Guest editorial: Special issue on Covid-19 pandemic crisis and Islamic finance

1. Introduction

We study the impact of Covid-19 on Islamic Financial Markets and Institutions – with the objective of shaping the post-pandemic global Islamic financial system in this special issue of IMEFM.

Islamic financial markets and institutions are different from the conventional systems due to the adherence to Shariah (Islamic law). Notably, the laws prohibit *riba* (usury or interest accruals). Islamic finance practice can be studied among two divisions: commercial and social. While both are Shariah-compliant, the commercial perspective looks into generating sustainable profits, whereas the social perspective observes developing stakeholder cooperation and well-being (Hassan *et al.*, 2021 and 2022).

In this special issue, the papers published cover Islamic banking and capital markets as well as zakat, *infaq*, and other social instruments.

We review the selected papers and share our concluding remarks.

2. This issue

This special issue accepted fourteen papers based on a detailed selection process as per the journal guidelines on quality and relevance.

2.1 Covid-19 and Islamic commercial finance

The selected papers focus on financial stability, digital financial inclusion, and stock market analysis in the Gulf Cooperation Council nations, South Asian countries, and Indonesia.

Moudud-Ul-Huq *et al.* investigate the relationship between capital regulation and risk (financial stability) to be negative and bi-directional. During the pandemic, banks display higher fragility and capital demand. Demand more capital to absorb risk. The relationship shows heterogeneity when they study ownership structure.

Akkas and Al Samman show that Islamic financial institutions have shown better resilience than other types of institutions during the pandemic in Bahrain, Oman, Qatar, Saudi Arabia, and UAE. Interestingly, there is no conducive effect on the Islamic financial institutions in Saudi Arabia and Oman.

Banna *et al.* show that increased implementation of digital financial inclusion (DFI) promotes Islamic banking stability; this can reduce the default risk across the sector in a nation/region.

Shamsudheen *et al.* study the stock markets in GCC countries and find an adverse reaction – with negative returns and high volatility. The reason that the economic stimulus helped bring positive returns after the first quarter of 2020.

Adediran *et al.* find that the stock markets in the Middle East show higher resilience to COVID-19 when compared to the impacts in the USA and China. Rahman *et al.* find that COVID-19 had a significant short-term influence on stock movement patterns in Bangladesh, India, Pakistan, and Sri Lanka.

International Journal of Islamic and Middle Eastern Finance and Management
Vol. 15 No. 2, 2022
pp. 221-222

1753-8394
DOI 10.1108/IMEFM-04-2022-634

Mobin *et al.* examine how bad news led to higher volatility when compared to good news within G7 nations during the pandemic. Also, they find that fiscal stimulus to be helpful to reduce volatility in the bond market but ineffective the stock market volatility.

Bahloul *et al.* explore a plethora of assets to find that Islamic indexes are not hedging or risk-averse asset. Subekti and Rosadi study Shariah-compliant portfolio modelling (Black–Litterman) and perform a study on the Indonesian stock market.

2.2 Covid-19 and Islamic social finance

The papers also share recent developments of zakat, *infaq,* waqf, sustainable and responsible investment (SRI) Sukuk, and other forms of Islamic social finance instruments.

Ascarya reveals that Islamic social finance instruments (i.e. zakat, *infaq* and waqf) could lead to economic recovery post-pandemic with proposed solutions such as medical assistance using zakat-*infaq*, health-care waqf, a social safety net, and a graduation program using zakat-*infaq*.

Umar *et al.* share how Islamic social finance instruments can contribute significantly and positively for poverty alleviation, especially during the pandemic. Jalil *et al.* examine *infaq* (donation) based on the social responsibility/ethics theory. They find a significantly positive effect out of *infaq*, whereas religiosity wasn't as much of a factor.

Hudaefi *et al.* performed a qualitative study on the zakat administration in Indonesia during the pandemic; the three primary channels were education, *Sadaqah,* and health services. Hassan *et al.* recommend more transparency regarding SRI financed PPP projects. Also, they question the future attractiveness of SRI Sukuk as a financing mechanism.

3. Conclusion and future research

The issue forwards two takeaways: first, the Islamic financial market displayed resilience during the pandemic; and second, integrated intentions of commercial and social finance can achieve sustainable development. New research should seek to establish ways in which effective financial stimulus packages can be formulated in the GCC region to diversify economies beyond oil. Additionally, researchers should study factors that can motivate *infaq* behaviour, outside of Malaysia, in South Asia and other countries.

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References

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Further reading

Hassan, M. and Muneeza, A. (2022), *COVID-19 and Islamic Finance (Elements in the Economics of Emerging Markets)*, Cambridge University Press, Cambridge.