



Inflation vs Islamic Finance

Measuring The Resilience Of Islamic Finance Globally



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As inflation storms the gates of global economies, a quiet resilience is observed in Ethics-based finance.

The study covered

20+ Financial Jurisdictions



In an age of rising prices and declining purchasing power, inflation has emerged not just as an economic phenomenon, but as a test of financial philosophy. For Nigeria, where double-digit inflation has persisted in recent times, the pain is visible across every sector from banking to basic household budgeting. Yet amid the financial unease, a quiet corner of the market appears to be holding steady. That corner is Islamic finance.

A recent study by our Chief Business & Strategy Officer, Zakari Aliyu Ahmadu & Associate Professor of Finance Muritala Adewale Taiwo of the Faculty of Management Sciences at Nile University of Nigeria, published in the Central Bank of Nigeria Journal, Bullion (Vol. 4, 2024), provides a rare qualitative insight into how Islamic and conventional financial models fare under inflationary pressure. Drawing on over 40 published academic and professional studies from economies including Malaysia, Pakistan, Indonesia, MENA region, Saudi Arabia, Turkey, UK, Iran, Italy and Nigeria, the research applies thematic analysis to distil key insights across jurisdictions. It uncovers not only performance patterns but also philosophical distinctions that carry practical weight in uncertain times.

Inflation: The Stress Test for Financial Systems

Inflation, by its nature, distorts everything in its path: cost of capital, consumer confidence, investment horizons, and real returns. In conventional finance, where interest-bearing instruments, debt leverage, and speculative assets dominate, inflation often erodes value and magnifies risk making the very mechanisms that drive performance in stable times liabilities in volatile climates.

In contrast, Islamic finance, grounded in the principles of equity, asset backing, and risk-sharing approaches investment from a fundamentally different vantage point. Interest (riba) is prohibited, as is excessive uncertainty (gharar), and contracts must be tied to real economic activity. These constraints, far from limiting performance, can act as ballast in turbulent times.

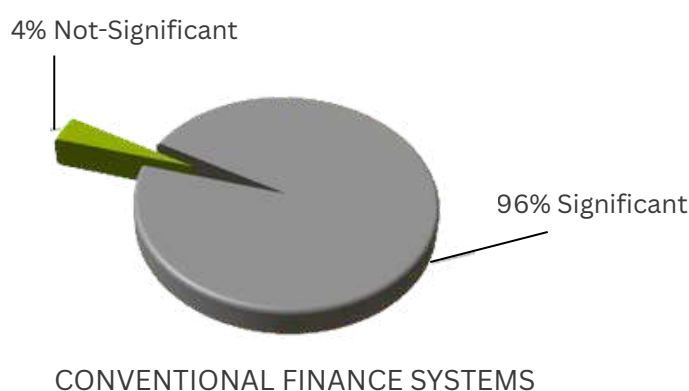
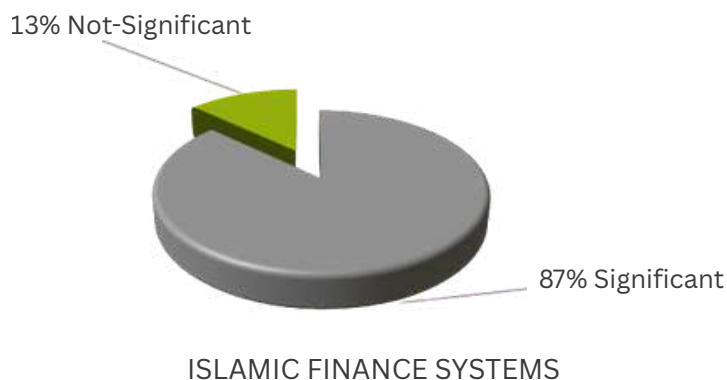
The research indicated that Islamic Finance investment performance has demonstrated a **9% greater resistance to inflationary pressures.**

Built-In Resilience

According to the findings, Islamic investments display a form of embedded stability. Instruments such as Sukuk, Mudarabah, and Musharakah derive their returns from underlying assets and shared risk, rather than fixed interest. Real assets, including Real Estate and commodities, the mainstays of Islamic investment portfolios are often more inflation-resilient than financial derivatives or fixed-income bonds.

The study also points to another important buffer: Islamic finance discourages speculative behavior and over-leveraging. In doing so, it creates a system more grounded in economic fundamentals. That grounding has served Islamic investors well during inflationary spikes.

The study observed that: “Where conventional products chase yield through aggressive instruments, Islamic finance tends to focus on stability, preservation of capital and real value creation. That orientation becomes an advantage when inflation is high and liquidity is tight.”



Ahmadu & Taiwo, Impact of Inflation on Investment Performance of Islamic and Conventional Finance, CBN Bullion Journal Volume 48, No. 4

Key

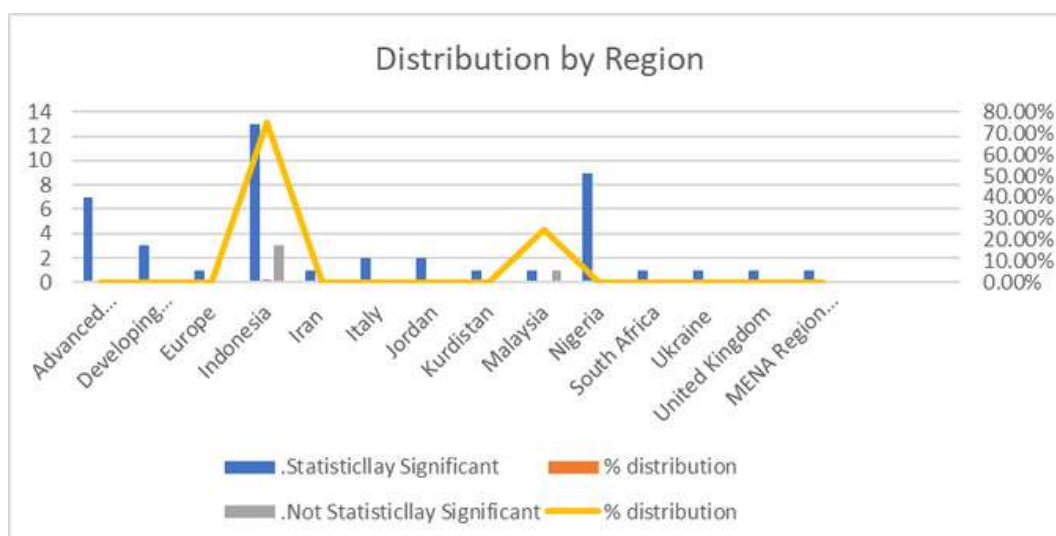
- Non-Significant Impact of Inflation
- Significant Impact of Inflation

Not Without Challenges



Still, the study is not uncritical. It highlights several challenges constraining Islamic finance from fully capitalizing on its potential advantages. Key among them is a limited range of inflation-protected instruments specifically tailored to Islamic investment needs. Additionally, the broader regulatory and monetary policy environments in many developing countries, Nigeria included, do not yet fully accommodate the nuances of Islamic finance.

There is also a knowledge gap; as retail investors often lack awareness of how Islamic financial tools work, especially in relation to conventional options. This makes adoption slower and creates a perception problem: that Islamic finance is too niche, too conservative, or too complex. The paper underscores the need for better investor education, policy alignment, and product innovation to bridge these gaps.



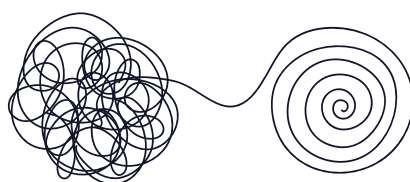
Relationship between inflation and investment performance in conventional financial institutions by countries and economies.

Ahmadu & Taiwo, Impact of Inflation on Investment Performance of Islamic and Conventional Finance, CBN Bullion Journal Volume 48, No. 4

A Philosophical Advantage

Perhaps the most profound contribution of the paper lies in its philosophical contrast; while conventional finance leans on profit maximization, Islamic finance is anchored in justice, ethics, and social good. This is not mere branding, it manifests in how risk is distributed, how contracts are written, and how investments are prioritized.

In a world reeling from economic shocks brought about by inflation, currency devaluation, global supply disruptions from geopolitical events, this ethical foundation may prove more valuable than ever. Investors are increasingly questioning not just what they invest in, but why and for whom. Islamic finance provides clear responses to these inquiries, grounded in centuries of jurisprudential tradition.



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The Future of Non-Interest Finance

Inflation has exposed the fragility of traditional finance. But it has also validated the cautious, principle-bound approach of Islamic models. For policymakers, fund managers, and financial institutions, Ahmadu & Taiwo's study offers both a critique and a roadmap. The task now is to modernize Islamic finance without diluting its values to expand its reach without compromising its roots.

As Nigeria and other emerging economies contend with the impacts of inflation, Islamic finance is increasingly recognized as a viable alternative. This may serve as a model for resilience.



The full paper can be accessed here:

https://www.cbn.gov.ng/Out/2025/CCD/BULLION_VOLUME_NO4_OCTOBER_DECEMBER_2024.pdf

Ahmadu et al. 2024, Impact of Inflation on Investment Performance of Islamic and Conventional Finance,
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Zakari led Nigeria's first Halal Pension Fund under the contributory pension scheme with Sigma pensions (Later Access pensions). He holds an MPhil in Management from Nile University of Nigeria, MBA in Marketing and BSc. Agric Ed from Ahmadu Bello University.



Associate Professor Taiwo Adewale Muritala has over 14 years of teaching and research experience. Prof Taiwo holds a Ph.D. in Accounting and Finance from the University of Ilorin. He also has an M.Sc. in Financial Services, Risk & Operations from Glasgow Caledonian University, a Certificate in Successful Change Management from the University of Oxford, and a B.Ed. in Economics & Educational Management from the University of Ibadan. His research interests include Financial Management, Energy Finance, Financial Econometrics, International Finance, Risk Management, and Banking Operations.



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