Special issue on the impact of COVID-19 pandemic on Islamic financial markets and institutions

1 | INTRODUCTION

Though the Covid-19 pandemic began as a health crisis, its tentacles have touched almost every aspect of our lives, generating research interest in, among other things, how financial markets and institutions across the world are coping with its impacts. The Special Issue presents papers that examine the effects of the pandemic with a particular reference to the global Islamic financial system.

Islamic financial markets and institutions are different from conventional financial markets and institutions in that the former adheres to the rule of Shariah (Islamic law) prohibiting institutions from charging interests on a loan, while a conventional institution relies on interests to survive and grow (Hassan & Muneeza, 2022). There are two types of Islamic finance: Islamic commercial finance and Islamic social finance. The former generates profit in a Shariah-compliant manner, while the latter assists each other without an eye to making a profit (Hassan et al., 2021; 2022).

In the next section, I briefly review the papers contained in this special issue and end with concluding remarks.

2 | THIS ISSUE

This special issue contains 5 papers. These papers cover various aspects related to the theme of the special issue including the performance of Islamic banks, the Islamic cryptocurrency market, and Islamic capital markets.

Abdulla and Ebrahim empirically investigate the effects of the COVID-19 crisis on the performance of 49 listed banks in the Gulf Cooperation Council (GCC) countries, during the period from the first quarter of 2017 through the third quarter of 2020 and their findings reveal that GCC banks were negatively affected by the pandemic. In addition, results reveal that Islamic banks have performed better than conventional banks during the said period, showing the resilience of the Islamic financial system even amid the pandemic.

Smolo et al. explore the dynamic linkages and spill over effect between emerging economies (BRICS [Brazil, Russia, India, China, and South Africa] and Turkey), focusing on global crises, notably the COVID-19 pandemic using daily frequency data covering the period from 2002 M5 to 2021 M03. Their empirical results reveal that the stock market co-movements among sample markets are non-monotonous and depend on the time and frequency of returns. They found significant correlations among the sample countries. A spike in overall spill over is also evident during the outbreak of the COVID-19 pandemic or the Global Health Crisis (GHC).

Khan et al. compare five Islamic and five conventional leading financial indexes for the period 2004–2020, covering both global and regional data (Asia-Pacific, Europe, GCC, and the United States) by employing DCC GARCH and extended GARCH (1,1) models. They found lower volatility and higher persistence in Islamic indexes when compared with their conventional alternatives, holding also when traditional safe-haven assets are included in comparative terms and across geographical areas.

Mnif et al. provide insights into what can drive Islamic cryptocurrency markets and how they react during the COVID-19 pandemic by exploring the cryptocurrency volatility and the connectedness between the Islamic, conventional, and COVID-19 confirmed cases and deaths using the wavelet approaches. Their preliminary results reveal that faith-based cryptocurrencies have reduced risk exposure than their conventional counterparts, in the long run, making them more appealing for investment, particularly for investors seeking low-risk and Shariah-compliant assets. Their empirical results also indicate that both Islamic and conventional cryptocurrencies are more sensitive to the death toll than the newly confirmed cases.

Naifar et al. study the time-frequency co-movement among Islamic bond (Sukuk) prices, the recent spread of COVID-19, oil prices, economic policy uncertainty, global financial uncertainty, and global financial distress. Their
empirical research reveals that the co-movements between the Sukuk prices (both global and Malaysian Sukuk) and global economic and financial risk factors are time and frequency varying; the global and Malaysian Sukuk markets behave differently with global risk factors throughout the COVID-19 pandemic period, and the co-movement between Sukuk prices (both global and Malaysian Sukuk) and COVID-19-infected cases is stronger only in the short term.

3 | CONCLUSION AND FUTURE RESEARCH

There are two takeaway messages. First, there are significant differences between the performance of Islamic banks and conventional banks, and Islamic banks have withstood the challenges presented by the pandemic. Second, there is potential to sustainably develop Islamic cryptocurrencies. Further research is needed to explore the effects of the pandemic on banks in the MENA region; examine the impact of COVID-19 on Islamic stock market indices, study the impact of Islamic cryptocurrency being less volatile, particularly over long horizon trade on enacting policy directions; and investigate the ways in which policymakers and investors could make portfolio diversification decisions using Islamic finance.

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