

Monetary and Price Shocks in Islamic Banking: A Systematic Review of Resilience

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ABSTRACT

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Macroeconomic volatility threatens financial intermediation through monetary conditions, production costs, and household purchasing power. Islamic banks operate under Sharia-compliant contracts but remain exposed to pressures within dual banking systems. This study synthesizes how monetary and price shocks shape Islamic banking resilience through distinct transmission mechanisms. A systematic literature review is designed using database searches, eligibility screening, and structured evidence extraction. Comparative thematic synthesis integrates studies across shock types, institutional settings, and resilience indicators. The preliminary synthesis suggests that interest-rate changes can reach Islamic banks indirectly through competition for funding and financing adjustments. Liquidity conditions may amplify or mitigate this exposure. Producer-price disturbances potentially affect business margins, working capital, and corporate repayment capacity. Consumer-price pressures may alter household purchasing power, savings, and retail financing risks. These pathways should not be assumed to generate identical outcomes. Institutional resilience also depends on capital buffers, financing structures, governance, and risk management. Shock absorption, adaptation, and recovery represent complementary dimensions of resilience. The proposed framework contributes a conditional account of macroeconomic transmission beyond contractual classifications. It offers policymakers and banks a basis for differentiated risk monitoring, subject to confirmation through systematic screening and synthesis.

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INTRODUCTION

Macroeconomic instability has become a societal concern because disturbances in monetary conditions and prices affect purchasing power, businesses, and access to finance. Banking institutions play a crucial role in this transmission process by mobilizing savings, allocating financing, and supporting

economic activity. Islamic banks warrant particular attention because their contractual arrangements emphasize asset backing and risk sharing, although their operations remain embedded in monetary systems. Evidence indicates that capital strength, liquidity, and financing structures shape banks' capacity to withstand economic disruption (Othman et al., 2023; Ahmad et al., 2022). Research on Islamic banking during the pandemic further highlights the importance of institutional preparedness and risk management rather than assuming inherent immunity from crises (Abdul Majid et al., 2025). Consequently, understanding Islamic banking resilience matters beyond financial institutions: it concerns the continuity of financing, depositor confidence, and broader economic welfare during uncertain periods.

The societal importance of banking resilience is especially pronounced in economies where Islamic and conventional intermediaries operate alongside one another. Monetary tightening can alter funding competition, while inflation erodes real incomes and raises production costs, potentially weakening borrowers' repayment capacity. These pressures can ultimately restrict financing for households and enterprises that depend on stable financial intermediation. Comparative evidence suggests that banking stability differs across institutional arrangements, liquidity positions, and financing portfolios, rather than following a uniform Islamic-versus-conventional divide (Albinali, 2023; Barau et al., 2023). Likewise, studies of Islamic banks in Indonesia indicate that pandemic disruptions affected profitability and financing dynamics, demonstrating the importance of examining resilience within particular macroeconomic contexts (Sohibien et al., 2022). A clearer account of how shocks travel through financial institutions could therefore inform prudent supervision, bank risk governance, and more inclusive economic recovery policies.

Despite this relevance, policymakers and financial institutions face a problem: interest rate movements and price pressures produce different outcomes. Policy rate changes can influence deposit competition and financing even when Islamic contracts formally prohibit interest. Producer price increases may compress business margins, whereas consumer price inflation may weaken household purchasing power; both pathways can affect repayment behavior differently. Existing studies underline the complexity of monetary transmission into Islamic banking and the need to examine institutional characteristics rather than relying on contractual distinctions (Savon & Yousfi, 2025). Moreover, evidence on bank stability under inflationary pressures suggests that capital buffers and liquidity can condition adverse outcomes (Ghenimi et al., 2024). Taken together, these channels raise a central explanatory question: which mechanisms transmit distinct macroeconomic shocks, and under what institutional circumstances do Islamic banks absorb, amplify, or mitigate them?

Recent scholarship has advanced understanding of Islamic banking stability. Othman et al. (2023) connect equity financing arrangements with bank stability across Malaysia and Indonesia, while Barau et al. (2023) examine how risk sharing among investment account holders and shareholders relates to resilience. Albinali (2023) addresses macroprudential policy and bank lending in dual banking environments, and Savon and Yousfi (2025) critically review monetary policy transmission through Islamic banks. At the Indonesian level, Sohieben et al. (2022) analyze pandemic related profitability and financing movements, whereas Fadliani et al. (2025) investigate recovery dynamics following macroeconomic disturbances. Collectively, these contributions establish that resilience depends on financial structure, policy conditions, and institutional responses. Nevertheless, their analytical units, outcome measures, and shock definitions differ considerably. Such heterogeneity complicates direct comparison and calls for synthesis that distinguishes transmission mechanisms from observed stability outcomes across the available evidence.

The review literature has also expanded, making a more discriminating contribution essential. Abdul Majid et al. (2025) synthesize banking, macroeconomic, and risk determinants of resilience during COVID 19, while Wiranatakusuma et al. (2025) map fourteen years of Islamic banking resilience research. Pusparini et al. (2025) examine Islamic financial responses to economic turbulence, and Farah and Mohamed (2025) review the relationship between Islamic banking and economic growth. These studies establish valuable thematic foundations but pursue broader resilience, crisis, or development questions rather than systematically comparing distinct monetary and price transmission pathways. Furthermore, producer-side price pressures often receive less explicit conceptual treatment than inflation and policy rates in general banking resilience discussions. The remaining challenge is therefore not a lack of reviews, but the need for mechanism-centered synthesis that can explain apparently divergent findings across contexts, indicators, and methodological choices.

Building on these advances, this article proposes a comparative transmission perspective that treats monetary policy shocks, producer price disturbances, and consumer price changes as analytically distinct sources of banking pressure. The proposed contribution is to organize findings around funding competition, financing demand, borrower repayment capacity, liquidity management, and balance sheet adjustment, while recognizing institutional differences. This differentiation matters because evidence from dual banking systems suggests resilience varies with liquidity management and risk-sharing practices (Ahmad et al., 2022; Barau et al., 2023). Research on Islamic banking stability also demonstrates the relevance of political institutions and bank business models (Azmi et al., 2023). Rather than asserting a universal resilience advantage, the review identifies conditional patterns, contradictory findings, and

underexplored mechanisms. Its anticipated output is an integrative framework linking shock origins, transmission channels, institutional moderators, and resilience outcomes.

Accordingly, this study asks how monetary policy changes, producer price shocks, and consumer price pressures are transmitted to Islamic banking resilience, and why reported effects differ across institutional settings and research designs. It adopts a systematic literature review combined with comparative thematic synthesis to examine empirical and conceptual studies. The guiding argument is that resilience should be understood as a conditional institutional capability, not an automatic consequence of Sharia-compliant contractual forms. Evidence concerning liquidity, financing composition, and crisis recovery provides grounds for examining such conditionality (Risfandy & Pratiwi, 2022; Othman et al., 2023; Fadliani et al., 2025). By comparing channels rather than merely listing macroeconomic determinants, the article aims to clarify competing explanations, identify neglected producer price mechanisms, and develop a research agenda. The resulting synthesis is intended to support more context-sensitive risk management, supervisory assessment, and empirical investigation.

METHOD

This study uses a qualitative systematic literature review (SLR) with comparative thematic synthesis to examine how monetary policy shocks, producer price disturbances, and consumer price pressures influence Islamic banking resilience. This design is appropriate because existing empirical studies employ heterogeneous research methods, institutional settings, macroeconomic indicators, and financial stability measures, making conventional statistical aggregation potentially unsuitable. A systematic approach enables transparent evidence identification, critical evaluation, and structured comparison, while thematic synthesis facilitates the development of explanatory insights into the mechanisms underlying divergent findings. The methodological framework follows the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA 2020) guidelines to strengthen reporting transparency and reproducibility (Page et al., 2021). Recent reviews of Islamic banking resilience demonstrate the relevance of systematic evidence synthesis for integrating macroeconomic and institutional perspectives (Abdul Majid et al., 2025; Wiranatakusuma et al., 2025). Accordingly, this study emphasizes explanatory integration rather than merely describing previously reported relationships, seeking to establish a coherent conceptual understanding of shock transmission and institutional resilience.

Data will be collected through a structured search of peer-reviewed journal articles indexed in Scopus and Web of Science, supplemented by

Dimensions and Google Scholar for citation tracking and identification of potentially omitted studies. The initial publication window will cover January 2010 through October 2026 to capture developments before and after major economic disruptions. Search combinations will include “Islamic banking,” “banking resilience,” “financial stability,” “monetary policy,” “interest rates,” “producer price index,” “consumer price index,” “inflation,” and “macroeconomic shocks,” using Boolean operators and database-specific syntax. The search strategy, retrieval dates, database coverage, and screening decisions will be documented following PRISMA-S recommendations (Rethlefsen et al., 2021). Eligible publications must provide empirical or theoretically substantive evidence concerning macroeconomic disturbances and Islamic banking stability. Studies without relevant banking outcomes, sufficient methodological information, or accessible full texts will be excluded with documented reasons. Evidence on Indonesian banking dynamics will receive particular attention while retaining international comparisons (Sohibien et al., 2022).

The selected studies will be analyzed using comparative thematic synthesis through successive stages of familiarization, systematic coding, descriptive theme development, cross-study comparison, and analytical interpretation. A standardized extraction matrix will record publication characteristics, geographical context, research design, macroeconomic indicators, resilience measures, reported relationships, transmission mechanisms, and institutional conditions. Initial deductive categories will distinguish monetary policy, producer-side price pressures, consumer inflation, funding competition, financing performance, liquidity management, and institutional adaptation. Inductive coding will subsequently identify unexpected mechanisms and contradictory evidence. This iterative procedure draws on contemporary applications of thematic analysis (Byrne, 2022) and methodological developments in integrating qualitative and quantitative evidence (Levitt, 2024). Comparative synthesis will examine differences between Islamic and conventional banks, crisis and non-crisis periods, and alternative resilience indicators. Methodological insights from El Sherif et al. (2024) will inform context-sensitive comparisons, without equating thematic synthesis with formal set-theoretic qualitative comparative analysis. The resulting themes will inform an integrative conceptual framework.



Figure 1. Macroeconomic Shocks and Islamic Banking Resilience Framework

Figure 1 illustrates how monetary policy shocks, producer price fluctuations, and consumer price pressures may influence Islamic banking resilience through funding, financing, borrower repayment, and liquidity management channels. These relationships are potentially moderated by capital adequacy, financing structures, risk-sharing arrangements, governance, and diversification. Banking resilience is reflected in financial stability, asset quality, liquidity, profitability, and recovery capacity. This framework guides the comparative thematic synthesis by identifying key transmission mechanisms and institutional conditions that may explain variations in Islamic banking responses to macroeconomic shocks.

Methodological rigor and the trustworthiness of synthesized findings will be strengthened through transparent selection procedures, study-specific critical appraisal, systematic documentation, and cross-source verification. The methodological quality of eligible empirical studies will be evaluated using appraisal criteria appropriate to their respective research designs, rather than imposing a uniform assessment framework. Recent developments in the Joanna Briggs Institute's appraisal methodology emphasize evaluating potential bias according to study design and evidence characteristics (Barker et al., 2024, 2025). A documented audit trail will preserve search strategies, screening decisions, extraction records, coding revisions, and analytical interpretations. Where more than one reviewer participates, independent screening and coding will be followed by discussion and documented resolution of disagreements. The study will retain contradictory findings and examine them in relation to methodological differences, institutional characteristics, and economic conditions. Interpretive conclusions will distinguish robust recurring patterns from context-dependent or weakly supported claims. These procedures aim to enhance credibility, dependability, confirmability, and transferability while maintaining consistency with systematic review reporting standards (Page et al., 2021).

RESULTS AND DISCUSSION

Results

Indirect Monetary Policy Transmission and Islamic Banking Vulnerability

Indirect monetary policy transmission refers to the process through which changes in conventional monetary policy influence Islamic banking activities without relying on explicit interest-bearing contractual arrangements. Conceptually, this mechanism emerges from the interaction between Sharia-compliant financial intermediation and the broader monetary environment within which Islamic banks operate. Although Islamic banking prohibits interest-based transactions, it may still be exposed to prevailing market conditions through deposit competition, liquidity allocation, financing demand, and adjustments in expected investment returns. Accordingly, contractual monetary independence does not necessarily imply economic independence at the institutional level. This distinction is particularly relevant in dual banking systems, where Islamic and conventional institutions compete for financial resources and serve overlapping customer segments. Monetary transmission should therefore be understood as an institutionally mediated process in which changes in policy rates may affect Islamic bank vulnerabilities through both funding-side and asset-side adjustments. The resulting exposure depends on banks' financing structures, liquidity positions, and capacity to respond to changes in the monetary environment.

Savon and Yousfi (2025) provide an important foundation for understanding the relationship between conventional monetary policy and Islamic banking activities. Their critical literature review examines whether Islamic banks transmit monetary policy impulses through their financing operations, emphasizing the theoretical tension between interest-free contractual principles and actual banking practices. The authors demonstrate that the structure of Islamic banking assets may facilitate monetary transmission, although empirical findings concerning the Islamic financing channel remain limited and inconclusive. This observation challenges the assumption that eliminating explicit interest payments necessarily eliminates sensitivity to interest-rate movements. From a critical perspective, the distinction between contractual prohibition and economic responsiveness is fundamental because Islamic banks operate within financial markets characterized by changing liquidity conditions, funding competition, and monetary expectations. Consequently, variations in monetary sensitivity should be interpreted through institutional mechanisms rather than solely through formal contractual classifications. The literature therefore suggests that Islamic banking vulnerability may emerge indirectly through adjustments in financing portfolios and funding conditions, even when individual contracts remain Sharia-compliant.

A complementary perspective emerges from research examining the effectiveness of monetary transmission through Islamic banking within Indonesia's dual financial system. Cupian (2025) compares conventional and Islamic banking transmission by considering financing or credit, the consumer price index, and industrial production. This approach broadens the analytical framework by connecting banking intermediation with monetary policy objectives and real-sector outcomes. Its relevance lies in recognizing that monetary shocks may influence Islamic banking through changes in financing activity and broader economic demand rather than through contractual interest payments alone. However, differences in monetary transmission effectiveness should not automatically be interpreted as evidence that one banking system possesses greater institutional resilience. The effectiveness of financing transmission concerns the responsiveness of financial intermediation to monetary conditions, whereas banking resilience concerns the capacity to maintain stability under adverse disturbances. Distinguishing these outcomes is essential for avoiding conceptual conflation. Therefore, the comparative literature supports the need to examine monetary transmission mechanisms alongside independent indicators of Islamic banking stability, liquidity, and financing quality.

Institutional and regulatory documents further support interpreting monetary transmission as a multidimensional banking risk. The Financial Services Authority's Circular Letter No. 25/SEOJK.03/2023, effective from January 2024, requires Islamic commercial banks and Islamic banking units to implement risk management encompassing credit, market, liquidity, rate-of-return, and investment risks, among other categories (Otoritas Jasa Keuangan (OJK), 2023). Explicit recognition of rate-of-return risk is particularly relevant because it acknowledges that Islamic banks face pressures from market remuneration expectations and the management of investment account returns. Meanwhile, Islamic Banking Statistics published by OJK provide indicators such as financing performance, capital adequacy, profitability, and liquidity-related ratios that can be used to contextualize institutional responses to changing monetary conditions (Putri & Rahmat, 2025). Considered together, these documents suggest that monetary transmission cannot be evaluated exclusively through interest-rate movements. Rather, it must be interpreted in relation to funding behavior, financing conditions, liquidity management, and the regulatory mechanisms designed to control associated vulnerabilities.

Taken together, the reviewed literature and regulatory evidence support the interpretation that Islamic banks are indirectly exposed to conventional monetary policy through interrelated financial and institutional channels. This synthesis identifies three principal dimensions of monetary transmission:

funding competition, financing adjustments, and liquidity management. While Sharia-compliant contractual arrangements differentiate Islamic banks from conventional institutions, these distinctions do not necessarily insulate banks from fluctuations in monetary conditions. The extent of vulnerability instead appears contingent upon financing composition, liquidity management, and institutional risk controls. Nevertheless, the literature does not establish that indirect transmission operates with uniform strength or direction across countries and banking institutions. The central analytical implication is therefore that Islamic banking resilience must be examined through the interaction between monetary exposure and institutional capacity, rather than through an assumption of inherent monetary independence. This interpretation provides a conceptual foundation for comparing the mechanisms through which monetary disturbances may influence banking stability.

Table 1. Literature Mapping of Indirect Monetary Policy Transmission

Author(s)/Year	Core Argument / Paraphrased Evidence	Finding Dimension
Savon & Yousfi (2025)	Islamic banking asset structures may allow conventional monetary policy to be transmitted despite interest-free contractual arrangements, although empirical findings remain inconclusive.	Indirect monetary transmission
Cupian (2025)	Compares conventional and Islamic financing transmission in relation to the Consumer Price Index (CPI) and industrial production in Indonesia.	Financing channel and real-sector transmission
Ahmad et al. (2022)	Examines the implications of excess liquidity for banking stability within dual banking systems.	Liquidity conditions and stability
OJK (2023)	Identifies credit, liquidity, market, rate-of-return, and investment risks as components of Islamic bank risk management.	Institutional vulnerability and risk governance

The comparative mapping reveals an important distinction between monetary transmission as an economic process and banking vulnerability as an institutional outcome. The reviewed literature challenges the traditional presumption that Islamic banks are automatically insulated from interest-rate disturbances, highlighting the role of financing arrangements, liquidity conditions, and market interdependence. Savon and Yousfi (2025) provide the theoretical basis for recognizing indirect monetary transmission, whereas the Indonesian comparative literature extends the discussion toward financing activity and real-sector outcomes. Regulatory evidence complements these arguments by identifying risk categories through which monetary pressures may be managed. Nevertheless, convergence regarding the possibility of transmission does not imply agreement concerning its magnitude, direction, or consequences for stability. An unresolved analytical issue is whether Islamic banks' distinctive

financing structures reduce shock exposure or merely redirect it to different institutional channels. Consequently, the literature points toward a conditional interpretation of monetary vulnerability in which contractual arrangements, balance-sheet characteristics, market competition, and risk-management practices jointly shape the relationship between monetary disturbances and banking resilience.

Institutional Resilience as a Conditional and Multidimensional Capability

Institutional resilience in Islamic banking refers to financial institutions' capacity to absorb macroeconomic disturbances, maintain essential intermediation functions, adjust risk-management strategies, and recover from adverse financial conditions without compromising operational sustainability. Unlike approaches that equate resilience exclusively with profitability or solvency, a multidimensional perspective recognizes interactions among capital adequacy, asset quality, liquidity, financing structures, governance, and adaptive capacity. This conceptualization also distinguishes financial stability from resilience: stability generally concerns the institution's condition, whereas resilience also concerns its capacity to respond to disruptions and restore effective functioning. Within Islamic finance, contractual principles and Sharia governance provide distinctive institutional characteristics, but their effectiveness in supporting resilience depends on implementation and broader market conditions. Consequently, institutional resilience should not be viewed as an automatic attribute of Islamic banking. Rather, it represents a conditional organizational capability shaped by internal financial resources, institutional arrangements, regulatory frameworks, and the severity of external disturbances.

Othman et al. (2023) provide empirical evidence that financing structures matter for Islamic bank stability. Examining Islamic banks in Malaysia and Indonesia, they find that banks employing equity financing structures tend to exhibit greater stability than those without such arrangements, including during periods of financial disturbance. Notably, intermediate levels of equity financing are associated with the strongest stability outcomes, suggesting that the relationship between risk-sharing arrangements and financial resilience may not be linear. This finding is theoretically significant because it challenges the assumption that increasing exposure to a particular Sharia-compliant financing structure will invariably improve stability. From an institutional perspective, equity financing may facilitate risk distribution, but its effectiveness also depends on project selection, monitoring capacity, information asymmetry, and portfolio composition. The study therefore suggests that resilience depends on how financial contracts are incorporated into risk-management strategies rather than on contractual classification alone. Its geographical scope and stability measures,

however, limit the extent to which these conclusions can be generalized across Islamic banking systems.

Wiranatakusuma et al. (2025) offer a broader perspective through their systematic review of Islamic banking resilience research. Drawing on 42 Scopus-indexed journal articles, the authors identify capital adequacy, liquidity, profitability, macroeconomic conditions, and risk-management practices as important themes in the resilience literature. Their synthesis indicates that banking resilience is shaped by the interaction of internal institutional characteristics and external economic conditions, rather than by a single financial determinant. The authors also highlight conceptual inconsistencies surrounding the terminology and measurement of resilience. This observation is important because studies employing profitability, non-performing financing, capital ratios, or stability scores may not necessarily examine equivalent dimensions of institutional performance. A bank may remain profitable while experiencing deteriorating liquidity, just as adequate capitalization does not automatically ensure rapid recovery from external disturbances. The reviewed evidence therefore supports a multidimensional interpretation, while revealing the need for greater conceptual precision in distinguishing shock absorption, operational adaptation, and post-shock recovery.

Regulatory and industry documentation reinforces the multidimensional understanding of Islamic banking resilience. OJK Circular Letter No. 25/SEOJK.03/2023 establishes risk-management expectations for Islamic commercial banks and Islamic banking units, including active oversight, risk identification, monitoring, internal controls, and the management of ten categories of banking risk (OJK, 2023). Furthermore, OJK Regulation No. 2 of 2024 strengthens Sharia governance through requirements concerning Sharia supervisory boards, compliance functions, Sharia risk management, internal auditing, and external review (OJK, 2024). At the international level, the Islamic Financial Services Board's 2025 stability report evaluates sectoral resilience through capital, liquidity, asset quality, and broader financial-sector vulnerabilities (Islamic Financial Services Board (IFSB), 2025). These documents collectively demonstrate that institutional resilience is not reducible to a single measure of financial performance. Instead, regulatory expectations recognize the importance of integrated prudential management, governance effectiveness, and the capacity to address interconnected financial and operational risks. However, regulatory requirements should be distinguished from evidence of their effective implementation by individual banks.

The combined literature supports an interpretation of Islamic banking resilience as a conditional and multidimensional institutional capability. Capital adequacy provides a potential buffer against losses, liquidity supports the

continuity of financial obligations, financing quality reflects borrowers' repayment performance, and governance arrangements influence the recognition and management of emerging risks. Meanwhile, contractual structures and portfolio diversification may affect how macroeconomic pressures are distributed across institutions and customers. The available evidence does not establish that any single dimension universally determines resilience; rather, it indicates that resilience emerges from the interaction of institutional capabilities and external economic conditions. This interpretation helps reconcile findings that attribute banking stability to different financial indicators or contractual arrangements. Accordingly, the present synthesis proposes that Islamic banking resilience should be evaluated through three interconnected functions: shock absorption, operational adaptation, and post-disturbance recovery. Such a framework provides a basis for comparing heterogeneous empirical findings while avoiding the assumption that compliance with Sharia principles alone guarantees protection against macroeconomic instability.

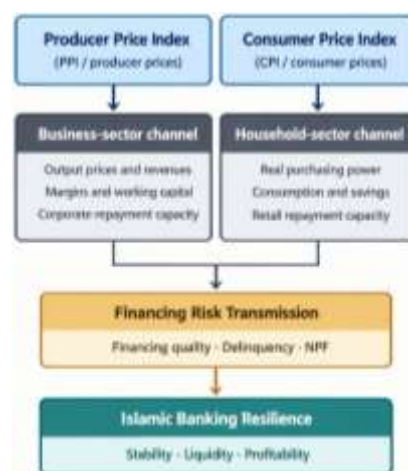


Figure 2. Producer-Consumer Price Transmission Framework

Figure 2 demonstrates that producer and consumer price disturbances represent potentially different pathways through which inflationary conditions may influence Islamic banking resilience. The producer-side pathway operates principally through business revenues, production decisions, operating margins, and corporate repayment capacity, whereas the consumer-side pathway operates through household purchasing power, savings behavior, and retail financing performance. Both channels may ultimately converge on financing quality, delinquency, and non-performing financing, but the economic mechanisms preceding these outcomes are not identical. This differentiation helps explain why aggregate inflation indicators may conceal variations in banking vulnerability across borrower segments and financing portfolios. Importantly, the conceptual pathways are conditional rather than deterministic: higher

producer prices may strengthen revenues for some enterprises while increasing cost pressures for others, and consumer inflation may produce different effects depending on income growth and household indebtedness. Thus, the figure supports the argument that interpreting Islamic banking resilience requires attention to the origin of price changes, their distributional consequences, and the characteristics of financial contracts. The limited availability of direct PPI-CPI comparisons in the evidence examined so far also identifies a substantive area for further systematic investigation.

Institutional Resilience as a Conditional and Multidimensional Capability

Institutional resilience in Islamic banking refers to the capacity of financial institutions to absorb macroeconomic disturbances, maintain essential intermediation functions, adjust risk-management strategies, and recover from adverse financial conditions without compromising their operational sustainability. Unlike approaches that equate resilience exclusively with profitability or solvency, a multidimensional perspective recognizes the interaction between capital adequacy, asset quality, liquidity, financing structures, governance, and adaptive capacity. This conceptualization also distinguishes financial stability from resilience: stability generally concerns the condition of the institution, whereas resilience additionally concerns its capacity to respond to disruptions and restore effective functioning. Within Islamic finance, contractual principles and Sharia governance provide distinctive institutional characteristics, but their effectiveness in supporting resilience depends on implementation and broader market conditions. Consequently, institutional resilience should not be viewed as an automatic attribute of Islamic banking. Rather, it represents a conditional organizational capability shaped by internal financial resources, institutional arrangements, regulatory frameworks, and the severity of external disturbances.

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composition. The study therefore suggests that resilience is influenced by how financial contracts are incorporated into risk-management strategies rather than by contractual classification alone. Its geographical scope and stability measures, however, limit the extent to which these conclusions can be generalized across Islamic banking systems.

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The combined literature supports an interpretation of Islamic banking resilience as a conditional and multidimensional institutional capability. Capital adequacy provides a potential buffer against losses, liquidity supports the continuity of financial obligations, financing quality reflects borrowers' repayment performance, and governance arrangements influence the recognition and management of emerging risks. Meanwhile, contractual structures and portfolio diversification may affect how macroeconomic pressures are distributed across institutions and customers. The available evidence does not establish that any single dimension universally determines resilience; rather, it indicates that resilience emerges from the interaction of institutional capabilities and external economic conditions. This interpretation helps reconcile findings that attribute banking stability to different financial indicators or contractual arrangements. Accordingly, the present synthesis proposes that Islamic banking resilience should be evaluated through three interconnected functions: shock absorption, operational adaptation, and post-disturbance recovery. Such a framework provides a basis for comparing heterogeneous empirical findings while avoiding the assumption that compliance with Sharia principles alone guarantees protection against macroeconomic instability.

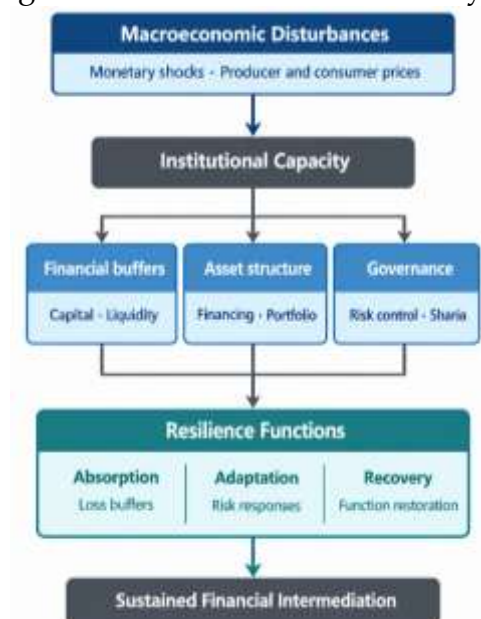


Figure 3. Multidimensional Islamic Banking Resilience Framework

Figure 3 conceptualizes Islamic banking resilience as the outcome of interactions among macroeconomic disturbances, institutional capacities, and organizational response functions. The framework highlights three groups of institutional capabilities: financial buffers, financing and portfolio structures, and governance mechanisms. These capabilities may influence how banks absorb economic shocks, modify operations during financial stress, and restore effective

intermediation afterward. This multidimensional interpretation is consistent with empirical findings indicating that equity financing composition matters for banking stability and with systematic review evidence identifying capitalization, liquidity, profitability, and risk management as recurring determinants of resilience. Importantly, the figure distinguishes resilience from conventional financial performance by incorporating adaptation and recovery alongside financial strength. A bank with adequate capital but ineffective liquidity management or weak governance may still experience significant vulnerabilities under external pressure. Conversely, coordinated risk controls and diversified financing structures may improve the capacity to maintain operations even when macroeconomic conditions deteriorate. The central implication is that Islamic banking resilience cannot be inferred from contractual compliance or a single financial ratio; it must be evaluated through the interaction between exposure, institutional preparedness, and the effectiveness of responses to economic disturbances.

Discussion

The first theme challenges the assumption that interest-free contracts insulate Islamic banks from conventional monetary policy. Savon and Yousfi (2025) describe an empirically inconclusive financing channel, whereas Savon (2025) reports an adverse association between policy rates and Islamic bank stability. Rather than contradicting one another, these studies examine different outcomes: transmission through financing and vulnerability measured through stability. Evidence from dual banking systems further indicates that liquidity management can alter stability, with excessive liquidity potentially becoming costly (Ahmad et al., 2022). This interpretation therefore shifts attention from contractual form to mechanisms linking policy rates, funding competition, portfolio decisions, and institutional buffers. Its theoretical contribution is to distinguish exposure from resilience: sensitivity to monetary policy does not necessarily imply inability to absorb shocks. For supervisors, this implies monitoring indirect funding and liquidity channels alongside formal Sharia compliance.

The second theme distinguishes producer price disturbances from consumer inflation, an analytical separation often obscured by aggregate inflation indicators. Awdeh et al. (2024) associate inflation with deteriorating bank stability in the MENA region. In contrast, Mawaddah et al. (2025) identify a positive inflation-stability association among Indonesian Islamic banks while finding financing risk harmful. Such divergence cautions against treating inflation as a universally adverse shock. Producer prices may influence firms through revenue adjustments, input expenditure, and working capital needs; consumer prices may influence households through purchasing power and

repayment constraints. Yet the direction of each pathway depends on sectoral pricing power and borrower income, not merely index movements. This study contributes a proposed producer-consumer transmission taxonomy, rather than claiming that comparative effects have already been established. Practically, banks could complement inflation monitoring with segmented stress assessments of corporate and household financing.

The third theme suggests that resilience is a multidimensional institutional capability rather than an automatic advantage of Islamic contractual principles. Othman et al. (2023) find that equity financing structures are associated with greater stability, particularly at intermediate exposure levels; however, Barau et al. (2023) identify uneven risk sharing between investment account holders and shareholders as a potential source of instability. The contrast indicates that nominal risk sharing and effectively distributed risk are not equivalent. Similarly, Azmi et al. (2023) link stronger political institutions with banking stability, while Risfandy and Pratiwi (2022) find that diversification was negatively associated with Islamic rural bank performance during the pandemic. These findings support a conditional view in which governance, portfolio composition, and institutional context shape shock absorption. The theoretical implication is that financial resilience requires evaluating how contractual arrangements operate, not simply whether they exist.

Comparing the three themes also exposes measurement and contextual limitations across the literature. Sohibien et al. (2022) model pandemic-related changes in financing and profitability, whereas Abdul Majid et al. (2025) synthesize banking, macroeconomic, and risk determinants during the pandemic. Wiranatakusuma et al. (2025) likewise identify conceptual inconsistency in resilience research. These contributions are valuable, yet profitability, financing growth, liquidity, and default risk represent different facets of banking performance and cannot be treated as interchangeable resilience indicators. The present framework integrates macroeconomic shock origins, transmission channels, institutional moderators, and outcomes, thereby offering a structured explanation for seemingly inconsistent findings across different observation windows and populations. Methodologically, future reviews should classify evidence by shock definition, resilience proxy, geography, crisis regime, and identification strategy. This would improve comparability without implying pooled causal estimates where underlying study designs do not warrant them.

Taken together, the discussion advances a conditional transmission framework in which monetary shocks, producer prices, and consumer prices reach Islamic banks through distinct but overlapping mechanisms. The contribution lies in connecting mechanisms to institutional capacities and

multidimensional outcomes, rather than claiming that Islamic banks are uniformly more resilient than conventional banks. This framework has practical implications for central banks developing monetary transmission surveillance, regulators designing scenario-based supervision, and bank managers aligning liquidity buffers, portfolio concentration, and financing terms with borrower exposure. Evidence that monetary rates matter for stability (Savon, 2025), that inflation effects vary across settings (Awdeh et al., 2024; Mawaddah et al., 2025), and that resilience is institutionally conditioned (Wiranatakusuma et al., 2025) motivates these recommendations. Because the systematic screening and extraction remain incomplete, these claims constitute provisional theoretical integration, not confirmed review-wide results in future research.

CONCLUSION

This study highlights that Islamic banking resilience is not inherently guaranteed by Sharia-compliant contractual principles but is shaped by the interaction between macroeconomic shocks, transmission mechanisms, and institutional capabilities. The central insight is that monetary policy disturbances, producer price fluctuations, and consumer price pressures may affect Islamic banks through distinct yet interconnected channels, including funding competition, financing performance, borrower repayment capacity, and liquidity management. The theoretical contribution lies in developing an integrated conceptual framework that distinguishes macroeconomic exposure from institutional resilience and conceptualizes resilience as a conditional, multidimensional capability encompassing shock absorption, adaptation, and recovery. The practical implications emphasize the importance of strengthening risk-based supervision, liquidity management, financing diversification, and macroeconomic stress assessment tailored to Islamic banking characteristics. Nevertheless, this study is limited by its reliance on secondary literature, heterogeneity in research designs and resilience indicators, and the absence of direct empirical testing. Furthermore, the proposed synthesis remains provisional until systematic screening and evidence extraction are completed. Future research should employ comparative cross-country analyses, longitudinal banking data, and mixed-method approaches to validate the proposed transmission mechanisms, examine differences between Islamic and conventional banks, and assess how institutional characteristics moderate the effects of monetary and price shocks under varying economic conditions.

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