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FULL LENGTH ARTICLE

Development Trends and Sectoral Dynamics in Global Islamic Finance Markets

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ABSTRACT

Islamic finance has evolved from a niche faith-based alternative into a more visible component of the global financial system. This paper examines recent development trends in global Islamic finance markets through a structured review of academic literature and industry reports, with particular attention to Islamic banking, sukuk, Islamic funds, Islamic real estate investment vehicles, ESG-oriented instruments, Islamic FinTech, and Shariah governance. The analysis shows that the industry maintained strong expansion despite post-pandemic adjustment, macroeconomic volatility, and uneven regulatory capacity across jurisdictions. Islamic banking continues to dominate the market structure, while sukuk, investment funds, and technology-enabled financial services are becoming increasingly important in shaping the next phase of sectoral growth. At the same time, governance reforms, sustainability-linked products, and digital transformation are broadening the institutional relevance of Islamic finance beyond its traditional core markets. The paper also identifies several structural constraints, including liquidity-management limitations, tax neutrality issues, product standardization problems, regulatory fragmentation, and shortages of qualified specialists. It argues that the future competitiveness of Islamic finance will depend not only on asset growth, but also on stronger market infrastructure, more coherent governance frameworks, wider digital integration, and the ability to align Shariah-compliant finance with sustainability and financial inclusion objectives.

Keywords: Islamic finance ▪ Islamic banking ▪ sukuk ▪ Islamic funds ▪ ESG ▪ Islamic FinTech ▪ Shariah governance

1. INTRODUCTION

Over the past two decades, Islamic finance has moved well beyond its earlier position as a niche segment serving a limited number of Muslim-majority jurisdictions. It now represents a rapidly expanding part of the international financial landscape, supported by growth in banking assets, capital-market instruments, investment funds, and digital financial services. The contemporary significance of Islamic finance lies not only in its Shariah-compliant structure, but also in its increasing relevance to ethical finance, risk sharing, real-economy linkage, and socially oriented investment.

Recent industry evidence points to continued expansion in both scale and geographic reach. The source material used in this study indicates that by 2024 the industry had spread across approximately 140 countries and reached nearly USD 5.98 trillion in total assets [1]. The same material suggests that, if current momentum is broadly maintained, global Islamic finance assets could continue to grow substantially over the medium term. This trajectory reflects not only demand from traditional Islamic finance jurisdictions in the Gulf and Southeast Asia, but also rising institutional interest

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in non-OIC markets, where sukuk listings, Shariah-compliant investment products, and regulatory experimentation have become more visible.

The internal structure of the industry remains uneven. Islamic banking continues to account for the dominant share of total assets, while other segments are developing at different speeds. Sukuk has become one of the most dynamic components of the market, particularly as governments and large issuers use it for refinancing, fiscal support, and infrastructure funding. Islamic funds have also expanded in both scale and product variety, while Islamic real estate investment vehicles have shown a more cyclical pattern shaped by post-pandemic recovery and property-market conditions. At the same time, ESG-linked Islamic finance and Islamic FinTech are emerging as strategically important areas that may reshape future market development.

These developments do not eliminate the sector's longstanding constraints. Islamic finance still faces recurring challenges related to liquidity management, regulatory harmonization, tax treatment, product design, market depth, and the availability of qualified human capital. In addition, the growing complexity of cross-border operations has increased the importance of Shariah governance, disclosure standards, and institutional credibility. Against this background, the present paper provides an analytical review of recent development trends in global Islamic finance markets, focusing on the sectoral composition of the industry, the main areas of recent growth, and the structural issues likely to influence its future trajectory.

2. LITERATURE REVIEW

Over the past few decades, Islamic finance markets have increasingly been examined as one of the fastest-growing segments of the global financial system. The literature commonly treats Islamic finance not only as a Shariah-based financial model, but also as an alternative framework that emphasizes asset-backing, risk sharing, and closer links to the real economy. Within this broad body of research, scholars have focused on several recurring themes, including institutional expansion, product diversification, financial stability, regulatory development, and the role of Islamic finance in sustainable economic growth [2, 3].

A substantial strand of the literature highlights the rapid growth of Islamic financial markets as their defining feature. Studies in this area argue that the steady increase in Shariah-compliant financial assets has strengthened the global visibility of Islamic banks and related financial institutions, creating new forms of competition within international financial markets. Some authors also note that Islamic financial indices have demonstrated relatively stable long-term performance and, in certain contexts, have compared favorably with conventional market benchmarks [2, 4]. This literature generally presents Islamic finance as a system whose expansion is supported by both ethical demand and institutional maturation.

At the same time, the literature does not offer a fully uniform interpretation of this growth. Some scholars argue that the expansion of Islamic finance remains closely tied to institutional support in Muslim-majority jurisdictions and that its wider international relevance depends on how effectively its principles are integrated with broader economic mechanisms. From this perspective, Islamic finance becomes more globally significant when it is able to operate not only as a faith-based system, but also as a commercially viable and economically adaptive model [3]. This argument is important because it shifts the discussion from simple asset growth to questions of functionality, universality, and long-term competitiveness.

Another major theme in the literature is product diversification. Researchers frequently emphasize that Islamic capital markets are no longer limited to banking alone, but now include sukuk, takaful, Shariah-compliant equity markets, investment funds, and more recently digital financial instruments. This diversification is often interpreted as a sign of sectoral deepening and institutional sophistication. In particular, studies by Hassan and Mahlknecht describe Islamic capital markets as a multi-instrument ecosystem, while Konak and Demir underline the growing importance of takaful as a mechanism for risk management within Islamic finance [5, 6].

The literature on sukuk is especially prominent within this broader discussion. Sukuk is often presented as one of the most important innovations in Islamic finance because it provides a Shariah-compliant mechanism for long-term financing, particularly in infrastructure and capital-market development. Jobst argues that sukuk can reduce investment risk through their linkage to real assets and can serve as an effective instrument for financing large-scale projects [7]. At the same time, critical contributions in the literature point out that some sukuk structures have become economically similar to conventional bonds, raising ongoing debates about the depth of their distinctiveness and the need for further product refinement.

Financial resilience is another well-established topic in the literature. A number of studies argue that Islamic financial institutions showed relative stability during periods of financial stress because of their emphasis on risk sharing and asset-based transactions. This line of argument is often linked to broader claims that Islamic finance may contribute to more stable and socially grounded patterns of financial intermediation. More recent scholarship also connects Islamic finance with sustainable development goals, suggesting that its ethical foundations, social orientation, and prohibition of harmful activities make it relevant to contemporary discussions on inclusive and responsible finance [8, 9].

Regional case studies have added further depth to this literature. Malaysia is frequently identified as one of the most advanced Islamic finance hubs, largely because of its relatively clear legal framework and active state support. Archer and Karim note that regulatory clarity and institutional coordination played a major role in accelerating market development there [10]. Indonesia is also discussed as an important case, where Islamic banking has been linked not only to financial-sector growth but also to broader socio-economic development goals [9]. These country experiences suggest that policy design, market infrastructure, and regulatory commitment are central to the successful expansion of Islamic finance.

In the Uzbek context, the literature remains limited but is gradually expanding. Existing studies argue that the development of Islamic finance in Uzbekistan requires legal and

institutional reform, especially in relation to capital-market architecture and enabling regulation. Some authors also emphasize that Islamic FinTech could open new opportunities for the country's digital economy and improve access to Shariah-compliant financial services [11, 12]. In addition, the works of Astanakulov deserve attention as important scholarly contributions to the study of Islamic finance, capital markets, and institutional development [13, 14]. Research by O. Axmedova also examines the application of Islamic finance instruments in the microfinance system, the improvement of their use, and their implications for financial stability and inclusion [15]. Taken together, these studies suggest that the development of Islamic finance in Uzbekistan depends on strengthening the regulatory framework, institutional infrastructure, financial instruments, and market-governance mechanisms.

Overall, the literature shows that Islamic finance markets are expanding through a combination of asset growth, product diversification, institutional adaptation, and growing alignment with sustainability and digital innovation agendas. However, much of the existing scholarship tends to focus on individual segments—such as banking, sukuk, or FinTech—rather than examining the sector as an integrated ecosystem. This creates room for a more synthetic analysis of recent development trends across the main components of Islamic finance markets. The present study addresses that need by reviewing the sector's current structure, key growth areas, and emerging challenges within a single analytical framework.

3. METHODOLOGY

This study applies a qualitative descriptive approach based on secondary data and document analysis. The paper examines development trends in Islamic finance markets through academic literature, industry reports, and institutional publications. The main sources include reports by the London Stock Exchange Group and Islamic Corporation for the Development of the Private Sector, the Islamic Financial Services Board, DinarStandard, S&P Global Ratings, and Oxford Business Group [1, 16, 17, 18, 19, 20, 21, 22, 23, 24]. The analysis is organized by major market segments, including Islamic banking, sukuk, Islamic funds, Islamic real estate funds, ESG, Islamic FinTech, and Shariah governance. On this basis, the study identifies key growth trends, structural changes, and major challenges in the global Islamic finance market.

4. RESULTS

This section examines the recent development trends of global Islamic finance markets by focusing on overall asset growth, sectoral composition, and key institutional changes. The analysis begins with the expansion of total Islamic finance assets and then considers the relative position of major segments, including Islamic banking and sukuk, in order to identify the main drivers of market development.

Figure 1 shows the strong upward trajectory of the global Islamic finance industry between 2012 and 2024. Total Islamic finance assets increased from USD 1,787 billion in 2012 to USD 5,985 billion in 2024, indicating that the industry more than tripled over the period. Islamic banking remained the dominant segment throughout the sample, with assets rising from USD 1,356 billion to USD 4,318 billion. At the same time, outstanding sukuk also expanded significantly, increasing from USD 213 billion in 2012 to USD 1,031 billion in 2024. These trends suggest that the growth of Islamic finance has been driven primarily by banking-sector expansion, while capital-market instruments, especially sukuk, have also gained increasing importance in the industry's overall structure.

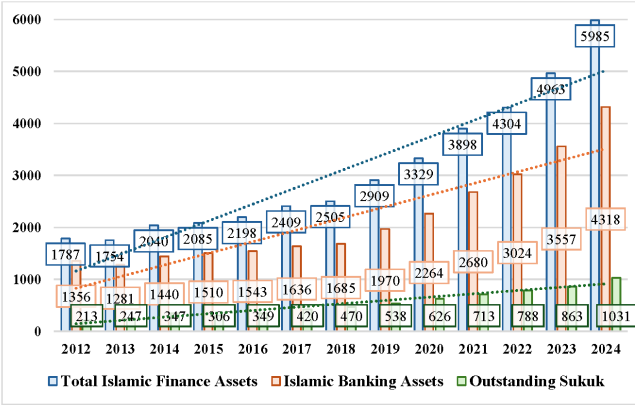


Figure 1. Development of the Islamic finance industry (2012–2024), USD billion [1].

Despite the recent economic slowdown, the Islamic finance industry had expanded to 140 countries by 2024, with total assets reaching nearly USD 5.98 trillion. This reflects a substantial increase in scale within a relatively short period. The continued growth of Islamic finance can be linked to its ethical foundations and the gradual diversification of markets and financial instruments. After first surpassing the USD 1 trillion threshold in global assets in 2010, the industry is projected to reach USD 9.7 trillion by 2029 if current growth trends continue. This expansion has been supported by stronger cross-border linkages, improvements in regulatory frameworks, and strategic initiatives introduced by governments. At present, the industry remains concentrated mainly in the Middle East and Southeast Asia, where Muslim-majority countries continue to play a leading role. However, the universal and ethical character of Islamic finance has also encouraged growth in other regions. The United Kingdom, for example, is emerging as an important hub for the listing of green and sustainable sukuk, while Shariah-compliant exchange-traded funds are also gaining wider recognition. In December 2024, the Government of the Philippines announced a national Islamic Finance Roadmap for 2024–2028. As of 2024, 84 non-OIC countries had either expressed interest in Islamic finance or were already engaged in related market activity.

Figure 2 presents the leading countries by Islamic finance assets. Iran ranked first with USD 2,249 billion in assets, followed by Saudi Arabia with USD 1,316 billion and Malaysia with USD 761 billion. The United Arab Emirates also held a significant position with USD 460 billion, while Kuwait, Qatar, Indonesia, and Bahrain accounted for smaller but still important shares. This pattern indicates that the global Islamic finance industry remains heavily concentrated in a few core jurisdictions, particularly in the Middle East and parts of Asia, where market depth, regulatory support, and insti-

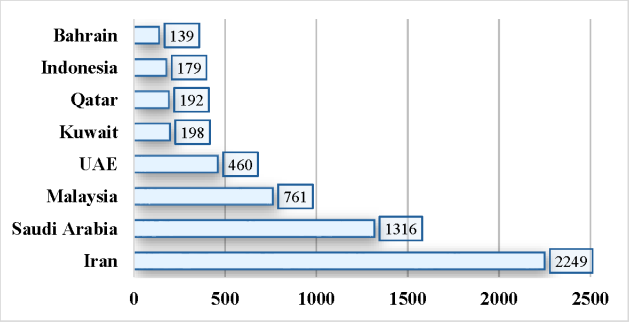


Figure 2. Leading countries by Islamic finance assets (USD billion, 2024) [1].

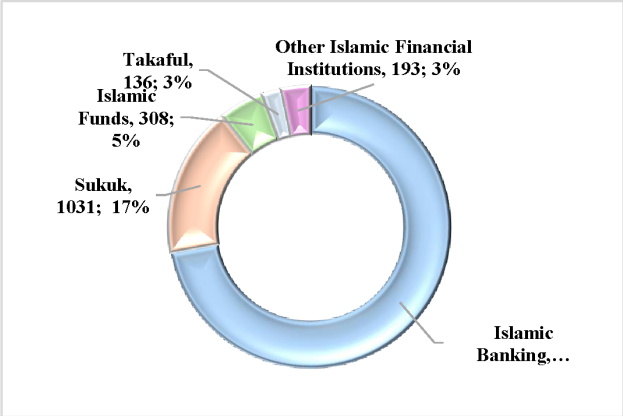


Figure 3. Islamic finance assets by sector and asset class (USD billion, 2024) [1].

tutional development have been stronger than in most other regions.

Figure 3 shows that Islamic finance in 2024 remained overwhelmingly bank-centered. Islamic banking accounted for USD 4,318 billion, or 72% of total Islamic finance assets, confirming its dominant position in the industry. Sukuk represented the second-largest segment, with USD 1,031 billion or 17% of total assets, indicating the growing importance of capital-market instruments within the broader Islamic finance ecosystem. Islamic funds accounted for USD 308 billion, or 5%, while takaful and other Islamic financial institutions each represented 3%, with assets of USD 136 billion and USD 193 billion, respectively. Overall, the distribution suggests that although Islamic finance has diversified over time, its structure remains heavily concentrated in banking, with other segments playing a supplementary but gradually expanding role [1].

4.1 Consolidation Trends in Islamic Finance Markets

Mergers and acquisitions (M&A) have become an important feature of recent developments in Islamic finance markets. The expansion of Islamic finance assets and market share has naturally attracted the attention of many conventional financial institutions, particularly in the GCC region. In line with broader consolidation trends in Gulf financial markets, several conventional institutions have moved to acquire Islamic banks or merge with them. One notable example was the 2019 merger of Abu Dhabi-based Al Hilal Bank with Abu Dhabi Commercial Bank and Union National Bank. This transaction became one of the largest banking mergers in the region and resulted in the formation of the third-largest bank in the United Arab Emirates, with total assets of approximately USD 114.4 billion.

The consolidation trend continued in 2019–2020. In January 2020, the National Bank of Bahrain acquired a 78.8% stake in Bahrain Islamic Bank. During the same period, Qatar's Masraf Al Rayan completed its merger with Al Khaliji Commercial Bank, creating the second-largest bank in Qatar and one of the region's major Shariah-compliant financial groups. In July 2020, Oman Arab Bank also completed the acquisition of Alizz Islamic Bank. These transactions indicate that consolidation was no longer an isolated process, but rather part of a broader restructuring of Islamic finance institutions in key regional markets.

While access to profitable Islamic finance markets has often been a major motivation for conventional banks, M&A activity has also created important advantages for Islamic banks themselves. Islamic banks generally operate on a smaller scale than their conventional counterparts, and consolidation can help them achieve economies of scale, strengthen competitiveness, and expand market opportunities. In this sense, mergers have served not only as a market-entry strategy for conventional institutions, but also as a growth and stabilization mechanism for Islamic financial institutions.

During 2021–2025, consolidation in the Islamic finance industry increasingly shifted toward market enlargement and institutional stabilization. Islamic banks and financial institutions more actively adopted merger strategies in order to strengthen capital bases, reduce operating costs, adapt to digital transformation, and improve competitiveness. International regulatory and supervisory bodies have also emphasized that consolidation can enhance financial stability in the Islamic finance industry [16]. This trend was particularly visible in GCC countries, where post-pandemic pressure to improve banking-sector efficiency accelerated restructuring processes.

One of the most significant institutional examples was the establishment of Bank Syariah Indonesia in 2021 through the merger of three state-owned Islamic banks. Rating agencies have similarly noted that, although growth in Islamic finance is expected to continue, M&A activity is also likely to remain important in some regions amid macroeconomic pressure and intensifying competition [21, 22].

4.2 Islamic Funds

Islamic funds have become an increasingly important component of the broader Islamic finance industry. As shown in Figure 4, assets under management in Islamic funds increased from USD 128 billion in 2018 to USD 308 billion in 2024, reflecting a clear long-term upward trend despite some short-term fluctuations. The figure also indicates further expansion potential, with Islamic fund assets projected to reach USD 538 billion by 2029. This pattern suggests that the sector is moving beyond a supplementary role and is gradually strengthening its position within the Islamic finance ecosystem.

The expansion of the sector has been supported by new fund launches, broader geographic participation, and improved performance across several asset classes. The source text notes that growth was reinforced by newly established Is-

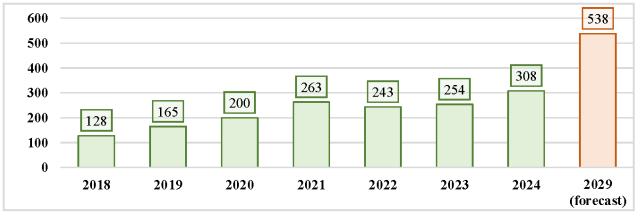


Figure 4. Growth in assets under management of Islamic funds (USD billion, 2018–2029) [1].

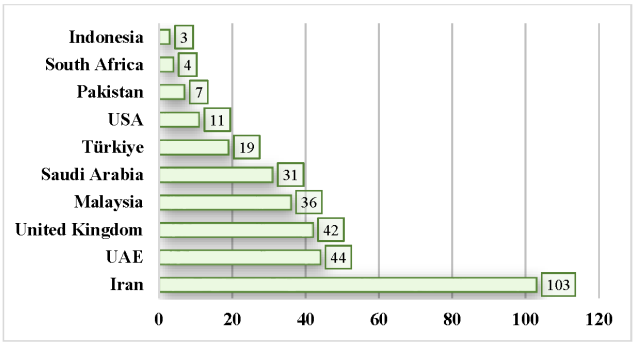


Figure 5. Leading countries by Islamic fund assets (USD billion, 2024) [1].

lamic funds, many of which were concentrated in Malaysia, Indonesia, Pakistan, and Saudi Arabia. Equity-based Islamic funds performed relatively well, while commodity and sukuk funds also recorded positive average returns in the context of gradual post-pandemic reopening. By 2024, the Islamic funds market showed clear institutional deepening, with assets under management reaching USD 308 billion and the number of active Islamic funds increasing to 2,610. Taken together, these developments indicate that Islamic funds are becoming a more dynamic and diversified segment of the global Islamic finance market [1].

Country-level data show that Iran ranked first in terms of Islamic fund assets in 2024, with USD 103 billion, followed by the United Arab Emirates with USD 44 billion and the United Kingdom with USD 42 billion. Malaysia and Saudi Arabia also held important positions, with USD 36 billion and USD 31 billion, respectively. Other countries, including Türkiye, the United States, Pakistan, South Africa, and Indonesia, accounted for smaller shares. This distribution suggests that the Islamic funds market, although still concentrated in a limited number of jurisdictions, has developed a broader geographic base than some other segments of Islamic finance. The presence of both Muslim-majority and non-OIC countries among the leading markets also indicates that Islamic funds are increasingly attracting interest beyond their traditional core jurisdictions.

According to the regional distribution shown in Figure 6, the largest share of Islamic fund assets was concentrated in the broader MENA region, followed by the GCC and Europe. Southeast Asia also accounted for a notable share, while the Americas and other regions remained relatively smaller. This pattern indicates that the Islamic funds market is still centered mainly in traditional Islamic finance regions, although its geographic reach has expanded across a wider range of markets.

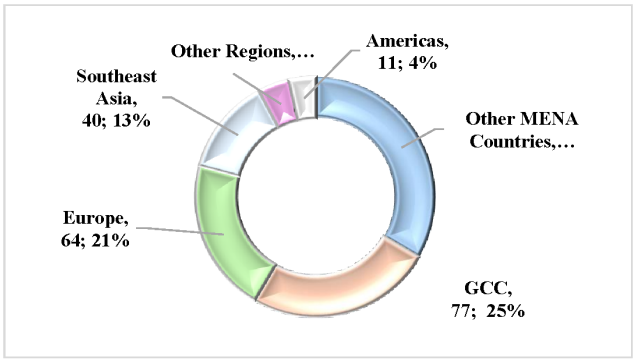


Figure 6. Regional distribution of Islamic fund assets (USD billion, 2024) [1].

4.3 Islamic Real Estate Funds

Islamic real estate funds faced significant difficulties as a result of the economic slowdown caused by the pandemic. In 2020, the sector contracted by 3.2%, as 85% of the funds—mainly real estate investment trusts and mutual funds established by asset management companies—recorded negative growth. These funds were concentrated primarily in Malaysia and Saudi Arabia.

In the United Arab Emirates, Emirates REIT reported negative results under pandemic conditions, reflecting oversupply in office space, business closures, and workforce outflows. Singapore's Islamic REIT sector also experienced weak performance, and Sabana, one of the world's largest Islamic REITs, likewise recorded negative results in 2020 [23]. At the same time, Shariah-compliant REITs remained subject to specific operational constraints, since they could not derive rental income from tenants or subtenants engaged in activities prohibited under Islamic principles.

After 2020, the sector entered a gradual recovery phase. In particular, the progressive reopening of major Islamic finance jurisdictions, especially Saudi Arabia and the United Arab Emirates, created conditions for the restoration of rental income and improved market activity. A notable institutional development occurred in July 2021, when Pakistan launched its first Islamic REIT under updated regulatory rules through Arif Habib Dolmen REIT Management [25]. This followed government efforts to make REIT structures more attractive and was accompanied by plans to introduce further Shariah-compliant real estate vehicles, including development-oriented REITs.

Overall, between 2020 and 2025 the Islamic real estate fund market moved from pandemic-related contraction toward cautious recovery. Following the decline in 2020, the reopening of economic activity and the gradual normalization of property markets in 2021–2022 helped stabilize Shariah-compliant REIT operations [24]. In 2023–2024, performance improved further, supported by favorable macroeconomic conditions in markets such as Saudi Arabia, the United Arab Emirates, and Malaysia, as well as by state-backed infrastructure projects and the revival of tourism and commercial real estate segments [16]. Nevertheless, rising global interest rates and tighter financing conditions continued to constrain growth in some markets [21]. By 2025, analytical reports suggested that the sector had returned to a cautious but stable growth path, with the long-term outlook for Shariah-

compliant leased assets and development REITs remaining broadly positive [17].

4.4 Sukuk Market

The sukuk market has remained one of the most dynamic segments of the Islamic finance industry. In 2020, the value of outstanding sukuk increased by 16%, and demand continued to strengthen in the first half of 2021, when sukuk issuance exceeded USD 100 billion, compared with USD 88.7 billion in the same period of 2020. This expansion was driven by high issuance volumes in the GCC and Türkiye, as well as continued large-scale issuance in Southeast Asia, particularly in Malaysia, Indonesia, and Brunei. Saudi Arabia nearly doubled its domestic sukuk issuance in the second quarter of 2021. By 2020, governments in the GCC and Southeast Asia together accounted for USD 588 billion of outstanding sukuk, equivalent to 93% of total sovereign sukuk supply.

Regional issuance patterns, however, were not uniform. While Southeast Asian governments continued to use sukuk markets actively to finance economic recovery amid ongoing mobility and travel restrictions, issuance in the GCC declined in the fourth quarter of 2020. Southeast Asia issued USD 23.2 billion in sukuk during that quarter, up 44% from USD 16.1 billion a year earlier, whereas GCC issuance fell to USD 10.5 billion from USD 18.1 billion, a decline of 42% [23]. This contrast reflected differences in previous borrowing levels and fiscal responses across regions. Demand for sovereign sukuk nevertheless remained strong, as shown by repeated oversubscription. In 2020, 15 countries issued sukuk, with Egypt and Nigeria returning to the market after a pause in 2019. The five largest sovereign issuers—Malaysia, Saudi Arabia, Indonesia, Türkiye, and Kuwait—accounted for 86% of total sukuk issuance in that year. In the first half of 2021, 12 countries issued sukuk, including the United Kingdom as a returning issuer and the Maldives as a new sovereign entrant. These developments show that sukuk has continued to expand not only within traditional Islamic finance jurisdictions but also in smaller and non-OIC markets.

Figure 7 illustrates the long-term growth of the sukuk market. The value of outstanding sukuk increased from USD 470 billion in 2018 to USD 1,031 billion in 2024, surpassing the USD 1 trillion threshold for the first time. In 2024 alone, the market grew by 20%, while the total number of outstanding sukuk instruments reached 4,712. This indicates that sukuk has become an increasingly important financing instrument for both sovereign and corporate issuers. Overall, the sector's expansion reflects strong investor demand, wider geographic participation, and the growing importance of capital-market instruments within the broader Islamic finance industry [1].

Country-level data show that Malaysia and Saudi Arabia were the two leading sukuk markets in 2024. Malaysia ranked first with USD 340 billion in outstanding sukuk, followed closely by Saudi Arabia with USD 313 billion. Indonesia and the United Arab Emirates also held substantial positions, with USD 111 billion and USD 100 billion, respectively. Türkiye, Pakistan, Qatar, Iran, Bahrain, and Kuwait accounted for smaller but still relevant shares of the market. This distribution indicates that the sukuk market remains concentrated in a limited number of core jurisdictions, while the participation of other countries contributes to its broader geographic diversification.

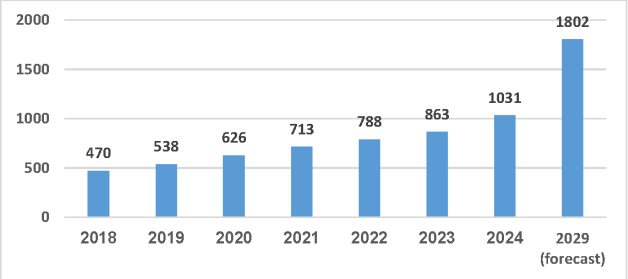


Figure 7. Growth in outstanding sukuk (USD billion, 2018–2029) [1].

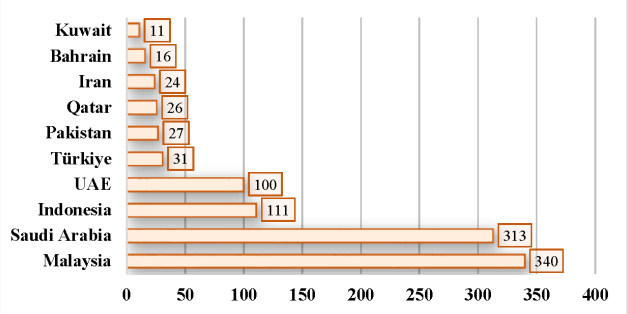


Figure 8. Leading countries by outstanding sukuk (USD billion, 2024) [1].

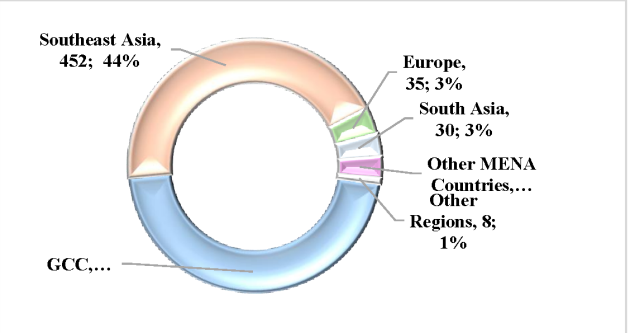


Figure 9. Regional distribution of outstanding sukuk (USD billion, 2024) [1].

The regional distribution shown in Figure 9 indicates that the sukuk market was concentrated primarily in the GCC and Southeast Asia in 2024. The GCC accounted for USD 477 billion, or 46% of total outstanding sukuk, while Southeast Asia represented USD 452 billion, or 44%. By contrast, Europe, South Asia, and other MENA countries held much smaller shares, and other regions accounted for only a marginal portion of the market. This pattern confirms that the global sukuk market remains heavily centered in its traditional regional bases, although the presence of smaller shares in other regions suggests continued potential for wider geographic expansion.

4.5 ESG in Islamic Finance

The growing orientation of the global financial system toward environmental, social, and governance (ESG) principles is expected to create significant opportunities for further growth in Islamic finance. In fact, there are important areas of convergence between ESG values and the core principles of Islamic finance, as both frameworks incorporate social, envi-

ronmental, and governance considerations. For example, the prohibition of interest-based financing, the strong emphasis on profit-and-loss sharing, and the avoidance of activities that cause harm to society are among the defining features of Islamic finance. Social considerations occupy a particularly central place in this model. Socially oriented instruments include Qard Hasan, an interest-free loan extended for welfare purposes, while zakat represents a form of obligatory redistribution for social benefit and waqf reflects charitable or endowment-based activity. In addition, the Islamic principle of preserving life is closely aligned with the environmental dimension of ESG, since both approaches discourage financing projects that may damage the environment or undermine human well-being.

The increasing global interest in ESG has been accompanied by rising demand for green and socially responsible sukuk. Since the issuance of the first green sukuk in 2017 by Malaysia's Tadau Energy to finance a 50 MW solar project, interest in this instrument has grown steadily. Although it still represents a relatively small part of the overall Islamic finance market, green and socially responsible sukuk are increasingly viewed as a segment with strong growth potential, particularly in the Gulf region.

Recent indicators confirm that sustainability has become a more visible and financially relevant component of Islamic finance. By the end of 2024, the value of outstanding ESG-aligned sukuk had exceeded USD 50 billion, although the growth rate of global sukuk issuance slowed to 14.7% in 2023. Expansion in the ESG sukuk market was driven primarily by issuances in GCC countries, with additional support from emerging participation in markets such as Qatar and Kuwait. Corporate access to capital markets in the GCC also became more active following COP28 in Dubai. Another sign of this transition is the rapid development of sustainable Islamic finance among Malaysian banks, which are increasingly financing renewable energy, green buildings, digital infrastructure, small and medium-sized enterprises, and low-carbon transport.

By 2024, ESG and sustainability had become substantially more embedded in the Islamic finance industry. The total value of outstanding ESG sukuk reached USD 61.5 billion, while ESG-oriented Islamic fund assets amounted to USD 9.7 billion. The number of countries that had introduced sustainability guidance rose to 50, indicating broader institutional acceptance of ESG principles in Islamic finance. The average sustainability reporting index reached 49%, while CSR allocations totaled USD 1.65 billion. At the country level, Saudi Arabia led in CSR allocations, whereas Malaysia recorded the strongest performance in sustainability disclosure. In the ESG sukuk market, the United Arab Emirates and Saudi Arabia held leading positions, while the United States, Malaysia, and Saudi Arabia ranked among the leading markets for ESG Islamic fund assets. Taken together, these indicators show that ESG in Islamic finance is no longer only a conceptual alignment, but has become an increasingly important practical and financial direction of market development [19, 20].

4.6 Islamic FinTech

The Islamic FinTech sector remains highly concentrated geographically. According to the Global Islamic FinTech Report 2021, the leading markets by transaction volume in 2020 were Saudi Arabia, Iran, the United Arab Emirates, Malaysia, and Indonesia, which together accounted for 75% of the market. By August 2021, the number of Islamic FinTech companies had risen to 257, compared with 142 in July 2020, representing growth of about 80%. This suggests that Islamic FinTech is no longer merely an emerging niche, but has become an increasingly important strategic priority for many major Islamic finance regulators [18].

As countries managed the post-pandemic recovery, Islamic FinTech assumed a more central role in the broader Islamic finance ecosystem by offering practical Shariah-compliant solutions to segments that had traditionally been underserved. These innovations include financing solutions for small and medium-sized enterprises, particularly through purchase-order financing. One example is Ta3meed in Saudi Arabia, the first platform specializing in purchase-order financing, which entered into partnership with the German cloud-banking provider Mambu in January 2021. Other developing areas include inventory monetization solutions, such as those offered by the United Kingdom-based company SYME, which is listed on the London Stock Exchange, as well as wealth-management services delivered through online investment platforms such as Sarwa. In addition, Bahrain-based Cocoa raised USD 15 million in Series B financing in August 2021, with the funds directed toward expanding Shariah-compliant SME lending services in Saudi Arabia [18].

At the global level, the Islamic FinTech market was estimated at approximately USD 161 billion in transaction volume in 2023/24 and is expected to reach USD 306 billion by 2028, implying an average annual growth rate of around 11%. The largest markets by transaction volume are Saudi Arabia, Iran, Malaysia, the United Arab Emirates, Indonesia, and Türkiye. At the same time, the GIFT Index 2024/25 identifies Saudi Arabia, Malaysia, Indonesia, the United Arab Emirates, and the United Kingdom as the five most favorable ecosystems for Islamic FinTech development. The index evaluates countries across 19 indicators grouped into five categories: human capital, regulation, infrastructure, the Islamic FinTech market and ecosystem, and access to capital. Bahrain, Pakistan, Qatar, and Türkiye are also recognized as rapidly improving ecosystems. Despite this progress, the sector continues to face several key constraints, including limited access to capital, regulatory complexity, insufficient customer awareness, difficulties in geographic expansion, and high customer-acquisition costs. Nevertheless, the number of Islamic FinTech firms has continued to grow, reaching around 490 companies worldwide [20].

Looking ahead, three directions appear particularly important for the future development of Islamic FinTech. First, the wider use of artificial intelligence is likely to strengthen personalized banking services, automated Shariah-compliance processes, and data-driven advisory services. Second, tokenization and digital assets may broaden access to Islamic finance by enabling the digital representation of real assets, as illustrated by tokenized sukuk initiatives for healthcare projects in Malaysia. Third, greater global regulatory harmonization, including ongoing regulatory improvements related to cryptocurrencies and central bank digital currencies in countries such as Iran and Pakistan, may help create a more

standardized framework for digital Islamic finance and reduce barriers to cross-border operations. Overall, Islamic FinTech appears well positioned to continue expanding through the combined influence of responsible finance, artificial intelligence, and regulatory innovation [20].

4.7 Shariah Governance

Shariah governance remains an important institutional component of Islamic finance development. Recent industry assessments continue to treat governance as one of the core dimensions of Islamic finance performance across jurisdictions [1]. This relevance has been reinforced by the issuance of IFSB-31 in 2025, which provides guiding principles for the effective supervision of Shariah governance and links it directly to financial stability, resilience, accountability, transparency, and the management of Shariah non-compliance risk [17]. These developments indicate that the future growth of Islamic finance will depend not only on asset expansion, but also on stronger governance frameworks, clearer supervisory expectations, and more consistent disclosure practices.

5. DISCUSSION

The results show that Islamic finance is no longer expanding only through Islamic banking, but increasingly through sukuk, Islamic funds, ESG-oriented instruments, and Islamic FinTech. This suggests that the industry is gradually becoming more diversified and institutionally broader, although its assets and market depth remain concentrated in a limited number of core jurisdictions.

At the same time, continued asset growth does not mean that structural constraints have been resolved. Key challenges remain in tax neutrality, liquidity management, and product efficiency. If Islamic finance products are not treated on an equivalent basis within tax systems, they may become less competitive than conventional alternatives. Likewise, the limited availability of Shariah-compliant liquidity instruments continues to restrict operational flexibility, while contract complexity and standardization gaps may reduce efficiency and slow wider market adoption.

Despite these constraints, the long-term prospects of Islamic finance remain positive. In many underbanked markets, Islamic finance can support broader financial inclusion by offering non-interest-based alternatives. Sukuk also has strong potential as a tool for infrastructure and development financing, while FinTech may improve efficiency, accessibility, and scalability. Overall, the future strength of Islamic finance will depend not only on asset growth, but also on better regulation, stronger market infrastructure, and greater product standardization.

6. CONCLUSION AND POLICY IMPLICATIONS

This study examined recent development trends in global Islamic finance markets by analyzing overall asset growth, sectoral composition, and key areas of institutional change. The findings show that Islamic finance has continued to expand in scale and geographic reach, with total assets rising significantly and the industry becoming more diversified over time. Although Islamic banking remains the dominant segment, the growing role of sukuk, Islamic funds, ESG-oriented instruments, and Islamic FinTech indicates that the market is gradually developing into a broader and more complex financial ecosystem. At the same time, this expansion remains uneven across countries and regions, with the largest share of assets still concentrated in a limited number of core jurisdictions.

The analysis also shows that strong market growth has not eliminated important structural constraints. Issues such as tax neutrality, liquidity management, product standardization, and operational efficiency continue to affect the competitiveness and scalability of Islamic finance. These challenges suggest that future development will depend not only on asset growth, but also on the quality of regulatory frameworks and supporting market infrastructure. From a policy perspective, this means that governments and regulators should prioritize legal and tax reforms that place Islamic financial products on a more equal footing with conventional instruments, strengthen Shariah-compliant liquidity facilities, and support deeper capital-market development, especially through sukuk. Greater attention should also be given to harmonizing standards, improving disclosure practices, and expanding professional capacity in Islamic finance.

In addition, the future potential of Islamic finance is closely linked to broader development objectives. In many underbanked markets, Islamic finance can support financial inclusion by offering alternatives for individuals and firms that prefer non-interest-based financial services. Sukuk can also serve as an effective tool for mobilizing long-term capital for infrastructure and public development projects, while FinTech can improve efficiency, access, and product delivery. Overall, the long-term prospects of Islamic finance remain positive, but sustained progress will require a combination of regulatory improvement, institutional strengthening, technological adaptation, and continued product innovation within Shariah-compliant boundaries.

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