microfinance institutions, Sharia fintech, and Sharia venture financial institutions. These studies could focus on how these financial entities respond to economic disruptions and the strategies that can be employed to mitigate associated risks.

Apart from that, topics related to Islamic banks also tend to be less developed than topics about Islamic financial markets. For further research, the various instruments and risks Islamic banks face during crises and uncertainty will be interesting. Also, the strategies and risk management implemented in various countries can become best practices that provide insight for readers about how to deal with crises. Researchers also analyse further research agendas from existing papers, as shown in the table below.

**Table 6**

*Future Research Agenda*

Topic	Author	Future Research Agenda
<b>Islamic Financial Market</b>	Adekoya et al. (2022)	To investigate the relationship between Islamic stocks and other stable assets, such as well-established precious metals like gold, silver, palladium, and platinum. Focus into the microstructure traits of Islamic investments, including investor types (individual vs. institutional), trading behaviours (short-term vs. long-term), and qualitative investor attributes. Analysing how these traits vary across countries and over time could enhance our understanding of evolving dynamics in Islamic investments.
	F. Ali et al. (2022)	To include additional Islamic financial assets like conventional and green sukuk. To further investigate how combining Islamic cryptocurrencies with other environmentally compliant financial assets can provide diversification advantages. Using AI/ML tools to explore how other asset categories such as clean energy and commodity markets interact with sectoral Islamic indices, revealing hedging and safe-haven attributes. To explore the connection between energy commodity markets and both conventional and Islamic indices across various investment time frames and market scenarios, To employ methods like combining wavelet analysis and Cross-Quantilogram techniques. To assess the extent of market interdependencies in different investment periods, such as when calculating systemic risk, can provide valuable insights. To investigate the potential for creating innovative hedging instruments for Islamic markets
	Hasan et al. (2022)	To further examine the Islamic financial landscapes of individual countries, subindices, and other related financial products like Islamic banks and mutual funds, To analyse and compare the effects of the initial and subsequent waves of the COVID-19 pandemic on various financial markets.

		Low systematic risk might be linked to lower debt levels. it is intriguing to explore if comparable results can be achieved by examining conventional companies with similarly reduced levels of debt.
	Çıkıryel et al. (2022)	To assess how the COVID-19 pandemic influenced portfolio diversification among UK Islamic stock investors. To examine the consequences of Brexit on various Islamic capital market instruments, including sukuk.
	S. Ali et al. (2024)	To examine the relationships and impact between Islamic cryptocurrencies and other assets like Equity, Bond, and Sukuk. To uncover the factors influencing the prices of Islamic cryptocurrencies.
	Subekti et al. (2022)	To enhance the Black–Litterman model by incorporating overlooked Islamic principles like comparing different SCAPM or focusing on <i>zakat</i> and purification in Shariah stock investments. Future research will highlight additional Black–Litterman portfolio models that incorporate variables such as sukuk, <i>zakat</i> , and purification.
<b>Islamic Banking</b>	Elmawazini et al. (2020)	To systematically explore the role of Islamic banking in diminishing income inequality within countries through empirical investigation.
	Rosman et al. (2014)	To examine the relative efficiency of Islamic and conventional banks. Moreover, it suggests using the Malmquist Productivity Index alongside the DEA approach to delve into evolving productivity due to technical advancements over time.

Source: Secondary data. Authors' Analysis.

## CONCLUSION

This research aims to analyse the impact and strategies of Islamic financial institutions in overcoming various economic shocks. Not only that, but this research also provides insight into opportunities for future research agendas based on existing literature. Using a Systematic Literature Review approach, this paper analyses 76 papers from various reputable journals from the Scopus database from 2009–2023. The research findings reveal that the subjects most discussed in the papers are related to Islamic financial markets and banking, with a particular emphasis on Islamic financial markets. Researchers also elaborate on the impact on Islamic financial institutions in responding to various economic shocks and the strategies used. The study underscores the importance of the future research agenda, which emphasizes the further exploration of a more comprehensive array of Islamic financial institutions (beyond just banks and financial markets), particularly concerning their impacts and implemented strategies.

Drawn from the findings of this paper, several recommendations are provided, especially for the government. *First*, in terms of Islamic banking, governments should support the Profit and Loss Sharing (PLS) models by facilitating regulations and providing financial incentives, considering that this model has consistently shown greater resilience during periods of crisis. Malaysia, for example, through the national budget 2025, has urged Islamic banks to offer products and services based on PLS contracts. The reasons for using PLS might not be solely because of crisis purpose but rather to increase participation between the Islamic banks, businesses, and consumers.

Besides, since PLS models tend to dampen economic activity, the policy can be designed to balance economic growth with resiliency, for instance, by incentivizing sectors in which PLS models might enhance stability without significantly affecting economic dynamism. The governments should also sustain policies that improve the capitalisation and profitability perspectives of Islamic banks, especially for countries with a larger Islamic finance share: for example, by allowing more flexible frameworks for raising capital, incentivising strategic partnerships, and paving the way for access to funding alternatives, especially during non-crisis periods.

*Second*, the findings imply that the sukuk and equity indexes of Islamic markets are not immune to the risks of global financial crises. Consequently, there should be an establishment of strong regulatory frameworks through which governments can protect their markets against foreign shocks. This includes providing guidelines concerning sukuk issuance and management that will help buffer such markets against volatility from global economic events, such as changes in interest rates and significant macroeconomic announcements. Additionally, limited diversification in Islamic financial markets weakens their resiliency. As a result, governments can promote diversification by promoting investments in sectors other than the conventional resilient consumer services and banking industries. This might include providing incentives for Islamic financial institutions to invest in technology, healthcare, and other expanding areas, thereby reducing dependency on oil and other vulnerable sectors. *Third*, given the resilience of Islamic finance to crisis, governments can implement specific crisis-preparedness mechanisms by using the inherent risk-sharing principles of Islamic finance. This may involve targeted facilitation of Sharia-compliant enterprises during economic turbulence or contingency funds that help Islamic institutions during crises.

### Author Contributions

Conceptualization	M.D.P., B.A.F., P.S.S., & Resources	M.D.P., B.A.F., P.S.S., & N.R.S.B.M.D.
Data curation	M.D.P., B.A.F., P.S.S., & Software	M.D.P., B.A.F., P.S.S., & N.R.S.B.M.D.
Formal analysis	M.D.P., B.A.F., P.S.S., & Supervision	M.D.P., B.A.F., P.S.S., & N.R.S.B.M.D.
Funding acquisition	M.D.P., B.A.F., P.S.S., & Validation	M.D.P., B.A.F., P.S.S., & N.R.S.B.M.D.
Investigation	M.D.P., B.A.F., P.S.S., & Visualization	M.D.P., B.A.F., P.S.S., & N.R.S.B.M.D.
Methodology	M.D.P., B.A.F., P.S.S., & Writing – original draft	M.D.P., B.A.F., P.S.S., & N.R.S.B.M.D.
Project administration	M.D.P., B.A.F., P.S.S., & Writing – review & editing	M.D.P., B.A.F., P.S.S., & N.R.S.B.M.D.

All authors have read and agreed to the published version of the manuscript.

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### Informed Consent Statement

Informed consent was not required for this study.

### Data Availability Statement

The data presented in this study are available on request from the corresponding author.

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### Conflicts of Interest

The authors declare no conflicts of interest.

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