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Understanding Heterogeneity in Islamic Banking Stability: Explaining Divergent Evidence from Global Studies

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Abstract. Financial stability is essential for sustaining economic systems, yet empirical evidence on Islamic banking stability remains heterogeneous across studies. This study aims to provide a comprehensive understanding of Islamic banking stability by emphasizing the conditionality of previous evidence. This study applies a systematic literature review under the PRISMA framework combined with bibliometric mapping based on Scopus-indexed publications to address the ambiguity and differences surrounding the determinants of Islamic banking stability. The fin dings reveal that the literature is dominated by panel data and dynamic estimation approaches, particularly GMM, while the Z-score remains the most frequently used stability proxy. The results also indicate that research is geographically concentrated in countries with well-developed Islamic financial systems. Furthermore, the study finds that empirical evidence on Islamic banking stability is heterogeneous, showing positive, negative, and mixed relationships depending on the choice of stability proxies, macroeconomic conditions, and research design. The findings suggest that Islamic banking stability is not inherently determined by its Islamic principles, but rather by the effectiveness of risk-sharing mechanisms within a supportive institutional and regulatory environment. This study contributes by providing a structured synthesis of fragmented literature and offers directions for future research to explore underexamined areas such as deposit contracts, Islamic window banks, and Islamic rural banks.

Keywords: Stability, Liquidity, Risk Management, Risk Sharing, Literature Review.

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INTRODUCTION

Financial stability constitutes a fundamental pillar in sustaining the modern economic system, as it supports the smooth functioning of financial intermediation, ensures efficient resource allocation, and promotes sustainable economic growth (Babajide & Olokoyo, 2017). In this context, financial stability is regarded as a public good that extends beyond the interests of financial institutions, becoming a primary concern for monetary authorities, regulators, and governments. A stable financial system enables the effective mobilization and allocation of

funds, mitigates systemic risks, and preserves public confidence in financial institutions (Merabet, 2025). Conversely, financial instability can trigger widespread disruptions that affect the real sector, increase unemployment, reduce investment, and ultimately slow down economic growth at both national and global levels (Altăr-Samuel, 2017; Sotelsek & Pavón, 2008).

Moreover, the global financial crisis of 2008 serves as a critical lesson, highlighting the vulnerability of the banking system to economic shocks and systemic risk transmission. The crisis not only exposed weaknesses in risk management within conventional financial institutions but also demonstrated how disturbances in the banking sector can rapidly propagate throughout the entire economic system (Katehakis, 2021; Song, 2021). Since then, both academic discourse and policy frameworks have increasingly focused on strengthening financial sector resilience, improving bank soundness measurement, and identifying key determinants of systemic stability. Issues such as bank resilience, risk management, financing diversification, and prudential supervision have gained significant importance in efforts to build a more robust and sustainable financial system (Barwell, 2013; Montani, 2016; Song, 2021).

In subsequent developments, discussions on financial stability have increasingly incorporated Islamic banking as an alternative model of financial intermediation that is considered to possess greater resilience compared to conventional banking systems. Unlike conventional banks, Islamic banks employ various types of contracts in their lending and deposit schemes (Beck et al., 2013; Sawafta, 2021a; Tekin et al., 2017). Prior research indicates that variations in contract composition are among the key determinants of risk exposure and stability outcomes within Islamic banks (Abedifar et al., 2013; Čihák & Hesse, 2008).

Theoretically, the fundamental characteristics of Islamic banking, including risk-sharing principles, the requirement of underlying assets, and the prohibition of *riba* (interest), *gharar* (uncertainty), and *maysir* (speculation), contribute to a financial system that is closely linked to the real sector and relatively insulated from excessive speculative activities (Archer & Abdel Karim, 2019; Athief et al., 2024; Hassan-Bello, 2018; Qadri et al., 2025). These mechanisms are expected to reduce the accumulation of systemic risks, strengthen market discipline, and foster a more stable and sustainable financial structure. Therefore, numerous studies argue that Islamic banks inherently possess a stronger capacity to maintain stability, particularly during periods of economic uncertainty and financial crises (Boubakri et al., 2025; Sim, 2026).

However, these theoretical advantages are not always fully reflected in practical implementation. Most Islamic banks operate within a dual banking system, coexisting with conventional banks, which exposes them to similar competitive pressures, market risks, and regulatory dynamics (Alam et al., 2019). Additionally, limitations in liquidity instruments, variations in governance quality, concentration of financing in specific sectors, and the lack of harmonized Sharia regulatory frameworks across countries further influence the stability of Islamic banks. This indicates that Islamic banking stability is not solely determined by its normative principles but is also significantly shaped by the institutional and operational environments in which these banks operate (Tekdogan & Atasoy, 2021).

On the other hand, despite the theoretical assumption that Islamic banking exhibits higher resilience, empirical evidence within the literature remains inconclusive and fragmented. Several studies suggest that Islamic banks demonstrate superior stability compared to conventional banks, particularly during financial crises, due to their more prudent financing structures and stronger linkage to real assets (Beck et al., 2013; Grira & Labidi, 2021; Ibrahim & Rizvi, 2018; Mushafiq & Sehar, 2021; Soedarmono & Yusgiantoro, 2023). However, other studies report no significant differences between the two systems, and in some cases, Islamic banks are found to be more vulnerable to liquidity pressures, financing concentration risks, and limited income diversification (Rouetbi et al., 2023).

In line with these findings, although research on banking stability has grown substantially, systematic literature reviews that specifically focus on Islamic banking stability remain relatively limited. Existing Systematic Literature Review (SLR) studies tend to address general banking stability issues such as mergers and acquisitions, risk-taking behavior, financial risk prediction using advanced models, financial regulation, and macroeconomic stability (Ali et al., 2025; AlQudah & Bariviera, 2026; Chakraborty & Das, 2024; Hertrampf et al., 2025). Meanwhile, studies that directly analyze Islamic banking stability are predominantly empirical in nature and lack a comprehensive synthesis of research development, dominant proxies, methodological approaches, and empirical findings (Haddad et al., 2022; Halim et al., 2023).

Based on these limitations, a significant research gap persists in the literature on Islamic banking stability, particularly regarding the absence of a comprehensive and systematic mapping of its key determinants. Existing studies remain fragmented across various stability proxies such as Z-score, non-performing financing (NPF), capital adequacy ratio (CAR), insolvency risk, and profitability indicators, leading to diverse interpretations that are difficult

to compare directly. Furthermore, contextual factors such as regulatory quality, macroeconomic conditions, the structure of dual banking systems, corporate governance, and cross-country institutional characteristics are dispersed across different empirical studies without an integrated synthesis.

Therefore, this study aims to provide a systematic literature review of Islamic banking stability by synthesizing the existing body of knowledge and explaining the sources of heterogeneity in empirical findings. Specifically, the study seeks to identify the dominant research themes in the literature; examine how Islamic banking stability has been investigated in terms of geographical focus, methodological approaches, and stability measurement proxies; and explain why empirical findings differ across studies and under what conditions Islamic banking contributes positively, negatively, or ambiguously to financial stability. To achieve these objectives, the study addresses the following research questions:

RQ1: What are the dominant research themes in the Islamic banking stability literature?

RQ2: How is Islamic banking stability commonly investigated in terms of geographical focus, methodological approaches, and stability measurement proxies?

RQ3: How do methodological choices, stability proxies, and contextual conditions shape the positive, negative, or mixed findings reported in the literature?

LITERATURE REVIEW

Islamic Banking Stability: Conceptual Foundations

Based on the foregoing discussion, banks can potentially become a source of instability within the broader economic system. This vulnerability arises from the wide range of inherent risks embedded in banking operations, including credit risk, liquidity risk, market risk, investment risk, operational risk, rate-of-return risk, reputational risk, strategic risk, intra-group transaction risk, legal risk, and compliance risk (Hamid & Hassan, 2023; Wicaksono et al., 2024). The accumulation or inadequate management of these risks may weaken bank resilience and increase the likelihood of financial distress, thereby undermining both institutional soundness and systemic stability.

The stability of Islamic banks is arguably more complex due to the distinctive contractual structures underpinning their financial intermediation activities. According to (Susamto et al., 2020; Wicaksono et al., 2024), Islamic banks operate under a dual financing framework. In

particular, equity-based contracts, such as *mudarabah* and *musharakah*, are founded on risk-sharing principles that expose banks to greater uncertainty regarding project outcomes and profit realization. At the same time, Islamic banks also engage in debt-based contracts, including *murabahah* and *ijarah*, which transfer a substantial portion of risk to counterparties and generate relatively predictable cash flows (Beck et al., 2013). Consequently, differences in risk allocation between risk-sharing and risk-transfer contracts may generate heterogeneous implications for bank stability, as each financing mode embodies distinct risk-return characteristics and monitoring requirements (Danlami, Abduh, & Razak, 2023).

Beyond financing activities, Islamic banks mobilize funds primarily through two contractual arrangements, namely *mudharabah* investment deposits and *wadiah* deposits. Unlike conventional deposits, these contracts generally do not guarantee a predetermined return to depositors (Meslier et al., 2017). The uncertainty surrounding depositor returns stems from the profit-sharing mechanism, whereby returns are linked to the actual performance of the bank. As a result, information asymmetry may become more pronounced because Islamic banks possess superior information regarding asset performance and profit generation compared to depositors (Meslier et al., 2017).

In practice, depositors frequently expect competitive returns from *mudharabah* investment accounts and often benchmark these returns against interest rates offered by conventional banks (Farook et al., 2012; Ismal, 2010). When the realized returns generated by Islamic banks fall below depositor expectations or market benchmarks, Islamic banks may face **Displaced Commercial Risk (DCR),** whereby commercial pressures incentivize managers to distribute returns that exceed the actual profitability of the underlying assets (Rouetbi et al., 2023). Such pressures can erode profitability, weaken capital buffers, and increase liquidity vulnerabilities. More importantly, the inability to satisfy depositor return expectations may trigger fund withdrawals and elevate the risk of bank runs, thereby posing a significant threat to the stability of Islamic banking institutions (Rouetbi et al., 2023).

Previous Studies

Studies on Islamic banking have been widely conducted by researchers, which provides opportunities for subsequent studies to perform more structured and focused literature analyses. In recent years, SLR and bibliometric approaches have become the most commonly used methods in examining developments within this field.

Based on an examination of various scientific article databases, several studies have indeed applied the SLR method within the banking context. However, their focus does not specifically address Islamic banking stability. For instance, Widiyanti et al. (2025) employed an SLR approach to analyze deposit rate determination mechanisms and bank responses to monetary policy, rather than directly examining Islamic banking stability. Similarly, Chakraborty & Das (2024) focused on mergers and acquisitions in the banking sector, while Ali et al. (2025) concentrated on deep learning methods for risk prediction and financial performance evaluation. These studies indicate that the application of SLR in the banking sector has developed significantly, yet it has not been specifically directed toward Islamic banking stability (Ali et al., 2025; Chakraborty & Das, 2024; Widiyanti et al., 2025).

In other strands of literature, the SLR method has also been applied to broader discussions of economic and financial stability, but without placing Islamic banking stability as the main focus. Studies by Sardana et al. (2025) and SKanojia S.; Kaur S.; Bhavya (2024) examine general economic stability, while Hertrampf et al. (2025) analyze risk-taking behavior in relation to overall banking stability. Meanwhile, Zouaoui & Zoghlami (2023) investigate bank stability within the context of conventional banking systems, and U-Din (2025) explores banking stability without specifically focusing on Islamic banking. These findings suggest that although the concept of stability has been extensively studied, it has not been sufficiently directed toward Islamic banking as the primary object of analysis (U-Din, 2025; Zouaoui & Zoghlami, 2023).

Further studies highlight that financial stability is often analyzed from perspectives outside Islamic banking. For example, Hoang et al. (2023) examine central bank digital currencies and monetary system stability, while Mohd Fuzi & Baki (2025) focus on organizational stability resulting from employee turnover. Additionally, Satyamoorthy et al. (2021) analyze economic stability in relation to public health and economic recession, and AlQudah & Bariviera (2026) link financial regulation dan market stability to cryptocurrency regulation. These studies demonstrate that while the concept of stability has been widely explored, it has not been specifically focused on Islamic banking stability.

On the other hand, several studies are closely related to Islamic banking stability but do not adopt a formal SLR approach. Haddad et al. (2022) incorporate Islamic banks into financial stability analysis using comparative empirical methods, while Halim et al. (2023) directly examine Islamic banking stability using empirical methods such as the Generalized Method of

Moments (GMM). Other studies, including Aversa (2024); Chhabra Roy & Prabhakaran (2025); and Hoang et al. (2023), address banking stability from perspectives such as ESG (Environmental, Social, and Governance) disclosure, governance, and cyber risk management. However, these studies neither apply SLR methods nor specifically focus on Islamic banking stability, further reinforcing the existence of a methodological gap in the stability literature (Aversa, 2024; Chhabra Roy & Prabhakaran, 2025; Hoang et al., 2023).

In addition, other studies such as Jaiwani et al. (2026); Landu et al. (2025); Moch (2018); and Onoyere (2014) show that discussions on financial and banking stability are more frequently conducted in the context of microfinance, bank size, governance, and financial information quality rather than focusing specifically on Islamic banking stability. Therefore, it can be concluded that systematic literature review studies that specifically map Islamic banking stability remain very limited. This limitation highlights the urgency of the present study to fill the existing research gap and provide a more structured synthesis of previous findings, which have shown heterogeneous results in terms of determinants, stability measurement, and empirical conclusions (Jaiwani et al., 2026; Landu et al., 2025; Moch, 2018; Onoyere, 2014).

METHOD

This study employs the SLR method to explore previous research, focusing on the stability of Islamic banks based on lending and deposit contracts. The SLR is conducted by filtering articles from the Scopus database using Boolean keywords restricted to the title, abstract, and keywords. Scopus was selected because it provides broader journal coverage in Islamic finance and social sciences compared to other databases, while also ensuring higher indexing consistency for bibliometric mapping (Athief et al., 2025; Ma'ruf et al., 2024). The next stage involves applying the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) filtering process through the Covidence application.

The next step involves using the PRISMA output for bibliometric mapping. Recently, more and more research has used bibliometric analysis as a methodological tool because it shows trends, research gaps, researchers, keywords, variables, research objects, and other important information (Özdemir & Selçuk, 2021; Yihua et al., 2023). Therefore, a co-occurrence keyword (co-word) analysis approach is employed to identify frequently used keywords in prior studies, allowing for the formation of research trends and topics relevant to the study's objectives (Yihua et al., 2023). So, the co-word analysis results should show where more research is

needed and point the way for more research into how stable Islamic banks are based on the deposit and lending contracts.

Following the PRISMA framework, a set of predefined inclusion and exclusion criteria was applied to ensure a transparent and systematic selection process. The criteria were designed to align the final sample with the objectives of this study, namely to examine the evolution of Islamic banking stability research and explain the heterogeneity of empirical findings reported in the literature. Studies were retained only when they focused on Islamic banking stability and provided evidence related to funding or financing contracts relevant to stability outcomes. Articles that did not address Islamic banking stability, were unavailable in full text, or failed to satisfy the publication quality requirements were excluded. Table 1 summarizes the inclusion and exclusion criteria employed during the screening and eligibility stages.

Table 1. Inclusion and Exclusion Criteria

Criteria	Inclusion	Exclusion	Justification
Language	English-language publications	Non-English publications	To ensure consistency in data extraction, interpretation, and analysis
Document type	Peer-reviewed journal articles	Conference proceedings, book chapters, books, dissertations, theses, review reports	To ensure scientific quality, peer-review standards, and comparability of empirical evidence
Database	Scopus-indexed	Non-Scopus-indexed	To ensure methodological rigor, academic quality, and reliability
Accessibility	Full-text available	No full-text	To enable comprehensive evaluation, coding, and synthesis of empirical findings
Research focus	Islamic banking stability linked to funding or financing contracts	Conventional banking only or studies on Islamic banking stability without contract analysis	To develop a contract-based understanding of Islamic banking stability
Banking scope	Islamic banks, Islamic rural banks, Islamic Banking Windows, Islamic commercial banks, and dual-banking systems	Non-bank Islamic financial institutions, sukuk market, and Islamic capital markets	To ensure direct relevance to Islamic bank stability

Source: Table by the authors (2025)

Following the application of the inclusion and exclusion criteria, a systematic search was performed in the Scopus database using a set of predefined Boolean keywords related to Islamic banking stability, funding contracts, financing contracts, and institutional determinants. No publication-year restriction was imposed in order to capture the broadest possible body of literature.

The initial keyword formation was applied to identify prior studies that broadly examined the stability of Islamic banks. To ensure a comprehensive literature coverage, synonymous terms

such as “Islamic bank” and “Sharia bank” were incorporated. In addition, the truncation symbol “*” was used with the root word “stab” to capture variations including “stability,” “stable,” and “stabile.” To refine the search in line with the research objectives, a second keyword formation was developed to identify studies addressing both Islamic banking stability and lending or deposit activities. The third keyword formation further narrowed the scope by combining Islamic banking stability with both lending and deposit aspects. For more targeted results, a fourth keyword formation focused on studies linking lending and Islamic banking stability, whereas a fifth formation concentrated on research associating deposit and Islamic banking stability. Finally, to provide a more contextual and institutional perspective, a sixth keyword formation was employed to retrieve studies that examined Islamic banking stability specifically within Islamic Commercial Banks (ICBs), Islamic Banking Windows (IBWs) and Islamic Rural Banks (IRBs). This structured keyword design ensured that the literature search captured both the breadth and depth of research related to Islamic banking stability, covering different institutional forms and contractual dimensions. The search identified 515 records, as summarized in Table 2, which presents the search strings, the number of retrieved studies, and the corresponding focus areas:

Table 2. Search Query of Research Keywords in Scopus

No	Boolean Keywords	Total	Focus Area
1	TITLE-ABS-KEY (stab* AND islam* AND bank* OR stab* AND shar* AND bank*) AND (LIMIT-TO(DOCTYPE, "ar")) AND (LIMIT-TO (LANGUAGE , "English"))	175	Islamic banking stability in general
2	TITLE-ABS-KEY (stab* AND islam* AND bank* OR stab* AND shar* AND bank* AND finac* OR lend* OR credit* OR fund* OR sav* OR deposit*) AND (LIMIT-TO(DOCTYPE , "ar")) AND (LIMIT-TO(LANGUAGE, "English"))	78	Stability Islamic Bank with Lending or Deposit
3	TITLE-ABS-KEY (stab* AND islam* AND bank* OR stab* AND shar* AND bank* AND financ* OR lend* OR credit* AND fund* OR sav* OR deposit*) AND (LIMIT-TO(DOCTYPE , "ar")) AND (LIMIT-TO(LANGUAGE, "English"))	10	Stability Islamic Bank with Lending and Deposit
4	TITLE-ABS-KEY (stab* AND islam* AND bank* OR stab* AND shar* AND bank* AND finac* OR lend* OR credit*) AND (LIMIT-TO (DOCTYPE, "ar")) AND (LIMIT-TO (LANGUAGE, "English"))	40	Stability Islamic Bank with Lending only
5	TITLE-ABS-KEY (stab* AND islam* AND bank* OR stab* AND shar* AND bank* AND fund* OR sav* OR deposit*) AND (LIMIT-TO(DOCTYPE, "ar")) AND (LIMIT-TO(LANGUAGE , "English"))	48	Stability Islamic Bank with Deposit only
6	TITLE-ABS-KEY (stab* AND islam* OR shar* AND rural* OR window* OR commercial* AND bank*) AND (LIMIT-TO(SRCTYPE, "j")) AND (LIMIT-TO (PUBSTAGE, "final")) AND (LIMIT-TO(DOCTYPE, "ar")) AND (LIMIT-TO(LANGUAGE, "English"))	164	Stability Islamic Bank with Institutional-level analysis
	Research Total	515	

Source: Table by the authors (2025)

All identified records were imported into Covidence for systematic screening. There are three main stages in Covidence PRISMA: (1) identification, (2) screening, and (3) eligibility. Below is an illustration of the three PRISMA processes:

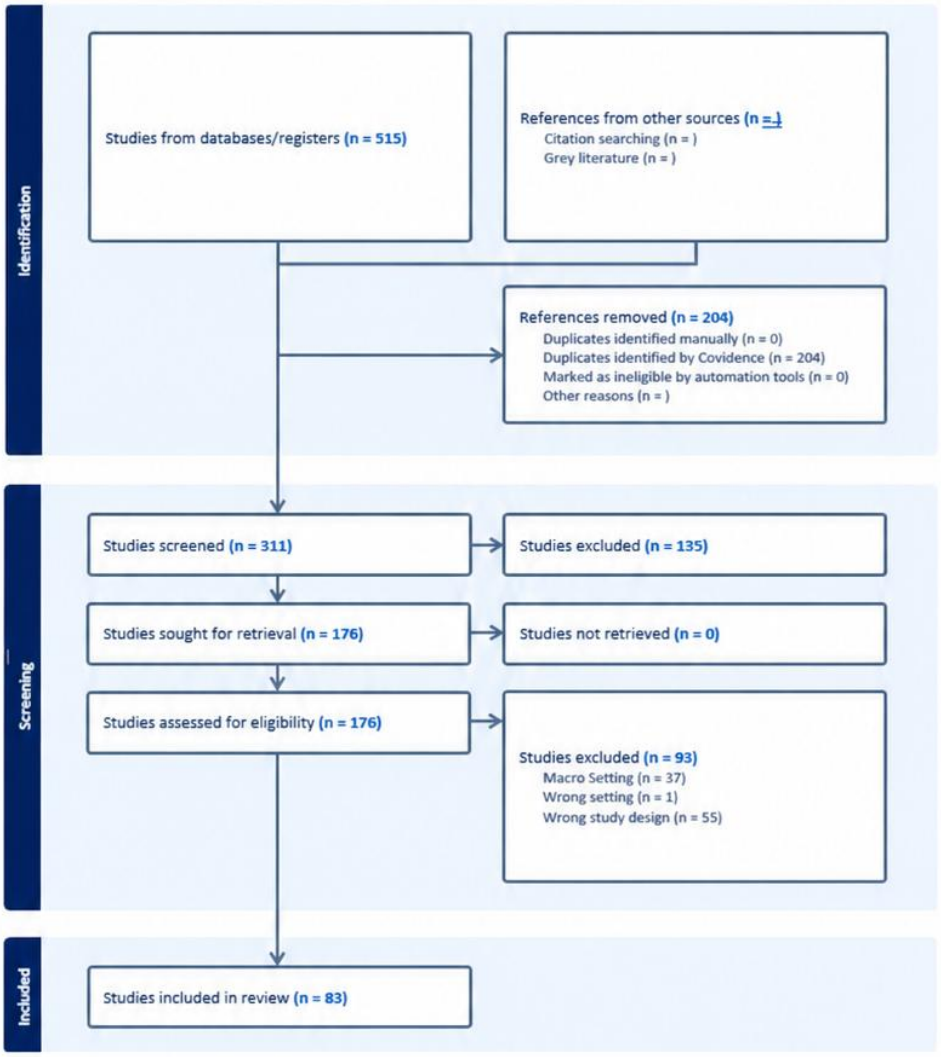

Figure 1. Illustration of the PRISMA Covidence Process

Source: Figure by the authors with Covidence (2025)

During the identification stage, 204 duplicate records were automatically removed, leaving 311 unique studies for title and abstract screening. At this stage, 135 studies were excluded because they did not correspond to the specific objective of the review. Although many of these studies addressed Islamic banking, risk, finance, or stability-related issues, their primary focus was on profitability, efficiency, corporate governance, ownership structures, financial inclusion, digital finance, capital markets, religiosity, regulatory frameworks, or other institutional determinants rather than the role of Islamic funding and financing contracts in influencing Islamic bank stability.

The remaining 176 studies proceeded to full-text assessment. All full texts were successfully retrieved and evaluated against the predefined inclusion and exclusion criteria. During the eligibility stage, 93 studies were excluded for three reasons. First, 37 studies focused on macro-

level settings, such as country-level financial systems, macroeconomic environments, or industry-wide analyses that did not provide evidence at the Islamic bank level. Second, one study was excluded because its institutional setting fell outside the scope of this review. Third, 58 studies were excluded due to unsuitable research designs, including conceptual papers, non-empirical studies, methodological discussions, or studies that did not empirically examine the relationship between Islamic contractual structures and bank stability outcomes.

Following the eligibility assessment, 83 studies met all inclusion criteria and were retained for the final review. These studies constituted the final dataset for bibliometric and systematic analyses. To facilitate a comprehensive synthesis, the selected articles were coded according to publication characteristics, geographical coverage, types of Islamic contracts, stability measures, methodological approaches, and empirical findings. The bibliometric results are subsequently visualized using software such as VOSViewer to identify the relationships among various research details, such as researchers and research topics (Yihua et al., 2023).

RESULTS

Topic Dominance (RQ1)

After obtaining a list of 80 filtered journals from Covidence, the next step is to use VOSViewer to construct a bibliometric map of research trends on Islamic banking stability based on deposit and lending contracts. The VOSViewer analysis indicates that the literature can be categorized into five groups. The red group is about risk management and how well banks work; the green group is about market stability and competition; the blue group is about financial stability, income diversification, and banking products and services; the yellow group is about geographical relationships; and the purple group is about banking risk and governance. The red cluster indicates that most of the literature discusses the relationship between efficiency, profitability, and bank risk management in relation to the stability of Islamic banks, particularly during the COVID-19 (Corona Virus Disease 2019) crisis. The green cluster explores the relationship between capital buffers in accordance with Basel III and the competition within the Islamic banking market, focusing on maintaining financial stability during crises in Indonesia and Malaysia. Based on the CAMELS (Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk) framework, the blue cluster looks at the link between taking risks (such as default risk, portfolio risk, and leverage risk) and income diversification in Islamic banking products, especially *mudharabah* and

musharakah contracts. The Z-score is used to measure stability. In QISMUT (Qatar, Indonesia, Saudi Arabia, Malaysia, United Arab Emirates, and Turkey), the yellow cluster shows research trends on the stability of traditional banks, which were found using the GMM. Finally, the purple cluster illustrates that the implementation of banking governance is a crucial factor in risk-taking behavior within the literature on Islamic banking stability and risk.

Figure 2 illustrates the keyword co-occurrence network, with "Islamic Banks" emerging as the most prominent term, followed by "Financial Stability" and "Risk Management." The analysis based on Figure 2 reveals the following insights: (1) There is still a lot to learn about the stability of Islamic banks, especially when it comes to deposit contracts since the VOSViewer results don't show anything about deposits. (2) There is a link between bank stability and lending, but only the terms *mudharabah* and *musharakah* are shown. And (3) there is still no known link between the stability of Islamic banks, Islamic window banks, or Islamic rural banks.

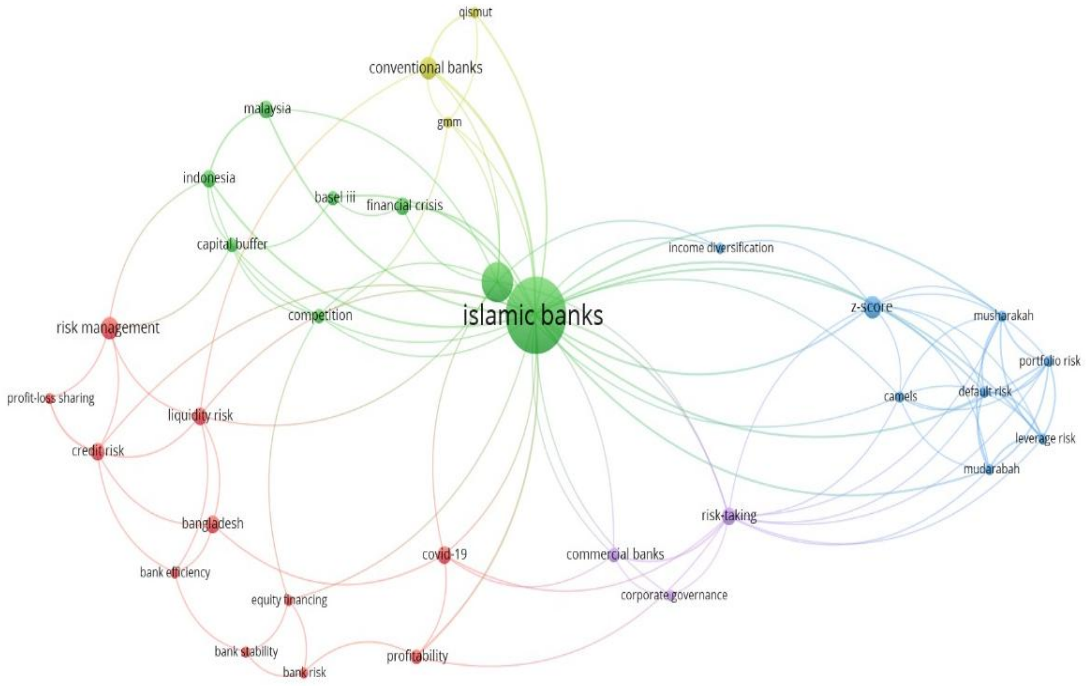

Figure 2. Output Network Visualization VOSViewer

Research Distribution (RQ2)

Publication venue

Based on the distribution of the top 10 journals (Table 3), research publications are dominated by high reputation journals, most of which are classified in the Q1 category. This shows that

the research topic has strong academic relevance and receives wide attention in international literature. The International Journal of Islamic and Middle Eastern Finance and Management ranks first with 15 documents (18.07 %), followed by the Journal of Islamic Accounting and Business Research with 10 documents (12.05 %), and Banks and Bank Systems with 6 documents (7.23 %). The dominance of these three journals confirms that studies on Islamic banking stability and its influencing factors are consistently discussed in reputable journals. In addition, the presence of journals such as Research in International Business and Finance, Economic Modelling, and Pacific Basin Finance Journal, which have high CiteScore and SJR, further strengthens that this topic is not only practically relevant but also provides significant theoretical contribution to the development of finance and Islamic economics. Meanwhile, publications in Q2 to Q4 journals indicate that research in this field continues to grow widely, creating broad opportunities for future studies to introduce new ideas and strengthen academic contributions more deeply.

Table 3. Top 10 Journals

No	Sources	N. Doc	%	CiteScore	Quartile	SJR
1	International Journal of Islamic and Middle Eastern Finance and Management	15	18.07	5.9	Q1	0.525
2	Journal of Islamic Accounting and Business Research	10	12.05	6.4	Q1	0.424
3	Banks and Bank Systems	6	7.23	3.0	Q1	0.237
4	Journal of Islamic Monetary Economics and Finance	3	3.61	2.5	Q2	0.264
5	Research in International Business and Finance	3	3.61	11.1	Q1	1.415
6	Journal of King Abdulaziz University Islamic Economics	3	3.61	0.7	Q4	0.138
7	Cogent Economics & Finance	3	3.61	4.1	Q1	0.539
8	Economic Modelling	2	2.41	8.7	Q1	1.417
9	Pacific Basin Finance Journal	2	2.41	7.2	Q1	1.310
10	ISRA International Journal of Islamic Finance	2	2.41	3.5	Q2	0.313

Geographical Distribution

In line with the dominance of publications in reputable international journals, the distribution of countries as research objects (Figure 3) shows that studies on Islamic banking stability are still concentrated in countries with strong Islamic financial systems, more complete data availability, and better access to information for global researchers. Malaysia is the most

dominant country with 31 occurrences, followed by Bahrain and Indonesia with 29 occurrences each, and Qatar, Saudi Arabia, and the United Arab Emirates with 28 occurrences each. Kuwait is also quite frequently studied with 27 occurrences. This high frequency not only reflects the strong development of the Islamic banking industry and well-established regulatory support, but also shows that these countries provide more open, structured, and consistent empirical data, making them more attractive for international research. In addition, the presence of large Islamic financial institutions that are integrated with the global financial system also increases their academic attractiveness. In contrast, countries outside the main centers of Islamic finance development, such as the United States, Japan, China, and several European countries, are still less frequently used as research samples. This is not only due to lower Islamic banking activity, but also because of institutional limitations, lower market penetration, and limited availability of specific data related to Islamic banks.

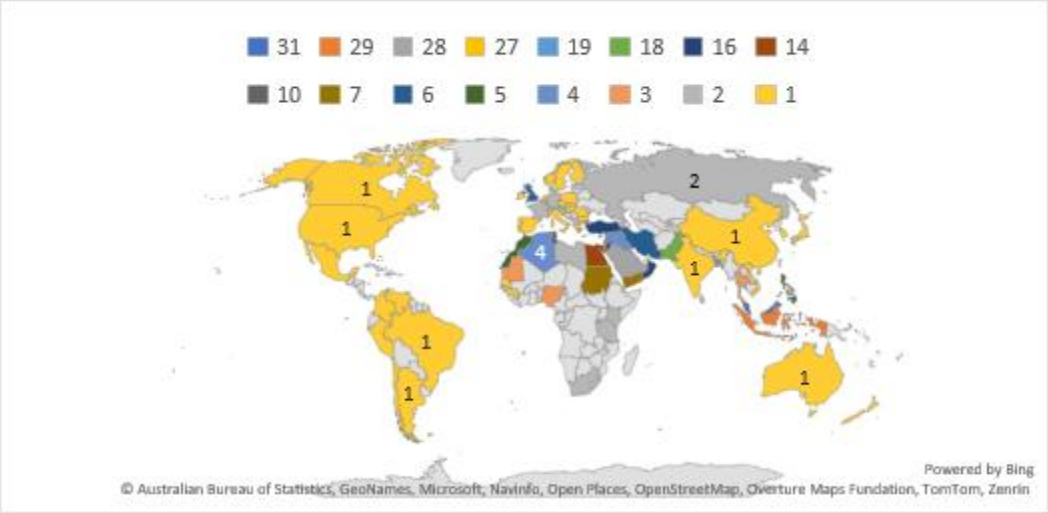

Figure 3. Country Map

Note: numbers shown on the map and in the legend denote the frequency of country representation in the reviewed studies. When a study included multiple countries, each country was counted separately. For example, studies examining OIC member countries contributed one count to each country included in the analysis.

Furthermore, when viewed based on the classification of Majority Muslim Countries (MMC) and Non-MMC countries (Table 4), research in the Non-MMC group is more dominant than in the MMC group. This is because countries in the Non-MMC category generally have more diverse banking systems, higher levels of competition, and more complex regulatory pressures, which attract broader academic attention. Islamic banks in Non-MMC countries also often operate alongside dominant conventional financial systems, making stability issues very important to study, especially in facing risks such as financial crises, non-performing financing,

operational efficiency, and institutional governance quality. In addition, many Non-MMC countries have stronger integration with global financial markets, so international economic shocks can more quickly affect the stability of their banking sectors. More accessible data availability, stronger support from international publications, and high interest in comparative banking studies also contribute to the dominance of research in this group. In contrast, in MMC countries, studies on Islamic banking stability are still more focused on domestic or regional contexts, so their exposure in international journals is relatively more limited compared to the Non-MMC group. Table 4 reports the distribution of Islamic banking stability research between MMC and Non-MMC countries, illustrating the geographical coverage of the existing literature.

Table 4. Majority Muslim Countries (MMC) vs Non-MMC

Group	Count	%	Countries
MMC	32	37.21%	Malaysia, Bahrain, Indonesia, Qatar, Saudi Arabia, United Arab Emirates, Kuwait, Bangladesh, Pakistan, Jordan, Oman, Turkey, Egypt, Tunisia, Brunei Darussalam, Lebanon, Sudan, Yemen, Iran, Morocco, Algeria, Iraq, Palestine, Syria, Mauritania, Nigeria, Gambia, Libya, Maldives, Djibouti, Guinea, & Senegal.
Non-MMC	54	62.79%	Singapore, United Kingdom, Philippines, Thailand, Austria, Cyprus, Estonia, France, Germany, Kenya, Russia, South Africa, Sri Lanka, Switzerland, Tanzania, Argentina, Australia, Belgium, Brazil, Bulgaria, Canada, Chile, China, Colombia, Croatia, Czech Republic, Denmark, Finland, Greece, Hungary, India, Ireland, Israel, Italy, Japan, Luxemburg, Malta, Mauritius, Mexico, Netherlands, New Zealand, Norway, Peru, Poland, Portugal, Romania, Slovak Republic, Slovenia, South Korea, Spain, Sweden, United States, Venezuela, & Vietnam.

Source: Table by the authors (2025)

Methodological Distribution and Stability Proxies

Table 5. Classification of Stability Methods

Category	Sub-category	Count	%
Method	Panel Data Models	22	19.1%
	Dynamic & Endogeneity Models	18	15.6%
	Time-Series Models	12	10.4%
	General Econometric Estimation	15	13.0%
	Efficiency & Performance Analysis	4	3.4%
	Descriptive & Comparative Analysis	7	6.1%
	Qualitative, Conceptual & Literature Review	11	9.6%
	Machine Learning & Simulation Models	4	3.4%
	Non-econometric Approaches	2	1.7%
	Others (single appearance methods)	20	17.3%

Source: Table by the authors (2025)

Based on the classification of research methods in Table 5, studies on Islamic banking stability are dominated by the use of Panel Data Models with 22 articles (19.1 %), followed by Dynamic and Endogeneity Models with 18 articles (15.6 %), and General Econometric Estimation with 15 articles (13.0%). The dominance of Panel Data Models shows that most studies rely on quantitative econometric approaches, such as panel regression, fixed effect, random effect, dynamic panel, and Panel Corrected Standard Errors, to analyze the relationships between variables across banks and countries over a certain period. This approach is chosen because it can produce more representative and reliable estimates in explaining the factors that influence Islamic banking stability. In addition, Dynamic and Endogeneity Models such as Generalized Method of Moments, System GMM, and Two Stage Least Squares are widely used to address simultaneity bias and endogeneity problems that often appear in banking research. Meanwhile, time series models such as ARDL (Autoregressive Distributed Lag), NARDL (Nonlinear Autoregressive Distributed Lag), Markov Switching, Wavelet, and DCC GARCH (Dynamic Conditional Correlation-Generalized Autoregressive Conditional Heteroskedasticity) further enrich the analysis because they can capture the dynamics of banking stability in a more complete way, both in the short-term and the long-term. These models also help identify changes in variable behavior caused by economic shocks, market volatility, and differences in financial conditions over time.

Furthermore, the dominance of these methods is in line with the selection of stability proxies, which also shows a tendency to use internal bank performance measures. Based on Table 6, the classification of stability proxies shows that the financial performance and stability approach is the most widely used indicator in Islamic banking research. This indicates that bank stability is mostly understood through the ability to maintain internal performance over time. This category includes financial stability, profitability which is commonly measured by Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM), as well as efficiency stability that reflects how effective the bank operates in maintaining its financial health. In addition, credit and asset risk also play an important role, as it includes credit risk, NPF, NPL (Non-Performing Loans), asset quality, and default risk. This shows that the quality of financing and asset management are key factors in determining the bank's ability to withstand financial pressure. Meanwhile, the Z-score remains the most consistently used single proxy because it can represent the probability of insolvency in a more complete way through the combination of profitability, capital, and income volatility. Other categories such as risk taking and systemic risk, capital strength, liquidity stability, and macroeconomic proxies

represent different dimensions of stability and help expand the analysis into a more comprehensive view. The "others" category shows that the choice of stability proxies is still quite diverse depending on the characteristics and focus of each study, which confirms that Islamic banking stability is a complex concept that cannot be measured using only one single indicator.

Table 6. Classification of Stability Proxies

Category	Sub-Category	Count	%
Proxy	Financial Performance & Stability (Financial Stability, Profitability, Efficiency Stability)	20	18.7%
	Credit & Asset Risk (Credit Risk, NPF, NPL, Asset Quality, Default Risk)	17	15.9%
	Z-score	15	14.0%
	Risk-taking & Systemic Risk (Risk-taking, Systemic Risk, Risk-sharing)	10	9.4%
	Capital Strength (CAR, Capital Buffer, Capital Ratio)	8	7.5%
	Liquidity Stability	4	3.7%
	Macroeconomic Proxy	2	1.9%
	Others (single-frequency proxies)	31	37.35%

Source: Table by the authors (2025)

Heterogeneity of Islamic Banking Stability Findings (RQ3)

Table 7. Polarity of Findings Across Conditions

Condition	Positive Dominance	Negative Dominance	Mixed Findings
Z-Score	✓		✓
NPF		✓	✓
GCC		✓	✓
Asean	✓		✓
GMM		✓	✓
PLS Financing			✓
IBs Only			✓

Source: Table by the authors (2025)

This section examines the sources of heterogeneity in the Islamic banking stability literature. Based on Table 7, the classification of findings shows that the relationship between Islamic banking characteristics and bank stability is not uniform. Instead, it is influenced by the proxy used, the region, and the methodological approach.

The Z-score tends to show a dominance of positive findings, although mixed results are still found. This indicates that Islamic banks often exhibit favorable stability outcomes when stability is assessed through composite measures of profitability, capitalization, and earning volatility, but it still depends on the institutional and economic context of each country. In

contrast, studies employing NPF indicators tend to report predominantly negative or mixed findings, which confirms that an increase in problematic financing can weaken bank stability. Similar variations emerge across geographical settings, with Association of Southeast Asian Nations (ASEAN) countries more frequently associated with positive stability outcomes with some mixed results, whereas studies conducted in GCC (Gulf Cooperation Council) countries often report negative or mixed (inconclusive) evidence. This reflects differences in market structure, regulation, and risk exposure across regions.

Methodological choices also play a critical role. Research employing dynamic estimators such as the Generalized Method of Moments (GMM) frequently generates negative and mixed findings. This suggests that when endogeneity problems are controlled, the results become more varied and less consistent. Likewise, studies focusing on Profit-and-Loss Sharing (PLS) financing and exclusively on Islamic Banks Only often yield mixed findings, reflecting the complexity of risk-sharing mechanisms and institutional diversity. These findings confirm that the literature on Islamic banking stability is highly diverse and that research results strongly depend on the context of the analysis used. Rather than representing contradictions, these divergent findings suggest that Islamic banking stability is conditional upon the interaction between institutional quality, measurement choices, and research design.

DISCUSSION

The findings for RQ3 reveal substantial heterogeneity in the Islamic banking stability literature, with results varying across measurement proxies, regional contexts, and methodological approaches. While the review identifies several recurring patterns, these variations suggest that the relationship between Islamic banking characteristics and stability is highly context dependent rather than universally consistent. To better understand the observed heterogeneity, the following discussion examines positive, negative, and mixed findings through three analytical lenses, namely methodological approach, country context, and stability proxy.

Positive Findings

The first stream of evidence consists of studies reporting positive relationships between Islamic banking characteristics and financial stability. These findings suggest that Islamic banking can enhance stability under specific methodological, country or institutional, and measurement conditions. The literature indicates that positive outcomes emerge when risk-sharing

mechanisms operate effectively, governance quality is strong, and stability is evaluated using comprehensive performance-based indicators.

Methodological Lens

From a methodological perspective, the dominance of panel regression and GMM in the group of positive findings shows that Islamic banking stability is basically a dynamic phenomenon and cannot be explained only by simple linear relationships. Most studies in this group measure stability using the Z-score, insolvency risk, and credit risk, which are strongly influenced by conditions in the previous period. Therefore, the dynamic panel approach becomes the main choice to capture persistence effects while reducing endogeneity bias between financing decisions and bank stability conditions (Abedifar et al., 2013; Beck et al., 2013; Čihák & Hesse, 2010; Hadian, 2017; Hasan, 2016; Othman et al., 2023). In this context, positive results often appear when profit sharing financing is positioned as a risk sharing mechanism that works in the medium term, not as a source of short-term volatility. This is important because many studies often evaluate financing only from short-term liquidity pressure, while the main characteristic of contracts such as *mudarabah* and *musharakah* lies in their ability to distribute risk between the bank and customers in a more balanced way. Studies by Danlami et al. (2023); Hadian (2017); and Othman et al. (2023) show that when *mudarabah* and *musharakah* are analyzed using panel estimation, their contribution to bank resilience becomes clearer because the model can capture the gradual adjustment process to risk.

A similar pattern is found in studies on ownership structure, capitalization, and asset quality. Beck et al. (2013); Mirza et al. (2015); and Zheng et al. (2017) find that Islamic banks with stronger capital and better financing quality tend to show higher stability, and this relationship becomes significant when simultaneity between variables is controlled using GMM or 2SLS. This means that positive results do not simply occur because Islamic contracts are considered safer, but because the studies take into account governance, capitalization, institutional quality, and ownership concentration as factors that strengthen the effectiveness of risk sharing (Abedifar et al., 2013; Beck et al., 2013). In a strong institutional environment, profit sharing financing not only reduces excessive leverage but also improves monitoring discipline, leading to more consistent bank stability (Abedifar et al., 2013; Beck et al., 2013).

Country Lens

From a country perspective, the dominance of positive findings in GCC countries, Pakistan, Bangladesh, and cross country OIC (Organization of Islamic Cooperation) samples shows that

the effect of Islamic banking on stability strongly depends on well developed Islamic institutional structures and strong prudential regulation. In the case of Pakistan, positive results appear because asset based financing and risk sharing reduce speculative exposure and improve depositor discipline (Mirza et al., 2015; Shah et al., 2021). Similar findings in Bangladesh show that the dominance of real sector based financing and stricter Sharia supervision improve stability through lower non-performing financing and higher Z-score (Danlami, Abduh, & Abdul Razak, 2023; Suzuki et al., 2013; Zheng et al., 2017). In multi country OIC samples, Islamic banks tend to be more resilient during crisis periods because retail deposit based funding is more stable than conventional wholesale funding (Abedifar et al., 2013; Beck et al., 2013; Boulila Taktak, 2011). Global studies also show that stability increases when Islamic banks operate in systems with consistent prudential regulation and sufficiently deep Islamic financial markets (Danlami, Abduh, & Abdul Razak, 2023; Hanim Kamil et al., 2010; Othman et al., 2023).

However, positive results are not only determined by whether a country belongs to GCC or OIC, but rather by the quality of institutions and the depth of Islamic financial markets in each country. Cross country studies show that countries with strong governance such as Malaysia and Bahrain produce more consistent stability effects compared to countries where Islamic banking is still less developed, even if they are part of GCC or OIC (Hanif, 2019; Nawaz, 2018). A conceptual study by Ben Jedidia & Hamza (2024) explains that this success comes from strong institutional support, not only from the Islamic label. Therefore, being part of GCC or OIC does not automatically guarantee stability, as positive outcomes depend on the interaction of regulation, governance, and market discipline.

Proxy Lens

In the group of positive findings, the dominant use of proxies such as Z-score, default risk, return stability, risk adjusted profitability, and contagion risk shows that stability is not only about resistance to default, but also about the ability of banks to absorb shocks through more disciplined financing structures. When profit and loss sharing is applied as a true risk sharing mechanism, the Z-score tends to increase and leads to positive results. Ben Jedidia & Hamza (2024) argue that profit sharing reduces excessive money creation and lowers systemic fragility. Polyzos et al. (2023) also find that the adoption of Islamic banking improves default resilience, although there is still a trade off with growth. Similar findings are reported by Shah et al. (2021), where Islamic duration management improves return stability, and by Beck et al.

(2013) who find that Islamic banks have better asset quality during crisis periods. Ibrahim et al. (2019) also show that the Z-score becomes higher when asset structures are more conservative, leverage is lower, and funding relies more on loyal depositors.

Differences in results, even when using the same Z-score proxy, mainly come from institutional context and the quality of profit sharing implementation, not from the proxy itself. Čihák & Hesse (2010) show that smaller Islamic banks are more stable than larger ones because financing monitoring is more effective, which explains why the same profit sharing mechanism can produce different outcomes across samples. Abedifar et al. (2013) also confirm that depositor discipline and lower credit risk improve the resilience of Islamic banks. Farooq & Zaheer (2015) and Kabir et al. (2015) find that more cautious liquidity management makes Islamic banks more resistant to systemic shocks. Ghenimi et al. (2017) and Trad et al. (2017), further show that when governance, capitalization, and diversification are strong, the Z-score reflects stability as a positive outcome. This means that the same proxy does not necessarily yield consistent conclusion, but rather reflects the underlying risk structure behind it (Farooq & Zaheer, 2015; Ghenimi et al., 2017; Kabir et al., 2015; Trad et al., 2017).

Negative Findings

The second stream of evidence reports negative relationships between Islamic banking activities and stability indicators. These findings challenge the assumption that Islamic banking is inherently more stable than conventional banking and suggest that vulnerabilities may emerge under unfavorable institutional, operational, or macroeconomic conditions.

Methodological Lens

In the group of negative findings, the methods used are actually not very different, as panel regression, fixed effect, and System GMM still dominate. However, the direction of the results changes because the variables tested mainly represent risk exposure rather than the benefits of risk sharing. Studies by Gulzar et al. (2020); Prasojo et al. (2022); Risfandy et al. (2020); Sutrisno & Widarjono (2024) show that profit sharing financing often increases monitoring cost, raises agency problems, and reduces the capital buffer of banks, especially when market competition becomes stronger. The use of dynamic panel in these studies clearly shows that banks that are more aggressive in risky financing tend to experience a decline in stability in the following period. This effect is often not visible in static models because it appears gradually through higher non-performing financing and lower capital buffers (Gulzar et al., 2020; Prasojo et al., 2022; Risfandy et al., 2020; Sutrisno & Widarjono, 2024).

This difference becomes stronger when stability is measured using proxies such as capital adequacy, NPF, liquidity pressure, or risk inefficiency. El-Chaarani (2023); Fakhrunnas et al. (2021); and Sawafta (2021) show that with these proxies, profit sharing contracts actually increase pressure on banks because the risk of loss cannot be fully transferred to customers. In other words, the same method can produce different conclusions because it measures different dimensions of stability. If the focus is on long-term resilience, the result can be positive, but if the focus is on short-term capital pressure and financing risk, the result tends to be negative. External factors such as inflation, benchmark rate volatility, the COVID 19 pandemic, and liquidity pressure also strengthen these results because profit sharing contracts are more sensitive to macroeconomic shocks (Archer & Abdel Karim, 2019; Dolgun et al., 2020; Fakhrunnas et al., 2021).

Country Lens

Interestingly, negative findings also appear in countries with similar characteristics such as Indonesia, MENA, and several developing Islamic countries. This shows that the presence of Islamic banking does not automatically strengthen stability. In Indonesia, the negative impact mainly comes from high exposure to profit and loss sharing financing, which contains moral hazard and asymmetric information. This is also combined with liquidity mismatch, weak asset diversification, and increasing financing risk and non-performing financing. As a result, the growth of Islamic financing can increase bank fragility (Fakhrunnas et al., 2021; Risfandy et al., 2020; Sutrisno & Widarjono, 2024). Similar findings are observed in Oman and Palestine, where Islamic banks are still in the stage of institutional expansion. These banks face high adjustment costs, limited Islamic liquidity instruments, and strong competition with conventional banks, which leads to lower stability (Alshubiri & Al Ani, 2023; Sawafta, 2021b). In Turkey and MENA countries, macroeconomic shocks and high inflation increase vulnerability because Islamic financing is still very sensitive to domestic macroeconomic conditions (Dolgun et al., 2020; El-Chaarani, 2023).

At the multi country level, negative results usually appear when the sample includes countries with very different institutional quality. Prasojo et al. (2022) show that in a sample of 19 countries, the effect of Islamic banking becomes weaker when governance is low and legal enforcement is weak. Gulzar et al. (2020) also find that in Europe and Islamic countries, stability decreases when Islamic banks face strong competition and regulatory arbitrage. Archer & Abdel Karim (2019) further explain that weak implementation of profit and loss

sharing makes Islamic banks behave similarly to conventional banks but with higher monitoring costs. This means that negative results do not occur because the Islamic model fails, but because the institutional environment is not strong enough to support the proper implementation of Islamic financial principles (Archer & Abdel Karim, 2019; Gulzar et al., 2020; Prasojo et al., 2022).

Proxy Lens

In the group of negative findings, the use of proxies such as CAR, financing risk, stability inefficiency, and implicit stability leads to negative conclusions because the main variables actually increase risk taking. Risfandy et al. (2020) show that market competition encourages banks to expand profit and loss sharing financing, which is harder to monitor, so moral hazard increases and stability declines. Prasojo et al. (2022) find that high risk taking reduces stability efficiency even when banks have Sharia supervisory mechanisms, which means governance alone is not always enough to control risk exposure. Alshubiri & Al Ani (2023) also show that contracts such as *murabaha*, *ijarah*, and *wakalah* have different effects on sustainability, and when financing is too concentrated in risky structures, stability indicators worsen. This means that the proxy captures a decline in portfolio quality, not a failure of the proxy itself (Alshubiri & Al Ani, 2023).

The results differ from the positive group even though both measure stability, because the difference lies in the direction of risk transmission. Mollah et al. (2017) show that Sharia governance can act as protection, but when management risk appetite is too high, stability still declines. Čihák & Hesse (2010) also find that Islamic banks are not always more stable, especially when bank size increases and monitoring becomes weaker. Ghenimi et al. (2017) and Trad et al. (2017) show that higher risky financing, weak screening, and strong competition can reduce both the Z-score and stability efficiency.

Mixed Findings

The third stream of evidence reports mixed or inconclusive findings. Rather than representing conflicting conclusions, these studies suggest that Islamic banking stability is fundamentally conditional and context dependent. The direction and magnitude of observed relationships vary according to methodological choices, institutional environments, and measurement approaches adopted by researchers.

Methodological Lens

The mixed findings group shows that the relationship between Islamic financing and bank stability does not always move in one direction. Panel regression and GMM still dominate, but the results tend to be mixed because the variables work through two channels at the same time. They improve efficiency but also increase risk exposure. Studies by AlKhouri & Arouri (2019); Moudud-Ul-Huq et al. (2022); Parmankulova et al. (2022); and Saif-Alyousfi & Saha (2021) show that income diversification, non traditional activities, and financing expansion can increase profitability and operational efficiency, but at the same time reduce the Z-score due to higher risk taking.

Mixed results are also strongly influenced by institutional context. Studies by Danlami et al. (2022); Ghassan & Guendouz (2019); and Šeho et al. (2024) show that factors such as governance quality, market concentration, legal origin, and ownership concentration often act as moderating variables that change the direction of the relationship. *Musharakah* financing can improve stability when institutional quality is strong, but its effect weakens or even becomes negative under weak governance. Similarly, financing diversification can increase resilience in competitive markets but can create fragility in highly concentrated markets. Therefore, mixed findings do not show methodological inconsistency but confirm that Islamic banking stability depends heavily on the institutional context in which contracts operate. Panel regression and GMM only help reveal this dynamic, while the final outcome is determined by governance quality and risk structure.

Country Lens

The mixed findings group clearly shows that the same country, such as those in the GCC, can produce different results depending on the economic cycle, type of risk, and stability proxy used. Studies in GCC countries show that Islamic banking can improve stability through stronger capital buffers and depositor loyalty, but at the same time increase risk taking when excess liquidity leads to aggressive financing expansion (AlKhouri & Arouri, 2019; Naouar et al., 2024; Saif-Alyousfi & Saha, 2021). In Saudi Arabia and the United Arab Emirates, stability improves in the long-term but weakens in the short-term due to profitability pressure and competition effects (AlKhazali et al., 2024; Ghassan & Guendouz, 2019). This explains why GCC countries often show mixed findings. Their institutions are strong, but market complexity is also high, so the effect on stability is not linear.

A similar pattern appears in Bangladesh, Indonesia, ASEAN GCC regions, and cross country OIC studies. In Bangladesh, Islamic financing reduces insolvency risk but can increase earnings volatility when financing expansion is too fast (Chowdhury et al., 2023; Moudud-Ul-Huq et al., 2022). Cross regional studies, such as Ben Ayed et al. (2021); Danlami et al. (2022); Grassa et al. (2021); Haddou & Mkhinini (2023); and Parmankulova et al. (2022), show that differences in results are influenced by governance quality, crisis exposure, and domestic financing structures. Therefore, in the mixed findings group, country is not the main determinant but acts as a context that strengthens or weakens the impact of Islamic banking on stability.

Proxy Lens

The mixed findings group clearly shows that the Z-score is not a single answer indicator. Studies by AlKhouri & Arouri (2019); Parmankulova et al. (2022); and Saif-Alyousfi & Saha (2021) all use dynamic approaches such as system GMM with Z-score, SDROA, SDROE, and NPL, but produce mixed results because stability depends on income sources and bank strategy. Non-traditional income diversification can increase short-term profitability but also increase earnings volatility, which lowers the Z-score (AlKhouri & Arouri, 2019; Parmankulova et al., 2022; Saif-Alyousfi & Saha, 2021). AlKhouri & Arouri (2019) show that non-interest income diversification can actually reduce stability. Saif-Alyousfi & Saha (2021) finds that non-traditional activities increase risk in banks in GCC countries. Meanwhile, Parmankulova et al. (2022) find that capital adequacy and political stability improve stability, but the effects are different between Islamic and conventional banks (Parmankulova et al., 2022; Saif-Alyousfi & Saha, 2021). Mixed results are also explained by differences across countries, regulatory systems, and market structures. Studies by Abedifar et al. (2013); Beck et al. (2013); and Ibrahim et al. (2019) show that the Z-score is very sensitive to capitalization, market concentration, and institutional quality. In GCC countries with high market concentration and strong liquidity support, diversification may appear stable, while in more competitive markets the same strategy can increase fragility. Čihák & Hesse (2010); Ghenimi et al. (2017); Mollah et al. (2017); and Trad et al. (2017) also find that governance, bank size, and crisis exposure can alter the direction of the relationship captured by the same proxies. Therefore, mixed findings are not a contradiction but show that the Z-score is a contextual outcome measure that reflects the interaction between business strategy, governance, and institutional environment.

Others Findings

The other findings group shows that the relationship between financing and Islamic banking stability cannot always be clearly classified as positive, negative, or mixed. This is because the results are more influenced by the complexity of institutional context, risk characteristics, and differences in financial systems across countries. Most studies in this group come from GCC countries, a combination of GCC and ASEAN, and OIC member countries. These findings show that the stability of Islamic banks is not only determined by the type of financing contract, but also by the quality of internal governance and the bank's ability to manage liquidity. Shilbayeh & Grassa (2024) show that the loan to deposit ratio is the most dominant predictor of Islamic banking stability, meaning that the balance between fund collection and financing distribution is more important than the composition of financing itself.

These findings are supported by Haddou & Mkhinini (2023), who show that liquidity risk affects stability in an asymmetric way. This means that both increases and decreases in liquidity risk can create pressure on the resilience of Islamic banks (Haddou & Mkhinini, 2023). This confirms that the relationship between financing and stability is not always linear, but is strongly influenced by how sensitive banks are to liquidity shocks and differences in regulatory structures across regions. In cross country contexts, especially in GCC and ASEAN, differences in regulation and the effectiveness of Sharia supervision lead to different stability outcomes, making it difficult to reach a single clear conclusion.

On the other hand, Paltrinieri et al. (2021) find that income diversification does not have a significant effect on stability, which means that expanding income sources does not always improve the resilience of Islamic banks. Nugraha et al. (2022) also show that consumer resistance to Islamic banks is an important challenge, as low public trust can weaken the development of the industry indirectly. Meanwhile, Asif & Nasir (2024), through bibliometric analysis, show that most studies on stability are still at a conceptual level, focusing on mapping research trends rather than testing direct causal relationships. Overall, this group confirms that Islamic banking stability is a multidimensional phenomenon that cannot be explained only through a simple relationship between financing and risk. Instead, it must be understood through the interaction between liquidity, governance, market perception, and institutional conditions that differ across countries.

FUTURE RESEARCH AGENDA

Several important areas remain underexplored within the Islamic banking stability literature. First, future studies should further examine deposit contracts instability, particularly DCR and depositor withdrawal behavior within dual banking systems. Second, Islamic window banks and Islamic rural banks remain substantially underrepresented in the literature despite their growing importance in several emerging economies. Third, future research should investigate the stability implications of different Islamic financing contracts, including *murabahah, mudarabah*, *musharakah,* and *ijarah*, at a more granular level. Fourth, future studies should explore institutional heterogeneity across countries by incorporating governance quality, regulatory effectiveness, and financial market development into comparative analyses. Fifth, more advanced econometric approaches such as System GMM, dynamic threshold models, and machine learning techniques may provide deeper insights into the persistence and nonlinearity of Islamic banking stability. Finally, future studies should consider integrating macroeconomic shocks, digital banking transformation, climate-related financial risks, and ESG dimensions into Islamic banking stability frameworks.

IMPLICATION

The results of this systematic literature review confirm that the stability of Islamic banking is not only determined by the existence of Islamic financing, but mainly depends on how well the risk sharing mechanism is implemented within a supportive institutional environment. Profit and loss sharing contracts such as *mudarabah* and *musharakah* have the potential to improve stability when they are supported by strong governance, good asset quality, adequate capital levels, and consistent prudential regulation. On the other hand, in conditions where institutional quality is weak, Islamic liquidity instruments are limited, and supervision is not effective, the same financing can increase moral hazard, asymmetric information, and pressure on the bank's capital buffer. This shows that stability is not determined by the Islamic nature of the system itself, but by the effectiveness of governance and the readiness of the financial system to support Islamic principles in practice. Therefore, strengthening the regulatory framework, improving Sharia supervision, and developing Islamic money markets are important requirements to ensure that Islamic banking can contribute to stability in a sustainable way.

The variation of results across positive, negative, mixed, and other findings also shows that Islamic banking stability is a multidimensional phenomenon that cannot be represented by a

single indicator such as Z-score, CAR, NPF, or liquidity risk. Each proxy captures different aspects of risk, so differences in research results mainly reflect variations in institutional context, market structure, and bank strategy rather than methodological inconsistency. This highlights the importance of using a more integrated research approach by including governance quality, legal enforcement, market concentration, and country specific factors as key moderating variables in explaining the relationship between Islamic financing and bank stability. For the banking industry, these findings suggest that financing expansion must be balanced with proper risk management, asset diversification, and careful liquidity management so that risk sharing mechanisms do not become a source of fragility. Therefore, Islamic banking stability should be understood as the result of the interaction between financing, governance, and institutional quality, rather than as an automatic outcome of implementing the Islamic financial system.

This study contributes to the literature in three important ways. First, it provides a comprehensive synthesis of fragmented studies on Islamic banking stability using a systematic literature review and bibliometric approach. Second, this study develops a conditional stability perspective, emphasizing that Islamic banking stability is influenced by institutional quality, contractual characteristics, and research design rather than being inherently embedded within Islamic banking principles alone. Third, the study identifies several underexplored areas for future research, including deposit contract instability, Islamic window banks, Islamic rural banks, and institutional heterogeneity across countries.

CONCLUSION

This study confirms that Islamic banking stability is a complex and evolving issue within the broader framework of financial stability, particularly in the context of diverse institutional environments and dual banking systems. By applying a systematic literature review combined with bibliometric mapping, this research provides a comprehensive synthesis of the development, key determinants, and empirical patterns of Islamic banking stability. First, the findings indicate that the literature has expanded significantly over time, with dominant themes centered on financial performance, risk management, and asset quality. Second, methodologically, panel data models and dynamic approaches such as GMM are the most widely used, while geographically, research remains concentrated in countries with more developed Islamic financial systems, pointing to an imbalance in global research coverage.

Third, the results show that variations in stability proxies, institutional quality, macroeconomic conditions, and methodological approaches lead to heterogeneous and often fragmented conclusions. This highlights that the impact of Islamic banking on stability is highly context-dependent, producing positive, negative, or mixed outcomes depending on governance quality, regulatory strength, risk management practices, and market structure. These findings suggest that Islamic banking stability is not inherently guaranteed by its Sharia-compliant nature, but is largely shaped by the effectiveness of institutional and regulatory frameworks.

This study implies that strengthening governance, improving regulatory harmonization, and advancing Islamic financial infrastructure are essential to enhance stability outcomes. At the same time, future research should broaden its scope by exploring underexamined areas such as deposit contracts, Islamic window banks, and Islamic rural banks in order to develop a more comprehensive and globally representative understanding of Islamic banking stability.

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