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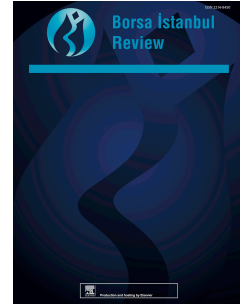
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## The impact of corruption on the soundness of Islamic banks

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### Abstract

Islamic banking is developing rapidly around the world and is increasingly recognized as a viable alternative mode of financing especially these last years when capitalism has shown its limits and weaknesses. However, this astronomical growth of banking and Islamic finance was associated with a high level of corruption that plagues many Muslim countries. This ailment of corruption can deter Islamic banking to be a better effective and meaningful pathway for poverty reduction and economic development. The purpose of this paper is to investigate the impact of corruption on the soundness of Islamic banks (IBs). Using a panel of 69 IBs over the period 2008-2010, we provide robust evidence that the corruption level aggravates the problem of impaired financing.

### *JEL Classification*

G21

Z12

C33

### *Keywords:*

Islamic banking

Non-performing financing

Corruption

Dynamic panel data

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