



“The two water reservoirs are not alike. The one is sweet, thirst quenching, and pleasant to drink from, while the other is salty and bitter. Yet from each you eat fresh fish and extract ornaments to wear, and in each you see the ships ploughing through the waves so that you may seek His bounty and so that you may feel thankful.”

[Al-Qur’an, Al-Fatir: 12]



Allah’s Messenger (pbuh) said,
“Three are the signs of a hypocrite: When he speaks, he lies; when he makes a promise, he breaks it; and when he is trusted, he betrays his trust.”

[Sahih Al-Bukhari: 2749]

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“There are small matters which are common to all members of the human race regardless of their faith and views. These common matters must be treated as value-neutral. Consequently, many of the minute instruments and premises of analysis fall in the latter category and should be considered value neutral for all practical analyses.”

Prof. Monzer Kahf

Integrative Methodology of Islamic Economics: A Note

Tariqullah Khan, CEO and Principal Economist, Ventureethica, Toronto, Canada | Formerly Professor, Hamad Bin Khalifa University (HBKU), Qatar; INCEIF University, Malaysia; Istanbul Sabahattin Zaim University, Türkiye; Visiting Scholar, Harvard University and Stanford University; former Division Chief, Islamic Finance, IsDB Institute | Correspondence: tariqullah.khan@ventureethica.com | May 2026

The methodological debate in Islamic economics has long been framed as a choice between two incomplete programmes: an assimilative approach that folds revealed values into the mainstream apparatus by pricing religiosity as one good among others, and a distinctive approach that rejects

neoclassical tools wholesale in favour of a separate analytical idiom.

Shaikh (2026) advances the discipline by refusing this binary. His integrative methodology argues for methodological pluralism - admitting both behaviour in

markets, where refined marginal analysis remains serviceable within the Halāl choice set, and behaviour beyond markets, where faith-motivated action must not be economised - under a single disciplinary roof. Grounding the move empirically in World Values Survey data, which reveal only modest divergence between Muslim and non-Muslim respondents on universal morality and market attitudes, he licenses the integrative path over the separatist one and offers, in the budget-only treatment of charitable spending, a disciplined device for keeping the moral motive analytically pure.

Yet, Shaikh achieves integration of scope by partitioning method: he houses the two domains together while keeping their tools strictly apart, and the seam shows wherever a single decision carries mixed motives. The present extension completes the integration by coordinatising what Shaikh (2026) segregates. Drawing on Dynamic Prescriptive Islamic Economics (Khan, 2026), it renders his one-dimensional fork as a two-dimensional decision field - an economic axis and an irreducible normative axis - governed by two axioms, irreducibility and non-substitutability, and ordered by two screens, the Sharī'ah gate followed by the continuous Tayyib index τ .

On this construction, the assimilative, distinctive, and integrative postures occupy distinct quadrants, and the integrative corner ceases to be merely the preferred middle: it becomes the unique admissible archetype, the only one able to locate the destination $v^* = (1, 1)$ and to measure, through the d-gap, an actor's dynamic progress toward it. What Shaikh (2026) secures by separating spheres, DPIE secures by a single metric over one field.

1. The Methodological Plane

Integration, in the sense Shaikh (2026) seeks,

requires a single space in which the two kinds of conduct he distinguishes - economic behaviour within the market [e] and normatively-motivated behaviour beyond the market [n] - can be and must be located together rather than consigned to separate methods. Dynamic Prescriptive Islamic Economics supplies exactly such a space. Instead of partitioning analysis by sphere, it represents every economic position as a point in a common field defined by two questions: how well a choice, agent, firm, or institution performs on the economic dimension, and how far it stands from its normative destination. Because these two dimensions are irreducible to one another - value cannot be read off price, nor price off virtue - they are drawn as orthogonal axes, and the problem of method is recast as a problem of location: where in the field a given practice sits, and in which direction it must move to improve.

Formally, the decision field is the closed square $[-1, +1]^2$ under the standard Cartesian (Normalized Balance Coordinates) convention, with Q1 in the upper-right ($e > 0, n > 0$), Q2 the upper-left ($e < 0, n > 0$), Q3 the lower-left ($e < 0, n < 0$), and Q4 the lower-right ($e > 0, n < 0$). The horizontal axis e measures economic adequacy - the legitimate, risk-bearing value a choice creates through the market - while the vertical axis n measures normative adequacy, the choice's attainment against the Maqāsīd, scored by rubric rather than priced by exchange. The destination is the single ideal point $v^* = (+1, +1)$, Tayyib: simultaneous fullness on both dimensions. Q1 is therefore not Tayyib itself but the region approaching it - the only quadrant from which the destination is even reachable.

Two screens order admissibility. The first is the Sharī'ah filter - the binary gate (business-activity, leverage, and impure-income

thresholds) that excludes the inadmissible set entirely, corresponding exactly to the axiomatic exclusion of Harām. The second is τ , the Tayyib index: a continuous measure of proximity to v^* that operates only within the Halāl universe admitted by the first screen. τ partitions the admissible region into bands - Tayyib-Near ($\tau \geq 0.85$), High (0.70-0.85), and Transitional (0.55-0.70). The d-gap, $d(x, v^*)$, is the residual distance from an actor's coordinate to Tayyib; the prescriptive objective is its dynamic reduction over time. The STO taxonomy classifies the source of that gap, and the STO remediation tree routes the corrective instruments - Zakāt, Awqāf, Himā, Sadaqah Jāriyah - that close it.

Rubrics supply the measurement layer. Each axis - most consequentially n - is operationalised by a structured instrument that converts Maqāsīd content into a coordinate, with inter-rater divergence resolved under the Panel Consensus Protocol. Acquired Epistemic Rationality (AER), expressed through the integration function Φ (S (science), H (history), W (Wahy/Shariah/Maqasid), P (practice)), is the single rationality operating across the whole field, so the agent does not switch engines at the market boundary; its cross-civilizational grounding - wasatiyyah, sophrosyne, zhongyong - supplies the convergent normative content that the n -axis scores.

2. Two Foundational Axioms

The field's geometry is not a modelling convenience; it rests on two axioms governing the relationship between the economic axis e and the normative axis n . Together they determine why the plane must be two-dimensional and why its admissible region is gated rather than smoothly traversable.

Axiom A1 - Irreducibility. The economic and normative axes are mutually irreducible: there exists no function f such that $n = f(e)$, and none such that $e = f(n)$, across the admissible domain.

Normative adequacy cannot be derived from, or restated as, economic value, and economic adequacy cannot be derived from normative standing. Price encodes exchange value, not Maqāsīd attainment; the preservation of *dīn*, *nafs*, *ʿaql*, *nasl*, and *māl* has no market-clearing representation. Consequently, $v^* = (1, 1)$ is reachable by optimising neither axis alone, and a methodology confined to one axis is structurally incapable of locating Tayyib. This is the formal statement of the market's failure at public goods, externalities, and distributive justice: confined to e , the market cannot close a d -gap that lies along n .

Axiom A2 - non-substitutability. The two axes are non-compensatory below the τ -floor τ_{\min} : for any actor whose normative coordinate falls short of the floor, no increment on the economic axis restores admissibility. The ordering is lexicographic – the Sharī'ah gate and the τ -floor are satisfied first, and economic optimisation proceeds only within the floor-admissible set. Formally, where $n < \tau_{\min}$, no $\Delta e > 0$ yields admissibility, and the marginal rate of substitution between e and n is undefined rather than merely steep. Ribā-laden profit cannot be repurchased by efficiency; the warm-glow donor cannot substitute private satisfaction for genuine movement toward v^* .

Compensation logic - the premise that everything bears a price and trades at some MRS - is precisely the atomistic ontology the framework rejects.

The two axioms are independent. A1

concerns the dimensionality of the field (two axes, neither collapsible); A2 concerns its traversability (the axes cannot be traded across the floor). A framework could in

principle accept one and deny the other, and the four archetypes are distinguished precisely by which axioms they honour.

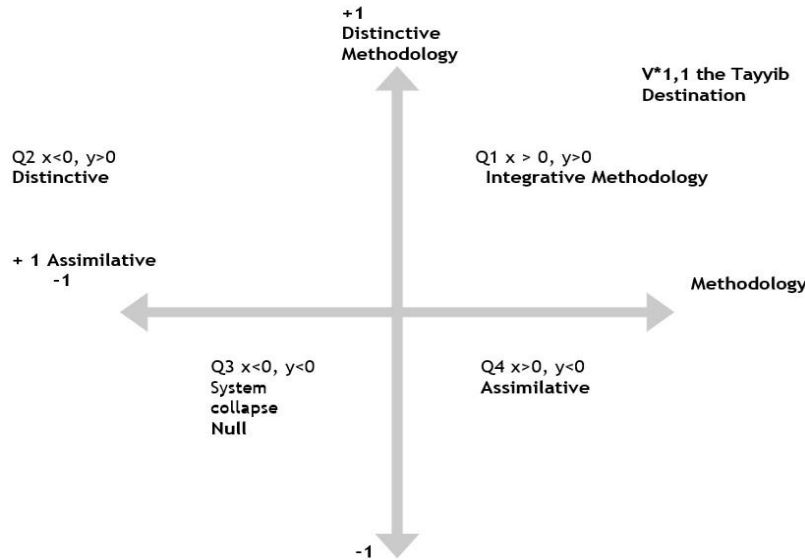
Axiom	Statement	What it governs / defeats
A1 – Irreducibility	No function maps $n = f(e)$ or $e = f(n)$ across the admissible domain; $v^* = (1, 1)$ is unreachable by optimising either axis alone.	Fixes the dimensionality of the field (two axes, neither collapsible); defeats the assimilative reduction of the sacred to price.
A2 – Non-Substitutability	Below the τ -floor τ_{\min} the axes are non-compensatory: no $\Delta e > 0$ restores admissibility once $n < \tau_{\min}$; ordering is lexicographic; the MRS between e and n is undefined, not merely steep.	Fixes the traversability of the field (gated, not graded from anywhere); defeats the compensation / MRS logic of atomistic exchange.

3. The Four Quadrant Archetypes

Each methodology is characterised by how it treats the two axioms, and the four treatments map onto the quadrants of the meta-plane whose axes are assimilation (the appropriateness of mainstream-analytical deployment) and distinction (the appropriateness of preserved Islamic distinctiveness).

This meta-plane is homologous to the substantive field: an assimilative posture is the methodological image of reducing n to e ; a distinctive posture is the image of denying e ; and the integrative posture is the image of honouring both axioms at once. Orientation matters – each axis runs from inappropriate (-1) to appropriately deployed (+1), so that more is not better in the raw, and only the joint, domain-disciplined corner is ideal.

Figure 1 Islamic Economics Methodologies Archetypes based on Shaikh (2026)



Archetype (Quadrant)	Defining posture	Representative case	Axiom status / failure mode
Integrative Q1 (+, +)	Mainstream tools well-deployed on the economic axis; distinctiveness preserved on the normative axis; clears the gate, then optimises within it.	Shaikh’s stated aspiration; completed by DPIE.	Honours A1 and A2 – the unique admissible archetype; locates v^* .
Assimilative Q4 (+, -) Failure mode	Economic axis honoured; normative axis priced away and allowed to collapse.	Divine economics; the economics-of-religion programme.	Violates A1 (reduces n to e); economises religion.
Distinctive Q2 (-, +) Failure mode	Normative axis asserted; mainstream analytical tools refused any purchase.	Separatist school – Siddiqi’s “beyond rhetoric” target.	Violates A1 (collapses field onto n); loses analytical traction.
Null Q3 (-, -) Failure mode	Neither a working economic apparatus nor a coherent normative metric.	Pre-analytical exhortation.	Violates A1 and A2; rhetoric without measurement or traction.

Q1 - Integrative (v^*). Signature (+, +): economic axis and distinctiveness mainstream tools well-deployed on the appropriately preserved on the normative

axis. The integrative archetype honours both axioms - it accepts irreducibility by maintaining a distinct, separately scored n-axis rather than pricing the normative, and it accepts non-substitutability by clearing the Sharī'ah gate and τ -floor before it optimises. This is the methodological wasatiyyah: the only archetype that can locate v^* , and the only one admissible under both axioms. Shaikh's (2026) integrative method aspires to this corner but reaches it by partitioning method across spheres rather than by coordinatising a single field; DPIE supplies the metric the corner requires.

Q4 - Assimilative. Signature (+, -): the economic axis is honoured while the normative axis is allowed to collapse. The assimilative archetype violates A1: it reduces n to e by treating religion as one priced good among others, recovering normative content only as a market quantity. Because it denies the second axis it cannot represent a d-gap lying along n, and it economises religion rather than Islamising economics. It is internally coherent and analytically powerful – which is precisely what makes it the most seductive of the failures.

Q2 - Distinctive. Signature (-, +): the normative axis is asserted while the economic axis is rejected. The distinctive, separatist archetype mirrors the assimilative error: it collapses the field onto n by refusing mainstream analytical tools any purchase, and so it too violates A1, in the opposite direction. It preserves moral seriousness at the cost of analytical traction – the position Siddiqi warns against in calling for a framework that moves beyond rhetoric.

Q3 - Null. Signature (-, -): neither axis is attained. The null archetype has neither a working economic apparatus nor a coherent normative metric - pre-analytical exhortation that violates both axioms by attaining neither. It is the residual into

which both purist programmes decay when they fail to deliver: rhetoric without measurement and without market traction.

4. Q1 as the Unique Admissible Archetype

Under the two DPIE axioms, integration is not merely preferred but is the *only admissible archetype* (Q1), while the others are formal *failure modes*. The axioms render the ranking strict rather than merely preferential. A1 eliminates Q4 and Q2, each of which survives only by collapsing the irreducible field onto a single axis. A2 then explains why no actor can migrate from Q4 to Q1 by accumulating economic value: the τ -floor cannot be purchased, so it must be cleared on the normative axis directly. Q3 fails both axioms trivially. Q1 alone honours irreducibility (it keeps two scored axes) and non-substitutability (it gates before it grades). The four-fold typology is therefore not a menu of equally respectable options but a single admissible corner surrounded by three characteristic failures - one that prices the sacred, one that abandons the analytical, and one that does neither.

This also resolves a latent ambiguity in the meta-plane. The integrative corner is admissible not because it maximises both postures indiscriminately - that would be incoherent eclecticism - but because the two axioms supply the domain discipline: mainstream tools are deployed where the economic axis governs, distinctiveness is preserved where the normative axis governs, and the τ -floor forbids trading one for the other. The partition that Shaikh (2026) leaves implicit in his prose is, on this account, a theorem of the two axioms rather than a methodological stipulation.

5. Analysis

Shaikh's (2026) integrative methodology (although in fact, integration by segregation)

can be located within the DPIE plane as a movement from methodological partition toward coordinated integration. His central contribution is to reject both extremes: the assimilative programme, which absorbs Islamic values into mainstream economics by treating religion as another market preference, and the distinctive programme, which rejects mainstream analytical tools altogether. Instead, Shaikh (2026) argues that marginal analysis remains useful within the Halāl market sphere, while non-market, faith-motivated conduct must retain its moral distinctiveness.

In DPIE terms, this places Shaikh's (2026) project on the path toward Q1: the quadrant where economic adequacy and normative adequacy are both preserved. The economic axis, *e*, captures legitimate market value, efficiency, incentives, and exchange behaviour. The normative axis, *n*, captures Maqāsid, Sharī'ah purpose, moral intentionality, justice, and ecological-social responsibility. Shaikh's (2026) framework recognises both axes, but it still tends to separate them by sphere. DPIE completes the move by placing them within one methodological plane.

The mapping is therefore as follows. Shaikh's (2026) critique of atomistic individualism, market failure, public goods, externalities, and intergenerational discounting exposes the insufficiency of *e*-only optimisation. His treatment of responsibility, humility, simplicity, and revealed values affirms the necessity of a separate *n*-axis. His discussion of Halāl market segments remains valid in the Q1 interior, where permitted goods and services may still be analysed through prices, income effects, substitution effects, and elasticity. However, his rejection of economising altruism, religion, and moral motivation confirms the non-substitutability of *n* by *e*.

His World Values Survey evidence supports the admissibility of integration: Muslims and non-Muslims show modest divergence on market attitudes and broadly shared moral commitments. This strengthens the case for a common *n*-axis scored through rubrics rather than prices. His budget-only treatment of charity is especially important: it protects altruistic intention from being absorbed into utility as "warm glow." DPIE reads this as a practical affirmation that moral movement must occur on the normative axis directly, not through economic compensation.

DPIE Interpretation of Shaikh's (2026) Findings

- 1) The evidence rejects the narrow Homo Economicus assumption. Both Muslims and non-Muslims display concern for responsibility, good manners, fairness, family well-being, and social interest alongside economic self-interest. Human behaviour appears multidimensional rather than purely utility-maximizing.
- 2) The data supports the existence of a normative dimension distinct from the economic dimension. The persistence of moral attitudes across populations suggests that values cannot be fully explained by prices, incentives, or market exchange alone. This is consistent with the DPIE principle of irreducibility.
- 3) Muslims and non-Muslims appear closer than many Islamic economics debates assume. While religiosity differs substantially, attitudes toward morality, markets, competition, and social concern are broadly similar. The findings point toward a shared human normative field rather than sharply divided economic worldviews.
- 4) The data supports an integrative rather than a separatist approach to Islamic economics. Since both groups accept market incentives while simultaneously

valuing moral conduct, the challenge is not choosing between markets and values but coordinating both within a common framework.

- 5) The central sustainability problem appears institutional rather than moral. Shaikh (2026) documents climate change, inequality, waste, and environmental degradation despite widespread moral commitments. The implication is that positive values are not being adequately translated into institutions, incentives, technologies, and governance systems.
- 6) From a DPIE perspective, the findings justify a two-dimensional framework. The survey provides strong support for analysing economic adequacy and normative adequacy simultaneously, even though it does not yet validate specific DPIE constructs such as τ , d-gap, or STO effectiveness.

The strongest message from Shaikh's (2026) data is the evidence that people generally possess or at least recognize both economic and moral motivations - **the DPIE foundational axioms: the irreducibility and non-substitutability of Akhira and Dunya.** The challenge of sustainability and Islamic economics is therefore not the creation of values, but the design of decision systems and institutions that can align economic performance with normative objectives.

Shaikh's (2026) mathematical models of consumption externalities, production externalities, public goods, Zakāt, Waqf, patience, risk aversion, and intertemporal choice operate most coherently in the admissible Q1 interior. In this region, mainstream tools remain useful after the Sharī'ah gate has been cleared. But as the actor moves closer to the Tayyib destination $v^* = (1,1)$, substitution between e and n becomes less acceptable. The elasticity of substitution declines, and the geometry moves from Cobb-Douglas-style trade-off

toward Leontief-style complementarity.

Thus, Shaikh's contribution is best read not as a complete replacement of mainstream economics, nor as a full Islamisation of economics by assertion, but as an integrative bridge. DPIE formalises that bridge. The Sharī'ah gate first excludes the inadmissible. The Tayyib index τ then measures proximity to v^* within the Halāl domain. The d-gap identifies the remaining distance from the ideal. STOs then prescribe corrective movement through substitutions, transformations, and offsets.

In summary, Shaikh preserves the mainstream apparatus where it works: the economic interior of the Halāl set. DPIE extends his insight by showing where that apparatus must stop: at the point where normative adequacy, Maqāsid, ecological responsibility, distributive justice, and moral intention become binding. The final methodological lesson is clear: integration does not mean pricing values; it means coordinating economic and normative dimensions without reducing either to the other.

The shape of isoquants will be different under the different archetypes. Within the relevant Q1 for example, at $v = 0.2, 0.2$ the MRS may be on different isoquant as compared to L shape approaching 1,1. This consideration is important for several reasons:

- a) It formalises the domain of applicability of mainstream tools. At $v = (0.2, 0.2)$, the agent is far from the Tayyib destination 1,1. The isoquants are smooth, substitutable (Cobb-Douglas style), and a well-defined MRS exists. This means within the low-attainment region, neoclassical marginal analysis (prices, substitution effects, optimisation) is perfectly appropriate. Shaikh's (2026) claim that

refined mainstream tools work in the Halal market interior is exactly captured by this geometry. At $v \rightarrow (1,1)$, the isoquants become L-shaped (Leontief), the MRS is undefined (or infinite/zero depending on direction), and substitution is no longer possible. This corresponds to Shaikh's (2026) insistence that beyond-market, faith-driven choices cannot be economised or traded off. The geometry shows that the same agent moving toward the ideal must eventually switch behavioural logic - but the DPIE framework encodes that switch as a continuous deformation of the isoquant family, not as a segregation of toolkits.

- b) It solves the "Seam" problem of integration by segregation. Shaikh (2026) keeps market and beyond-market analysis separate because he has no way to represent a smooth transition. In his framework, an agent is either in the market (using MRS) or beyond it (no MRS). The DPIE plane shows that the MRS is not a binary on/off but a function of proximity to the ideal, i.e., $MRS = f(\tau)$ with $f(\tau) \rightarrow$ undefined as $\tau \rightarrow 1$. Thus, the same agent can gradually reduce her reliance on substitution as she progresses. This eliminates the need for segregation.
- c) It has empirical and policy implications. If we measure an agent's current τ (e.g., a firm's compliance with Maqāsid), we know whether marginal incentives (prices, taxes, subsidies) will be effective. At low τ , price signals work. At high τ , only non-compensatory, normative instruments (e.g., prohibitions, clear gatekeeping) work. Policy can therefore be dynamic: start with market-based tools for laggards, then switch to moral suasion or Shari'ah gates as agents approach the ideal. This is impossible under Shaikh's segregated framework.

The difference in isoquant shape is not a minor technical detail; it is the geometric

signature of the axioms of irreducibility and non-substitutability. It shows that the same decision field can host both substitutable and non-substitutable regions, thereby completing the integration that Shaikh leaves incomplete.

6. Conclusion

The methodological contribution of Shaikh (2026) is to formulate, more sharply than most of the literature, the choice between an assimilative economics that prices the sacred and a distinctive economics that abandons the analytical, and to argue - on the strength of World Values Survey evidence of broadly shared moral and market attitudes - that the discipline should occupy neither pole but an integrative middle. That diagnosis is sound, and the integrative impulse is the correct one. Its limitation is structural rather than substantive: Shaikh (2026) integrates the scope of analysis while partitioning its method, housing market and beyond-market behaviour under one disciplinary roof but assigning each its own separate toolkit. The result is integration by segregation, a one-dimensional fork resolved by keeping the two domains apart, and the seam shows wherever a single decision carries mixed motives.

Framed through Dynamic Prescriptive Islamic Economics (Khan, 2026), the same integrative impulse is carried to its formal conclusion. What Shaikh (2026) proposes as a methodological posture, DPIE renders as an operational field: a two-dimensional decision space ordered by two screens - the Shari'ah gate followed by the continuous Tayyib index τ - governed by the axioms of irreducibility and non-substitutability, and oriented, through the d-gap, toward the single destination $v^* = (1, 1)$.

Integration here is not a pluralism of tools held side by side but the coordinatisation of

one space, and the integrative position ceases to be merely the preferred middle: it becomes the unique admissible archetype, the only quadrant from which Tayyib can be reached and against which progress can be measured. This completes rather than corrects Shaikh (2026); his independent contributions - the empirical grounding, the Kantian critique of warm-glow, the reclassification of needs by elasticity - stand on their own.

The analytical gain is visible in the very apparatus Shaikh (2026) relies upon. His marginal rate of substitution and elasticity machinery are not discarded but located: smooth, everywhere-defined substitution of the Cobb-Douglas type ($\sigma \approx 1$) holds in the substitutable interior of the Halāl set, far from the destination, exactly as he uses it. As attainment rises toward Tayyib, however, the elasticity of substitution falls - $\sigma(\tau) \rightarrow 0$ - and the isoquant family deforms continuously from Cobb-Douglas toward Leontief, its kink riding the ray to v^* .

At the corner, the marginal rate of substitution between the economic and

normative coordinates is not merely steep but undefined: the geometric signature of non-substitutability, and the precise formalisation of Shaikh's (2026) own reading of convexity as a preference for balance, or Wasatiyyah. His framework, in short, already gestures toward the result; DPIE supplies the metric that makes it exact. Both accounts must remain modest about the underlying evidence, which establishes that values are widely shared rather than that the normative attractor is invariant - a question the framework leaves open for the cross-country work it now makes possible.

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Beyond Pork and Alcohol: What Halal Compliance Really Means in the Modern Era

Dr. Muhamad Nezir Khan
Shariah Advisor

For many consumers, halal simply means avoiding pork and alcohol. Yet in today's globalised world of complex supply chains, food technology, cosmetics, pharmaceuticals, and automated manufacturing, determining whether a product is genuinely halal has become far more challenging.

Modern halal assurance requires scrutiny across four key dimensions:

1. Ingredients: Looking Beyond the Label

Many ingredients appear under technical names or E-numbers rather than their original sources. Emulsifiers, stabilisers, enzymes, gelatine, glycerine, and flavour carriers may originate from plant, synthetic,

or animal sources. If animal-derived, their halal status depends not only on the species but also on compliance with Shari'ah slaughter requirements.

Examples include:

- Gelatine used in candies, capsules, and cosmetics.
- Cheese enzymes (rennet), which may come from halal, non-halal, or microbial sources.
- Alcohol used as a solvent in flavour and colour extraction processes.

2. Cross-Contamination and Processing Integrity

A product may contain halal ingredients yet become questionable during manufacturing. Modern halal audits therefore examine:

- ❖ Shared production lines used for non-halal products.
- ❖ Cleaning and sanitation procedures.
- ❖ Storage and transportation practices.
- ❖ Packaging materials, adhesives, and inks that may contain animal-derived substances.

These checkpoints are known as Halal Critical Control Points (HCCPs).

3. Digital Traceability and Technology

Technology is transforming halal verification. Consumers and auditors increasingly rely on:

- ❖ AI-powered halal scanning applications.
- ❖ Barcode and ingredient analysis tools.
- ❖ QR-code-based supply chain tracking.
- ❖ Block chain-enabled traceability systems that monitor products from source to shelf.

Digital verification is becoming an essential part of maintaining halal integrity throughout the supply chain.

4. Authentic Certification Matters

Not every halal logo carries the same level of credibility. A simple halal label or crescent symbol on packaging is no longer sufficient evidence of compliance.

The strongest assurance comes from recognised third-party halal certification bodies that conduct factory audits, verify ingredients, inspect production processes, and continuously monitor compliance.

In today's marketplace, halal is no longer only about what is inside a product. It is equally about how that product is sourced, processed, transported, documented, and verified.

The future of halal assurance lies at the intersection of Shari'ah compliance, supply chain transparency, technology, and trusted certification systems.

Key Highlights of the Islamic Finance Stability Report 2026

Muhammad Hammad

1.0 Growth and Resilience of the Islamic Financial Services Industry

1.1 Global Macro Financial Environment

Global financial conditions in 2025 remained accommodative despite weakening growth and elevated risks. Equity valuations and credit spreads are near record highs, while growth is slowing. Islamic financial institutions, mostly in emerging markets, face challenges from tight macro financial conditions, debt sustainability, and limited fiscal space.

1.2 Growth and Market Development Trends

The global Islamic financial services industry reached \$4.4 trillion in assets in 2025, with growth in banking, capital markets, and insurance sectors. Islamic banking remains dominant, but non-banking segments are growing faster. The industry is concentrated in GCC and EAP regions (75% of assets). Sukuk markets expanded to \$1.10 trillion, with strong growth in sustainability and climate-related issuances. Islamic insurance grew double-digit, driven by emerging markets and mandatory insurance requirements.

1.3 Banking

Islamic banks' asset quality shows signs of deterioration in some jurisdictions, with high non-performing financing ratios in Bangladesh and Kenya. Capital adequacy remains resilient, but hybrid financing models and concentrated exposures to commercial real estate and retail segments pose risks. Funding and liquidity risks are contained, but structural vulnerabilities exist, such as limited high-quality liquid

assets and reliance on commodity Murabaha transactions. Profit-sharing investment accounts (PSIAs) also pose risks, as banks may absorb displaced commercial risk, compressing retained earnings. Overall, Islamic banks face emerging pockets of vulnerability, requiring continued supervisory attention.

1.4 Insurance

Islamic insurance operators face weakening profitability due to margin compression, with rising claims costs outpacing contribution growth. Solvency ratios remain above minimum but have narrowed in several markets. Operators increased Sukuk allocations, supporting income but increasing exposure to repricing risks. Structural constraints, like long-term Sukuk scarcity, limit the sector's capacity to absorb large-scale losses, such as climate-related events exceeding \$100 billion in insured claims globally. The growing bancassurance linkage increases interconnectedness with Islamic banking, amplifying potential risks.

1.5 Capital Markets

The Sukuk market saw strong growth in 2025, with issuances reaching \$234.5 billion, driven by core markets like Malaysia and Saudi Arabia. However, structural constraints persist, including a narrow investor base, overreliance on sovereign issuers, and limited corporate participation. Domestic issuance contracted, while international issuance expanded, introducing currency mismatch risks. Islamic funds recovered in 2025 but remain small and geographically concentrated, constraining capital market development and financial stability.

1.6 Financial Stability Outlook

Global financial stability risks are elevated due to the Middle East conflict, energy price volatility, and rising inflation, which may tighten financial conditions and trigger market volatility. Islamic financial systems, concentrated in affected regions, face transmission risks through sovereign debt, capital markets, and corporate sectors. Islamic banks, though well-capitalized, may face asset quality and funding pressures. Supervisors should monitor risks closely and manage exposures.

1.7 Policy Recommendations

A coordinated policy response is needed to address vulnerabilities in the Islamic financial services industry, balancing market development with prudential safeguards. Key priorities include strengthening governance, risk management, and supervisory frameworks; developing liquidity management options for Islamic banks; improving insurance business models and capital frameworks; expanding Islamic reinsurance capacity; and enhancing Islamic capital markets.

Developing local currency Sukuk markets and diversifying the investor base can strengthen resilience. Strengthening crisis management frameworks and implementing robust regulatory standards are also crucial. Supervisors should monitor risks closely and take proactive actions to mitigate vulnerabilities.

2.0 Hybrid Risks and Financial Stability Implications

2.1 Market Trends and Drivers

Hybrid instruments dominate Islamic banking in many jurisdictions, shaping

financing and funding patterns. They are used for interbank funding and liquidity management, often due to structural constraints like limited high-quality liquid assets and shallow Islamic money markets. Commercial pressures and regulatory considerations also drive away their adoption, allowing banks to manage short-term liquidity and balance sheet volatility. Their prominence varies across jurisdictions, reflecting local market conditions and institutional practices.

2.2 Financial Stability Implications

The growing reliance on hybrid instruments in Islamic banking poses financial stability risks at both institutional and system-wide levels. These risks include increased balance sheet elasticity, leverage build-up, operational complexities, and liquidity pressures. System-wide, hybrid models may synchronize credit expansion, amplify feedback loops between credit growth and asset prices, and propagate liquidity stress through interbank markets. Structural constraints, such as limited high-quality liquid assets and shallow Islamic markets, may exacerbate these vulnerabilities.

2.3 Micro Prudential Implications

Hybrid banking models pose micro-prudential vulnerabilities, including amplified credit and leverage dynamics, reduced loss-absorption capacity, funding vulnerabilities, and non-financial risks. They can facilitate rapid credit growth, increase balance sheet elasticity, and concentrate on risk in similar asset classes. Hybrid instruments may also lead to reputational, legal, and Sharī'ah-compliance risks, undermining confidence in Islamic banking. Regulatory arbitrage in dual banking systems can further obscure risk profiles and weaken prudential measures. These factors may

increase the likelihood of credit booms and amplify financial stress during downturns.

2.4 Macro Prudential Implications

The widespread use of hybrid banking models can amplify system-level risks, including correlated credit and leverage cycles, and liquidity fragility. Hybrid models can fuel rapid credit growth, increasing system-wide leverage, and exacerbate credit deterioration during downturns. Interconnectedness through hybrid instruments can propagate stress across institutions, while shared market infrastructure creates operational vulnerabilities. This interconnectedness may also transmit external shocks, amplifying financial instability in Islamic banking systems.

2.5 Policy Recommendations

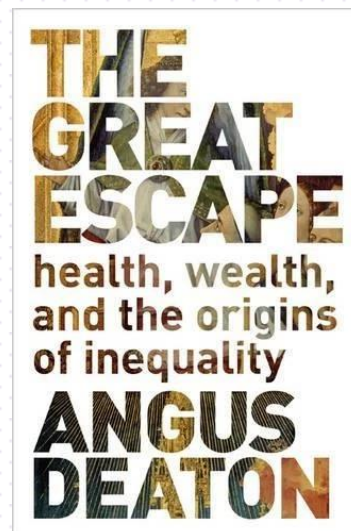
Hybrid banking models require adapted supervisory and regulatory frameworks to address unique risks. Key priorities include ensuring capital frameworks capture hybrid instrument risks, monitoring balance sheet growth, and addressing liquidity vulnerabilities. Supervisors should track hybrid exposure concentrations, conduct relevant stress tests, and integrate macroprudential buffers. Strengthening infrastructure, like Sukuk markets and liquidity instruments, is also crucial. Aligning business models with prudential frameworks and developing Islamic finance infrastructure can support resilience and sustainable growth.

Book Review

Title: The Great Escape

Author: Angus Deaton

Publisher: Princeton University Press, 2013



Angus Deaton is the 2015 Nobel Laureate in economics. In his book, *The Great Escape*, he tells an optimistic recent history of how we have overcome extreme poverty, improved life expectancy, and achieved

economic progress. Admittedly, life expectancy has increased substantially since the onset of the 20th century. It is not just the rich who expect a longer lifespan due to technological developments and their mass availability, but poor countries

have also witnessed notable improvements.

Extreme poverty has also declined, especially in Asia due to economic growth in East Asia. According to the World Bank, an estimated 808 million people globally are surviving on less than \$3.00 a day, representing approximately 9.9 per cent of the world's population. Optimistically, the Nobel Laureate exclaims that life is better now than at almost any time in history.

In *The Great Escape: Health, Wealth, and the Origins of Inequality*, Nobel Laureate Angus Deaton provides a sweeping historical analysis of humanity's remarkable progress in overcoming poverty and deprivation. Prof. Deaton frames this journey as a massive, ongoing escape from the historical traps of high infant mortality, frequent famines, and pervasive destitution.

Driven primarily by the wealth generated during the Industrial Revolution and subsequent breakthroughs in public health, global life expectancy has soared and extreme poverty has plummeted over the past two centuries. This trajectory represents an unprecedented triumph of human ingenuity, demonstrating how economic growth and scientific innovation can fundamentally transform global living standards.

Prof. Deaton emphasizes that this escape is fundamentally uneven, as historical progress inevitably generates profound inequalities between those who break free and those left behind. While post-industrial societies flourish, the bottom billion remain trapped in abject poverty, largely because modern health and economic innovations are distributed through a commercialized global market.

Crucially, Prof. Deaton critiques traditional foreign aid, arguing that large external capital inflows often undermine local governance by removing a state's incentive to answer to its own taxpayers. Instead of top-down aid, he advocates for structural changes—such as dismantling trade restrictions, permitting temporary migration, and funding research for neglected tropical diseases—to empower developing nations to forge their own institutional paths toward prosperity.

However, discussing these issues without historical and institutional context can lead to a lot of problems in understanding. Prof. Deaton also questions the widespread presumption that rising inequality is always a bad thing. In developing countries, he writes, “inequality is often a consequence of progress.” To the question, “What should we do to alleviate poverty?” Prof. Deaton challenges this question, asking, “Why is it we who must do something? Who put us in charge?” Instead, developed countries should leave developing countries to develop on their own, in their own time, just as the West itself did. He writes, “I have come to believe that most external aid is doing more harm than good.” He writes: “If it is undermining countries' chance to grow—as I believe it is—there is no argument for continuing it on the grounds that ‘we must do something.’ The something that we should do is stop.”

Nonetheless, Prof. Deaton says that the Great Escape “is far from complete.” Innovations reach only those who can afford to pay for them and that has led to great inequality. In fact, inequality has sharply increased since the 1980s in the West, despite slower growth and despite no evidence of an increase in productivity, at least in the empirical literature. Prof. Deaton correctly notes that the sharp rise in inequality cannot be ignored. If left

unchecked, it will undermine economic growth as well as democracy.

One must balance the optimism with some ground realities. The bottom billion, even in the 21st century, suffer from abject poverty and have a low life expectancy. According to the FAO, approximately 800 million people still suffer from undernourishment, and 1 in 12 people goes to bed hungry every day. A quarter of the whole population in Africa suffers from hunger. Also, nearly 50 percent of people living in extreme poverty are 18 years old or younger. This goes to show that a significant portion of our global population does not have a fair start to achieve socio-economic mobility.

On the question of whether the more fortunate, enjoying longer and more affluent lives, should give more money to help them, Prof. Deaton says, 'No'. The author explains that the main barrier to progress in poor countries is not a lack of resources but bad governments. When these governments receive aid, either directly or indirectly, it brings complacency and dependency, and it undermines their incentives to raise money from their own taxpayers. The author opines that aid mostly goes to countries for political and strategic geopolitical motives. Samoa, for instance, received \$802 per capita in 2010, while the highest amount of aid per capita ever received by India was \$3.10. When aid comes as 'tied aid', the recipient country is forced to use the aid funds to buy goods from the donor country, even when this is a commercially expensive proposition.

However, the author overlooks the fact that poorest countries lack the basic resources to kick-start growth and invest in health and education. Mere scientific solutions to health and education problems

solve the supply-side problem, but not the demand-side problem, since these essential services are produced and marketed in the global market economy on a commercial basis. He also ignores the huge transfer of funds from highly indebted poor countries to their rich lenders, mostly in the West. He also treats the issue of 'tied aid' quite superficially. If aid comes with ties that impose restrictions on the recipient country, then it undermines its effects. Thus, the problem is not so much with aid per se, but with attaching inappropriate trade ties, starving poor indebted countries by debt servicing, asking for the abrupt commercialization of basic necessities, and imposing free trade reforms.

Many proponents of aid, including Prof. Jeffrey Sachs, argue that people in developing countries are too poor to save and invest in capital that could improve their income prospects. Furthermore, if legitimately elected but weakly funded democracies are not supported in their economic programs, then this could undermine people's confidence in democracy.

Prof. Deaton considers alternative policies that might be more effective, including removing unhelpful trade restrictions, enabling temporary migration, and providing incentives for drug companies to invest in cures for illnesses such as malaria. Nonetheless, with the weak economic recovery in the West, Brexit, and the contagion effects of the War on Terror, economies may become more restrictive, the cross-border flow of human services may face more friction, and commercial corporations moved by instincts of greed may find no incentive or reason to come to the aid of poor people.

The rapid commercialization of drinking water and other basic necessities is a case in point. More people have access to mobile phones than to basic sanitation facilities in some regions. According to The Hunger Project, 2.4 billion people do not have adequate sanitation, and each day, nearly 1,000 children die due to preventable water- and sanitation-related diarrhoeal diseases. It is partly because sanitation is not as good a business as cellular services.

Thus, if public welfare support programs are not supported, it can lead to more gaps in basic service delivery. Thus, on the whole, while we may take courage from the snapshot view, it is not reason enough to turn a blind eye to the significant challenges that we face today.

Research Paper in Focus

Paper Title: Assessing Universal Basic Income: An Islamic Historical and Maqāṣidī Perspective

Author: Prof. Abdulazeem Abozaid and Saqib Hafiz Khateeb

Publisher: Journal of Islamic Economics, KAAU. Vol 39(1), 21-31.

This paper enters the global economic discourse at a time when artificial intelligence, automation, and post-pandemic disruptions are forcing a serious re-evaluation of social safety nets.

While conventional economic literature typically traces the conceptual lineage of a Universal Basic Income (UBI) back to Western political philosophy—specifically Thomas More’s Utopia in 1516 or Milton Friedman’s modern Negative Income Tax—this paper uncovers a deep, institutionalized parallel in early Islamic governance.

The authors identify a significant blind spot in modern Islamic economics, noting that contemporary Muslim jurists have historically ignored the concept of a universal, unconditional cash transfer. This silence stems from a long-standing academic preoccupation with targeted, faith-based wealth redistribution mechanisms like Zakāh and Sadaqah, which are structurally

designed for selective poverty alleviation rather than serving as a baseline macroeconomic floor for every citizen regardless of financial status. By shifting the analytical lens toward the broader state obligation of ensuring collective welfare, the authors construct a fresh, normative framework that integrates UBI within an Islamic moral economy.

A major contribution of this research is its demonstration that a functional, state-guaranteed basic income was actively operational during the 7th-century early Islamic Caliphate. During the eras of Prophet Muhammad (pbuh) and the first Caliph, Abu Bakr (rta), surplus state revenues were distributed equitably and immediately among the entire populace. This practice was later formalized by the second Caliph, Umar bin Al-Khattab (rta), who established the Bayt al-Māl (Public Treasury) and organized a highly sophisticated social

security system known as the *Dīwān al-'Atā* (Grants Register).

This historical register was remarkably inclusive and structurally unconditional; it allocated annual financial grants to all individuals under the state's jurisdiction, encompassing the elderly, the young, newborns, free citizens, slaves, and non-Muslim (*kitabīs*) residents alike. However, as the state expanded and its fiscal responsibilities grew more complex, the Caliphate introduced specific eligibility criteria anchored to military service, conversion timelines, and geography.

The authors categorize this systemic shift under *Al-Siyāsah Al-Shar'iyyah* (welfare-oriented public policy), illustrating that while fulfilling primary human needs is a permanent Islamic mandate, the absolute unconditionality of public fund distribution was historically treated as an administrative courtesy that adapted to prevailing socioeconomic realities.

From an objective-oriented legal perspective, the concept of a UBI aligns smoothly with the *Maqāṣid al-Sharī'ah* (higher objectives of Islamic law) by directly maximizing public interest (*maslahah*) and mitigating systemic societal harm (*mafsadah*). Classical Islamic jurisprudence divides human welfare into three tiers—necessities (*darūriyyāt*), complementary needs (*hājjiyyāt*), and embellishments (*tahsiniyyāt*)—and mandates that the state secure core necessities like food, clothing, and shelter to preserve the fundamental values of life and property. From classical academic literature, the authors use an example from the jurist *Al-Ghazali*, who quantified basic human needs by stating that five dinars of early Islamic currency would successfully cover the biological necessities of a single individual, but would

be entirely inadequate to sustain a full family household.

Furthermore, because Islamic legal thought dictates that natural resources belong collectively to society and cannot be strictly monopolized, a UBI conceptually functions as a legitimate public dividend derived from shared earthly wealth. To safely implement such a program within a *Shari'ah* framework, however, the authors erect several strict operational parameters and fiscal boundaries. The most critical ideological line drawn by the authors is the absolute prohibition against using *Zakāh* funds to finance a UBI, because *Zakāh* is divinely restricted to specific vulnerable demographic channels, whereas UBI is blind to an individual's net worth.

Additionally, a valid Islamic UBI must never compromise primary sovereign expenditures such as public administration or defense, must not be funded by increasing tax burdens on productive labourers and farmers, and must remain legally secondary to the liquidation of national debts.

Finally, the recurring pay-out must be mathematically optimized to cover only essential survival needs, ensuring it preserves human dignity without inadvertently discouraging active labour participation and productive economic output.

The paper successfully dismantles Eurocentric monopolies on the history of social welfare and provides vital legal precision by separating restricted religious charities from general state asset distribution. It also brilliantly frames the private sector and philanthropic endowments (*Waqf*) as collaborative partners bound by collective social duty (*fard kifāyah*) to reinforce the fiscal sustainability of state welfare programs.

Nonetheless, the paper operates mostly within a normative vacuum without providing concrete economic models or logistical roadmaps for how a modern, non-resource-rich Muslim nation can sustainably fund an expansive UBI without triggering aggressive taxation or inflation.

Furthermore, there is an unaddressed historical paradox in the core argument: the authors champion modern UBI based on the unconditionality of the early Caliphate, yet their own historical data demonstrates that the early Islamic state itself was forced to abandon true unconditionality as it scaled. This historical pivot strongly hints that absolute unconditionality may be structurally unstable over the long term, a reality that contemporary policymakers must carefully balance against the noble objective of universal equity.

A specific policy example from Umar's (rta) reign includes his strategic decision to not divide the newly conquered agricultural lands of Iraq and the Levant among his military warriors; instead, he left the properties in the hands of their original owners and levied a Kharāj (land tax) to secure continuous revenues for the public treasury.

The authors assert that UBI will not discourage employment because it only covers basic survival needs. They paint an idealistic picture where a guaranteed income floor automatically unlocks human creativity and passion-driven productivity, completely minimizing the risk of labour market stagnation or withdrawal, especially in low-income, essential service sectors.

Finally, the authors construct a wall of strict religious and economic prohibitions: they argue that a state cannot fund UBI through Zakāh funds, cannot raise taxes on workers or farmers, cannot prioritize UBI over national debt liquidation, and must maintain high surplus reserves. Having blocked direct income taxes, religious charity funds, and deficit spending, while simultaneously acknowledging that alternative avenues like Waqf endowments are heavily mismanaged, the authors leave very little viable revenue streams for non-oil-producing states. The paper demands a massive, permanent state expenditure while legally outlawing some practical methods to fund it.

Reflections on the Problem of Evil

Sacrifice for Allah has a very long history in Islam. Habil and Qabil offered first sacrifice for Allah in known history. Habil's sacrifice was accepted by Allah while Qabil's sacrifice was not accepted. Habil was a pious man whose sacrifice was accepted because of his piety. Qabil's sacrifice was not accepted because he offered the worst grain as sacrifice and was not sincere in offering the sacrifice.

In Chapter Hajj (Verse 37) while describing the essence of 'Qurbani', Qur'an says:

“It is neither their meat nor their blood that reaches Allah, but it is piety from you that reaches Him. Thus, We have made them subject to you that you may magnify Allah for His Guidance to you. And give glad tidings (O Muhammad pbuh) to the Muhsinun (doers of good).”

This guides us to the fact that for any sacrifice, what matters is the sincerity and the sense of purpose in offering sacrifice. What is required is the feeling inside that even if one is asked to offer oneself or one's wealth in Allah's way for sacrifice, one would be ready for it. Qurbani or sacrifice is a symbolic oath of this resolve.

Muslims offer sacrifice of animals annually on the occasion of Eid-ul-Adha inspired from the sacrifice of Ibrahim (pbuh).

Allah had granted Ibrahim (pbuh) a son at a very old age. When this beloved son, Ismail (pbuh) was a young boy, Ibrahim (pbuh) saw in a dream that he was sacrificing his son. Since the dreams of the Prophets are true, Ibrahim (pbuh) deduced that this was a command of Allah. Hence, he resolved to fulfill this command. Ibrahim (pbuh) discussed with his son Ismail (pbuh) about the dream. Ismail (pbuh) assured that he would be steadfast in enabling his father to fulfill Allah's command.

When Ibrahim (pbuh) was about to act upon the dream, the knife could not work. Eventually, he heard a voice saying: "You have fulfilled the dream (vision)!" Verily!

Thus, We reward the Muhsinun" (Noted in Qur'an in Surah Sa'afat: Verse 105). The dream was meant to devote the son for the construction and administration of the Holy Place and to propagate message of Islam.

In commemoration of this noble and the greatest spirit, Allah ordered the followers of the Prophet Muhammad (pbuh) to sacrifice an animal on the occasion of Eid-ul Adha. For this reason, Prophet Muhammad (pbuh) described it as "The Sunnah of your father Ibrahim (pbuh)" (Source: Ibn Majah & Mishkaat).

Qurbani or sacrifice is synonymous with surrender. It symbolizes that the person performing Qurbani is willing to sacrifice everything dear to him for Allah. It symbolizes and strengthens the promise with Allah that the person performing Qurbani would be willing to obey all the commandments of Allah and will sacrifice his interests and belongings that come in the way of fulfilling Allah's orders.

Thus, Qurbani is a great 'Ibadah' in Islam and is a source of reinvigorating the pact with Allah if done with proper understanding of its philosophy, history and purpose.

Market News

Islamic Banking & Finance

- ❖ Islamic Finance in Kyrgyzstan grew by 12% (The Rakyat Post, May 30).
- ❖ Wealth creation is important under Islamic system: Abdur Raqeeb (Awaz the Voice, May 30).
- ❖ DFSA opens consultation on Islamic Finance rules changes (Pinsent Masons, May 13).
- ❖ Russia to expand Islamic Banking Services (Russia's Pivot to Asia, May 19).
- ❖ Islamic AI framework in Malaysia set to reshape fintech, banks and data centres (Dagang News, May 26).

Sukuk

- ❖ IsDB raises US\$ 1 billion from capital markets through first Sukuk issuance of 2026 (Islamic Development Bank, May 07).
- ❖ UBL arranges Pakistan's largest short-term Sukuk for Engro Fertilizers (The Nation Pakistan, May 30).
- ❖ Bond and Sukuk issuances on MSX exceed OMR 589 million (Times of Oman, May 30).
- ❖ Tenaga Nasional raises RM 4 Billion from inaugural sustainability Sukuk issuance (The Edge Malaysia, May 30).
- ❖ Dar Al Arkan wraps up \$600 million Sukuk issuance (Aurqam, May 20).
- ❖ Tadawul's Sukuk/Bonds Market sees 5 negotiated deals worth SAR 51.1 million (Aurqam, May 11).
- ❖ Malaysia urged to cement leadership as global Sukuk tops US\$ 1 trillion [WATCH] (NST Online, May 09).
- ❖ iOud issues SAR 50 Million domestic Sukuk (Aurqam, May 06).
- ❖ NDMC closes May issuance of Sukuk program at SAR 2.42 billion (Aurqam, May 12).
- ❖ Uganda plans debut sovereign Sukuk to help fund railway project (CNBC Africa, May 12).

Takaful

- ❖ FRA introduces new regulatory framework to boost Takaful insurance market (Daily News Egypt, May 10).
- ❖ SECP launches Pakistan's first digital Takaful Operator (Digital Pakistan, May 18).
- ❖ Khushal Mustaqbil Takaful launched to empower women financially (Digital Pakistan, May 05).
- ❖ CIMB launches salary account with complimentary Takaful coverage of up to RM 200,000 (The Star, May 07).
- ❖ Takaful insurance expands across East Africa amid awareness gaps (The Citizen, May 19).

Islamic Social Finance

- ❖ Bintulu Port Authority, Sains contribute RM 3 Million in business Zakat to Baitulmal Sarawak (Borneo Post, May 30).
- ❖ MAIWP distributes over RM 447 million in Zakat funds (Bernama, May 13).
- ❖ SAKURA: UDA channels RM 240,000 in Zakat Wakalah to 1,200 students (Bernama, May 19).

- ❖ Israel seizes control of historic Nabi Samuel mosque from Islamic Waqf (Middle East Eye, May 26).
- ❖ Over 31,000 Waqf properties' registrations on Umeed portal cancelled in UP (India Today, May 24).
- ❖ Chhattisgarh Waqf Board urges Muslims to avoid sacrifice in open, public places India News (Hindustan Times, May 28).
- ❖ New twist in Munambam as Waqf Board registers disputed 404 acres (The News India Express, May 25).
- ❖ Bahrain establishes unified council to oversee Sunni and Jaafari endowments (Gulf News, May 27).



Economic and Financial Indicators Islamic Banking Statistics 2026

Country	CAR	Gross NPF	ROA	ROE	Net Profit Margin	Cost to Income
Bahrain	19.5	0.8	0.8	10.2	37.3	54.1
Bangladesh	21.2	1.2	0.5	11.1	34.4	54.8
Brunei	19.1	1.8	2.0	15.3	69.7	30.3
Egypt	18.62	2.98	3.50	40.58	63.70	18.56
Indonesia	25.51	2.14	2.65	19.25	36.34	63.66
Jordan	19.4	2.0	1.5	16.9	51.4	48.6
Kuwait	17.7	1.9	1.6	11.9	56.3	41.3
Malaysia	17.7	1.5	1.1	14.3	38.9	41.2
Morocco	20.0	0.3	-1.5	-17.3	-63.3	159.6
Nigeria	10.26	5.11	2.54	88.57	32.11	62.8
Oman	15.6	3.2	1.2	8.8	36.4	56.8
Pakistan	24.9	4.6	5.3	78.4	62.9	36.1
Palestine	15.2	6.3	-0.1	-0.7	-1.4	68.4
Qatar	20.7	3.8	1.5	13.6	26.2	8.8
Saudi Arabia	19.6	0.9	2.39	18.0	62.6	37.4
Sudan	8.60	4.68	3.01	34.1	37.5	50.0
Turkey	18.5	9.8	3.4	42.9	41.6	42.6
UAE	18.3	4.9	2.4	18.7	39.7	56.8

Source: IFSB Data

Table 1.1: Islamic Financial Services Industry Size by Sector and Region (2025)

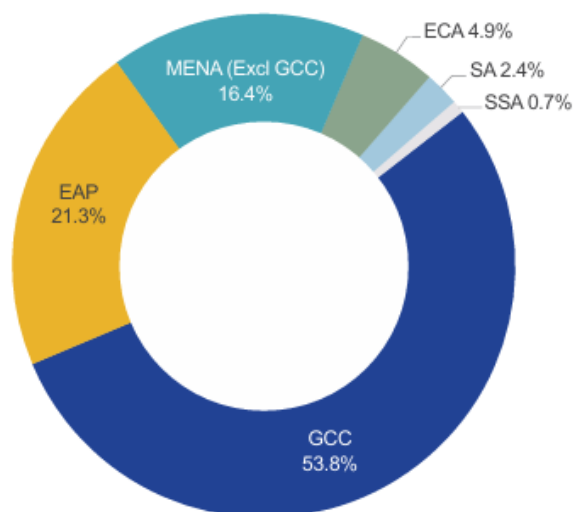
Region	Islamic Banking Assets	Şukūk Outstanding	Islamic Funds Assets	Islamic Insurance Assets	Total (USD Billions)
East Asia and the Pacific (EAP)	375.85	491.40	46.54	22.49	936.28
Europe and Central Asia (ECA)	104.35	37.71	71.62	3.32	217.00
Gulf Cooperation Council (GCC)	1,759.65	543.29	34.21	30.22	2,367.37
Middle East and North Africa (MENA exc. GCC)	702.00	6.80	0.11	13.64	722.54
South Asia (SA)	94.74	3.44	6.19	1.44	105.82
Sub-Saharan Africa (SSA)	14.36	1.19	15.20	0.04	30.79
Others	-	16.99	6.60	-	23.60
	3,050.94	1,100.83	180.47	71.14	4,403.39

Figure 1.2: Regional and Sectoral Distribution of Global IFSI Assets

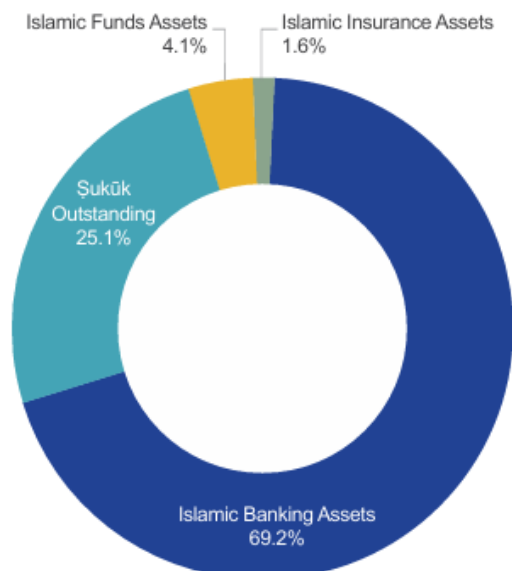
Mature Islamic finance markets in GCC and EAP account for 75% of the global IFSI asset base

Islamic banking continues to dominate, representing nearly 70% of global Islamic financial assets.

1. Regional Distribution of Global IFSI Assets (Percent)



2. Sectoral Distribution of Global IFSI Assets (Percent)



Sectoral composition varies and most continue to be banking dominant. While capital markets have developed to varying extents in different regions, Islamic insurance represent a consistently marginal share across all markets.

3. Regional Sectoral Assets (Percent)

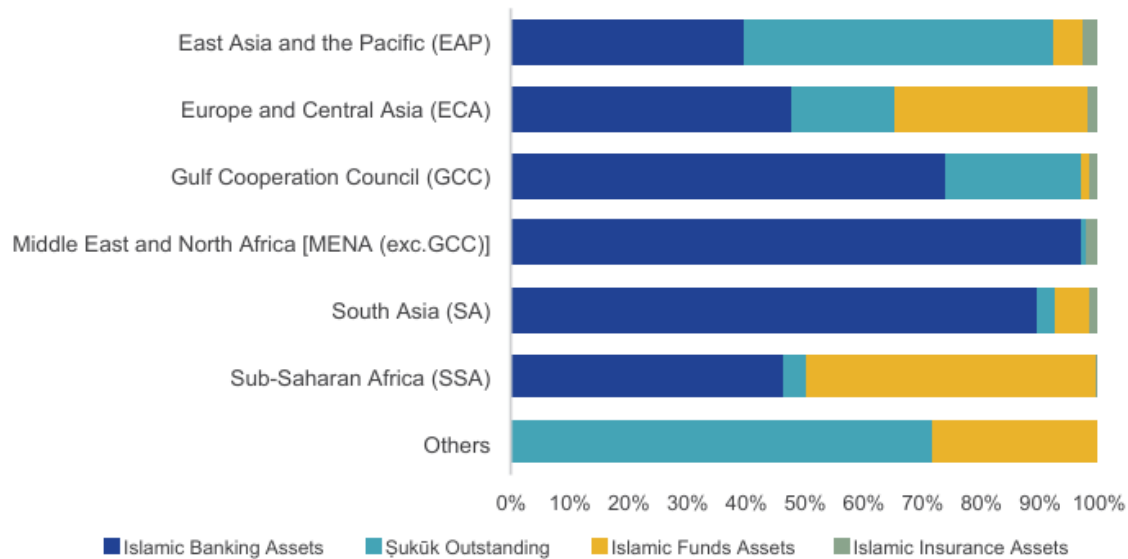
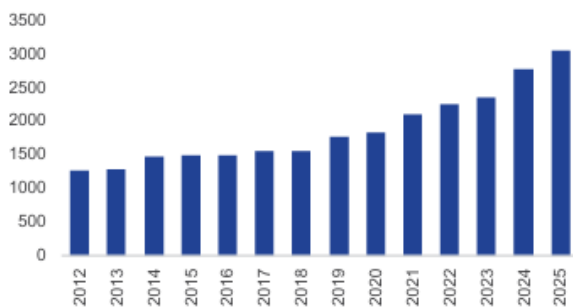


Figure 1.3: Islamic Banking Developments

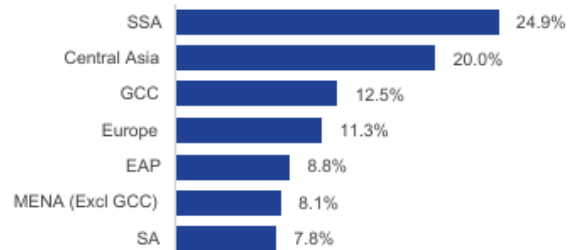
Islamic banking assets have grown steadily across all regions, with a global CAGR(5yr) of 10.6%

Frontier and emerging markets continue to record high growth rates outpacing established markets

1. Islamic Banking Assets (2012-2025) (Billions USD)



2. CAGR of Regional Islamic Banking Assets (2020-2025) (Percent)

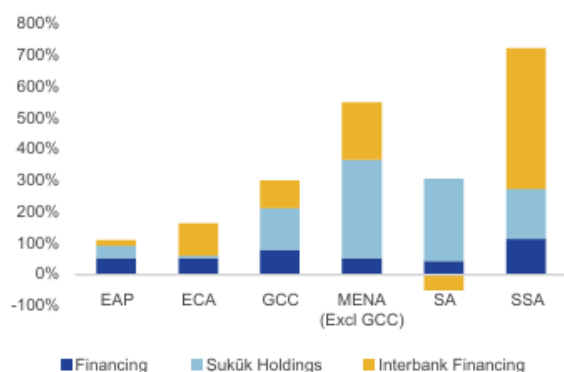


On the asset side, şukūk holdings and interbank financing expanded faster than financing portfolios in some regions

On the liabilities side, interbank funding and şukūk issuances are increasing in many jurisdictions

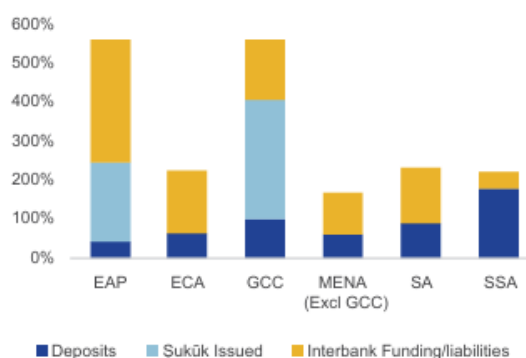
3. Regional Asset Composition Changes

Change in percent (from 2020 to 2025)



4. Regional Funding Composition Changes

Change in percent (from 2020 to 2025)

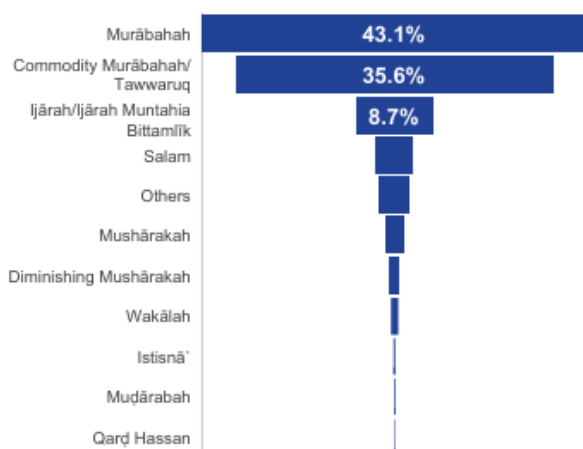


Murābahah and commodity murābahah account for significant portion of financing contracts globally

Debt-based remunerative deposits constitute the dominant share of Islamic banks' funding composition

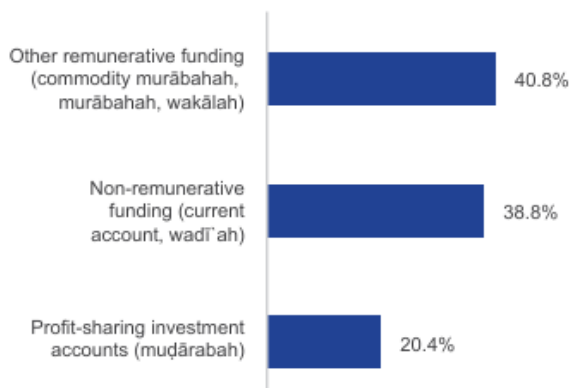
5. Global Financing by Contract (2025Q3)

(Percent)



6. Global Composition of Deposits (2025Q3)

(Percent)



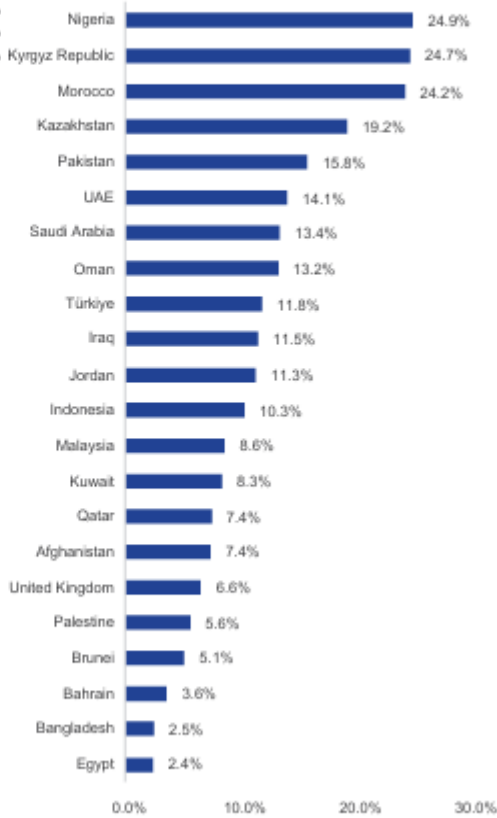
16 Domestic Systemic Important (DSI) markets retained 93% of global Islamic banking assets

Double-digit growth rates across many jurisdictions, including frontier and established markets

7. Islamic Banking Share in Total Banking Assets by Jurisdiction (2025Q3)
(Percent)



8. Islamic Banking Growth Rates (5-yr CAGR) Across Jurisdictions
(Percent)

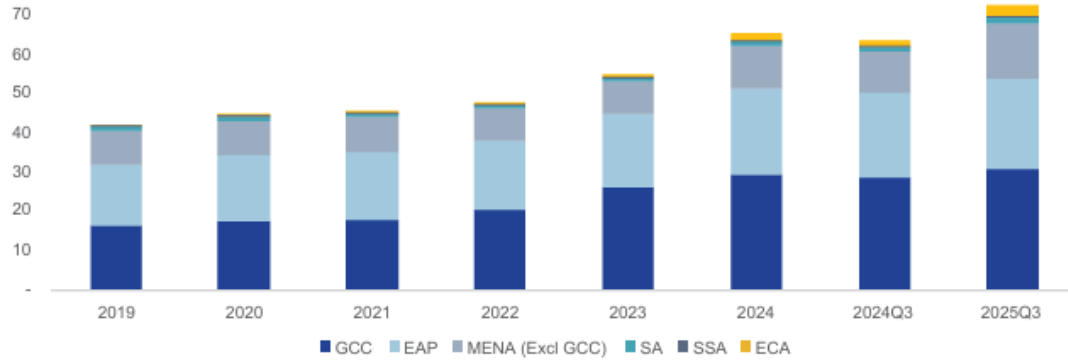


Source: IFSB PSIFIs

Figure 1.4: Islamic Insurance Growth Trends

Global Islamic insurance assets have grown steadily, surpassing USD 70 billion in 2025Q3

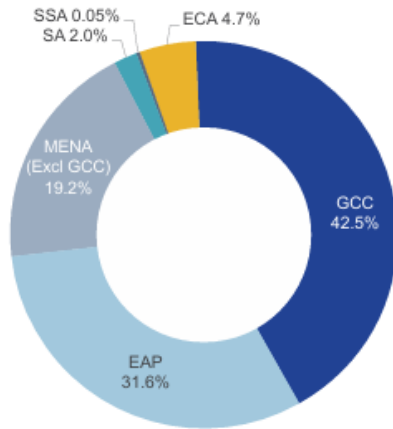
1. Islamic Insurance Total Assets (USD Billions)



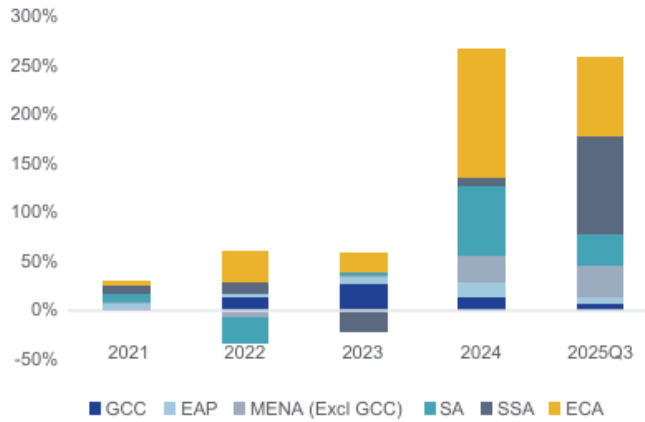
Established markets account for three-quarters of global Islamic insurance assets

Frontier markets are growing at a faster pace than mature markets

2. Regional Share of Islamic Insurance Assets (2025Q3) (Percent)



3. Total Assets Change in Percent (2021 – 2025Q3) (Percent)

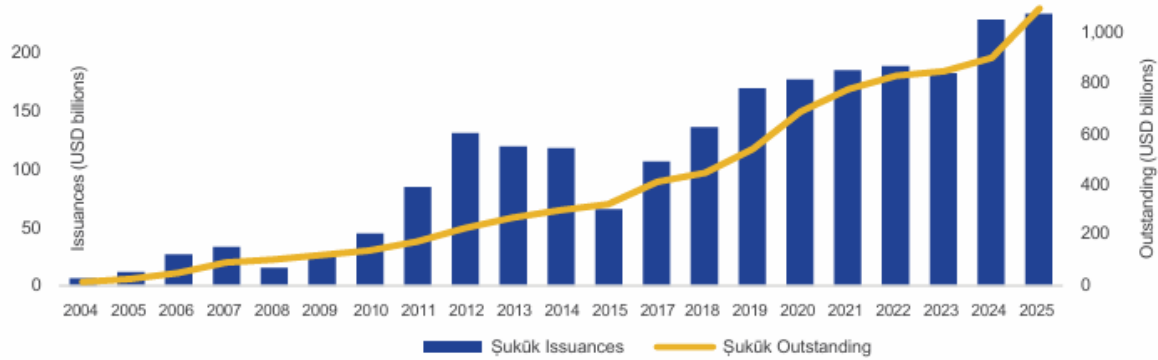


Source: IFSB PSIFIs, data provided by regulators and public institutional data

Figure 1.5: Islamic Capital Market Size and Issuances

Outstanding şukūk crossed the USD 1 trillion threshold in 2025: a structural milestone for the global Islamic capital market

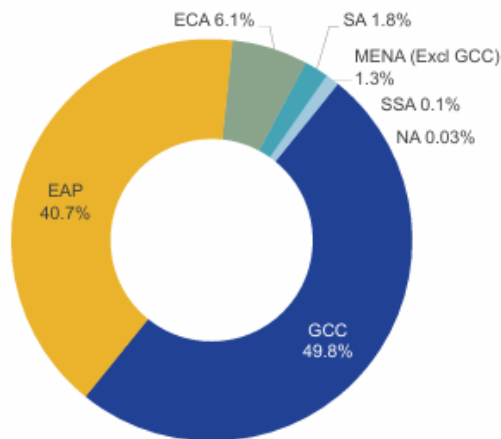
1. Global Şukūk Issuances and Outstanding (2004–2025) (USD Billions)



Activity remains highly concentrated in core markets (GCC and EAP) which accounted for 91% of issuances

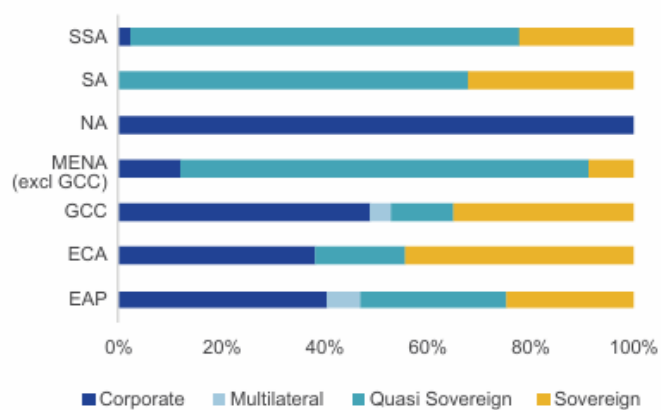
Composition varied by region, with sovereign and other government related issuances being dominant in many jurisdictions

2. Şukūk Issuances by Region (2025)



AT1 capital şukūk issuance more than doubled in 2025, driven predominantly by GCC-based Islamic banks

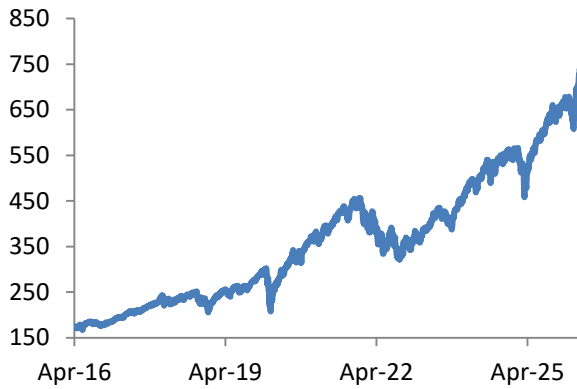
3. Şukūk issuances in 2025 per region and issuer type



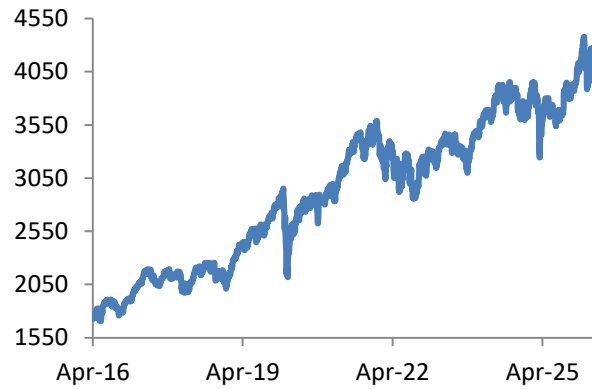
Sustainability-related issuances increased significantly, though it remains a modest share of the broader market

SUKUK Investments (Source: S& P Dow Jones)

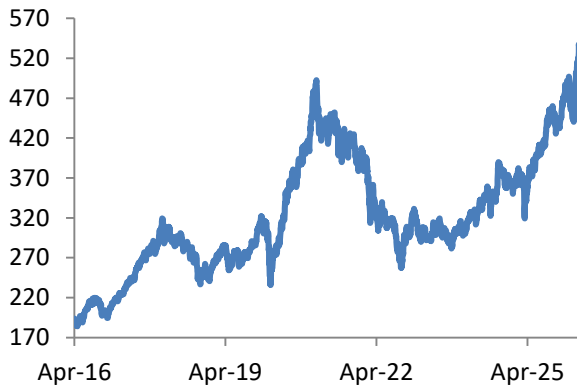
S&P Developed LargeMidCap Shariah



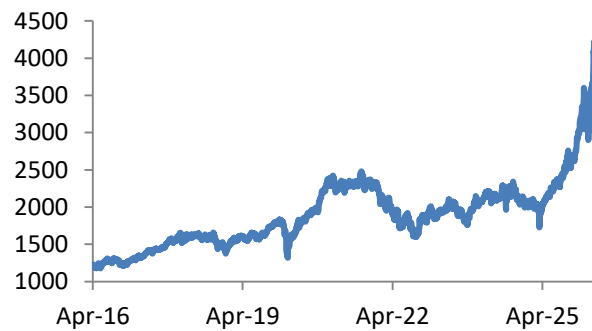
S&P Europe 350 ESG Shariah



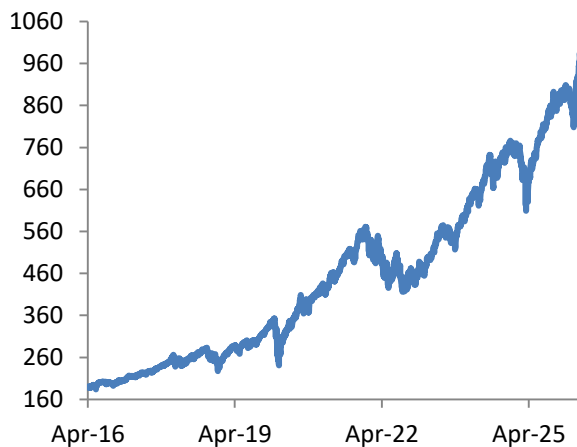
S&P Emerging LargeMidCap Shariah



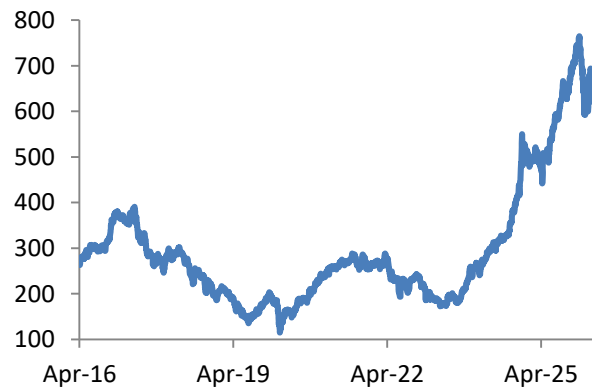
S&P Asia Pacific LargeMidCap ESG Shariah



S&P 500 ESG Shariah



S&P Pakistan BMI Shariah



Global Economic Perspectives

COUNTRY	GDP Growth (%)					
	2025	2026	2027	2028	2029	2030
Albania	3.4	3.6	3.5	3.5	3.5	3.5
Algeria	3.4	2.9	2.7	2.7	2.5	2.5
Azerbaijan	3.0	2.5	2.5	2.5	2.5	2.5
Bahrain	2.9	3.3	3.3	3.1	3.2	3.2
Bangladesh	3.8	4.9	5.7	5.8	6.7	6.5
Benin	7.0	6.7	6.6	6.5	6.0	6.0
Bosnia and Herzegovina	2.4	2.7	3.0	3.0	3.0	3.0
Brunei Darussalam	1.8	2.4	2.6	2.9	3.1	2.9
Burkina Faso	4.0	4.8	4.7	4.7	4.7	4.7
Chad	3.3	3.6	3.4	3.7	4.0	4.1
Comoros	3.8	4.0	4.3	4.3	3.8	3.8
Djibouti	6.0	6.0	6.0	5.5	5.5	5.5
Egypt	4.3	4.7	5.4	4.9	5.1	5.3
Gambia	6.0	5.1	5.0	5.0	5.0	5.0
Guinea	7.2	10.5	10.7	10.8	11.3	7.8
Guinea-Bissau	5.1	5.0	5.0	4.5	4.5	4.2
Indonesia	4.9	5.1	5.1	5.0	5.1	5.1
Iran	0.6	1.1	1.6	2.0	2.0	2.0
Iraq	0.5	3.6	3.6	3.9	4.1	4.1
Jordan	2.7	2.9	3.0	3.0	3.0	3.0
Kazakhstan	5.9	4.4	4.2	3.0	3.4	3.4
Kuwait	2.6	3.9	2.3	2.3	2.2	2.3
Kyrgyz Republic	8.0	5.3	5.8	5.3	5.3	5.3
Libya	15.6	4.2	2.3	1.8	1.9	2.2
Malaysia	4.5	4.3	4.3	4.0	4.0	4.0
Maldives	4.8	4.5	4.1	4.0	4.0	4.0
Mauritania	4.0	4.3	4.4	5.6	4.6	3.0
Morocco	4.4	4.2	4.0	4.0	3.9	3.8
Niger	6.6	6.7	6.5	6.0	6.0	6.0
Nigeria	3.9	4.4	4.1	4.0	4.0	4.0
Oman	2.9	4.0	3.7	4.1	3.8	3.6
Pakistan	2.7	3.2	4.1	4.5	4.5	4.5
Qatar	2.9	6.1	7.8	3.5	1.6	3.4
Saudi Arabia	4.0	4.5	3.6	3.3	3.3	3.3
Senegal	6.0	3.3	3.3	3.8	4.1	4.6
Sudan	3.2	9.5	14.9	9.3	6.5	5.5
Tajikistan	7.5	5.5	4.8	4.5	4.5	4.5
Tunisia	2.5	2.1	1.6	1.4	1.4	1.4
Türkiye	3.5	4.2	4.1	3.8	3.8	3.8
Turkmenistan	2.3	2.3	2.3	2.3	2.3	2.3
United Arab Emirates	4.8	5.0	4.7	4.4	4.3	3.9
Uzbekistan	6.8	6.0	5.7	5.7	5.7	5.7
Yemen	-1.5	N.A	6.0	5.5	5.0	5.0

Source: World Bank Global Economic Perspectives, January 2026

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Journal of Organizational Change Management

<https://www.emeraldgrouppublishing.com/calls-for-papers/reimagining-sustainable-future-and-managing-change>

The 12th International Islamic Monetary Economics and Finance Conference
October 7, 2026, Jakarta - Indonesia
<https://submit.confbay.com/conf/iimefc2026>

The 12th Islamic Banking, Accounting and Finance International Conference 2026 (iBAF2026)
9 - 10 September 2026, Putrajaya (Hybrid)
<https://submit.confbay.com/conf/ibaf2026>

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