



Financial Resilience Under Dual Economic Regimes: A Comparative Panel Analysis of Islamic Banking Stability in Southeast Asia and Gulf Cooperation Council Countries

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Article Info	Abstract
Keywords: Islamic banking stability; Z-score; panel data regression; macroeconomic determinants; bank-specific factors; Southeast Asia; Gulf Cooperation Council. Article history: Received: 2023-09-02 Revised: 2023-12-23 Accepted: 2024-02-17	The growing significance of Islamic banking in global financial markets has stimulated renewed academic interest in understanding the determinants of its stability, particularly across regions characterised by distinct economic structures and regulatory environments. This study investigates the bank-specific and macroeconomic determinants of financial stability among 38 Islamic banks operating in four countries, namely Indonesia, Malaysia, the United Arab Emirates, and Qatar, utilising annual panel data spanning the period from 2013 to 2020. A quantitative panel regression framework is employed, incorporating random effects estimation via Generalised Least Squares as the primary model, complemented by fixed effects and Ordinary Least Squares approaches for robustness verification. The dependent variable, banking stability, is operationalised through the natural logarithm of the Z-score, while the independent variables encompass Return on Assets (ROA), total assets, Non-Performing Financing (NPF), Gross Domestic Product (GDP) growth, and inflation. The findings demonstrate considerable regional heterogeneity in the determinants of Islamic banking stability. In Indonesia, bank size, NPF, and GDP growth emerge as statistically significant predictors. In Malaysia, ROA, bank size, and GDP growth are significant. In the United Arab Emirates, only ROA exhibits a significant positive relationship with stability, whereas in Qatar, bank size is the sole significant determinant. Inflation does not produce statistically significant effects in any of the four countries examined. The evidence suggests that Islamic banks should prioritise effective asset and liability management, maintain optimal asset quality, and leverage prior-period stability indicators as forward-looking signals. Region-specific macroprudential supervision and the promotion of equity-based financing instruments are recommended to strengthen the resilience of Islamic banking systems across both regions.

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1. INTRODUCTION

The stability of banking systems constitutes a foundational concern for policymakers, regulators, and financial economists alike. Broadly defined, banking stability refers to a condition in which financial intermediaries perform their core economic functions, including resource allocation, payment facilitation, and risk management, in an efficient and uninterrupted manner regardless of internal or external perturbations (Kanapiyanova et al., 2023). From a regulatory standpoint, stability has alternatively been conceptualised as the absence of systemic crises (Ozili, 2018). The present study adopts a functional perspective, defining banking stability as the sustained capacity of financial institutions to execute their fundamental economic roles without succumbing to structural or cyclical disruptions (Kanapiyanova et al., 2023).

The systemic importance of banking stability cannot be overstated. Banks occupy a central position in modern economies, managing financial flows, extending credit to households and firms, and transmitting monetary policy impulses. Because banks are deeply interconnected with one another and with the broader economic system, distress in one institution can propagate rapidly across the financial network, generating sector-wide instability (Ahamed and Mallick, 2019). The global financial crisis of 2007 to 2008 provided a vivid illustration of this dynamic, underscoring the urgency of understanding the conditions that sustain or undermine banking resilience.

Within this broader context, Islamic banking has emerged as a subject of particular scholarly interest. Over the past twelve years, Islamic financial institutions have demonstrated a notable capacity to withstand major macroeconomic shocks, including the global financial crisis of 2008 and the health-induced economic disruption caused by the COVID-19 pandemic (Shah et al., 2023). During the 2008 crisis, Islamic banks generally exhibited greater resilience than their conventional counterparts, a performance attributable to the structural characteristics of the Islamic banking business model (Hasan and Dridi, 2011). These characteristics include a comparatively smaller investment portfolio, reduced leverage, and strict adherence to Shariah principles that preclude participation in high-risk speculative financial instruments. As a consequence, the adverse impact of the crisis on Islamic banking institutions was considerably less severe than that experienced by conventional banks. During the initial phase of the COVID-19 pandemic in 2020, Islamic banks similarly demonstrated robustness through conservative financial practices and a sustained focus on financing real-sector economic activities, thereby limiting their exposure to financial market volatility. It should be acknowledged, however, that the present study's observation window extends only through 2020, capturing the onset rather than the full trajectory of the pandemic; accordingly, any inference regarding pandemic-period stability should be treated as preliminary and subject to this temporal constraint.

Despite this demonstrated resilience, empirical research on the determinants of Islamic banking stability remains limited, particularly with respect to cross-regional comparative analyses. Banking stability is broadly understood to be shaped by both internal, or bank-specific, factors and external, or macroeconomic, factors (Baselga-Pascual et al., 2015; Creel et al., 2015). The present study addresses this gap by examining and comparing the stability profiles of Islamic banking systems in two economically and geographically distinct regions, namely Southeast Asia and the Gulf Cooperation Council (GCC), with particular attention to the period from 2013 to 2020, which spans the onset of the COVID-19 pandemic. Given the temporal boundary of the data, the analytical focus pertains to the pre-pandemic and early-pandemic periods rather than the full trajectory of pandemic-induced financial disruption. This comparative dimension constitutes the principal novelty of the study, as prior research has rarely examined Islamic banking stability across these two regions simultaneously.

The contributions of this study to the existing literature are threefold. First, a robust composite measure of bank stability, the Z-score, is employed to capture the distance from insolvency across

multiple dimensions of financial performance. Second, the study systematically investigates the differential effects of bank-specific and macroeconomic determinants of stability across distinct regulatory and economic environments. Third, by examining Islamic banking in both Southeast Asia and the GCC, the study provides a more generalisable understanding of what drives stability in diverse institutional contexts.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Theoretical Foundations of Islamic Financial Stability

The theoretical underpinnings of stability in Islamic financial institutions can be traced to four interrelated structural attributes identified in the literature (Joudar et al., 2023). The first concerns the balance sheet architecture of Islamic banks, wherein demand deposits and investment accounts on the liability side correspond to financing and investment instruments on the asset side. This structural alignment facilitates maturity matching between assets and liabilities, reducing the liquidity mismatches that frequently contribute to conventional bank fragility (Ghassan and Krichene, 2017). The second attribute is the profit and loss sharing mechanism, which, as argued by Chishti (1985), incorporates an intrinsic stabilising property by eliminating the gap between cash inflows and repayment obligations, a misalignment often implicated in financial instability. The third attribute is asset quality. Islamic banks generally maintain lower levels of non-performing financing and fewer loan loss reserves compared to conventional institutions, reflecting more conservative financing practices (Prima Sakti and Mohamad, 2018). The fourth attribute pertains to the nexus between Islamic finance and the real economy. Islamic banking theory posits that financing must be anchored to tangible assets and actual economic transactions, thereby supporting productive activity and limiting exposure to purely speculative financial instruments (Njima and Zouari, 2012).

Consistent with prior empirical research (Rajhi and Hassairi, 2014), the Z-score is employed in the present study as the primary measure of Islamic banking stability. Originally introduced by Roy (1952) as a measure of financial safety and subsequently adapted for banking stability analysis by Boyd and De Nicolo (2005), the Z-score has been widely employed in the banking literature as a robust composite indicator of institutional financial health. The Z-score reflects the distance to insolvency by integrating measures of accounting profitability, leverage, and earnings volatility (Rajhi and Hassairi, 2014). A higher Z-score signifies a greater distance from insolvency, indicating lower bankruptcy probability and stronger institutional resilience.

2.2. Empirical Evidence on Financial Stability Determinants

The global financial crisis of 2007 to 2008 catalysed a substantial body of empirical research on the determinants of bank stability. Mabkhot and Al-Wesabi (2022) analysed data from GCC countries over the period 2005 to 2020 and found that GDP exerted a significant positive influence on banking stability, while inflation was found to be destabilising. A related study by Othman et al. (2023) examining the relationship between equity financing and Islamic bank stability in Indonesia and Malaysia similarly documented a negative association between non-performing loans and banking stability.

Regarding bank-specific determinants, Ernarningsih et al. (2023) reported a significant positive association between bank size and stability, consistent with the hypothesis that larger institutions benefit from greater opportunities for asset diversification (Tabak et al., 2012) and cost efficiencies derived from economies of scale (Schaeck and Cihak, 2014). At the macroeconomic level, GDP growth was found to be positively and significantly associated with the Z-score, a finding aligned with the broader literature suggesting that economic expansion stimulates business activity, increases bank profitability, and reduces default risk (Smaoui et al., 2020). Kanapiyanova et al. (2023) further demonstrated that GDP growth exerts a significant positive impact on financial

vulnerability across QISMUT+3 countries, comprising Qatar, Indonesia, Saudi Arabia, Malaysia, the United Arab Emirates, Turkey, Pakistan, Kuwait, and Bahrain, while inflation was identified as a positive correlate of financial vulnerability, operating primarily through currency devaluation and asset value erosion (Jalali-Naini and Naderian, 2020).

For GCC-specific evidence, Miah and Uddin (2017) identified a direct positive relationship between bank capital, size, and stability over the period 2005 to 2014. Alharthi (2017) corroborated these findings, reporting a positive influence of capital adequacy on the Z-score of Islamic banks in the GCC. Alqahtani and Mayes (2018) extended the analysis across the crisis and post-crisis periods from 2000 to 2013, finding that capital, management efficiency, profitability, and bank size are all positively associated with stability, while liquidity exerts an indirect negative influence on the Z-score.

In the Malaysian context, Lassoued (2018) found that both capital adequacy and ROA are positively associated with Islamic bank stability, whereas management efficiency exhibited a negative relationship with the Z-score. In a study of Nigerian banks, Ozili (2019) identified bank efficiency, market concentration, credit supply, and profitability as significant positive determinants of stability, while noting that inflation and GDP growth may also undermine stability under certain conditions. Pham et al. (2021) further demonstrated that prior-period stability, equity-to-assets ratio, loan-to-assets ratio, bank size, foreign investment, and income diversification all exert positive effects on banking stability, while market share of mobilised capital, loan loss allowances, and certain market structures exert adverse effects.

Taken together, the evidence from the extant literature confirms the relevance of both macroeconomic and bank-specific factors as determinants of banking stability, though findings vary considerably across contexts. Notably, the majority of prior studies have either focused on conventional banking or adopted comparative frameworks that include both conventional and Islamic institutions within a single model. To address this analytical gap, the present study develops an econometric model specifically designed for Islamic banking, enabling a more nuanced examination of stability determinants within this institutional category.

2.3. Hypotheses Development

Drawing on the theoretical and empirical foundations outlined above, five testable hypotheses are advanced. First, with respect to profitability, ROA serves as a proxy for the efficiency of asset utilisation in generating profit net of operational costs (Goetz, 2018; Kabir et al., 2015). Higher ROA signals more effective managerial performance and greater capacity to absorb financial shocks. As Louati and Boujelbene (2015) assert, profitability enhances a bank's ability to fulfil financial obligations and reduce insolvency risk. Accordingly, H1 posits that ROA exerts a significant positive influence on Islamic banking stability.

Second, bank size, proxied by total assets, is expected to confer stability advantages through economies of scale and asset diversification benefits (Cubillas and Gonzalez, 2014; Fang et al., 2014). Larger institutions are hypothesised to generate more stable income without incentivising excessive risk-taking (Tabak et al., 2012). It should be acknowledged, however, that competing theoretical arguments exist wherein institutions of very large scale may face elevated governance complexity, risk concentration in large-scale corporate financing portfolios, and moral hazard incentives collectively described as the too-big-to-manage problem, all of which may attenuate rather than reinforce institutional stability (Laeven, Ratnovski, and Tong, 2016; Wahid and Dar, 2016). In view of this theoretical ambiguity, H2 posits a significant relationship between bank size and Islamic banking stability, with the direction of this association treated as an empirical question.

Third, NPF serves as an accounting-based measure of credit risk, reflecting the proportion of financing that has deteriorated in value relative to total net financing. As documented by Cihak

and Hesse (2010) and Goetz (2018), elevated NPF ratios signal heightened bankruptcy risk and are expected to reduce stability. H3 posits that NPF exerts a significant negative influence on Islamic banking stability.

Fourth, GDP is employed as a proxy for macroeconomic activity. Strong economic growth enhances the business environment, increases demand for banking services, bolsters bank profitability, and reduces borrower default risk (Hasan and Dridi, 2011; Khediri et al., 2015). H4 posits that GDP exerts a significant positive influence on Islamic banking stability.

Fifth, inflation is conceptualised as an indicator of domestic economic stability. High inflation may erode the real value of bank assets, increase credit risk, and heighten vulnerability within the banking system (Kassim, 2016; Pak and Nurmakhanova, 2013). H5 posits that inflation exerts a significant negative influence on Islamic banking stability.

3. RESEARCH METHODS

This study adopts a quantitative research design employing panel data regression analysis to investigate the determinants of Islamic banking stability. The sample comprises 38 Shariah-compliant banks drawn from four countries spanning two distinct regions, namely Indonesia and Malaysia from Southeast Asia, and the United Arab Emirates and Qatar from the Gulf Cooperation Council. Annual financial and macroeconomic data were collected over the period from 2013 to 2020, yielding an unbalanced panel dataset with varying observation counts across countries.

The primary estimation strategy employs a random effects model with Generalised Least Squares estimation. The selection of the random effects specification over the fixed effects estimator was determined through the Hausman specification test. The test result was consistent with the null hypothesis of no systematic difference between the two sets of coefficient estimates, thereby confirming the appropriateness of the random effects model for the present dataset (chi-squared statistic and associated p-value are reported in the Appendix). To verify the robustness of the results, fixed effects and Ordinary Least Squares estimations are also conducted; the results of these alternative estimations are presented in the Appendix and demonstrate directional consistency with the main findings across all three estimators. The threshold for statistical significance is set at the conventional 5 percent level. The dependent variable, Islamic banking stability, is measured using the natural

$$LnZscore = (ETA_{it} + ROA_{it}) / \sigma ROA_{it}$$

where ETA_{it} denotes the equity-to-assets ratio at bank i and time t , ROA_{it} denotes the return on assets at bank i and time t , and σROA_{it} denotes the standard deviation of return on assets for the sample. A higher LnZ-score indicates greater distance from insolvency and, by extension, greater financial stability.

The econometric specification employed in this study takes the following form.

$$LnZscore_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 LnTA_{it} + \beta_3 NPF_{it} + \beta_4 GDP_{it} + \beta_5 INF_{it} + \epsilon_{it}$$

The independent variables are operationalised as follows. Return on Assets is calculated as net income divided by total assets and serves as a proxy for profitability and managerial efficiency. Bank size is operationalised as the natural logarithm of total assets, capturing the scale of institutional operations. Non-Performing Financing is measured as the ratio of total non-performing financing to total net financing and serves as a proxy for credit risk. GDP is operationalised as the absolute level of real gross domestic product, measured in current local currency units for each respective country, and serves as a proxy for the macroeconomic scale and trajectory of the environment in which banks operate. This specification is consistent with

the descriptive statistics reported in Tables 1 through 4, wherein GDP values reflect absolute magnitudes in local currency denomination. Inflation is measured by the annual inflation rate and represents the domestic price stability context.

4. RESULTS

4.1. Descriptive Statistics

Descriptive statistics for each country sample are reported in Tables 1 through 4. For Indonesia, the mean Z-score is 2.85, with values ranging from 0.047 to 5.36, reflecting considerable variability in bank stability across the sample. The mean ROA is 0.01, with a range extending from -0.20 to 0.14. Mean total assets are approximately 29.90 on a natural logarithm scale, and the mean NPF ratio is 0.05. GDP averages approximately 9.69E+15, and the mean inflation rate is 0.04.

Table 4.1. Descriptive Statistics for Indonesia

Variable	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
Z-Score	2.847	2.717	5.356	0.047	1.191	96
ROA	0.008	0.007	0.136	-0.201	0.042	96
LnTA	29.903	29.675	32.475	26.429	1.346	96
NPF	0.047	0.038	0.440	0.000	0.061	96
GDP	9.69E+15	9.67E+15	1.09E+16	8.56E+15	8.95E+14	96
Inflation	0.043	0.032	0.084	0.017	0.024	96

For Malaysia, the mean Z-score is 3.84, ranging from 2.30 to 5.09, reflecting moderate variability in bank stability. The mean ROA is 0.007 and the mean NPF ratio is 0.016. GDP averages 1.29E+15, and the mean inflation rate is 0.017.

Table 4.2. Descriptive Statistics for Malaysia

Variable	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
Z-Score	3.839	3.889	5.093	2.297	0.493	128
ROA	0.007	0.007	0.026	-0.009	0.004	128
LnTA	17.092	17.016	19.358	15.633	0.909	128
NPF	0.016	0.012	0.053	0.003	0.010	128
GDP	1.29E+15	1.31E+15	1.51E+15	1.02E+15	1.66E+14	128
Inflation	0.017	0.021	0.039	-0.011	0.015	128

For the United Arab Emirates, the mean Z-score is 3.04, ranging from 0.57 to 4.59, while the mean ROA is 0.008 and the mean NPF ratio is 0.065. GDP averages approximately 3.90E+11, and the mean inflation rate is 0.013.

Table 4.3. Descriptive Statistics for the United Arab Emirates

Variable	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
Z-Score	3.038	3.266	4.590	0.572	1.163	48
ROA	0.008	0.012	0.026	-0.177	0.028	48
LnTA	24.696	24.543	26.392	22.682	0.879	48
NPF	0.065	0.066	0.160	0.012	0.032	48
GDP	3.90E+11	3.88E+11	4.26E+11	3.51E+11	2.37E+10	48
Inflation	0.013	0.018	0.041	-0.021	0.021	48

For Qatar, the mean Z-score is 4.23, ranging from 0.43 to 5.07, indicating a relatively stable but heterogeneous sample. The mean ROA is 0.018 and the mean NPF ratio is 0.014. GDP averages approximately 1.61E+11, and the mean inflation rate is 0.008.

Table 4.4. Descriptive Statistics for Qatar

Variable	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
Z-Score	4.228	4.191	5.074	0.433	0.455	32
ROA	0.018	0.018	0.026	0.007	0.004	32
LnTA	25.005	25.070	25.884	24.239	0.506	32
NPF	0.014	0.013	0.036	0.001	0.009	32
GDP	1.61E+11	1.61E+11	1.84E+11	1.35E+11	1.74E+10	32
Inflation	0.008	0.012	0.035	-0.035	0.022	32

4.2. Regression Results

Table 5 presents the panel regression results for all four countries. Several noteworthy patterns emerge from the analysis. With respect to ROA, a significant positive effect on Islamic banking stability is observed in Malaysia at the 5 percent significance level and in the United Arab Emirates at the 1 percent level, while the variable does not attain statistical significance in Indonesia or Qatar. Bank size, measured by total assets, exhibits a significant negative relationship with stability in Indonesia at the 1 percent level, in Malaysia at the 1 percent level, and in Qatar at the 5 percent level, while it fails to reach significance in the United Arab Emirates. The NPF variable produces a significant negative effect in Indonesia at the 5 percent level, consistent with the theoretical expectation that elevated non-performing financing ratios undermine institutional stability. NPF does not achieve statistical significance in the remaining three countries. GDP exerts a significant positive effect on stability in both Indonesia and Malaysia, while its coefficient is statistically insignificant in the United Arab Emirates and Qatar. It should be noted that the GDP coefficients for Indonesia and Malaysia appear as 0.000 in Table 5 as a consequence of rounding to three decimal places; the actual estimated coefficients are of very small positive magnitude, consistent with the absolute-level scale of the GDP variable

employed, and their statistical significance is confirmed by the p-values reported in parentheses. Inflation does not achieve statistical significance in any of the four countries

Table 4.5. Panel Regression Results across Country Samples

Variable	Indonesia	Malaysia	UAE	Qatar
ROA	1.748* (0.061)	8.094** (0.020)	15.109*** (0.000)	6.400 (0.182)
Assets (LnTA)	-0.174*** (0.001)	-0.258*** (0.000)	-0.024 (0.741)	-0.184** (0.024)
NPF	-1.415** (0.018)	2.580 (0.107)	0.667 (0.467)	1.668 (0.486)
GDP	0.000*** (0.002)	0.000*** (0.000)	0.610 (0.545)	0.000 (0.771)
Inflation	-0.960 (0.515)	0.302 (0.694)	-1.037 (0.232)	0.806 (0.333)
R-Squared	0.469	0.329	0.360	0.993
Prob (F-Stat)	0.000	0.000	0.002	0.000

Note. * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$. P-values in parentheses..

5. DISCUSSION

The positive and statistically significant effect of ROA on Islamic banking stability in Malaysia and the United Arab Emirates confirms that profitability constitutes a meaningful predictor of institutional resilience in these contexts. Banks that generate higher returns relative to their asset base demonstrate more efficient operational management and possess greater capacity to meet financial obligations during periods of stress. These findings are consistent with prior evidence reported by Adusei (2015), Ali and Puah (2019), and Vo et al. (2021), all of whom document a positive association between ROA and banking stability. The absence of a significant ROA effect in Indonesia and Qatar may reflect the more heterogeneous performance environments in these countries, wherein idiosyncratic bank-level factors and regulatory frameworks attenuate the generalised profitability-stability nexus.

The significant negative coefficient on bank size across Indonesia, Malaysia, and Qatar challenges the conventional expectation that larger banks are inherently more stable. These results indicate that asset growth, if not accompanied by commensurate improvements in risk management and governance quality, may amplify rather than mitigate instability. Larger institutions may be particularly exposed to risks associated with large-scale corporate lending and project financing, which can introduce significant credit concentration. These findings align with Wahid and Dar (2016) and Yударuddin (2018), who similarly find that larger bank size does not universally translate into greater stability, and with Altaee et al. (2013), who report no statistically significant impact of bank size on stability in GCC countries. In the United Arab Emirates, the absence of a significant size effect suggests that asset scale is a less determinative factor of stability in that environment, potentially reflecting the more advanced asset management capabilities of UAE-based Islamic banks.

The significant negative effect of NPF on stability in Indonesia underscores the centrality of credit quality as a stability determinant within the Indonesian Islamic banking sector. A higher proportion of non-performing financing directly reduces the income-generating capacity of a bank, increases provisioning requirements, and signals heightened exposure to default risk. These findings are consistent with those of Alam (2013) and Othman et al. (2023), who emphasise

the importance of loan loss provisioning in maintaining stability during adverse conditions. In the other three countries, the non-significance of NPF may be attributable to the risk-mitigating features inherent in Islamic banking, including profit and loss sharing arrangements, collateralisation against real assets, and stringent Shariah compliance screening of financing proposals. Nevertheless, the non-significance of NPF in these countries does not negate the importance of monitoring non-performing financing, as the accumulation of problematic assets over time remains a potential source of instability.

GDP growth emerges as a significant positive determinant of Islamic banking stability in Indonesia and Malaysia, consistent with the theoretical expectation that macroeconomic expansion supports banking sector performance by improving borrower creditworthiness, stimulating demand for financial services, and enhancing banks' capital adequacy positions. These findings are broadly consistent with Boateng et al. (2015), Karim et al. (2016), and Yensu et al. (2021), all of whom document positive associations between GDP growth and banking stability. In the United Arab Emirates and Qatar, however, GDP does not exert a significant effect on stability. This result aligns with Al-Khouri and Arouri (2016), who similarly find limited macroeconomic sensitivity of GCC banking stability to GDP fluctuations, a pattern that may reflect the structural dominance of oil revenues and sovereign wealth management in shaping economic conditions in those countries.

Inflation does not achieve statistical significance in any of the four countries, despite the consistently negative sign of its coefficient. This finding suggests that the inflationary environment across the observation period from 2013 to 2020 was insufficiently volatile to generate measurable destabilisation within these banking systems. The relatively contained inflation conditions following the post-2008 normalisation may explain the limited influence of this variable. These results are partially consistent with Cihak and Hesse (2010), who observe that among macroeconomic variables, currency depreciation tends to exert greater influence on banking risk than domestic price inflation per se.

The R-squared value of 0.993 observed in the Qatar subsample merits explicit discussion, as this near-unity goodness-of-fit raises legitimate concerns regarding potential overfitting, near-multicollinearity, or model misspecification. With only 32 observations and five independent variables, this degree of explanatory power is atypical and should not be interpreted uncritically. Examination of the inter-correlations among the Qatar regressors reveals no evidence of near-perfect multicollinearity, with pairwise correlations remaining within acceptable ranges. The elevated R-squared is more plausibly attributable to the structural characteristics of Qatar's Islamic banking sector, which is small, highly concentrated, and operates under a largely homogeneous regulatory and macroeconomic environment. Over the observation period from 2013 to 2020, the limited cross-sectional and temporal variation in Qatar's banking data produces a data-generating process that is inherently more deterministic than those observed in the larger and more heterogeneous country samples. To further diagnose this issue, researchers examining the Qatar subsample are encouraged to report variance inflation factors (VIF) for all regressors and to assess the sensitivity of the findings to alternative model specifications. Readers should accordingly interpret the Qatar subsample findings with appropriate caution, and future research should seek to expand this subsample by incorporating additional GCC jurisdictions or extending the observation horizon beyond 2020.

6. CONCLUSION

This study examined the bank-specific and macroeconomic determinants of financial stability among 38 Islamic banks in four countries spanning two regions, namely Indonesia and Malaysia from Southeast Asia, and the United Arab Emirates and Qatar from the Gulf Cooperation Council, over the period from 2013 to 2020. The empirical findings reveal substantial regional and

country-level heterogeneity in the determinants of Islamic banking stability, reflecting the diverse regulatory, structural, and macroeconomic environments within which these institutions operate.

Profitability, as measured by ROA, is a significant positive predictor of stability in Malaysia and the United Arab Emirates, suggesting that effective asset utilisation and income generation underpin institutional resilience in these markets. Smaller bank size is found to be associated with greater stability in Indonesia, Malaysia, and Qatar, indicating that asset scale in isolation does not confer stability advantages and may introduce additional risk exposure if not managed appropriately. NPF exerts a significant negative effect on stability in Indonesia alone, reflecting the particular sensitivity of Indonesian Islamic banks to credit quality deterioration. At the macroeconomic level, GDP growth is a significant positive determinant of stability in Indonesia and Malaysia, while inflation does not produce statistically significant effects in any of the four countries.

These findings carry important implications for bank management and regulatory policy. Islamic banks should prioritise effective asset and liability management strategies, with particular attention to maintaining adequate asset quality and monitoring non-performing financing ratios as early warning indicators of stability risk. Macroprudential supervision should be calibrated to reflect regional specificities, with GCC authorities encouraged to diversify economic growth drivers beyond oil-dependent sectors to reduce the exposure of banking stability to commodity price volatility. In Southeast Asia, regulatory frameworks should be strengthened to incentivise the adoption of equity-based financing instruments, such as musharakah and mudharabah, as complements to prevailing debt-based structures, thereby broadening the risk-sharing foundation of the Islamic banking system.

This study is subject to several limitations that open avenues for future research. The sample is restricted to 38 Islamic banks in four countries over an eight-year window, which constrains the generalisability of the findings. Future studies should consider expanding the sample to include additional GCC and Southeast Asian jurisdictions, incorporating a broader range of bank-specific variables such as capital adequacy and liquidity ratios, and extending the analytical period to capture post-pandemic dynamics. The inclusion of institutional quality indicators and corporate governance proxies would further enrich the explanatory framework and contribute to a more comprehensive understanding of Islamic banking stability determinants.

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