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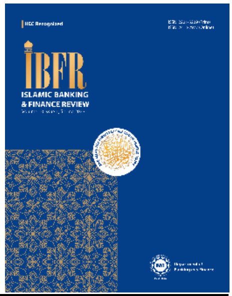

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Title: **Accessing the Synergy between Islamic Finance and Economic Development: A Systematic Literature Review (2021–2024)**

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Accessing the Synergy between Islamic Finance and Economic Development: A Systematic literature Review (2021–2024)

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Abstract

Recent years have seen a rise in scholarly and policy interest in the connection between Islamic finance and economic development; yet, empirical results are still conflicting and context-dependent. In order to evaluate the overall influence of Islamic financing on economic development across various economies, this study does a meta-analytical evaluation of material produced between 2021 and 2024. This paper finds regional differences, methodological trends, and recurrent themes in the relationship between Islamic financing and growth by combining findings from theoretical and empirical research. The analysis shows that Islamic finance's profit-and-loss sharing, risk-sharing procedures, and ban on interest (riba) all have a favorable impact on social inclusion, financial stability, and economic growth. Research indicates that Islamic financial institutions also contribute to sustainable development by encouraging ethical investment, financial intermediation, and poverty reduction, especially through Islamic microfinance, zakat, and waqf. Financial market maturity, regulatory frameworks, and institutional quality all affect how strong and consistent these effects are. The results highlight the need for more uniform approaches in future studies and emphasize the necessity for further integrating Islamic finance into larger economic systems. All things considered, this article adds to the expanding conversation on the complementary role that Islamic finance plays in attaining sustainable and inclusive economic growth.

Keywords**:** economic development, financial inclusion, Islamic banking, Islamic finance, meta-analysis, Shariah compliance, sustainable growth

Introduction

Islamic finance is an economic system that is based on Sharia principles, which prohibit interest (riba), undue uncertainty (gharar), and stress risk

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sharing and asset-backed transactions (Omar, 2025). Economic development is a multidimensional process, which includes sustained economic growth in income, jobs, financial inclusion, and social welfare (Pratiwi & Salahudin, 2023). Synergy in this study is the reinforcing effect between Islamic finance and its promoting influence on productive investment, equitable wealth distribution, and sustainable economic growth. The study is important to policy makers, regulators, investors, and researchers to gain a clearer understanding of whether Islamic finance can be a means of inclusive and sustainable development. It has long been believed that economic development is a multifaceted process that includes raising social welfare, income levels, and general quality of life. By directing funds into profitable ventures, financial systems have been instrumental in promoting economic expansion in recent decades (Butt et al., 2023). It not only provides a morally sound and asset-backed substitute for traditional financing, but has also become a fast-growing sector of the global financial system (Dzulkepli & Barom, 2021). The goal of Islamic finance is to promote social justice, equitable wealth distribution, and sustainable growth through its emphasis on profit-and-loss sharing, risk-sharing mechanisms, and the ban on interest (riba) (Aboul-dahab, 2023).

Even while Islamic financial institutions are becoming more widespread in both Muslim and non-Muslim nations, it is still unclear how much Islamic banking advances economic growth. Although this association has been the subject of many empirical investigations, the results are frequently inconsistent and context-specific (Hamidi et al., 2025). Therefore, in order to determine the general strength and direction of this linkage, it is necessary to synthesize the current research.

This study uses a meta-analytical analysis of studies published between 2021 to 2024 to evaluate the relationship between Islamic financing and economic progress. The paper seeks to provide a comprehensive knowledge of how Islamic finance promotes economic development in both emerging and developed economies by methodically analyzing current scholarly contributions in order to spot recurring patterns and methodological trends.

Objectives of the Study

This paper's primary goal is to assess the relationship between Islamic finance and economic growth by combining data from current theoretical and empirical research that was released between 2021 to 2024. This study specifically seeks:

- To examine how Islamic financial instruments and institutions contribute to various dimensions of economic development.
- To identify the major themes, trends, and methodological patterns in recent Islamic finance research.
- To analyse the consistency and variation of empirical findings across different countries and contexts.
- To highlight research gaps and propose directions for future studies on the Islamic finance–development nexus.

Research Questions

In light of these goals, the study aims to respond to the following important query: What is the overall relationship between Islamic finance and economic development according to studies published between 2021 and 2024?

Literature Review

Growth of Islamic Finance and its Principles

The available literature explores the expansion of the Islamic finance industry, its foundational principles, and how they differ from conventional finance. For instance, using a bibliometric approach, Wudil and Muhammad (2024) examine the research trends in Islamic finance from 2012-2022, highlighting the significant growth of topics such as financial inclusion and Shariah-governance in the Islamic finance space. Similarly, Zailani and Satar (2022) present a review of socio-economic development indices based on Maqāsid al-Sharīʿah, pointing out that Islamic finance's focus on risk-sharing, prohibition of riba and redistribution (zakat/waqf) is aligned with broader social-welfare goals. These foundations suggest that Islamic finance is not merely a variant of conventional banking, but is framed with ethical, distributive, and sustainability-oriented dimensions. In international finance, Islamic financing is expanding significantly, especially in a few important nations. Its current growth of over 20 percent annually, which is mostly due to ownership, participation, and equity principles, demonstrates its durability and broad popularity. Since Islamic banking restricts excessive risk-taking, encourages risk-sharing, and maintains a strong relationship with real economic activity, it should be able to survive economic shocks.

These banks have risks that are comparable to those of traditional banks, but they also face special, peculiar dangers that call for special risk management procedures. Islamic finance's explosive growth has important macroeconomic policy ramifications that demand serious thought (Akbar et al., 2025). The traditional economic and financial system is in jeopardy, and the global economy is still in the doldrums due to COVID-19 and other issues. In contrast, Islamic finance as an emergent economy is expanding. Islamic finance's ideology, which has garnered significant attention from academics and the financial industry, stresses both profit and morality, forbids interest, promotes profit and loss sharing, and financial risk control based on real assets. This study uses bibliometric research techniques to present an overview of international Islamic finance research in terms of author distribution, institutional distribution, and country distribution based on the Islamic finance research literature from 2010 to 2020 included in the WOS database. Research on the fundamental theory of Islamic finance, research on the growth of the Islamic finance market, research on the risk management of Islamic finance, and research on the development of Islamic finance in Malaysia are the hot topics of international Islamic finance research, according to keyword clustering analysis (Li et al., 2025).

Islamic Finance and Economic Growth: Empirical Evidences

A large body of empirical research investigates the relationship between Islamic finance (banking, capital markets, non-bank Islamic financial institutions) and economic growth, and signifies the positive links between major segments of the Islamic financial industry and economic growth over the period 2014Q1 to 2021Q3 (Bella et al., 2022).

Moreover, Islamic finance has a substantial positive effect on economic growth, reinforcing the idea that the “finance-growth nexus” can operate in the Islamic finance framework (Kazak & Okka, 2022). Yet, as research expands universally, some findings show variation in magnitude and consistency depending on region, institutional environment, maturity of financial markets and regulatory frameworks. The need for Islamic finance has grown as a result of the traditional financial system's inherent volatility. As Islamic finance does not rely on debt-based funding, it is considered more stable and reliable and resilient towards the economy. Islamic finance is currently one of the fastest-growing economic sectors in Pakistan and the Muslim world at large, and it is important to the growth of the real sector. This study explored how Islamic and conventional financing affected

Pakistan's economic expansion. Quarterly data from 2006Q3–2017Q4 were used for the empirical analysis. The study measured Islamic finance using total financing (finance plus investment) by Islamic banks, while conventional finance was measured using credit extended by conventional banks to the private sector. Our results, which were obtained using the GMM (Generalized Method of Moments) technique of estimation, showed that Islamic financing both boosts economic growth and satisfies certain particular needs of economic actors that conventional finance would not have been able to. Additionally, the study employed inflation, trade openness, government spending, and investment as control variables. One of the areas of the global financial system that is expanding at the fastest pace, is Islamic financing. The absolute impact of Islamic finance, including Islamic banking and Islamic bonds, on economic growth in significant Muslim nations is experimentally described in this article. The assets and funding of Islamic banks, the total value of sukuk issued, and real GDP have all been used as measuring proxies in the current study. The PMG (pooled mean group) of the ARDL framework has been used for the analysis. The study's findings showed a significant long-term correlation between real GDP in Muslim nations and Islamic banks' assets, funding, and bonds (Naz & Gulzar, 2022).

Islamic Finance Beyond Growth: Social Inclusion, Sustainable Development & Stability

Beyond pure growth, recent studies link Islamic finance to social inclusion, sustainable development and financial stability. Zakat and waqf are the significant instruments in achieving United Nations Sustainable Development Goals (SDGs), thus situating Islamic finance in a broader development framework (Dirie et al., 2024). On the other hand, (Pusparini & Fianto, 2025) find that the risk-sharing models and ethical governance embedded in Islamic finance may contribute to greater resilience compared to conventional institutions.

This study looks at how Islamic finance affects Pakistan's inclusive growth. Conventional financial systems have frequently been associated with increasing inequality and financial instability, despite the fact that financial development is mainly acknowledged as a catalyst for economic growth through effective capital allocation, investment promotion, and increased credit availability. Islamic finance offers a possibly more stable and inclusive substitute that links financial intermediation with actual economic activity. It is based on the concepts of risk-sharing, ethical investment, and asset-backed transactions (Naseem et al., 2025).

The relationship between sustainable development and Islamic finance offers a new avenue for tackling global issues. Mixed-methods analysis helps to evaluate how Islamic financing contributes to the Sustainable Development Goals (SDGs) of the United Nations.

Using an exclusive combination of advanced bibliometric analysis, Preferred Systematic Approach for Literature Selection and Ranking (PSALSAR) technique, and systematic literature review in accordance with PRISMA criteria, it is a comprehensive analysis of this quickly developing topic. This systematic assessment pinpoints seven important elements that help in accomplishing the SDGs using Islamic financing. In 51.52% of the reviewed research, environmental sustainability is the major factor. With 12 research pieces (36.36%) categorized as Tier 1 (Highly Relevant), 15 studies (45.45%) as Tier 2 (Moderately Relevant), and 6 studies (18.18%) as Tier 3 (Somewhat Relevant), the PSALSAR ranking shows a strong dispersion of the data. Substantial geographic concentrations, varying research networks, and historical trends are revealed by bibliometric analysis of 156 publications. Important decisions include: (1)a significant rise in research production after 2020, reflecting a growing awareness of the potential of Islamic finance in sustainable development; (2) vigorous links among Islamic finance concepts predicting more wide-ranging international contribution; and (3) new areas of interest including financial technology incorporation and green sukuk. By providing the first thorough mixed-methods analysis in this area, this work adds to the body of literature by highlighting the important gaps and delivering a more sophisticated hold of the state of the field (Harun & Rahmat, 2025).

Theoretical Foundations Underpinning the Islamic Finance–Economic Development Relationship

The theoretical frameworks applied in research provide important insights into the functioning and impact of Islamic finance. A common framework used in many studies is the financial intermediation theory, which emphasizes the role of financial institutions in facilitating the flow of funds between savers and borrowers (Kazak & Okka, 2022). Islamic banks, with their focus on equity financing and risk-sharing, provide an alternative model of financial intermediation that contrasts with conventional banks' focus on interest-bearing loans (Bella, et al., 2022). This theory is particularly relevant in understanding how Islamic finance can contribute to more equitable and sustainable economic development.

Additionally, finance-growth nexus is another framework used to explore the relationship between financial development and economic growth. Several studies have applied this theory to argue that Islamic finance can drive economic growth by providing long-term capital for investment and fostering entrepreneurship (Khattak & Khan, 2023). The use of this framework in the studies highlights how Islamic finance supports productive economic activities, particularly in developing countries where access to conventional finance may be limited.

Furthermore, the supply-led theory and finance–growth causality hypothesis were applied in some studies to demonstrate how Islamic finance, particularly in terms of banking deposits and financing, can serve as a leading sector in driving economic growth (Saifurrahman & Kassim, 2023). This theoretical perspective is essential for understanding the mechanisms through which Islamic finance influences broader macroeconomic variables such as GDP, inflation, and employment.

Methodology

The current study adopts a Systematic Literature Review (SLR) approach based on the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) guidelines. Databases searched included Scopus, Web of Science, Google Scholar, and Science Direct using keywords such as Islamic finance, Islamic banking, economic growth, financial inclusion, sustainable development, and Islamic microfinance. The inclusion criteria was based on peer-reviewed studies published in English between 2020 and 2024 that directly examined the relationship between Islamic finance and economic development. Whereas, exclusion criteria were rooted in duplicate records, conference abstracts, non-English papers, and studies not focused on economic development outcomes. A total of 156 studies were initially identified, 72 remained after screening, and 38 studies were included in the final synthesis.

Table 1

Systematic Literature Review based on PRISMA

Article Title	Author Names	Year	Problem Statement	Literature Review	Variables	Methodology	Findings	Conclusion
Comparative Study: Conventional and Islamic Banking Performance in Pakistan	Hasil Murad Babar Ali Umair Baig Ali Raza Shahan Ali Aseela Abdullah	2021	Comparing the performance of Islamic and conventional banks in Pakistan, focusing on differences in asset allocation, profitability, and client choices.	Discusses Shari'a compliance, asset-based finance in Islamic banks, and conventional banks' broader product range (Murad et al., 2021).	Independent: Shari'a compliance, financial practices; Dependent: ROA, ROE.	Regression analysis, CAMEL framework, accounting ratios, and correlation analysis to evaluate performance metrics.	Islamic banks outperform conventional banks in profitability and client trust, attributed to Shari'a compliance and asset-based financing.	Islamic banking is gaining acceptance and contributes to better financial health in Pakistan, but larger sample sizes and international comparisons are recommended.
Contribution of Islamic Banks and Macroeconomic Variables to Economic Growth	Ridhu Kismawadi	2024	Examining how Islamic banks and macroeconomic variables impact economic growth in developing countries.	Explores Islamic banking's role in economic growth and compares it with conventional banking in developing economies (Kismawadi, 2024).	Independent: Islamic bank deposits, financing; Dependent: GDP growth.	Vector Error Correction Model (VECM), Impulse Response Function (IRF), and Variance Decomposition (VD) over 672 observations from 24 Islamic banks.	Islamic banking significantly contributes to long-term GDP growth in studied countries, with deposits and financing playing pivotal roles.	Islamic banking fosters economic growth, but detailed sectoral impacts and comparisons with mixed banking systems need further study.
Efficiency and Stability of Islamic vs. Conventional Banking Models	Mirwais Parsa	2022	Assessing efficiency, technological gaps, and stability between Islamic and conventional banking systems in the GCC	Reviews efficiency and resilience of both banking systems, particularly during the 2007–08 financial crisis (Parsa, 2022).	Independent: Banking efficiency determinants; Dependent: Efficiency scores.	Meta Frontier Analysis, DEA for efficiency measurement, and Generalized Method of Moments (GMM) to identify	Islamic banks show higher technical efficiency but face a technological gap due to Shari'a compliance	Islamic banking has potential but requires technological advancements and better integration into global markets.

Article Title	Author Names	Year	Problem Statement	Literature Review	Variables	Methodology	Findings	Conclusion
			region.			efficiency determinants.	costs. Both types exhibited moderate resilience during the financial crisis.	
Impact of Islamic Finance on Economic Growth: An Empirical Analysis of Muslim Countries	Syeda Arooj Naz, Saqib Gulzar	2022	Investigating how Islamic finance, particularly banking and sukuk, affects economic growth in Muslim countries.	Highlights Islamic finance principles like asset-based and risk-sharing contracts, comparing their effects on growth to conventional finance. (Naz & Gulzar, 2022)	Independent: Islamic bank assets, sukuk issuance; Dependent: GDP.	PMG/ARDL framework and panel causality tests over data from 2006–2015, including real GDP and Islamic finance indicators.	Positive long-term relationship between Islamic bank financing, sukuk, and GDP growth. Negative correlation between Islamic bank assets and GDP.	Islamic finance supports economic growth but needs better data on Islamic equity and expanded control variables.
Islamic Banking and Economics: Concepts and Contributions to Growth	Nasir Ababulgu	2023	Exploring the concepts, instruments, and advantages of Islamic banking compared to conventional banking systems.	Reviews the principles of Islamic finance, including fairness, risk-sharing, and ethical transaction (Abasimel, 2023).	Independent: Islamic financial instruments; Dependent: Economic outcomes.	Conceptual analysis based on literature review, focusing on definitions, instruments, and economic contributions of Islamic banking.	Islamic banking promotes financial inclusivity, ethical business, and entrepreneurship. It contributes significantly to economic growth in developing economies.	The principles of Islamic banking align with sustainable development and ethical practices but need wider adoption in non-Muslim countries.
Islamic Banking's Contribution to the Malaysian Real Economy	Zakaria Bahari,Ibrahim Musa Gani	2021	Analyzing the long-term economic impact of Islamic banking on Malaysia's real economy.	Highlights differences in financing focus (productive investments vs. consumption) and the long-	Independent: Financing and deposits; Dependent: GDP.	ARDL bounds test approach using 20 years of quarterly data (1998-2017) to assess long-run relationships.	Islamic banking significantly contributes to long-term growth through capital accumulation	Islamic finance supports long-term economic growth but could better utilize its products for consumption-

Article Title	Author Names	Year	Problem Statement	Literature Review	Variables	Methodology	Findings	Conclusion
				term role of Islamic banking in capital accumulation and productivity (Gani & Bahari, 2021).			and productivity, though short-term effects are minimal.	based financing.
Islamic Financial Depth, Financial Intermediation, and Sustainable Growth	Adil Saleem, Judit Sági, Budi Setiawan	2021	Studying the impact of Islamic financial depth, intermediation, and asset quality on sustainable economic growth.	Discusses the equal contributions of Islamic and conventional finance to growth but emphasizes Islamic finance's stronger role in intermediation (Saleem et al., 2021).	Independent: IFD, IFI, asset quality; Dependent: Economic growth.	ARDL approach over a dataset spanning Islamic financial indicators and their relationship with sustainable economic growth.	Both Islamic and conventional finance support long-term economic growth, but Islamic finance is more impactful in financial intermediation and asset quality.	Islamic finance plays a vital role in sustainable growth but requires improvements in asset quality and intermediation frameworks.
Sharia Compliance in the Development of Islamic Microfinance for Economic Sustainability	Ana Santika	2024	Exploring the role of Sharia compliance in the sustainability of Islamic microfinance, focusing on Baitul Mal Wa Tamwil (BMT) Assyafi'iyah Berkah Nasional Lampung for poverty alleviation.	Highlights Murabahah financing, zakat distribution, and their impact on poverty alleviation in rural areas, emphasizing ethical financial practices (Santika, 2024).	Independent: Murabahah financing, zakat; Dependent: Poverty reduction, community empowerment.	Qualitative research using triangulation techniques, analyzing the effects of Murabahah financing and zakat on business empowerment, capital distribution, and community welfare.	Murabahah financing and zakat significantly contribute to poverty reduction and sustainable economic development, creating small businesses and empowering local economies.	Sharia-compliant financial solutions are essential for sustainable growth, but further efforts are needed to enhance financial literacy in rural communities.

Results

The findings of the selected research papers demonstrate a consistent pattern of positive contributions from Islamic finance to economic development. Key outcomes from the studies include:

Economic Growth and Stability

Several studies, such as "Contribution of Islamic Banks and Macroeconomic Variables to Economic Growth in Developing Countries," found a strong, positive relationship between Islamic banking and GDP growth. Islamic finance contributes to economic growth by providing a stable, interest-free alternative to conventional finance, fostering inclusive growth, and supporting long-term capital accumulation.

Comparative Advantage of Islamic Finance

In terms of stability, studies such as "Efficiency and Stability of Islamic vs. Conventional Banking Models" found that while both systems were affected by the 2007–08 financial crisis, Islamic banks exhibited higher levels of stability due to their reliance on asset-based financing. This highlights the resilience of Islamic banking models in times of financial turbulence.

Financial Inclusion

Islamic finance plays a crucial role in promoting financial inclusion, particularly in Muslim-majority countries where traditional interest-based banking systems may not align with religious values. Studies such as "Sharia Compliance in the Development of Islamic Microfinance for Economic Sustainability" underscore the importance of Islamic microfinance in providing access to financial services for underserved populations, thereby contributing to poverty alleviation and economic empowerment.

Long-Term Contributions to Economic Development

In countries like Malaysia, Islamic finance has been shown to contribute significantly to long-term economic development through capital accumulation and productive investments. The study "Islamic Banking's Contribution to the Malaysian Real Economy" highlights the long-term benefits of Islamic banking, including its role in financing productive investments rather than consumption.

Despite these positive findings, there are some key differences in the contributions of Islamic and conventional finance. While both systems have been shown to contribute to economic growth, the long-term impact of Islamic finance appears to be stronger, particularly in terms of promoting sustainable development and ethical business practices. Furthermore, Islamic banking and sukuk have positive correlation with GDP growth and investment. The application of Zakat, waqf and Islamic microfinance enhances financial inclusion and poverty alleviation. Risk sharing and asset-backed financing promote financial stability. Most favourable results are found in countries with supportive regulation and well-established financial markets.

Conclusion

The results support financial intermediation theory and finance-growth relationship, as Islamic finance helps in allocating savings towards productive investments, and in delivering social justice and moral behavior. The gaps between countries indicate that institutional quality and regulatory mechanisms play an important role in bringing about tangible results of Islamic finance in development. The current SLR study highlights the significant role of Islamic finance in contributing to economic development, particularly in the context of its ethical principles, asset-based financing, and focus on financial inclusion. While both Islamic and conventional finance contribute to economic growth, Islamic finance offers several advantages, such as greater stability during financial crises, the promotion of long-term capital investment, and enhanced financial inclusion. The studies reviewed in this meta-analysis suggest that further research is needed to explore the integration of Islamic finance within hybrid banking systems, the role of technology in Islamic banking, and the long-term sustainability of Islamic finance models. In conclusion, Islamic finance stands as a valuable alternative to conventional financial systems, offering innovative solutions to the challenges of economic development and financial stability.

Limitation and Future Direction

This review only includes English-language publications, and does not statistically pool effect sizes. Based on these issues, it is recommended that the study be read as a systematic literature review and not as a quantitative meta-analysis.

Further research is recommended through meta-regression, studying the potential of the fintech and the green sukuk, and conducting a comparative study of the outcomes of Islamic finance between developed, emerging and low-income economies.

Author Contribution

Mehwish Malik: conceptualization, formal analysis, software, resources, investigation, writing-

original draft. validation, supervision, writing - review &editing **Bilal Sarwar:** conceptualization, methodology, validation.

Conflict of Interest

The authors of the manuscript have no financial or non-financial conflict of interest in the subject matter or materials discussed in this manuscript.

Data Availability Statement

Data supporting the findings of this study will be made available by the corresponding author upon request.

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