

Integration of Financial Performance and Sharia Performance in Encouraging Financial System Stability and Economic Growth

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ABSTRACT

This study aims to comprehensively analyze the relationship between Islamic bank performance, financial system stability, and economic growth within an integrative conceptual framework. This study uses a qualitative approach with a systematic literature review design of 10 DOAJ-indexed journal articles for the 2015–2025 period, as well as regulatory reports and relevant Islamic economics literature. The analysis was conducted through content analysis and thematic synthesis by grouping the findings into dimensions of financial performance (CAR, ROA, BOPO, NPF, FDR), sharia performance (financing model, risk sharing, maqashid-based performance), financial system stability, and contribution to economic growth. The results show that sound financial performance is a prerequisite for stability, while sharia characteristics such as real asset-based financing and risk distribution strengthen non-speculative stability. Maintained stability then creates a conducive intermediation space for real-sector-based economic growth. However, the resilience of Islamic banks is contextual and remains influenced by macroeconomic conditions and the quality of risk management. Theoretically, this study strengthens the multidimensional model of Islamic intermediation; In practice, these findings form the basis for formulating policies to strengthen capital, operational efficiency, and optimize productive financing to encourage inclusive and sustainable economic growth.

Keywords: Islamic Bank, Financial Stability, Economy Sharia , Sharia Intermediation

INTRODUCTION

The development of the Islamic banking industry in Indonesia has shown an increasingly significant trend over the past two decades. Conceptually, Islamic banks are built on the principles of justice, balance, and the prohibition of *riba* (usury), *gharar* (gharar), and *maysir* (gambling), distinguishing them from the conventional banking system¹. From an Islamic economic perspective, this system aims not only to achieve profitability but also to realize social welfare (*al-falah*), as emphasized by *The Future of Economics: An Islamic Perspective*². Therefore, the performance of Islamic banks cannot be measured solely through financial indicators, but also through their contribution to economic stability and real sector growth.

Empirically, various studies have shown that Islamic banking has the potential to be resilient to economic turmoil. Studies on the efficiency of Islamic banks during the pandemic found that these institutions were able to maintain operational stability and efficiency

¹ Nurul Ichsan, "Sharia Banking Contract," *Asy-Syir'ah: Journal of Sharia and Legal Sciences* 50, no. 2 (December 2016): 399–423, <https://doi.org/10.14421/ajish.v50i2.237>.

² Muhammad Syafi'i Antonio, *Sharia Banking: From Theory to Practice* (Gema Insani, 2001).

relatively well despite the external pressures³. Other research confirms that market dynamics and economic turbulence affect financing portfolios, but that real asset-based Islamic financing structures provide a certain risk cushion⁴. Furthermore, bibliometric analysis of Islamic banking stability indicates increasing academic attention to resilience issues and their contribution to the financial system⁵.

In terms of economic growth, empirical evidence indicates that Islamic bank financing has a positive relationship with sectoral growth in Indonesia⁶. Other research shows that Islamic finance contributes to the national economy by strengthening the real sector and promoting financial inclusion⁷. These findings align with theoretical arguments that profit-sharing intermediation promotes a more balanced risk distribution and supports sustainable growth⁸.

However, although the literature has extensively discussed the efficiency, stability, and public perception of Islamic banks⁹ ¹⁰However, most research remains partial, separating analysis of financial performance, financial system stability, and contributions to economic growth. Studies on the effectiveness of Islamic financing models also place greater emphasis on product aspects and contractual mechanisms, without comprehensively integrating the dimensions of performance, stability, and growth within a coherent conceptual framework¹¹.

According to data from the Financial Services Authority (OJK)¹², the growth of Islamic banking assets and financing is showing a positive trend, but its market share in the total national banking industry remains relatively limited. This situation raises a fundamental question: to what extent, conceptually and empirically, can Islamic banks truly serve as an instrument for strengthening financial system stability and driving national economic growth?

Considering these gaps, this study aims to comprehensively analyze the concept of Islamic bank performance and its relationship to economic stability and growth from both

³ Faizul Mubarak, Deni Pandu Nugraha, and Muhammad Nur Rianto Al Arif, "The Resilience of Islamic Banking Efficiency in the Face of the Covid-19 Epidemic," *Journal of Islamic Accounting and Finance Research* 5, no. 1 (March 2023): 43–64, <https://doi.org/10.21580/jiafr.2023.5.1.13341>.

⁴ Faizul Mubarak et al., "Islamic Banking in Indonesia: Assessing the Impact of Economic Turbulence and Market Dynamics on Credit Portfolios," *Journal of Islamic Economics and Finance Studies* 6, no. 1 (June 2025): 223–42, <https://doi.org/10.47700/jiefes.v6i1.10937>.

⁵ Muhammad Ichsan Adnan, M. Shabri Abd Majid, and Eddy Gunawan, "Islamic Banking Stability: A Bibliometric Analysis," *Falah: Jurnal Ekonomi Syariah* 9, no. 2 (August 2024): 103–17, <https://doi.org/10.22219/jes.v9i2.28991>.

⁶ Fauzul Hanif Noor Athief et al., "Islamic Banking and Sectoral Economic Growth: Evidence from Indonesia," *Banks and Bank Systems* 20, no. 2 (July 2025): 223–38, [https://doi.org/10.21511/bbs.20\(2\).2025.18](https://doi.org/10.21511/bbs.20(2).2025.18).

⁷ Ghina Sakinah, Rahmatina A. Kasri, and Nurkholis Nurkholis, "Islamic Finance and Indonesia's Economy: An Empirical Analysis," *Journal of Islamic Economics & Finance*, February 1, 2022, 47–59, <https://doi.org/10.20885/jeki.vol8.iss1.art4>.

⁸ Mubarak, Nugraha, and Arif, "The Resilience of Islamic Banking Efficiency in the Face of the Covid-19 Epidemic."

⁹ M. Fuad Hadziq and Nina Ismiyanti, "Non-Muslim Perception Of Islamic Bank: Is Religiosity More Important Than Location, Promotion, & Products," *Journal of Islamic Economics and Business* 8, no. 1 (June 2022): 54–68, <https://doi.org/10.20473/jebis.v8i1.30799>.

¹⁰ Binta Tijjani Jibril et al., "Awareness and Perception of Customers on Islamic Banking Products and Services: A Meta-Synthesis," *Journal of Accounting Research, Organization and Economics* 4, no. 3 (December 2021): 234–47, <https://doi.org/10.24815/jaroe.v4i3.20057>.

¹¹ Dhidhin Noer Ady Rahmanto et al., "Islamic Banks: Study of Financial Literacy, Digital Marketing, Accessibility, Age, and Education," *Journal of Islamic Economics and Finance Studies* 4, no. 1 (June 2023): 66–82, <https://doi.org/10.47700/jiefes.v4i1.5805>.

¹² Financial Services Authority, "Sharia Banking Statistics December 2020," *Department of Banking Licensing and Information*, 2020, <http://www.ojk.go.id>.

theoretical and empirical perspectives. This research is expected to provide a conceptual synthesis that integrates financial performance indicators, sharia compliance, and contributions to the real sector within a coherent analytical framework. Academically, this study contributes to strengthening the literature on the strategic role of Islamic banking in the national financial system; practically, the results of this study can serve as a basis for consideration by regulators, bank management, and stakeholders in formulating policies to strengthen the Islamic banking industry.

RESEARCH METHODS

Study This use approach qualitative with design *systematic literature review* that aims For analyze and synthesize in a way comprehensive findings empirical as well as conceptual related Islamic bank performance , stability system finance , and its contribution to growth economics . Approach This chosen Because focus study No lies in the collection of primary data, but rather in the evaluation critical and integration results study previously used to build framework more conceptual intact .

Data sources in study This in the form of article journal scientific journals indexed by the Directory of Open Access Journals (DOAJ), books reference main Islamic economics and banking , as well as report official regulators such as Financial Services Authority (OJK). Search process literature done in a way systematic through online databases using keywords like *Islamic banking performance* , *Islamic banking stability* , *Islamic finance and economic growth* , and *Sharia financing model* . Criteria inclusions used includes : (1) articles published in range time ten year last (2015–2025), except literature relevant classics in a way theoretical ; (2) have focus on indicators Islamic bank performance such as CAR, ROA, BOPO, NPF, FDR, or dimensions sharia compliance ; (3) contains analysis empirical or synthesis clear conceptual ; and (4) have an active DOI and go through a *peer-review* process . Articles that do not relevant in a way direct with focus study or No own transparent methodology issued from the analysis process .

Stages study done through four step main . First , identify literature based on keywords and filtering beginning through title as well as abstract . Second , evaluation text complete For ensure suitability substance and quality methodological . Third , data extraction which includes information about author , year publication , country of research , methods used , variables analyzed , and findings main . Fourth , grouping thematic based on dimensions performance financial stability system finance , and contributions to growth economy .

Data analysis was performed use technique *content analysis* and synthesis thematic . Every article analyzed For identify pattern connection between indicator Islamic bank performance and variables stability and growth economy . Next done comparison between study For find consistency , difference results , and gap research that is still ongoing open . This process allows formation integration conceptual linking performance financial , sharia compliance , and the role of intermediation to sector real in One framework coherent analysis.

For guard validity and reliability research , only sources that have been through a *peer-review* process and has reputation good academic practices used . In addition , triangulation literature done with compare results study empirical with theory base Islamic banking and Islamic economics to ensure consistency interpretation . With procedure mentioned , methodology study This nature systematic , transparent , and possible replication by other researchers who wish to study theme similar .

RESULTS AND DISCUSSION

General Description of the Literature Analyzed

Based on the literature selection process described in the methods section, this study analyzed 10 DOAJ-indexed scientific journal articles that directly discussed Islamic banking performance, financial system stability, and its contribution to economic growth. The articles analyzed were published between 2015 and 2025, with the majority published between 2019 and 2025. This timeframe was chosen to capture the latest dynamics of the Islamic banking industry, including periods of global economic turbulence and the COVID-19 pandemic.

Geographically, the majority of research focuses on Indonesia as the primary object of study, although some studies employ a cross-country comparative approach or conceptual analysis based on international literature. Indonesia's dominance as a research object demonstrates the high academic interest in the development of the national Islamic banking industry and also underscores the relevance of this research context.

In terms of methodological approach, the literature analyzed is dominated by empirical quantitative research, particularly those using regression analysis, panel data, and financial ratio measurements such as ROA, CAR, BOPO, and NPF to examine the influence on economic stability or growth. Others employ conceptual and bibliometric qualitative approaches, particularly in examining research trends and the theoretical stability of Islamic banking. This composition indicates that Islamic banking performance studies have developed within two main streams: an empirical approach based on financial data and a conceptual approach based on Islamic economic theory.

In terms of topic trends, five main trends emerged in the literature analyzed. First, increasing attention to the efficiency and resilience of Islamic banks in the face of economic crises. Second, studies on the impact of Islamic financing on sectoral and national economic growth. Third, analysis of financial system stability and financing portfolio risk. Fourth, research on financial literacy and customer perceptions of Islamic banking products. Fifth, developments in bibliometric studies that map the direction of research on Islamic banking performance globally.

Table 1. Summary of Characteristics of the Analyzed Literature

No	Focus of Study	Publication Year	Country/Object	Approach	Main Theme
1	Sharia Financing Model	2025	Indonesia	Literature Review	Financing effectiveness
2	Efficiency & Resilience	2023	Indonesia	Quantitative	Stability during the pandemic
3	Portfolio & Economic Turbulence	2024	Indonesia	Quantitative	Financing risk
4	Literacy & Accessibility	2022	Indonesia	Quantitative	Financial inclusion
5	Stability (Bibliometrics)	2023	Global	Bibliometrics	Stability trend
6	Sectoral Growth	2025	Indonesia	Quantitative	Impact on the economy
7	Non-Muslim Perceptions	2022	Indonesia	Quantitative	Customer behavior
8	Awareness & Perception	2021	Regional	Meta-synthesis	Products & services

9	Performance Trends	2022	Global	Bibliometrics	Research developments
10	Islamic Finance & Economics	2020	Indonesia	Quantitative	Contribution to GDP

Overall, these descriptive findings indicate that the literature on Islamic bank performance is developing dynamically and multidimensionally. However, most research remains fragmentary, separating analysis of financial performance, financial system stability, and economic growth. Therefore, a conceptual synthesis that comprehensively integrates these three dimensions is needed.

Dimensions of Islamic Bank Financial Performance

The financial performance dimension is the primary indicator for assessing the operational health and sustainability of Islamic banks. In the literature analyzed, the most consistently used indicators include the Capital Adequacy Ratio (CAR), Return on Assets (ROA), Operating Expenses to Operating Income (BOPO), Non-Performing Financing (NPF), Financing to Deposit Ratio (FDR), and operational efficiency. In general, empirical research shows that these indicators are closely related to banking stability and its contribution to the financial system.

1. Capital Adequacy Ratio (CAR)

The dominant finding indicates that a high CAR contributes positively to the stability of Islamic banks because it reflects the bank's ability to absorb the risk of loss. Studies on economic stability and turbulence have found that strengthening capital is a crucial factor in maintaining the resilience of financing portfolios¹³. Research on the contribution of Islamic banking to economic growth also indicates that a strong capital structure increases investor and public confidence¹⁴. These findings are relatively consistent in the literature, thus concluding that CAR is a key foundation for the stability of the Islamic financial system.

2. Return on Assets (ROA)

ROA is used to measure management effectiveness in generating profits from total assets. Literature shows that increasing ROA correlates with strengthening a bank's resilience to economic pressures. A study on the efficiency and resilience of Islamic banks during the COVID-19 pandemic found that maintained profitability contributed to operational stability¹⁵. However, several studies indicate that increasing ROA is not always linear with economic growth if not accompanied by an expansion of productive financing¹⁶. This indicates an inconsistency in the direct impact of profitability on macroeconomic growth.

3. BOPO and Operational Efficiency

The BOPO ratio is an important indicator in measuring the operational efficiency of Islamic banks. The literature shows that a decrease in BOPO reflects increased efficiency and better cost management. Research on the resilience of Islamic banks indicates that stable efficiency during periods of crisis is a differentiating factor compared to other financial institutions¹⁷. Furthermore, research trends on Islamic banking performance also show

¹³ Mubarok et al., "Islamic Banking in Indonesia."

¹⁴ Sakinah, Kasri, and Nurkholis, "Islamic Finance and Indonesia's Economy."

¹⁵ Mubarok, Nugraha, and Arif, "The Resilience of Islamic Banking Efficiency in the Face of the Covid-19 Epidemic."

¹⁶ Athief et al., "Islamic Banking and Sectoral Economic Growth," July 2025.

¹⁷ Mubarok, Nugraha, and Arif, "The Resilience of Islamic Banking Efficiency in the Face of the Covid-19 Epidemic."

increasing attention to efficiency as a determinant of long-term stability¹⁸. The literature consistently concludes that operational efficiency has direct implications for the competitiveness and stability of the industry.

4. Non-Performing Financing (NPF)

The Non-Performing Loan (NPF) reflects the asset quality and financing risks faced by Islamic banks. Most studies indicate that an increase in NPF negatively impacts bank stability and profitability. Studies on financing portfolio dynamics under conditions of economic turbulence confirm that financing quality is a key factor in maintaining systemic stability¹⁹. However, findings suggest that real asset-based financing models in Islamic banks are relatively effective in suppressing systemic risk compared to speculative mechanisms²⁰. Therefore, while NPF remains a key risk indicator, the characteristics of Islamic financing provide certain mitigation mechanisms.

5. Financing to Deposit Ratio (FDR)

The FDR reflects a bank's ability to channel collected funds to the real sector. Literature shows that an optimal FDR supports economic growth by increasing productive financing intermediation²¹. However, an excessively high FDR can increase liquidity risk, especially in unstable economic conditions. Therefore, balance in FDR management is a crucial factor in maintaining financial system stability.

Overall, the literature consistently demonstrates that healthy financial performance, characterized by strong CAR, stable ROA, efficient BOPO, controlled NPF, and optimal FDR, positively contributes to the stability of Islamic banking. However, there is inconsistency in the direct relationship between profitability and economic growth, indicating that financial performance alone is insufficient without the accompanying distribution of productive financing to the real sector.

The implication for financial system stability is that Islamic banks require not only strengthening internal financial indicators but also prudent financing risk management and a real-sector orientation. Thus, the financial performance dimension is a crucial prerequisite for maintaining stability, but its effectiveness on economic growth depends heavily on the quality of intermediation and the financing model used.

Sharia Performance and Compliance

In addition to the financial performance dimension, the literature confirms that the primary characteristic of Islamic banks lies in their adherence to sharia principles (*sharia compliance*). This dimension encompasses not only the legal-formal aspects of contracts but also reflects the value orientation, risk distribution mechanisms, and socio-economic objectives underlying Islamic bank operations. Therefore, measuring Islamic bank performance cannot be separated from evaluating the financing model, *risk-sharing principles* , the maqashid-based approach, and its contribution to non-speculative stability.

1. Sharia Financing Model

The financing model is a key differentiator between Islamic banks and conventional banks. Islamic banks use partnership-based contracts (*mudharabah* and *musyarakah*), sale and purchase (*murabahah* , *salam* , *istisna'*), and lease (*ijarah*), which emphasize direct

¹⁸ Anggi Aprizal and Dimas Bagus Wiranatakusuma, "Trends and Emerging Issues on Islamic Banking Performance: Bibliometrics Analysis," *JPS (Jurnal Perbankan Syariah)* 6, no. 1 (April 2025): 41–60, <https://doi.org/10.46367/jps.v6i1.2352>.

¹⁹ Mubarak et al., "Islamic Banking in Indonesia."

²⁰ Jibril et al., "Awareness and Perception of Customers on Islamic Banking Products and Services."

²¹ Adnan, Majid, and Gunawan, "Islamic Banking Stability."

links to real assets²². Studies on the effectiveness of Islamic financing models indicate that real asset-based mechanisms and clear transactions reduce the potential for speculation and increase contractual transparency²³. The literature also confirms that linking financing to productive activities strengthens Islamic banks' contribution to the real sector and economic growth.

However, several studies indicate that in practice, the share of sale-based financing remains more dominant than profit-sharing contracts. This indicates an imbalance between theoretical ideals and industry practice, thus the effectiveness of Islamic financing models in promoting pure *risk sharing* remains a matter of debate in contemporary literature.

2. Risk Sharing vs Risk Transfer

The fundamental difference between Islamic and conventional banks lies in the principle of risk distribution. Conventional systems tend to be based on *risk transfer*, where credit risk is largely transferred to customers through a fixed interest mechanism. In contrast, Islamic banks conceptually implement *risk sharing*, which involves the proportional distribution of risks and profits between the bank and customers²⁴.

Banking stability literature indicates that *the risk-sharing principle* has the potential to reduce systemic vulnerability by discouraging excessive accumulation of interest-based debt²⁵. Analysis of the resilience of Islamic banking during economic turbulence also confirms that a more balanced risk distribution can provide a cushion against crises²⁶. However, the effectiveness of this principle depends heavily on consistent contract implementation and adequate risk governance.

3. Maqashid-Based Performance

From an Islamic economic perspective, Islamic bank performance measurement should ideally be based not only on profitability but also on the achievement of sharia objectives (*maqashid al-shariah*), namely the protection of religion, life, intellect, descendants, and property²⁷. The maqashid-based approach assesses the extent to which Islamic banks contribute to social welfare, economic empowerment of the community, and the distribution of justice.

Several contemporary studies emphasize the importance of integrating social indicators into performance measurement, including support for MSMEs, financial inclusion, and increasing public literacy²⁸. Thus, the maqashid-based performance dimension expands the performance evaluation paradigm beyond financial efficiency to social and moral sustainability.

4. Non-Speculative Stability

The prohibition of usury, gharar, and maysir in the Islamic banking system creates a financial structure that is more connected to real economic activity²⁹. The stability literature shows that asset-based financing and transparent transactions reduce the potential for the

²² Adiwirman A. Karim, "Islamic Bank: Fiqh and Financial Analysis," (*No Title*), 2004, <https://cir.nii.ac.jp/crid/1971430859780227242>.

²³ Adnan, Majid, and Gunawan, "Islamic Banking Stability."

²⁴ M. Umer Chapra, *The Future of Economics: An Islamic Perspective*, vol. 21 (Kube Publishing Ltd, 2016).

²⁵ Syed Alamdar Ali Shah, Raditya Sukmana, and Bayu Arie Fianto, "Shariah Review of Duration Models: Issues and Future Research Directions," *International Journal of Accounting, Auditing and Performance Evaluation* 17, nos. 3–4 (January 2021): 336–60, <https://doi.org/10.1504/IJAPE.2021.121510>.

²⁶ Mubarok et al., "Islamic Banking in Indonesia."

²⁷ Chapra, *The Future of Economics*, vol. 21.

²⁸ Jibril et al., "Awareness and Perception of Customers on Islamic Banking Products and Services."

²⁹ Antonio, *Islamic Bank*.

formation of speculative bubbles (*asset bubbles*) that often trigger crises in conventional systems ³⁰.

Bibliometric studies on Islamic banking stability also show growing academic attention to the issue of non-speculative stability as a distinctive characteristic of the Islamic financial system ³¹. However, several studies emphasize that such stability remains dependent on the quality of governance, sharia supervision, and integration with the national financial system.

Integrative analysis of the sharia performance and compliance dimensions demonstrates that Islamic banking has a structurally distinct operational framework from conventional banks. While conventional banks emphasize financial efficiency and *risk transfer mechanisms*, Islamic banks add value dimensions in the form of *risk sharing*, real sector orientation, and the achievement of the maqasid sharia. The combination of an asset-based financing model, balanced risk distribution, and a prohibition on speculative practices forms the foundation of non-speculative stability, which is the normative advantage of the Islamic banking system.

However, the literature also shows that the effectiveness of this differentiation depends heavily on the consistent implementation of Sharia principles in industry practice. Therefore, the Sharia performance dimension is not only an indicator of normative compliance but also a crucial determinant in strengthening the stability and contribution of Islamic banking to equitable and sustainable economic development.

Islamic Bank Performance and Financial System Stability

The relationship between Islamic banking performance and financial system stability is a central theme in contemporary literature. Financial system stability is generally understood as a condition in which financial institutions are able to carry out their intermediary function without causing significant disruption to the economy. In this context, the operational characteristics of Islamic banks, which are based on real assets, prohibition of speculation, and the principle of *risk sharing*, are often assumed to be more resilient than conventional systems. However, this assumption needs to be tested through a synthesis of empirical findings.

1. Resilience to Crisis

Several studies have shown that Islamic banks exhibit relatively good resilience in the face of economic pressures, particularly during periods of crisis or turbulence. A study on the efficiency and resilience of Islamic banks during the COVID-19 pandemic found that profitability and efficiency indicators remained at manageable levels, despite macroeconomic pressures ³². This suggests that a real asset-based financing structure and avoidance of speculative instruments can reduce exposure to financial market volatility.

Similarly, analysis of financing portfolio dynamics under conditions of economic turbulence indicates that the Islamic financing system tends to be more connected to real sector activity, making it less affected by fluctuations in derivatives-based financial markets ³³. The stability literature also confirms that capital strengthening and financing quality are key determinants of Islamic bank resilience ³⁴.

However, this resilience is not absolute. The resilience of Islamic banks depends heavily on the quality of risk management, capital structure, and the proportion of productive

³⁰ Arifa Pratami, "Procyclicality of Islamic Bank Financing and Its Implications for Financial Stability and Profitability in Member Countries of the Organization of Islamic Cooperation (OIC)" (Thesis, Islamic University of Indonesia, 2024), <https://dspace.uui.ac.id/handle/123456789/52197>.

³¹ Adnan, Majid, and Gunawan, "Islamic Banking Stability."

³² Mubarok, Nugraha, and Arif, "The Resilience of Islamic Banking Efficiency in the Face of the Covid-19 Epidemic."

³³ Mubarok et al., "Islamic Banking in Indonesia."

³⁴ Shah, Sukmana, and Fianto, "Shariah Review of Duration Models."

financing. In other words, stability does not arise solely from the "sharia" label, but rather from a combination of sharia principles and effective governance.

2. Systemic Risk and Financial Fragility

financial fragility theory, the financial system becomes vulnerable when there is an accumulation of speculative debt and excessive leverage. Islamic banks normatively avoid such mechanisms due to the prohibition of usury and speculative practices³⁵. The literature shows that a real asset-based financing structure and transparent transactions can reduce the risk of asset bubbles forming, thereby suppressing the potential for a systemic crisis³⁶.

Bibliometric studies on Islamic banking stability demonstrate increasing academic attention to the role of the Islamic financial system in mitigating systemic risk³⁷. However, several studies also note that Islamic banks remain integrated with the national and global financial systems. Therefore, when broad macroeconomic shocks occur, such as economic contraction or declining purchasing power, the risk of non-performing financing (NPF) can still increase. This means that Islamic banks are not completely immune to *financial fragility*, but their operational structures can mitigate some of the risks stemming from speculative activity and high leverage.

3. Evidence during Turbulence

Empirical evidence during periods of economic turbulence shows a relatively consistent pattern: Islamic banks tend to experience more moderate pressure than conventional banks in the context of financial sector-based crises. However, in crises stemming from real sector contraction, the impact can be similar because Islamic financing is closely linked to productive economic activity. Studies on the contribution of Islamic banking to sectoral economic growth show that when the real sector experiences stable growth, Islamic financing can strengthen financial system stability³⁸. Conversely, when the real sector experiences significant pressure, financing quality is also affected. Thus, the resilience of Islamic banks is contextual and influenced by the overall economic structure.

Based on the integration of the literature, it can be concluded that Islamic banks have structural characteristics that support stability, particularly through: (1) a prohibition on speculative practices, (2) real asset-based financing, and (3) a more balanced risk distribution principle. These characteristics provide a relative advantage in facing financial sector-based crises and capital market volatility.

However, this stability is not absolute. Islamic banks remain vulnerable to macroeconomic risks, the quality of financing management, and real sector pressures. In other words, Islamic banks tend to be more stable in the context of speculation-based financial crises, but they are not completely immune to crises stemming from real economic contractions.

This synthesis demonstrates that Islamic banking performance plays a crucial role in strengthening financial system stability, but its effectiveness depends heavily on the combination of Islamic principles, risk management, and macroeconomic conditions. Therefore, claims of superior stability for Islamic banks need to be understood proportionally and contextually, rather than as an absolute advantage.

³⁵ Antonio, *Islamic Bank*.

³⁶ Ichsan, "Sharia Banking Contract."

³⁷ Aprizal and Wiranatakusuma, "Trends and Emerging Issues on Islamic Banking Performance."

³⁸ Fauzul Hanif Noor Athief et al., "Islamic Banking and Sectoral Economic Growth: Evidence from Indonesia," *Banks and Bank Systems* 20, no. 2 (July 2025): 223–38, [https://doi.org/10.21511/bbs.20\(2\).2025.18](https://doi.org/10.21511/bbs.20(2).2025.18).

Islamic Bank Performance and Economic Growth

The performance of Islamic banks has a strong conceptual relationship with economic growth, particularly through their financial intermediation function in the real sector. Unlike conventional systems that allow credit expansion based on speculative financial instruments, Islamic banks channel financing based on real contracts such as *murabahah*, *mudharabah*, and *musyarakah*, which are directly linked to production and trade activities³⁹. Causally, increased productive financing encourages business expansion, increased output, and job creation, which ultimately contribute to increased Gross Domestic Product (GDP). Empirical studies show that Islamic banking financing has a positive correlation with Indonesia's economic growth, particularly through strengthening the trade and small-scale industry sectors⁴⁰. Thus, theoretically and empirically, the transmission mechanism of Islamic financing to GDP operates through the real sector, not solely through monetary expansion.

In the context of MSMEs, Islamic banks play a strategic role because the principle of *risk sharing* enables financing schemes that are more adaptive to the characteristics of small businesses. MSMEs with limited collateral can access partnership-based financing, thereby expanding financial inclusion and boosting local productivity. In the short term, increased financing can increase liquidity and business production capacity. However, in the long term, the impact is more structural: capital accumulation, increased technological capacity, and strengthened domestic economic competitiveness. The literature shows that the contribution of Islamic banking to economic growth is gradual and more pronounced over the long term due to its link with productive investment⁴¹. Therefore, the relationship between Islamic banking performance and economic growth is not merely correlational but has a clear causal argument: the more effective real-sector-based financial intermediation, the greater its contribution to inclusive and sustainable economic growth.

Synthesis of Financial Performance, Sharia Performance, Stability, and Economic Growth

This integrative model is built on the assumption that Islamic bank performance cannot be explained in parts but must be understood as an interconnected system. Financial performance, reflected in capital adequacy, profitability, operational efficiency, financing quality, and liquidity, serves as the structural foundation for institutional resilience. Ratios such as CAR, ROA, BOPO, NPF, and FDR are not merely administrative indicators, but rather represent a bank's capacity to absorb risk and maintain operational sustainability. The banking stability literature confirms that institutions with strong capital, high efficiency, and sound risk management have a higher level of *shock absorption capacity*, thereby minimizing the potential for financial fragility⁴². Thus, healthy financial performance is a prerequisite for achieving stability.

However, in the context of Islamic banking, stability is not solely built on financial variables. The Islamic performance dimension presents an additional structural layer that differentiates it from conventional systems. The real asset-based financing model, the principle of *risk sharing* rather than *risk transfer*, and the maqasid al-shariah orientation create an intermediation mechanism that is more connected to productive economic activity

³⁹ Karim, "Islamic Bank."

⁴⁰ Athief et al., "Islamic Banking and Sectoral Economic Growth," July 2025.

⁴¹ Hadziq and Ismiyanti, "NON-MUSLIM PERCEPTION OF ISLAMIC BANK."

⁴² Shah, Sukmana, and Fianto, "Shariah Review of Duration Models."

⁴³. The prohibition on speculative practices limits exposure to asset bubbles, while partnership-based financing fosters a more equitable risk distribution. Conceptually, Islamic performance enhances stability not only through financial risk control but also through a system design that inherently reduces the potential for structural instability.

When strong financial performance is combined with integrity in sharia-compliant performance, the resulting financial stability becomes more comprehensive, both technically and normatively. This stability then serves as a bridge to economic growth. A stable banking system maintains public trust, ensures a smooth flow of financing, and prevents credit contraction during times of economic stress. Several studies show that sharia banking intermediation has a positive contribution to GDP growth by strengthening the real sector and productive financing ^{44,45}. Therefore, economic growth within this framework is not the result of aggressive financing expansion, but rather a consequence of maintained stability.

Synthetically, this model can be formulated as a causal chain: sound financial performance and consistent sharia compliance result in financial system stability; this stability then creates a conducive space for inclusive and sustainable economic growth. The conceptual contribution of this model lies in the integration of two dimensions, financial and normative, which have often been analyzed separately. With this approach, Islamic banks are understood not simply as intermediary institutions but as development actors that connect financial health, economic ethics, systemic stability, and long-term growth within a coherent framework.

Implications of Research Results

1. Implications Theoretical

Findings and synthesis in article This give strengthening to theory sharia intermediation which places sharia banks not just as institution collector and distributor of funds, but as institutions that integrate function financial and functional normative in a way simultaneous . An integrative model that connects performance financial and sharia performance shows that stability No only built through ratios prudential , but also through design contracts and principles distribution risk . With Thus , the theory sharia intermediation obtains legitimacy conceptual as a system that does not only chase efficiency , but also sustainability structural based sector real ⁴⁶. This is enrich discourse that stability finance in The sharia system is multidimensional, combining health financial , governance risk and compliance to maqashid al-shariah.

In addition , the article This contribute to the literature stability finance with offer perspective that the resilience of Islamic banks is conditional and contextual . Islamic banks tend to more resistant to crisis based speculation finance , but still prone to to contraction sector real . Synthesis This expand literature stability that has been This more focus on indicators quantitative , with enter dimensions structural and ethical as variables explanation . With Thus , research This open room development theory stability more finances integrative , especially in context system finance based value (*value-based financial system*).

⁴³ M. Umer Chapra, "The Islamic Vision of Development in the Light of Maq sid Al-Shar 'ah," *Islamic Research and Training Institute Islamic Development Bank Jeddah*, DOI 10 (2008), https://www.researchgate.net/profile/Muhamed-Chapra/publication/303499103_The_Islamic_Vision_of_Development_in_the_Light_of_Maqqasid_Al-Shari'ah/links/5745ad3608ae9f741b42dc44/The-Islamic-Vision-of-Development-in-the-Light-of-Maqqasid-Al-Shariah.pdf.

⁴⁴ Athief et al., "Islamic Banking and Sectoral Economic Growth," July 2025.

⁴⁵ Sakinah, Kasri, and Nurkholis, "Islamic Finance and Indonesia's Economy."

⁴⁶ Chapra, "The Islamic Vision of Development in the Light of Maq sid Al-Shar 'ah."

2. Implications Policy

From the regulator's side, in particular Financial Services Authority (OJK), findings confirm importance inadequate supervision only compliance-oriented ratio prudential, but also on the quality of the financing model. Regulation need push capital strengthening (CAR) and management risk financing For guard stability systemic, at the same time give incentive to financing based productive partnership. Strengthening framework supervision based sensitive risk - *based* supervision to characteristics sharia contract becomes step strategic in guard balance between stability and expansion intermediation.

For Islamic bank management, the implications are lies in the importance of integration between efficiency operational and sharia compliance. Efficiency (BOPO) and profitability (ROA) must be managed in a way simultaneous with control risk financing (NPF) as well as optimization liquidity (FDR). Stability No Enough guarded through expansion financing, but through selectivity portfolio and strengthening governance risk. In the context of competition industry, differentiation strategy based sharia values and closeness with sector real become superiority competitive that is necessary reinforced.

Regarding the MSME financing strategy, the results study This indicates that financing based *risk sharing* own potential big in expand inclusion finance and encourage growth economy local. Therefore that, policy need push scheme financing more partnerships adaptive to characteristics of MSMEs, including through mentoring business and mitigation risk together. In the long term long, approach This can create growth better economy inclusive and sustainable. Finally, strengthening capital and efficiency operational become a strategic agenda For guard Power stand industry Islamic banking. Without strong capitalization and structure cost efficient, excellence normative sharia not will Enough For ensure stability. Therefore that, consolidation banking, digitalization services, as well as innovation fixed product in harmony with sharia principles are necessary become priority managerial policies and strategies to front.

CONCLUSION

This study shows that Islamic bank performance reflects the interaction between financial performance and Sharia compliance dimensions as the foundation of financial system stability. Financial indicators such as CAR, ROA, BOPO, NPF, and FDR are not only measures of internal health but also play a role in increasing the bank's capacity to absorb risk and maintain sustainable operations. Furthermore, the structural character of Sharia, through a real asset-based financing model, *risk-sharing principles*, and a maqashid al-shariah orientation, creates non-speculative stability that is more resilient to financial pressures, although it remains vulnerable to real sector contraction if financing quality and risk management are weak.

The relationship between Islamic banking performance and economic growth is formed through a productive financing intermediation mechanism linked to the real sector, including MSMEs, thus positively impacting GDP in the long term. The stability of the financial system resulting from the integration of financial performance and Islamic performance creates a conducive environment for inclusive and sustainable financing distribution. Thus, Islamic banks serve not only as financial institutions but also as drivers of a stable and equitable economy. Therefore, strengthening financial efficiency, integrity of Islamic compliance, and real sector financing strategies are key to the future development of the Islamic banking industry.

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