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ANALYZING THE RELATIONSHIP BETWEEN ECONOMIC INDICATORS, DEMOGRAPHICS, AND ISLAMIC BANK ASSETS IN HIGH-ASSET OIC COUNTRIES

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Abstract

Islamic banking has expanded substantially over the past decade, however the number of institutions does not always correspond to the scale of asset accumulation. This study aims to examine the key macroeconomic and demographic determinants that influence Islamic banking asset growth in the ten countries with the highest Islamic banking assets globally. Using panel data regression with a fixed effect model over the period 2015 to 2023, this study investigates the impact of per capita income, inflation, oil prices, and Muslim population on asset growth. The findings show that, collectively, these variables significantly affect the growth of Islamic banking assets. However, only per capita income (10% significance level) and Muslim population (1% significance level) have significant individual effects, while inflation and oil prices are statistically insignificant. The novelty of this research lies in its extended time frame (2015—2023) and its focus on asset accumulation rather than profitability, an aspect relatively underexplored in previous studies. Furthermore, by concentrating on top—performing Islamic banking countries, the study offers fresh insights into the structural and religious—demographic drivers of Islamic financial development. These findings provide practical implications for policymakers and Islamic financial institutions seeking to foster sustainable growth, particularly in regions with strategic demographic advantages.

Perbankan Islam mengalami pertumbuhan signifikan dalam satu dekade terakhir, namun jumlah institusi yang ada belum mencerminkan skala akumulasi aset yang berhasil dihimpun. Penelitian ini bertujuan untuk mengkaji determinan makroekonomi dan demografis utama yang memengaruhi pertumbuhan aset perbankan Islam di sepuluh negara dengan total aset perbankan Islam tertinggi di dunia. Dengan menggunakan regresi data panel model efek tetap (fixed effect model) selama periode 2015 hingga 2023, studi ini menganalisis pengaruh pendapatan per kapita, inflasi, harga minyak, dan populasi Muslim terhadap pertumbuhan aset. Hasil analisis menunjukkan bahwa secara simultan, variabel-variabel tersebut berpengaruh signifikan terhadap pertumbuhan aset perbankan Islam. Namun secara parsial, hanya pendapatan per kapita (signifikan pada tingkat 10%) dan populasi Muslim (signifikan pada tingkat 1%) yang berpengaruh signifikan, sedangkan inflasi dan harga minyak tidak signifikan secara statistik. Kebaruan penelitian ini terletak pada cakupan waktu yang lebih panjang (2015—2023) dan fokusnya pada dimensi akumulasi aset, bukan profitabilitas, yang masih jarang dikaji dalam studi sebelumnya. Selain itu, fokus pada negara-negara dengan kinerja perbankan Islam tertinggi menghasilkan temuan baru terkait peran faktor struktural ekonomi dan demografis-religius. Temuan ini memberikan implikasi praktis bagi pembuat kebijakan dan lembaga keuangan syariah dalam merancang strategi penguatan sektor perbankan Islam jangka panjang.

INTRODUCTION

Over the past four decades, the Islamic financial sector has demonstrated significant growth, surpassing that of the real sector in many countries (Chowdhury et al., 2022; Kholis, 2018). In recent years, Islamic banks have experienced rapid expansion, particularly in Muslim—majority countries (Massadeh et al., 2021), and have received positive reception across diverse global regions, including Asia, Africa, Australia, Europe, the Americas, and the Middle East (Alharbi, 2017). Islamic finance has played a crucial role in global financial governance through the introduction of Sharia—compliant banking

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systems (Nahar & Sarker, 2016). Although the scale of Islamic banking remains relatively small compared to conventional finance, its contribution to economic growth has remained consistent, especially through the provision of financing solutions based on Sharia principles (P. Imam & Kpodar, 2015; Nugroho et al., 2020).

In 2023, total global Islamic banking assets reached USD 3.57 trillion, representing a 12% increase from the previous year. These assets are managed by 618 Islamic banking institutions operating in 75 countries ((IFDI), 2024). The growth has been driven by increasing financial inclusion, digital transformation, and Sharia−friendly national policies. However, the number of institutions does not always correlate with the volume of assets managed. For instance, the non−GCC MENA region and the GCC together account for approximately 86% of global Islamic banking assets, USD 1.557 trillion and USD 1.506 trillion respectively, reflecting a strong concentration in the Middle East ((IFDI), 2024).

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At the country level, Iran holds the highest Islamic banking assets with USD 1.482 trillion, followed by Saudi Arabia (USD 794 billion), Malaysia (USD 275 billion), and the United Arab Emirates (USD 274 billion). In Southeast Asia, total assets reached USD 337 billion, while other regions such as Europe (USD 78 billion), South Asia (USD 85 billion), and Sub−Saharan Africa (USD 4 billion) remain relatively small but exhibit an upward trend. Furthermore, projections indicate that Islamic banking assets may reach USD 5.248 trillion by 2028, reflecting strong market optimism regarding the long−term relevance of Islamic finance in the global financial system ((IFDI), 2024).

Figure 1 depicts the distribution of Islamic banking assets among the top ten countries in 2023, as reported by IFDI (2024). This graphical representation facilitates comparative analysis of asset dominance across jurisdictions.

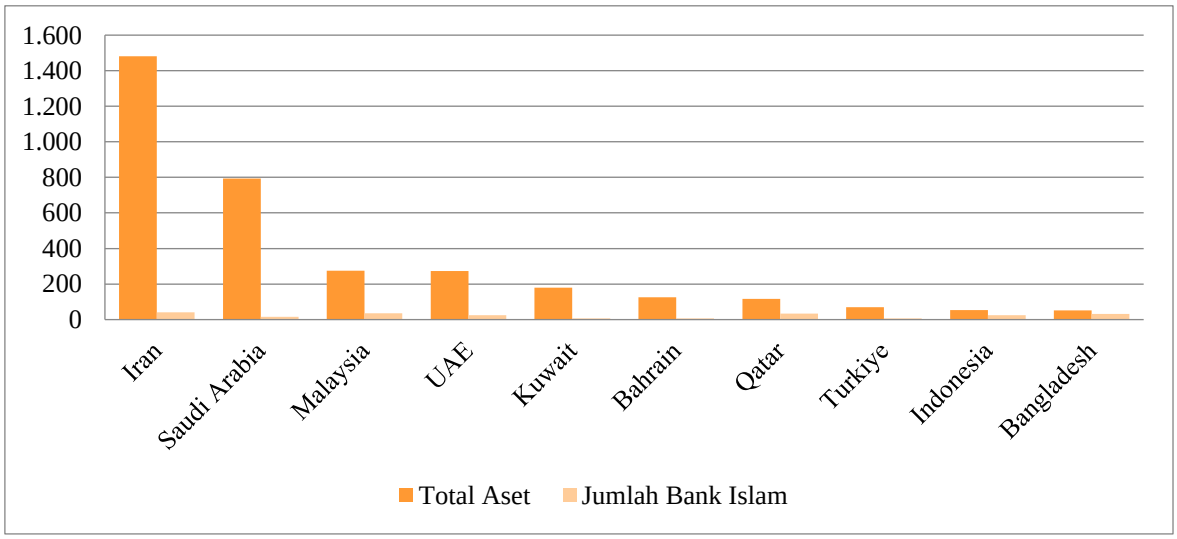

Figure 1: Top Islamic Bank Assets in High−Asset OIC Countries
Source: IFD Report, 2024

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According to Mankiw (2020), per capita income refers to the average income earned by the population of a country within a year. The relationship between per capita income and Islamic banking assets is generally established through saving behaviour (Mankiw, 2020). Keynes argued that savings are not determined by interest rates, but rather by the level of income received by households. His theory of the propensity to consume directly links public savings to income levels. As per capita income increases, so does the tendency to save, which in this context boosts deposits in Islamic banks (Naser et al., 2024). Consequently, the growing demand for Islamic banking products can enhance profitability and increase the total assets of Islamic banks (Abdelzaher, 2022). Conversely, low per capita income may impede asset growth.

Moreover, rising per capita income not only influences savings but also expands investment capacity and access to more sophisticated financial products. In countries with large Muslim populations, this creates a favorable environment for Islamic banks to introduce diversified Sharia—compliant offerings, from retail financing to corporate investment products. Higher income levels often correlate with increased financial literacy, further encouraging individuals to engage with formal banking systems rather than informal channels. This dynamic reinforces the asset base of Islamic banks, as both deposits and financing activities grow. Therefore, sustained income growth serves as a critical driver of long—term asset expansion in Islamic banking.

Inflation is another important factor influencing the sustainability and performance of Islamic banking. According to Perry's theory (1992), Islamic banks, like their conventional counterparts, face challenges in accurately predicting inflation, which can erode profitability and distort financial planning. Inflation exerts a strong impact on savings behavior within Islamic banks (Rahmalia et al., 2022). When inflation rises, households often shift their spending patterns toward immediate consumption, thereby reducing the proportion of income allocated to savings. This reduction in savings can lead to a decline in third—party funds, which form a major source of liquidity for Islamic banks. A lower deposit base directly limits the banks' ability to extend financing, constraining both asset growth and potential returns (Abou Elseoud et al., 2020; Khan et al., 2023; Tiara Putri et al., 2019). Consequently, sustained inflationary pressures may undermine the long—term growth trajectory of Islamic banking by weakening its funding capacity and operational stability.

Another critical factor is oil prices. Oil remains one of the most globally influential commodities. Since 2016, oil prices have experienced substantial increases in line with rising demand. Economic sensitivity to oil price fluctuations can be attributed to several factors, including oil's role as a key production input, its impact on trade balances, and its influence on overall macroeconomic conditions (Slimane & Alsolamy, 2024). Oil price shocks can influence bank profitability. Several studies have found that rising oil prices can improve bank performance through increased public savings. However, the effects are asymmetric; the adverse impacts of rising oil prices tend to outweigh the benefits of price declines (Shah et al., 2023). This is particularly relevant because countries with the highest Islamic banking assets are also major oil producers, such as Saudi Arabia, the United Arab Emirates, Kuwait, and Iran (SESRIC, 2023).

As of 2025, the global Muslim population is estimated at approximately 2 billion people (World Population Review, (2025). This demographic represents a significant market potential for the Islamic banking industry (Nasfi et al., 2023). The Muslim population is a primary driver of demand for halal and Sharia—compliant financial products and services. Religious beliefs and social responsibility are major considerations in Muslim consumers' financial decision—making processes (Al—Ajmi et al., 2009;

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Budiman et al., 2021). Naser et al. (Naser et al., 2024) emphasize that the Muslim population size is significantly correlated with the growth of Islamic banking, particularly in Asia, the Middle East, and North Africa.

Islamic banking growth varies significantly across countries, reflecting differences in economic structures, regulatory frameworks, and demographic profiles. This diversity highlights the need for further research to identify the key drivers influencing asset expansion in the sector. Understanding these determinants can help policymakers design targeted strategies to enhance Islamic banks' capacity for sustainable growth (Amzal, 2016). Moreover, governments play a crucial role by ensuring consistent and forward—looking macroeconomic policies that foster economic stability, stimulate investment, and support industrial capacity utilization (Tasnova, 2022). Such coordinated efforts can strengthen the resilience of Islamic banking while promoting its contribution to broader economic development.

Although various studies have examined the relationship between macroeconomic indicators and Islamic banking development, most prior research has been limited to one or two variables, such as per capita income or inflation, and focused on single—country or regional analyses. Few studies have comprehensively investigated the simultaneous impact of per capita income, inflation, oil prices, and Muslim population size on Islamic banking assets, particularly across the ten countries with the largest Islamic banking sectors globally. This study offers a novel contribution by constructing an empirical model that examines the interaction between macroeconomic variables, energy factors (oil prices), and religious—demographic factors (Muslim population) on the growth of Islamic banking assets. Through a cross—country panel data approach and the use of recent data, this research aims to provide deeper strategic and policy—relevant insights to support the development of the global Islamic financial system.

By integrating these diverse determinants into a single analytical framework, the study addresses an important gap in the literature and offers a more holistic understanding of the factors shaping Islamic banking asset growth. This comprehensive perspective enables the identification of both common drivers and country—specific influences, which is essential for tailoring effective policy interventions. Furthermore, the cross—country scope allows for meaningful comparisons between high—performing and emerging Islamic banking markets, shedding light on structural, macroeconomic, and demographic conditions that foster sustainable expansion. Such insights are invaluable for regulators, industry practitioners, and international organizations aiming to strengthen Islamic finance globally.

Literature Review

Keynesian Theory of Income and Output

The Keynesian Theory of Income and Output states that the level of national income and output is primarily determined by aggregate demand the total expenditure on goods and services in the economy—and its interaction with aggregate supply. According to Keynes, the level of employment depends on effective demand, which generates output, thereby creating income that sustains employment. Equilibrium income is achieved when aggregate demand equals aggregate supply (Kahn, 2022).

Key aspects of this theory include: aggregate demand mainly consists of consumption and investment. When aggregate demand increases, output (income) and employment also rise, particularly when there is unused production capacity. Consumption increases as income rises, but at a lower proportion because part of the income is saved; hence, savings also increase when income grows. Equilibrium income occurs when savings equal investment; however, this can occur at a level of output below full employment, which Keynes referred to as "*unemployment equilibrium*." Government policies can influence

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income and employment by managing aggregate demand, for example through public investment or fiscal stimulus. In the short run, aggregate supply (the value of output produced) is assumed to be stable, so Keynesian analysis focuses more on demand fluctuations. Changes in aggregate demand lead to changes in output and employment levels rather than price adjustments, distinguishing this theory from the classical model. The Keynesian framework can be explained within two−sector (household and firms), three−sector (adding government), and four−sector (adding foreign trade) models, with increasingly complete components of aggregate demand.

The theory, first introduced in The General Theory of Employment, Interest, and Money (1936), emphasizes that consumption and savings are more influenced by the level of income than by interest rates. Two key concepts are the propensity to consume and the propensity to save. As income increases, consumption rises but not in proportion to the income increase, so part of the income is allocated to savings (Keynes 1963).

In the context of this study, higher per capita income increases the public's capacity to save, including deposits in Islamic banks. These savings form a major component of third−party funds, which are used by banks to expand their financing portfolios and assets. In other words, the causal relationship can be expressed as:
Per capita income → Savings rate → Bank asset growth.

Keynes also acknowledged that macroeconomic factors such as inflation can reduce purchasing power, decrease savings, and hinder the accumulation of banking assets (Mankiw, 2020). High inflation erodes the real value of savings, reduces incentives to save, and restrains bank asset growth. Thus, in the Keynesian framework, two primary channels are relevant:

- Per capita income: higher income increases savings and bank assets.
- Inflation: higher inflation reduces savings and constrains bank asset growth.

Previous studies support this view. Research in Indonesia and OIC member states has shown that economic variables such as GDP growth, inflation, interest rates, and liquidity significantly affect the performance and asset growth of Islamic banks. For instance, in the Gulf Cooperation Council (GCC) region, high GDP growth has stimulated Islamic bank expansion through increased financing, while elevated oil prices have strengthened third−party funds via greater liquidity (Syarif, 2024). Conversely, high inflation has been shown to negatively affect deposit volumes and Islamic bank asset growth by reducing the attractiveness and real value of savings (Kristianingsih, 2022).

Financial Intermediation Theory

The Financial Intermediation Theory explains the role of financial institutions, particularly banks, as intermediaries that connect surplus units (savers) with deficit units (borrowers) for investment or consumption purposes. Banks mobilize funds from surplus economic units such as households, businesses, and governments, and channel them to deficit units that require financing (Sari & Adinugraha, 2022).

According to Gurley & Shaw , banks play a critical role as intermediaries between fund owners and fund users. Bank asset growth depends on two primary factors: 1) The ability to mobilize third−party funds, influenced by public income levels, economic stability, and trust in financial institutions. 2) The availability of liquidity, especially in oil−producing countries, where high oil prices increase government and private sector revenues, thereby enhancing banking system liquidity (Levine, 2005).

In this study, GDP, inflation, oil prices, and the Muslim population are linked to financial intermediation mechanisms as follows:1) Per capita income increases the capacity to save and expand third−party funds. 2) Inflation decreases the attractiveness of savings and reduces liquidity. 3) Oil prices influence banking system liquidity, particularly in oil−exporting countries, through higher export revenues and capital inflows.

This theory is relevant for explaining how macroeconomic indicators affect the operations of Islamic banks, which act not only as financial intermediaries but also as providers of Sharia−compliant products, leading to potentially different responses compared to conventional banks (Allen & Santomero, 1997). Empirical studies, such as those on GCC countries, have shown that Islamic banks' liquidity and financing capacity

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in oil—producing economies are positively influenced by oil price fluctuations, which boost third—party funds and financing expansion (KNEKS, 2025).

Maqashid al-Shariah Framework in Islamic Banking

The Maqashid al—Shariah framework in Islamic banking is an approach to ensure that all activities and products not only comply formally with Islamic law but also aim to achieve its higher objectives, which consist of five key goals: preservation of religion (al—din), life (al—nafs), intellect (al—'aql), lineage (al—nasl), and wealth (al—mal) (Abu Zahrah, 1997). In Islamic finance, implementing maqashid serves as the foundation for creating a fair, transparent, and sustainable financial system that delivers public benefit and avoids harm, rather than merely seeking financial profit.

The maqashid principle requires that economic activities preserve these five objectives. In this context, Muslim customers choose financial products not only based on profitability but also on compliance with religious values, such as profit—and—loss sharing, prohibition of riba (usury), and ethical investment (Chapra, 1998; Kamali, 2008)

A large Muslim population in OIC countries increases the demand for Islamic banking products, expands the customer base, and stimulates asset growth. Demographic factors such as education, income, age, and employment status also influence the decision to choose Islamic banking products (Dusuki & Bouheraoua, 2011).

Empirical evidence supports this claim. In OIC member states such as Indonesia, Malaysia, Pakistan, the UAE, and Saudi Arabia, Islamic finance has shown significant growth with stable asset expansion and improved profitability. Studies have found that global Islamic financial assets are dominated by the GCC region (Saudi Arabia, UAE, Bahrain, Kuwait, Qatar), which accounts for 43% of total global assets, while the MENA region contributes 40%. This growth is driven by increasing religious awareness, large Muslim populations, supportive regulations, and rising Sharia financial literacy (Hanifah & Zuhroh, 2024).

Similarly, Abduh & Omar found that a large Muslim population is an active factor driving Islamic bank asset growth. In ASEAN, there is a positive correlation between the proportion of Muslims and the growth of Islamic banks (Indrawati et al., 2022). ven in Muslim—minority countries, preference for Islamic banking remains strong if supported by adequate regulations and financial literacy (Metwally, 1997). Religious orientation influences financial service consumption patterns, contributing to sustainable growth in Islamic bank assets (Ebrahim & Joo, 2001).

In summary, a large Muslim population plays a significant role in expanding the customer base and promoting Islamic bank asset growth in OIC countries, with demographic factors and religious awareness being key drivers.

Research Hypotheses

Based on the theoretical framework and literature review above, the research hypotheses are as follows:

H_1: Per capita income has a positive effect on the total assets of Islamic banks in OIC countries.

H_2: Inflation has a negative effect on the total assets of Islamic banks in OIC countries.

H_3: Oil prices have a positive effect on the total assets of Islamic banks in OIC countries.

H_4: The percentage of the Muslim population has a positive effect on the total assets of Islamic banks in OIC countries.

METHOD

This study employs a quantitative explanatory approach using secondary data obtained from various credible sources, including SESRIC, the U.S. Energy Information Administration (EIA), World Population Review, the Islamic Finance Development Indicator (IFDI), and the International Monetary Fund's World Economic Outlook. The observation period spans from 2015 to 2023, enabling a comprehensive trend analysis that captures both the pre—pandemic and post—pandemic dynamics. The population of this study includes 72 member countries of the Organization of Islamic Cooperation (OIC), of

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which 61 consistently reported Islamic banking asset data. From this population, a purposive sampling technique was used to select ten countries with the highest Islamic banking asset values, namely Iran, Saudi Arabia, Malaysia, the United Arab Emirates, Qatar, Kuwait, Bahrain, Turkey, Bangladesh, and Indonesia.

The research model is theoretically constructed to examine the hypothesis that macroeconomic and demographic variables have a significant influence on total Islamic banking assets. The model draws upon previous literature that highlights the relationship between per capita income, inflation, oil prices, and the Muslim population with the growth of the Islamic financial sector and public saving behavior (Budiman et al., 2021; Naser et al., 2024; Slimane & Alsolamy, 2024). This study uses five variables, consisting of one dependent variable—total Islamic banking assets (measured in USD billions)—and four independent variables, namely gross domestic product (GDP) per capita in constant domestic currency, the annual inflation rate (Consumer Price Index/CPI), the annual average global oil price in USD per barrel, and the Muslim population per country measured in millions. Each variable was selected based on its theoretical and empirical relevance to the structure of Islamic banking assets in both oil－producing and non－oil－producing countries.

Panel data regression is employed as the analytical method, as it allows for the integration of both time series and cross－sectional dimensions within a single estimation model. This method offers several advantages, including the ability to control for unobserved heterogeneity among countries, reduce potential multicollinearity among explanatory variables, and generate more efficient and informative parameter estimates compared to single cross－sectional or time－series regressions (Gujarati & Porter, 2010). The panel regression estimation was conducted using three primary approaches: the Common Effect Model (CEM), which assumes homogeneity across cross－sectional units; the Fixed Effect Model (FEM), which controls for unique characteristics within each country; and the Random Effect Model (REM), which treats individual heterogeneity as part of the error component. The selection of the best－fitting model was based on a sequence of well－established econometric tests, namely the Chow test to compare CEM and FEM, the Hausman test to compare FEM and REM, and the Lagrange Multiplier (LM) test to compare CEM and REM. The outcomes of these tests were used to determine the most appropriate panel regression model that aligns with the nature of the data and satisfies classical regression assumptions. The final model was subsequently used to interpret the influence of each independent variable on the Islamic banking assets in the selected countries.

RESULTS AND DISCUSSIONS

The following section presents the study's results, discusses the findings in the context of economics, finance, and banking, and outlines implications for both theoretical advancement and practical application in the field of Islamic banking across OIC countries.

Results

Table 2 provides the descriptive statistics of the main variables used in the model, covering Asset, GDP, CPI, Oil Price and also POPM.

Table 2. Descriptive Statistics

	ASSET	GDP	CPI	OILPRICE	POPM
Mean	9.392523	12.56537	7.450889	8.737002	16.78076
Median	9.388057	11.76580	3.025000	8.767329	17.05740

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Maximum	11.90632	19.10634	72.30000	9.223454	19.33549
Minimum	7.600902	8.967757	−2.600000	8.339023	13.77938
Std. Dev.	1.065899	3.253383	13.64402	0.277523	1.823270
Skewness	0.290182	0.853477	2.919758	0.143561	−0.219236
Kurtosis	2.313068	2.460210	11.22463	2.011725	1.625957
Jarque−Bera	3.032621	12.01900	381.5416	3.971724	7.800951
Probability	0.219520	0.002455	0.000000	0.137262	0.020232
Sum	845.3271	1130.883	670.5800	786.3302	1510.269
Sum Sq. Dev.	101.1166	942.0208	16568.17	6.854678	295.8640
Observations	90	90	90	90	90

Estimation Results of the Panel Regression Models with the Fixed Effect Model (FEM) presented in Table 3.

Table 3. Estimation Results of the *Fixed Effect Model* (FEM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	−70.61276	8.314959	−8.492257	0.0000
GDP	0.746247	0.394663	1.890846	0.0625
CPI	0.003076	0.003130	0.982949	0.3288
OILPRICE	−0.034604	0.119965	−0.288453	0.7738
POPM	4.225543	0.476964	8.859255	0.0000
Effects Specification				
Cross−section fixed (dummy variables)				
R−squared	0.959646	Mean dependent var		9.392523
Adjusted R−squared	0.952743	S.D. dependent var		1.065899
S.E. of regression	0.231713	Akaike info criterion		0.055397
Sum squared resid	4.080497	Schwarz criterion		0.444257
Log likelihood	11.50712	Hannan−Quinn criterion.		0.212208
F−statistic	139.0242	Durbin−Watson stat		1.608699
Prob(F−statistic)	0.000000			

Source: Eviews 9 Output

Interpretation. The Fixed Effect Model yields an R−squared value of 0.9596, indicating that 95.96% of the variation in the log of total Islamic banking assets is explained by the independent variables included in the model. The model is also statistically significant overall (F−statistic = 139.02; $p < 0.01$). The variable GDP per capita exhibits a positive relationship with Islamic bank assets, significant at the 10% level ($p = 0.0625$), suggesting that a 1% increase in GDP per capita is associated with an estimated 0.75% increase in Islamic banking assets. This implies that consumer purchasing power plays a relevant role in driving the growth of the Islamic banking sector. The variable Inflation is statistically insignificant ($p = 0.3288$), with a small positive coefficient, indicating that inflation does not have a clear or consistent impact on Islamic banking assets within the sample period. Similarly, Oil prices are not statistically significant (p value = 0.7738), with a slightly negative coefficient, suggesting that global oil price fluctuations do not directly influence the short−term growth of Islamic banking assets. In contrast, the Muslim population has a highly significant positive effect (p value = 0.0000), where a 1% increase in the Muslim population is estimated to raise Islamic banking assets by 4.23%, highlighting it as a key determinant of Islamic financial sector development.

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Discussions

Analyzing Per Capita Income's Effect on Islamic Bank Assets in Top OIC Countries.

The analysis indicates that per capita income exerts a positive and marginally significant influence on the total assets of Islamic banking institutions. This conclusion is drawn from the p−value of the t−statistic, which is slightly above the 5% significance level but below 10% (0.0625 < 0.10). This suggests that a 1% increase in per capita income is estimated to raise Islamic banking assets by approximately 0.75%. While the relationship is not strongly significant, the positive direction aligns with previous studies by Hidayat et al., (2020); Lalon et al., (2023); Rizal & Humaidi,(2019), all of which concluded that per capita income has a significant positive influence on the profitability of Islamic banks.

Per capita income refers to the average annual income earned by individuals in a country, serving as a key indicator of economic well−being. A sustained increase in per capita income often stimulates the development of the banking sector, as it enhances individuals' financial capacity. According to Abdelzaher, (2022), higher per capita income influences both consumption and investment behaviors, encouraging greater savings and capital allocation toward financial products. In the context of Islamic banking, rising per capita income not only boosts deposit levels but also expands the demand for Sharia−compliant financial services, making it a significant driver of asset growth.

In the context of Islamic economics, income allocation is emphasized across three main areas: consumption, saving, and investment. Islam advocates for a modest lifestyle and prohibits extravagance (israf) and wasteful spending (tabdhir), encouraging individuals and their families to avoid financial hardship. Hence, saving is motivated by ethical values such as frugality and the virtue of avoiding poverty. Furthermore, zakat obligations may encourage Muslims to allocate more of their income to productive investments, thereby reducing social inequality (Batorshyna et al., 2021).

The growing interest in Islamic banking products through deposits and investments can enhance the profitability of Islamic banks. As (P. A. Imam & Kpodar, 2010) noted, higher per capita income generates increased demand for Islamic financial services. As income rises, savings tend to increase, along with demand for financial services such as loans, trade credit, and other financial activities. Consequently, this increase in profitability may contribute to the growth of Islamic banking assets (Jadah et al., 2020; JAVED et al., 2021). Nevertheless, the marginal significance observed in this study suggests that income alone may not be the dominant factor, and structural or behavioral variables could be influencing the relationship differently across OIC countries.

Analyzing Inflation's Effect on Islamic Bank Assets in Top OIC Countries.

Based on the test results, inflation is found to have no statistically significant effect on the total assets of Islamic banks. This is revealed through the p−value of the t−statistic, which exceeds the 5% significance level (0.3288 > 0.05), indicating that inflation does not influence Islamic bank asset growth in a measurable way when examined individually. These results contradict the initial hypothesis that inflation would have a negative effect on Islamic banking assets.

This finding is supported by previous studies conducted by Purwasih & Wibowo, (2021) and Rizal & Humaidi, (2019), which also revealed that inflation has no significant impact on the growth of Islamic bank assets. In other words, fluctuations in the inflation rate do not appear to act as a catalyst for the expansion of Islamic banking. Sitompul et al., (2021) explained that during periods of high inflation, public trust in Islamic banking tends to increase compared to conventional banking. This trust can be attributed to historical experiences during the 1998 economic crisis, when inflation was extremely high

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and many conventional banks failed. These failures were largely due to unsustainably high interest rates imposed to counter inflation and retain depositors, ultimately resulting in negative spreads and the inability of banks to return both principal and interest to their depositors. However, the present analysis indicates that this trust, while perhaps beneficial reputationally, does not translate into statistically significant asset growth in the short term.

One possible explanation for the insignificant relationship is that Islamic banks may employ asset management strategies that mitigate the adverse effects of inflation, such as prioritizing asset−backed financing and risk−sharing contracts that preserve real value. Additionally, many OIC countries adopt monetary and fiscal policies aimed at stabilizing prices, which can cushion the banking sector from inflationary pressures. The relatively short−term nature of inflation fluctuations compared to the long−term horizon of asset accumulation may also weaken the observed statistical relationship. Thus, while inflation can influence consumer purchasing power and investment sentiment, its direct effect on Islamic banking asset growth remains minimal.

Analyzing Oil Price Influence on Islamic Bank Assets in Top OIC Countries.

Based on the test results, the study finds that oil prices do not have a statistically significant impact on the growth of total Islamic banking assets. This is indicated by the p−value of the t−statistic ($0.7738 > 0.05$) and a small negative coefficient (-0.0346). These findings contrast with empirical studies by Effendi, (2019); Shah et al., (2023); Slimane & Alsolamy, (2024), which found oil prices to be a significant factor in explaining banking sector performance, particularly in oil−exporting countries.

Although global oil prices are a key macroeconomic driver affecting government revenue, trade balances, and liquidity this study finds no statistically relevant effect on Islamic banking assets in the selected OIC countries. Several explanations are plausible: the increasing economic diversification of many OIC nations may have reduced the direct impact of oil prices on financial sector dynamics, or the relationship may be lagged, structural, or mediated by government policy. As Slimane & Alsolamy, (2024) argued, oil price shocks can be asymmetric and context−dependent. Therefore, the insignificant finding here suggests a need to re−examine the role of oil price channels in Islamic banking using more nuanced models.

Furthermore, the result highlights that Islamic banking asset growth in these countries may be more dependent on domestic economic fundamentals, such as income levels, demographic structure, and institutional capacity, rather than on volatile global commodity prices. This shift could indicate a gradual decoupling of the Islamic financial sector from oil market fluctuations, underscoring the importance of strengthening non−oil economic sectors to sustain long−term financial stability and growth.

Analyzing the Muslim Population's Effect on Islamic Bank Assets in Top OIC Countries.

According to the findings of the empirical analysis, the Muslim population exerts a strong and highly significant influence on the total assets of Islamic banks. This is evidenced by the p−value of the t−statistic being far below the 1% significance level ($0.0000 < 0.01$), and a large coefficient of 4.2255. The findings are consistent with previous research conducted by Bakhouche et al., (2022), who confirmed that the Muslim population significantly influences the overall asset base of Islamic banks. This implies that the Muslim population contributes to the increasing likelihood of Islamic banking development, thereby supporting the growth of total Islamic banking assets.

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The population plays a significant role in driving economic growth, particularly through demand, as the population acts as consumers (Nasfi et al., 2023). In this context, the Muslim population plays a role in increasing the demand for Islamic banking products. For Muslims, religious beliefs and social responsibility are key factors in selecting a banking institution (Budiman et al., 2021). Massadeh et al., (2021) found that the majority of Muslims residing in Asia, the Middle East, and North Africa seek to engage with economic systems aligned with their religious beliefs. Consequently, the growing Muslim population is expected to drive higher demand for products and services provided by Islamic banks, leading to increased profitability and the expansion of total assets in the Islamic banking sector.

Moreover, a large Muslim population not only expands the customer base for Islamic banking but also strengthens market penetration opportunities in both urban and rural areas. In many OIC countries, financial inclusion initiatives tailored to Sharia—compliant products can effectively capture underserved segments of the Muslim population, particularly in regions where conventional banking penetration remains low. The demographic advantage also fosters long—term stability in demand, as population growth ensures a continuous inflow of potential customers for Islamic financial services. Thus, the positive and significant relationship between Muslim population size and Islamic banking assets reflects both cultural affinity and strategic market potential.

CONCLUSION

The findings of this study offer several important implications for both theoretical development and practical application within the field of Islamic banking in OIC countries. From a theoretical perspective, this research highlights that not all macroeconomic variables traditionally associated with banking asset growth exert the same influence in the context of Islamic financial institutions. While per capita income shows a positive yet only marginally significant effect, and oil prices demonstrate no significant impact, the results challenge the assumption that economic growth and commodity—based revenues are always central to Islamic banking expansion. These findings suggest the need for more nuanced theoretical models that incorporate context—specific dynamics, including socio—religious influences and institutional factors.

The strong and statistically significant effect of the Muslim population confirms the central role of demographic and religious alignment in shaping demand for Islamic financial products. This supports existing theoretical arguments that consumer behavior in Islamic finance is not driven solely by economic incentives, but also by adherence to Shariah principles and ethical considerations. As such, theories of Islamic financial behavior may benefit from further integration of socio—cultural dimensions alongside macroeconomic indicators. On a practical level, the findings suggest that policymakers and Islamic financial institutions should not rely exclusively on income growth or macroeconomic cycles to expand the Islamic banking sector. Instead, strategic focus should be directed toward improving accessibility, enhancing financial literacy, and designing products that are closely aligned with the religious and ethical preferences of Muslim communities. The insignificant role of inflation and oil prices in this study also implies a certain level of resilience within Islamic banking assets, potentially positioning the sector as a stable alternative in times of economic uncertainty.

Moreover, this study underscores the need for future research to explore potential mediating factors such as regulatory quality, digital transformation in Islamic banking, or public trust dynamics. Comparative analyses across different Islamic banking systems or

deeper time—series approaches may offer additional insights into how external factors shape asset growth differently across OIC member states.

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