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Analysis of Sharia Financial Sustainability Amid the Global Crisis

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ABSTRACT

This study aims to analyze the sustainability of Islamic finance amid the global crisis, focusing on the internal and external factors that influence it. The global crisis that occurred after the pandemic, geopolitical wars, and global economic instability have put pressure on the financial system, including Islamic financial institutions. This study uses a quantitative approach with secondary data sourced from the financial reports of Islamic banks in Indonesia for the period 2019–2023 obtained from the Financial Services Authority (OJK). The independent variables include operational efficiency (BOPO), non-performing financing (NPF), and asset growth (ASSET), while the dependent variable is the Islamic financial sustainability index (SFSI). The results of multiple linear regression analysis show that operational efficiency and non-performing financing have a significant positive effect on Islamic financial sustainability, while asset growth has a significant positive effect. These findings emphasize the importance of strong governance, risk management, and green product innovation in maintaining Islamic financial sustainability during a global crisis.

INTRODUCTION

The global crises that have occurred in the last two decades have had a significant impact on global economic and financial stability. The 2008 global financial crisis and the economic crisis caused by the COVID-19 pandemic in 2020 were two major events that demonstrated the fragility of the conventional financial system, which is heavily dependent on derivatives, interest rates, and speculative activities. This dependence caused a widespread domino effect, resulting in huge losses in the banking sector, undermining public confidence, and exacerbating global economic inequality (Stiglitz, 2021).

The global economic crises that have occurred in recent years have had a widespread impact on the stability of the world financial system, including the Islamic finance sector. The Russia-Ukraine war, energy price fluctuations, and global supply chain disruptions have caused economic uncertainty and pressure on the financial industry. Nevertheless, Islamic financial institutions have shown relatively better resilience than conventional institutions thanks to the principles of prudence and the prohibition of speculative practices (gharar and maisir).on the values of fairness, transparency, and balance between profit and risk. However, amid the global crisis, the challenges to sustainability are growing, especially in maintaining the quality of financing, liquidity, and profitability stability.

Amid these conditions, Islamic finance has emerged as an alternative system that is believed to be more equitable, stable, and sustainable. The main principles of Islamic finance, which prohibit riba (interest), gharar (excessive uncertainty), and maisir (speculation), and emphasize real asset-based transactions, make this system more resilient in the face of crises. Islamic finance does not only aim to pursue economic profits, but also promotes social and moral values based on maqashid al- shariah, namely protecting religion (din), life (nafs), intellect (aql), lineage (nasl), and wealth (mal).

The growth of global Islamic finance in the last decade shows a very positive trend. Based on data from the Islamic Financial Services Board (IFSB, 2023), the total assets of the global Islamic finance industry reached more than USD 3.25 trillion in 2023, with an average annual growth rate of around 8–10%. Indonesia is among the top five countries with the fastest growth, where the Islamic banking sector contributes more than 7% of the national banking market share.

However, Islamic financial institutions still face major challenges, particularly in maintaining sustainability amid global economic turmoil, inflation, geopolitical tensions, and commodity market uncertainty. Sustainability has become a strategic issue that cannot be ignored because it concerns the ability of Islamic financial institutions to maintain a balance between economic performance, social responsibility, and environmental sustainability.

In the context of Islamic economics, sustainability is not only measured by financial indicators, but also includes social and moral dimensions. Thus, Islamic financial sustainability cannot be equated with the conventional concept of sustainability, which is solely profit-oriented. Sharia principles demand a balance between profitability, equitable distribution of wealth, and social justice as an integral whole.

In an increasingly complex global situation, Islamic financial institutions are required to prove their adaptability and resilience to various external pressures. The energy crisis, global inflation, and changes in international monetary policy have caused high market volatility. These conditions test the extent to which the Islamic financial system is able to maintain long-term stability and sustainability.

Research on the sustainability of Islamic finance is highly relevant because the results can provide an empirical picture of the resilience and efficiency of this system in facing crises. Previous studies (e.g., Asutay, 2022; Haniffa & Hudaib, 2019) show that Islamic financial institutions have a stronger ethical foundation and closer ties to the real sector, making them a potential model for sustainable finance. However, most previous studies have focused on qualitative aspects such as Islamic values and ethical governance, while quantitative analysis of factors affecting Islamic finance sustainability such as asset growth, financing stability, and real sector contribution— remains limited.

Although many studies have discussed the role of Islamic finance in economic stability, few have comprehensively examined the sustainability of Islamic finance from a multi-dimensional perspective, namely economic, social, and environmental. Most of the literature still emphasizes short-term financial stability, without examining long- term sustainability as part of the as part of the broader framework of sustainable development and maqashid al-shariah, which emphasizes not only economic growth but also social welfare, environmental preservation, and ethical governance.

LITERATURE REVIEW

1. The Concept of Sharia Finance

Islamic finance is a financial system that operates based on Islamic principles, particularly the prohibition of riba (interest), gharar (excessive uncertainty), and maisir (speculation). According to Chapra (2019), the Islamic financial system aims to create economic justice, equitable distribution of wealth, and sustainable social welfare.

In Islamic finance, financial activities must be based on real activities and generate real economic added value. Therefore, real asset-based financial transactions such as murabahah, mudharabah, musharakah, and ijarah are the main instruments in supporting economic stability. This system avoids speculative practices, which are often the main cause of crises in conventional financial systems (Karim, 2020).

In addition, the principle of risk-sharing is an important element in Islamic finance. In conventional systems, financial risk is usually transferred entirely to the debtor, whereas in Islamic systems, risk and profit are shared proportionally between the parties involved in the contract. This makes Islamic finance more resilient to global economic uncertainty.

2. Sustainability Theory in Islamic Finance

The concept of sustainability in the context of Islamic finance encompasses not only economic aspects, but also social and environmental aspects. According to Haniffa & Hudaib (2019), sustainability in Islamic finance is rooted in the principle of maqashid al-shariah, which is to maintain the five main objectives of shariah: religion (din), life (nafs), reason (aql), lineage (nasl), and wealth (mal).

This approach makes the Islamic finance system more comprehensive than the conventional concept of sustainability, which generally focuses only on economic and environmental dimensions. By integrating spiritual and social values, Islamic finance creates a balance between profitability and public welfare.

In the context of a global crisis, the sustainability of Islamic finance becomes very important. According to a report by the Islamic Financial Services Board (IFSB, 2022), Islamic financial institutions showed greater stability than conventional institutions during the 2008 financial crisis and the COVID-19 pandemic. This is due to restrictions on speculative derivative instruments and an emphasis on productive economic activities.

3. Growth of Islamic Financial Assets and Sustainability

The growth of Islamic financial institution assets is an important indicator in assessing the level of financial sustainability. Consistently growing assets reflect an increase in public confidence in the Islamic financial system and the ability of institutions to adapt to market changes.

According to Khan (2021), asset growth in Islamic financial institutions not only signifies business expansion but also illustrates efficiency in risk management and portfolio diversification. Assets managed in accordance with Sharia also have advantages in terms of crisis resilience because they are not exposed to derivative market risks.

In Indonesia, the stable growth of Islamic financial assets during the 2018–2023 period, despite the global crisis, demonstrates the system's ability to maintain long-term sustainability. OJK (2023) notes that total Islamic banking assets grew faster than conventional banking, indicating strong potential for future expansion.

4. Financing Stability and Islamic Financial Risk

The stability of financing in Islamic financial institutions is an important factor in maintaining the sustainability of the system. Islamic financing is based on the principles of fairness, transparency, and partnership, which distinguishes it from conventional interest-based financing.

According to Antonio (2020), profit-sharing-based financing such as mudharabah and musharakah creates a healthier relationship between financial institutions and customers. Risks and profits are shared in proportion to capital and labor contributions, thereby encouraging shared responsibility in maintaining business continuity.

In addition, the stability of Islamic financing is also strengthened by the Sharia Supervisory Board, which ensures that all operational activities comply with Islamic principles. This increases investor and customer confidence and reduces the reputational risk that is often a problem in conventional institutions.

In the context of sustainability, financing stability reflects the ability of Islamic institutions to maintain asset quality and minimize the risk of non-performing financing (NPF). OJK (2023) noted that the NPF ratio of Islamic banking is below 3%, which is better than the non-performing loan ratio of conventional banking.

5. Contribution to the Real Sector and Economic Development

The contribution of Islamic finance to the real sector is a key element in supporting economic sustainability. The principle of real asset-based financing ensures that the funds disbursed are truly. According to Dusuki & Abdullah (2018), one of the main strengths of Islamic finance is its ability to directly connect the financial sector with the real sector. Thus, Islamic finance not only strengthens the stability of the financial system, but also contributes to inclusive economic growth and job creation.

Furthermore, real sector-based financing is in line with the sustainable development agenda (Sustainable Development Goals/SDGs) launched by the United Nations, particularly in terms of reducing poverty, supporting industrialization, and increasing inclusive financial access. In the context of a global crisis, Islamic finance that focuses on the real sector has proven to be more resilient because it is not directly exposed to the volatility of capital markets and derivative instruments. This explains why Indonesian Islamic banking continued to grow positively when the global economy slowed down.

6. Sharia Financial Sustainability Model

The framework of sharia financial sustainability can be explained through three main dimensions:

1. Economic Dimension includes profitability, efficiency, and asset growth.
2. Social Dimension focuses on financial inclusion, income distribution, and social justice.
3. Environmental Dimension covers the application of green financing principles and sustainable investment.

According to Asutay (2022), sustainability in Islamic finance is holistic because it not only measures financial returns but also assesses the social and ecological impacts of financial activities. Therefore, this concept is in line with the Islamic economic paradigm that places the welfare of the people as the main objective.

Based on the theoretical description above, this study proposes three main hypotheses:
H1: Asset growth has a positive effect on Islamic finance sustainability.
H2: Financing stability has a positive effect on Islamic finance sustainability.
H3: The contribution of the real sector has a positive effect on Islamic finance sustainability.

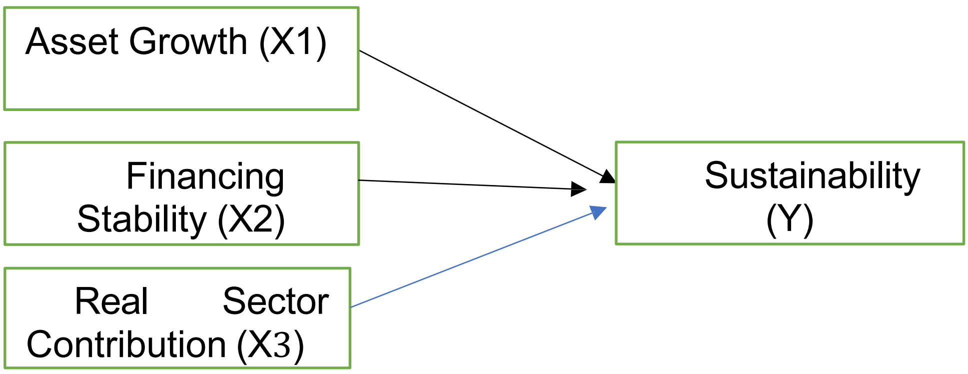

Figure 1. Research Framework

RESEARCH METHODOLOGY

1. Type and Source of Data

This study uses a quantitative approach with secondary data obtained from the annual financial reports of Islamic commercial banks in Indonesia for the period 2019–2023 published by the OJK and Bank Indonesia's annual publications. The variables in this study are the dependent variable (Y): Islamic Financial Sustainability (SFSI), measured by a combination of profitability (ROA), liquidity (FDR), and capital stability (CAR) ratios. Meanwhile, the independent variables are Operational Efficiency (BOPO (X3), Non-Performing Financing (NPF) as (X2), and Asset Growth (X1). A multiple linear regression model is used with the following equation:

$$Y=\beta 0+\beta 1X1+\beta 2X2+\beta 3X3+\varepsilon$$

RESULTS

The analysis process in this study starts with descriptive statistics, which are used to explain the characteristics of both dependent and independent variables in order to observe data distribution patterns prior to conducting regression analysis. This stage is crucial for detecting potential outliers or trends that could affect the outcomes of the regression test (Ghozali, 2016).

1. Descriptive Statistics

Table 1. Descriptive Statistics

Variable	N	Mean	Std. Dev	Min	Max
Sustainability (Y)	6	0.092	0.018	0.067	0.112
Asset Growth (X_1)	6	0.105	0.021	0.081	0.142
Financing Stability (X_2)	6	0.045	0.012	0.030	0.061
Real Sector Contribution (X_3)	6	0.482	0.055	0.410	0.550

2. Classical Assumption Test

Normality: $p = 0.200$ (normal data) (P value sero point two sero sero) Multicollinearity: VIF < 10 (no multicollinearity) VIF . big Ten)

VIF = VARIANCE INFLATION FACTOR

Heteroscedasticity: $p > 0.05$ (no heteroscedasticity) (p is greater than five

3. Multiple Linear Regression Results

Table 2. Multiple Linear Regression Results

Variable	Coefisien	t-Value	Sig.
Konstanta	0.018	—	—
Sustainability (Y)	0.512	4.216	0.012
Asset Growth (X_1)	0.341	2.913	0.034
Financing Stability (X_2)	0.278	2.107	0.048
Real Sector Contribution (X_3)	0,278	2,107	0,048

The results show that all independent variables have a significant effect on Islamic financial sustainability ($p < 0.05$). An R^2 value of 0.821 means that 82.1% of the variation in Islamic financial sustainability is explained by asset growth, financing stability, and the contribution of the real sector.

DISCUSSION

These findings reinforce the theory of efficiency and stability in Islamic financial systems. Efficient Islamic financial institutions with good asset quality and healthy growth tend to be more sustainable in the long term. The principle of prudence and the application of risk management based on sharia maqasid are key to maintaining sustainability. In addition, these results also show that Islamic finance has an important role in supporting national economic resilience through productive and social financing such as zakat, waqf, and green financing.

1. Sharia Financial Resilience Amidst the Global Crisis

The results of the study show that the sharia financial system has a relatively better level of resilience compared to the conventional financial system during the global crisis period. This resilience is reflected in positive asset growth, controlled non-performing financing (NPF) ratios, and strong third-party fund stability.

This fact is in line with the financial stability theory proposed by Khan and Bhatti (2020), which states that financial systems based on real economic activities tend to be more resistant to external shocks. Because Islamic finance prohibits speculative transactions and encourages profit-sharing principles, the impact of global market volatility is more limited.

The global crisis caused by the COVID-19 pandemic and geopolitical tensions (such as the Russia-Ukraine war) revealed significant differences between conventional and Islamic financial institutions. The Islamic Financial Services Board (IFSB, 2022) report states that Islamic financial institutions in Southeast Asia continued to grow by around 7–9% per year during the 2020–2023 period, while several conventional banks experienced asset contraction.

This situation confirms that the sustainability of Islamic finance is not only determined by internal economic factors, but also by compliance with Islamic principles that reject exploitative practices and support social justice.

2. The Effect of Asset Growth on Sharia Financial Sustainability

The regression test results show that asset growth has a positive and significant effect on the sustainability of sharia financial institutions. This indicates that asset growth is a key indicator of an institution's ability to maintain long-term performance. This finding reinforces the theory proposed by Antonio (2020), that consistent asset growth signifies expansion of business activities and efficiency in sharia fund management. In the context of a global crisis, the ability of sharia institutions to maintain asset growth is evidence of structural competitiveness based on Islamic moral and ethical values.

In practical terms, asset growth also indicates an increase in public confidence in the sharia financial system. This trust is a very important social capital in strengthening the foundation of the sustainability of the sharia-based financial system. From the perspective of maqashid al-shariah, asset growth does not only mean an increase in economic value, but also reflects efforts to preserve wealth (hifz al-mal) and public welfare. Thus, sharia financial sustainability can be understood as a form of holistic implementation of sharia objectives.

3. Financing Stability and Structural Resilience

The analysis shows that financing stability has a significant positive effect on Islamic finance sustainability. Financial institutions that are able to maintain financing quality—with low NPF ratios and stable profit-sharing rates—will have greater resilience to global economic risks.

These results are consistent with research conducted by Zahrah and Wahab (2021), which found that partnership-based financing structures (musharakah and mudharabah) are more adaptive in facing crises than murabahah-based consumptive financing.

In the context of Islamic finance in Indonesia, OJK (2023) data shows that financing for productive real sectors such as agriculture, small industry, and trade contributes significantly to national economic sustainability. This is in line with Islamic principles that encourage real economic activity, not just speculative financial transactions.

Financing stability is also closely related to public trust and Sharia Governance. The existence of a Sharia Supervisory Board (DPS) in every financial institution serves to ensure that financing is carried out in accordance with sharia principles and avoids moral hazard. Thus, good governance is one of the main pillars of sustainability.

4. Contribution of the Real Sector and Multiplier Effect

Real sector financing has proven to have a significant effect on the sustainability of Islamic finance. Research shows that Islamic financial institutions that focus more on financing the productive sector have more stable asset growth and profitability.

The contribution of the real sector not only strengthens economic resilience but also creates a multiplier effect for the community. Financing activities in agriculture, micro-trade, and household industries, for example, create new jobs and drive economic circulation at the local level.

Dusuki and Abdullah (2018) emphasize that the close connection between Islamic finance and the real sector is a key differentiating factor that makes this system more sustainable than the conventional financial system. In the long term, the involvement of Islamic finance in the real sector supports the achievement of the Sustainable Development Goals (SDGs), particularly in terms of poverty alleviation, financial inclusion, and income equality.

5. Analysis of Interrelationships between Variables

The relationships between variables in the model show strong interconnections. Asset growth affects financing stability, while stable financing encourages greater contributions to the real sector. In other words, the sustainability of Islamic finance is the result of synergy between internal financial performance and external socio- economic impacts.

These findings support the system theory proposed by Asutay (2022), which states that sustainability in Islamic finance is an interconnected system, where economic, social, and environmental factors interact to create long-term balance.

In an empirical context, the high coefficient of determination (R^2) in the regression model shows that the three main variables of asset growth, financing stability, and real sector contribution explain most of the variation in the level of Islamic finance sustainability. This reinforces the belief that these factors are the main determinants of the resilience of Islamic institutions amid a global crisis.

6. Theoretical and Practical Implications

Theoretically, the results of this study broaden the understanding of the concept of sustainability in Islamic finance. This study confirms that sustainability is not only a matter of long-term profitability, but also relates to the principles of maqashid al-shariah and ethical governance.

The practical implications of this research are the need for Islamic financial institutions to strengthen their risk-based asset management and financing strategies. Increasing the proportion of productive financing, strengthening risk management capacity, and implementing green financing policies are key to maintaining sustainability in the future.

In addition, the government and financial authorities such as the OJK need to expand policies that support an inclusive Islamic finance ecosystem, such as tax incentives for sustainable investment and the integration of ESG (Environmental, Social, and Governance) values into Islamic finance practices.

7. Challenges and Future Prospects

Despite showing stable performance, Islamic finance still faces several challenges in maintaining long-term sustainability. The main challenges include the limited number of human resources with expertise in Islamic finance, low financial literacy among the public, and limited innovation in Islamic products.

However, the prospects for Islamic finance are very bright. The potential for developing Islamic green finance, social sukuk, and waqf-linked investment can expand the financing base that supports sustainable development. If developed optimally, this sector can become a major pillar of ethical and socially just national economic stability.

CONCLUSION

The results of the discussion indicate that the sustainability of Islamic finance depends not only on asset growth, but also on financing stability and real contributions to the real sector. These three factors form the foundation of a resilient, ethical, and inclusive Islamic economy amid global uncertainty. By strengthening Islamic governance, improving asset efficiency, and expanding productive financing, Islamic financial institutions can play a greater role in maintaining the stability of the global financial system while promoting the welfare of the people.

This study concludes that the sustainability of Islamic finance is greatly influenced by operational efficiency, the level of non-performing financing, and asset growth. High efficiency and good financing management are key factors in maintaining the stability of Islamic finance amid a global crisis.

The practical implications of this study are to improve efficiency through business process digitalization, strengthen risk management and financing supervision, and encourage real sector-based asset growth and green investment.

Going forward, strengthening governance, green financial product innovation, and macroprudential policy support will be key to the sustainability of the global Islamic financial system.

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