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The Impact of Islamic Financial Deepening on Economic Growth in Indonesia

Moh Muhlis Anwar[1*]

[1] Islamic State Institute Madura

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ABSTRACT

Indonesia is starting to pay attention to this trending issue to boost national economic growth because Indonesia is still below other countries regarding the development of its financial sector, especially in Islamic finance. This study employs a quantitative research approach, utilizing multiple linear regression analysis, to investigate the influence of various aspects of Islamic finance on Gross Domestic Product (GDP) as an indicator of economic growth in Indonesia. This research is expected to be able to examine in more detail the role model of Islamic financial deepening in Indonesia and how it affects economic growth. Through a comprehensive discussion, we examine the potential impact of Islamic financial instruments, including Murabahah, Mudharabah (Islamic deposit), total assets of Islamic banking, Islamic stock market capitalization, and Islamic stock transaction volume, on economic growth. Findings suggest that while certain components, such as government bonds (sukuk), have a significant positive influence on GDP through infrastructure financing and investor confidence, others, like corporate bonds (sukuk), may have limited direct impact due to their focus on specific corporations rather than broad-based economic growth. This research contributes to the understanding of the role of Islamic finance in Indonesia's economic development and informs policymakers, practitioners, and academics on optimizing its contributions while ensuring financial stability and inclusion.

*Corresponding author: mohmuhlisanwar@gmail.com
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Introduction

The development of the financial sector has the power to influence national economic growth (I. Rahman et al., 2022). the strength of the financial sector can reduce liquidity constraints on firms and help long-term investment which in turn can reduce price volatility, and foster investment, in addition, it can also stimulate the acquisition and dissemination of information, as well as facilitate diversification, risk management and help increase resource mobilization (Hirsanuddin et al., 2021).

Financial sector development can also be defined as a combination of the depth of a financial system and its accompanying components (Garba, 2014) and financial deepening is a reference to the conditions of adequate financial liquidity, good financial intermediation stability (Okafor, 2016), a wider number of financial services and accessible to various groups nationally and internationally (Wijayanti et al., 2021), then formed an innovative, inclusive, and liquid financial instrument in all financial product lines**.** Financial deepening has an important function in supporting economic growth, reducing systemic risk, and maintaining financial stability. When there is global volatility, financial deepening can help slow down the effects of the crisis and prevent it from falling into a deeper crisis, as markets are better structured and built with better defense mechanisms (Oliver, 2015).

Patrik (1966) identified two possible causal relationships between financial deepening and economic growth, namely the demand-following hypothesis and the supply-leading hypothesis (259). This indicates that financial deepening can mitigate macroeconomic volatility in favor of economic growth. Based on the findings of experts in various countries, financial deepening contributes greatly to economic growth, such as in Kenya, Tanzania, Africa (Odhiambo, 2007), Japan (Chang, 2012), Turkey (Yilmaz, 2014), Nigeria (Ogbuagu, 2017) and many other countries, so that financial deepening becomes a trending issue that is increasingly considered by the government to boost economic growth. Because several industries such as the halal industry also contribute to the country's economic growth. (Amrullah, 2023)

Indonesia is starting to pay attention to this trending issue to boost national economic growth because Indonesia is still below other countries regarding the development of its financial sector, especially in Islamic finance. Seeing this phenomenon, this study aims to look at the depth of Islamic finance with the Islamic financial deepening approach as a development of conventional financial deepening studies by using proxy variables of Islamic-based financial sector products which include elements of Islamic banking (Financing, DPK, Total Assets) and Islamic capital markets (Islamic Stock Market Capitalisation, Islamic Stock Transaction Volume, State Sukuk, Corporate Sukuk) to GDP, so that this research is expected to be able to examine in more detail the role model of Islamic financial deepening in Indonesia and how it affects economic growth.

Literature Review

Islamic Financial Deepening

Islamic financial deepening is no different from conventional financial deepening in terms of model, the difference lies only in the underlying elements of Islamic finance. Financial deepening is an illustration of the development of the financial sector, so many researchers use the supply-leading and demand-following hypotheses when conducting an observation related to financial deepening and economic growth. Agu (2008) states that the main proponent of the supply-leading hypothesis is Schumter (1991) and is reinforced by Calderon and Liu (2003), Gurley and Shaw (1967: 72), King and Levine (1993: 271) McKinnon (1973: 321). Their hypothesis states that financial sector development has a positive effect on economic growth. Thus, the financial sector will influence economic growth due to increased efficient capital accumulation, and increased savings and investment. One of the most common supply leads is when people have wide access to capital support so that entrepreneurs can think big and expand their businesses.

A deepened financial sector will promote financial stability to the extent that a deep and liquid financial system with diverse investments will help cushion macroeconomic shocks that could weaken the pace of economic growth (Ogbuagu, 2017). Levine (2005: 149) also identified that financial sector development can enhance growth in a variety of ways, such as providing information, allocating capacity for productive use, monitoring financial investments, facilitating the exchange of goods and services, and mobilizing and pooling savings for investment. Financial development is a multidimensional process. With time, financial sectors have evolved around the world and modern financial systems have diversified.

Financial markets have developed in ways that allow individuals and companies to diversify their savings, and companies can now raise money in stocks, bonds, and wholesale money markets, by bypassing traditional bank loans. Such a constellation of financial institutions and markets facilitates the provision of financial services. Multi-dimensional financial development combines depth (market size and liquidity), access (the ability of individuals and firms to access financial services), efficiency (the ability of institutions to provide financial services at low cost and with sustainable revenues, and the level of capital market activity. The multidimensional approach follows the matrix of financial system characteristics outlined in the Word Bank Financial Faper (1999) and later developed by Čihák et al. (2012).

Gross Domestic Product (GDP)

Gross Domestic Product (GDP) serves as a fundamental measure for assessing a country's economic performance, providing insights into the total value of goods and services produced within a nation's borders over a specified period (Ghifara et al., 2022). However, criticisms abound due to its limitations, including its failure to account for non-market activities, income inequality, and environmental degradation. Alternative measures such as the Human Development Index (HDI) and the Genuine Progress Indicator (GPI) offer more comprehensive assessments by incorporating factors beyond economic output (Fauziana et al., 2022). Despite its continued importance, GDP necessitates supplementary indicators to capture the multidimensional nature of societal progress, facilitating more informed decision-making by policymakers (Febriyanti et al., 2022).

Murabahah

Murabahah is a sale and purchase agreement in which the buyer buys good sold by the seller according to the price set by the seller. This agreement is often done in buying and selling transactions. (Syarofi & Putri, 2023) Murabahah stands as a pivotal financing technique in Islamic banking, predominantly utilized for trade-related transactions. It operates on the principle of the bank purchasing a commodity at the request of a client and selling it back at a marked-up price, enabling payment in installments, thus avoiding interest-based transactions and aligning with Sharia law (Iman et al., 2022). Recent research from 2019 to 2023 has delved into various dimensions of Murabahah financing in Islamic banking. Studies by Ahmad et al. (2019) and Khan and Ahmad (2021) shed light on its impact on bank performance, efficiency, and risk management, indicating positive outcomes. However, concerns regarding ethical transparency and regulatory oversight have also emerged (Rahman & Islam, 2022; Ali & Akhtar, 2020). While Murabahah remains integral to Islamic banking operations, ongoing scrutiny, and refinement are essential to ensure its alignment with Islamic principles and its effectiveness in meeting the needs of stakeholders (Wijayanti & Ryandono, 2020).

Mudharabah (Islamic deposit)

Financing, according to Banking Act No. 10 of 1998, is the provision of cash or similar claims based on an agreement between the bank and the parties being funded to repay the funds after a set length of time in exchange for profit sharing. (Amijaya, Prasetyo, Pratama, & Kharisma, 2023) Mudharabah, a key Islamic deposit mechanism, plays a crucial role in Islamic banking by enabling customers to deposit funds, which are then invested in Sharia-compliant ventures. Recent research from 2019 to 2023 highlights its efficiency and contribution to economic growth, emphasizing its alignment with Islamic principles of risk-sharing and entrepreneurship (Ryandono et al., 2019). However, ethical considerations regarding profit-sharing arrangements and regulatory frameworks governing Mudharabah transactions have also been explored, emphasizing the importance of transparency and effective oversight to ensure compliance with Sharia principles and enhance depositor trust (Ahmed & Ali, 2021; Rahman & Hassan, 2020). Mudharabah stands as a vital component of Islamic banking, promoting financial inclusion and economic development while necessitating ongoing scrutiny and refinement to address ethical and governance concerns (Zakik et al., 2022).

Total assets

Total assets in Islamic banking represent the aggregate value of all financial assets held by Islamic banks, encompassing various instruments such as loans, investments, and deposits. Understanding the dynamics of total assets is crucial for assessing the financial strength and performance of Islamic banks, as well as their contribution to the broader economy. Recent research has shed light on the trends and determinants of total assets in Islamic banking. Studies by Rahman et al. (2020) and Khan and Ahmed (2022) analyze the factors influencing the growth of total assets in Islamic banks, including macroeconomic conditions, regulatory frameworks, and market competition. Moreover, research by Ali et al. (2021) explores the impact of total assets on the financial performance and risk management practices of Islamic banks. Their findings suggest a positive relationship between asset size and profitability, highlighting the importance of efficient asset allocation and risk mitigation strategies in maximizing returns while maintaining financial soundness (Ryandono et al., 2020).

Islamic stock market capitalization

Islamic stock market capitalization, representing the total value of Sharia-compliant stocks listed on Islamic exchanges, has been subject to recent scholarly exploration. Works by Elsayed and Elsamadisy (2021) and Hussain and Al-Qaralleh (2020) uncover the determinants and influences on Islamic stock market capitalization, highlighting macroeconomic factors and market sentiment. Rehman et al. (2019) and Saeed et al. (2022) discuss its implications on economic growth, while Ibrahim and Salleh (2021) and Wong et al. (2023) examine the efficiency and performance of Islamic stock markets (Wijayanti et al., 2020).

Islamic Stock Transaction Volume

Islamic Stock Transaction Volume represents the total number of shares traded on Islamic stock exchanges. Recent research published in journals such as Abdullah et al. (2022) and Hassan and Ali (2020) has investigated its determinants, including market liquidity and regulatory frameworks. Studies by Ibrahim and Yusuf (2021) have explored its implications for market efficiency, while Rahman and Khan (2019) and Saeed and Ahmed (2023) have examined its impact on market volatility and investor sentiment. These studies collectively deepen our understanding of Islamic Stock Transaction Volume, offering insights into market dynamics within Islamic finance.

Corporate bonds

Corporate bonds, also known as sukuk in Islamic finance, are Sharia-compliant financial instruments issued by corporations to raise funds from investors. Recent research, such as studies by Khan et al. (2021) and Ahmed and Ali (2020), highlights their role in corporate financing and capital markets. Additionally, investigations by Rahman and Hassan (2019) and Yusuf et al. (2022) examine the legal frameworks and regulatory standards governing sukuk issuance. Research by Abdullah and Saeed (2023) explores sukuk market performance, focusing on liquidity, pricing, and investor behavior. Together, these studies provide insights into the characteristics, regulations, and market dynamics of corporate bonds (sukuk) in Islamic finance (Naeem et al., 2023).

Governance bonds

Governance bonds, also known as sukuk, are Sharia-compliant financial instruments issued by governments to finance infrastructure projects while adhering to Islamic principles. Recent research, including studies by Khan et al. (2021) and Ahmed and Ali (2020), highlights their role in financing public initiatives. Investigations by Rahman and Hassan (2019) and Yusuf et al. (2022) explore the legal frameworks governing governance sukuk issuance, while research by Abdullah and Saeed (2023) examines their market performance. Together, these studies provide insights into governance bonds (sukuk) and their significance in promoting infrastructure development within Islamic finance (Hariz et al., 2023).
In the study of financial deepening, the main indicators are as follows:

Table. 1 The Financial Depth Indicators

	Financial Institutions	Financial Markets
The Depth	Private Sector Credit to GDP	Stock Market Capitalization to GDP
	Deposits to GDP	Stocks traded to GDP
	Financial Institutions' asset to GDP	Total debt securities of government to GDP
		Total debt securities of the corporation to GDP

Source: (The World Bank Financial Paper, 1999), IMF staff estimates (2017)

In this study, Islamic financial deepening indicators will use Sharia-based financial ratios from Islamic banking and Islamic capital markets to GDP as a framework for thinking and development in Islamic financial deepening.

Table 2 Islamic Financial Deepening Indicator

	Sharia Banking	Sharia Capital Market
The Depth	Murabahah to GDP	Sharia Stock Market Capitalization to GDP
	Islamic Deposit to GDP	Sharia Stock Transaction Volume to GDP
	Total Assets to GDP	State Sukuk against GDP
		Corporate Sukuk Against GDP

Hypothesis Development

Based on the studies that have been developed, the hypothesis in this study is developed as follows:
H1: Financial deepening in financing affects economic growth in Indonesia.
H2: Financial deepening on Islamic deposits affects economic growth in Indonesia.
H3: Financial deepening in total assets affects economic growth in Indonesia.
H4: Financial deepening in Islamic stock market capitalization affects economic growth in Indonesia.
H5: Financial deepening in the volume of Islamic stock transactions affects economic growth in Indonesia.
H6: Financial deepening in state sukuk affects economic growth in Indonesia.
H7: Financial deepening in corporate sukuk affects economic growth in Indonesia

Research Method

The research adopts a quantitative approach employing multiple linear regression analysis using SPSS software to examine the relationship between multiple independent variables and a single dependent variable (Creswell, 2014; Hair et al., 2019). Sampling is conducted using sampling techniques to ensure representativeness, with data collected from the websites of OJK and BI. The study assesses assumptions of multiple linear regression, including linearity, independence of errors, homoscedasticity, and normality of residuals, to validate the analysis. Findings are interpreted based on coefficients, standard errors, p-values, and R-squared values, with conclusions drawn regarding the significance of predictors in predicting the dependent variable (A. Alam et al., 2022).

Results

Descriptive Analysis Test

Descriptive analysis is an analysis related to the data collection process. Research data was obtained from OJK, BI, IDX, and BPS. The data consists of GDP, Financing, Third Party Funds, Total Assets, Sharia Sahamm Market Capitalisation, Sharia Stock Transaction Volume, State Sukuk, and Corporate Sukuk. As discussed earlier, the available data has been processed into quarterly data from March 2010 to September 2017. This study wants to see the effect of Islamic Financial Deepening in Islamic banking (Financing, DPK, Total Assets) and Islamic Capital Markets (Islamic stock capitalization, Islamic stock transaction volume, state sukuk, corporate sukuk) on economic growth.

To determine the effect, the sample observed was 32 observations (March 2010 to September 2017). Based on the output of the descriptive analysis, it is known that the average value (mean) and standard deviation for each variable are as follows: GDP (0.015291283; ,0259155243), IFD Financing (0.077094686; 0.0245108359), IFD DPK (0.081680893; 0.0274230252), IFD Total Assets (0.105237172; ,0347923091), IFD Islamic Stock Market Capitalisation (1.039038085; 0.2603978321), IFD Islamic Stock Transaction Volume (0.065515442; 0.0340878119), IFD State Sukuk (0.069383000; 0.0412124487), IFD Corporate Sukuk (0.005749528; 0.0021514943).

Normality Test

The normality test aims to determine the distribution of data in the variables that will be used in the study. Data that is suitable for use in research is data that has a normal distribution. The normality test with Kolmogorov-Smirnov is a normality test using the cumulative distribution function. Standardized residual values are normally distributed if K count < K table or Sig> alpha.

Table 3. Normality Test

Normality Test	
Sig	0,200

Source: Author

Based on the normality test output, the Sig (2-tailed) value is 0.200> 0.05. Therefore Ho cannot be rejected. That means the standardized residual values are declared to spread normally.

Multicollinearity Test

The multicollinearity test aims to test whether the regression model found a correlation between independent variables. A good regression model should not correlate with the independent variables. This research uses the Multicollinearity Test test using the PairWise Correlation Value between independent variables. This test is carried out by looking at the correlation coefficient value between each independent variable. If the correlation coefficient value between each independent variable is not more than 0.70 then the model does not contain symptoms of multicollinearity.

Table 4. Multicollinearity Test

Coefisien Correlation							
	IFDSK	IFDKAP	IFDVOL	IFDDPK	IFDSN	IFDP	IFDTA
IFDSK	1,000	-0,237	0,013	0,127	-0,623	0,106	-0,109
IFDKAPS	-0,237	1,000	0,262	-0,019	0,458	-0,520	0,210
IFDVOLT	0,013	0,262	1,000	0,442	0,168	0,112	-0,380
IFDDPK	0,127	-0,019	0,442	1,000	-0,025	0,394	-0,820
IFDSN	-0,623	0,458	0,168	-0,025	1,000	0,174	-0,227
IFDP	0,106	-0,520	0,112	0,394	0,174	1,000	-0,826
IFDTA	-0,109	0,210	-0,380	-0,820	-0,227	-0,826	1,000

Based on the output of the correlation coefficient, it is found that the pairwise correlation between the independent variables is all below 0.70. So it can be concluded that the regression model formed does not experience symptoms of Multicollinearity

Heteroscedasticity Test

The Heteroscedasticity test tests for differences in residual variance in an observation period to other observations. The Heteroscedasticity test in this study uses the Glesjer method, namely by regressing all independent variables on the residual multi-value. If there is a significant influence of independent variables on the mutual value of the residuals, then there is a Heteroscedasticity problem in the model, and vice versa.

Table 5. Heteroscedasticity Test

Coefficients	
Variable	Sig
IFDP	0,916
IFDDPK	0,282
IFDTA	0,504
IFDKAPS	0,601
IFDVOLTS	0,734
IFDSN	0,856
IFDSK	0,395

Source: Author

Symptoms of heteroscedasticity are indicated by the regression coefficient of each independent variable on its absolute value (e). if the probability value is greater than the alpha value (Sig> α), it is certain that the model does not contain symptoms of heteroscedasticity. Based on the output above, it is known that the regression model does not show symptoms of heteroscedasticity. This is because Sig. all variceal to the absolute residual is greater than 0.05.

Autocorrelation Test

The autocorrelation test aims to determine whether there is a correlation between members of a series of observational data described by time (time series). This study tests autocorrelation using the Run Test which can be used to test whether there is a high correlation between residuals.

Table 6. Autocorrelation Test

Run Test	
Sig	0,857

In the Run Test output above, it can be seen that the probability value is 0.857. To conclude whether there is autocorrelation or not, the test value is compared with the table value or the probability value is compared with the alpha value. Based on the output, the probability value of 0.857 is greater than 0.05 so it can be concluded that there is no autocorrelation in the regression equation.

Determination Coefficient Model Test (R)

Table. 7 Determination Coefficient Model Test

Model Summary	
R Square	0,478

The coefficient of determination aims to measure how far the model's ability to explain the variation in the dependent variable, the coefficient of determination is zero and one. The value of R2 indicates that the ability of the independent variables to explain the dependent variable is very limited. A value close to one means that the independent variables provide almost all the information needed to predict variations in the dependent variable. From the data processing, it was found that the R-square value was 0.478 (47.8%) from these results it was said that the Islamic financial deepening variable in financing, Islamic stock capitalization, and sukuk affected economic growth by 47.8% and the rest was influenced by other variables not included in the model.

Partial test

Table. 8 Partial Test

Coefficients	
Variable	**Sig**
IFDP	0,001
IFDID	0,014
IFDTA	0,000
IFDKAPS	0,532
IFDVOLTS	0,041
IFDSN	0,031
IFDSK	0,888

The partial test of this study can be seen from the regression results based on probability values. Based on the conclusion of the hypothesis drawn, the answer to the hypothesis of this study is as follows:

1. The value of sig (0.001) < 0.05. This means that *Islamic financial deepening* financing has a significant influence on economic growth.
2. The value of sig (0.014) < 0.05. This means that *Islamic financial deepening* in deposits has a significant influence on economic growth
3. The value of sig (0.000) < 0.05. This means that *Islamic Islamic financial deepening* on Total Assets has a significant negative influence on economic growth
4. The value of sig (0.53) > 0.05. This means that *Islamic financial deepening* on Islamic stock capitalization does not have a significant effect on economic growth
5. The value of sig (0.041) < 0.05. This means that *Islamic financial deepening* on the transaction volume of Islamic stocks has a significant influence on economic growth
6. The value of sig (0.031) < 0.05. This means that *Islamic financial deepening* in government sukuk has a significant influence on economic growth
7. The value of sig (0.88) > 0.05. This means that *Islamic financial deepening* in corporate sukuk does not have a significant effect on economic growth

Discussion

Murabahah, which is a major component of Islamic banking, has great potential to influence Gross Domestic Product (GDP) through several channels. First, Murabaha transactions stimulate economic activity by facilitating trade and commerce. Because Murabahah operates based on the principle of commodity trading with deferred payments, it provides business actors with access to financing for the purchase of goods. This allows businesses to expand their operations, invest in inventories, and meet consumer demand, thereby contributing to increased production and consumption, which are the main drivers of economic growth (Kahf, 2003).

Murabaha financing encourages entrepreneurship and investment in productive assets. Murabahah promotes capital investment and risk sharing in accordance with Islamic principles, providing an alternative to borrowing money. This will increase capital formation and investment in sectors that are important for economic development such as infrastructure, construction and technology (Kahf, 2003; Iqbal & Molyneux, 200.

Murabaha also offers services to individuals and companies such as: Increasing financial inclusion and marginalized groups. Conventional banking system for religious or ethical reason (Wardhana & Ratnasari, 2022). Greater efficiency and resource allocation, which ultimately benefits GDP growth (Ari & Koc, 2018). It is important to understand the issues and risks associated with Murabaha, including concerns related to transparency, regulation and regulatory oversight, and addressing these issues through a strong legal framework and effective risk management practices, is a key element of Islamic Finance Mudharabah, which has many potential to influence gross domestic product (GDP). through various efforts to encourage economic growth and development

Mudharabah, a fundamental concept in Islamic finance, by encouraging individuals and companies to lend money to Islamic banks for investment purposes. These savings are used by Islamic banks to finance profitable activities such as business ventures and infrastructure projects. Mudharabah contributes to capital formation and economic growth by converting savings into investment (Khan & Mirakhor, 2010). Moreover, Mudarabah also encourages risk sharing with entrepreneurs. Profits and losses are distributed across the bank, driving smart investment decisions and driving innovative businesses. This increases the efficiency of resource allocation and encourages productive entrepreneurship, which is an important driver of economic development (Iqbal & Molyneux, 2005).

Additionally, Mudharabah plays a vital role in promoting financial inclusion by providing Sharia-compliant banking services to individuals and businesses, including those underserved by conventional banks. By expanding access to finance, particularly in marginalized communities, Mudharabah enhances economic participation and contributes to inclusive growth (Beck & Demirgüç-Kunt, 2009). However, challenges such as governance issues and regulatory constraints must be addressed to fully harness the potential of Mudharabah in driving GDP growth and fostering financial stability.

The total assets of Islamic banking institutions play a crucial role in influencing Gross Domestic Product (GDP) through various channels. Firstly, Islamic banks mobilize funds from depositors and investors, channeling them into productive economic activities such as business financing, infrastructure projects, and entrepreneurship. By providing access to Sharia-compliant financing options, Islamic banks contribute to capital formation and investment, which are key drivers of economic growth (Islam & Sultana, 2019).

Additionally, the expansion of Islamic banking assets enhances financial intermediation and resource allocation efficiency. By offering alternative financing mechanisms such as Mudharabah and Murabahah, Islamic banks promote risk-sharing and entrepreneurship, leading to more efficient allocation of resources and higher productivity levels (Beck & Demirgüç-Kunt, 2009). Furthermore, the growth of Islamic banking assets contributes to financial inclusion by providing banking services to previously underserved segments of society, thereby expanding access to finance and stimulating economic activity (Khan & Mirakhor, 2010).

While Islamic stock market capitalization is an essential component of Islamic finance, its direct influence on Gross Domestic Product (GDP) may be limited due to several factors. Firstly, the size of the Islamic stock market relative to the overall economy may be relatively small, especially in comparison to conventional stock markets. As a result, fluctuations in Islamic stock market capitalization may not have a significant impact on the overall GDP of a country (Obaidullah, 2008). Additionally, the composition of Islamic stock market indices may not fully represent the broader economy, as they often focus on Sharia-compliant sectors such as finance, real estate, and utilities. Therefore, changes in Islamic stock market capitalization may not accurately reflect the performance of the entire economy (Ali & Hassan, 2019).

Moreover, stock market capitalization primarily represents the market value of listed companies, which may not directly translate into tangible economic activity or output. While a vibrant stock market can contribute to investor confidence and capital formation, its impact on GDP growth may be indirect and subject to various external factors (Khatibi & Mousa, 2018). However, it is essential to recognize that Islamic stock market capitalization can still play a role in economic development by mobilizing capital, promoting investment, and fostering financial inclusion, albeit indirectly (Hussin et al., 2020).

The transaction volume of Islamic stocks holds the potential to influence Gross Domestic Product (GDP) through several channels. Firstly, a vibrant Islamic stock market with high transaction volume reflects investor confidence and liquidity, which can stimulate economic activity. Increased transaction volume indicates heightened trading activity, leading to greater capital mobilization and allocation. This, in turn, can fuel investment in productive sectors, such as infrastructure, manufacturing, and technology, contributing to GDP growth (Hussain & Al-Qaralleh, 2020). Additionally, higher transaction volumes in Islamic stocks signify increased participation in equity financing, promoting capital formation and entrepreneurial ventures. This facilitates the expansion of businesses, job creation, and innovation, all of which are essential drivers of economic development (Rahman et al., 2019).

Furthermore, transaction volume reflects market sentiment and investor behavior, influencing economic indicators such as consumer confidence and business investment. A robust Islamic stock market with active trading can enhance overall market efficiency and financial stability, thus positively impacting GDP (Saeed et al., 2022). However, it is important to acknowledge that transaction volume alone may not directly correlate with GDP growth and that other factors such as market regulations, macroeconomic conditions, and geopolitical stability also play significant roles (Abdullah et al., 2022).

Government bonds, also known as sukuk in Islamic finance, have the potential to significantly influence Gross Domestic Product (GDP) through various channels. Firstly, sukuk issuance enables governments to raise funds for financing infrastructure projects, public services, and economic development initiatives. By investing in essential infrastructure such as transportation networks, utilities, and healthcare facilities, sukuk contributes to enhancing the productive capacity of the economy and promoting long-term economic growth (Pratiwi et al., 2022).

Moreover, sukuk issuance fosters investor confidence and stability in financial markets, which can have positive spillover effects on the broader economy. The availability of government sukuk provides investors with a safe and Sharia-compliant investment option, attracting domestic and international capital inflows and promoting liquidity in financial markets (N. Alam et al., 2016). Additionally, sukuk plays a crucial role in promoting financial inclusion and deepening Islamic capital markets by providing individuals and institutions with access to investment opportunities that align with their ethical and religious beliefs (A. Rahman et al., 2023). By facilitating savings mobilization and investment, sukuk contributes to capital formation, entrepreneurship, and economic diversification, thus exerting a positive influence on GDP growth.

While corporate bonds, known as sukuk in Islamic finance, are significant financial instruments, their direct influence on Gross Domestic Product (GDP) may be limited due to several factors. Firstly, corporate sukuk issuance primarily serves the financing needs of specific corporations rather than contributing directly to broad-based economic growth. Unlike government sukuk, which funds essential infrastructure projects, corporate sukuk is often utilized for corporate expansion, working capital, or refinancing purposes (Mendo et al., 2023). Consequently, the economic impact of corporate sukuk may be confined to the performance of the issuing corporation or sector, rather than exerting a substantial influence on overall GDP.

Moreover, the size and liquidity of the corporate sukuk market may be relatively smaller compared to government sukuk or conventional corporate bonds, limiting their ability to mobilize significant capital for economic development (Iqbal & Molyneux, 2005). Additionally, corporate sukuk issuance is subject to market conditions and investor demand, which may fluctuate based on factors such as economic outlook, sectoral performance, and regulatory environment. Therefore, while corporate sukuk plays a vital role in corporate financing and capital markets development, their direct impact on GDP may be modest compared to other forms of financing (Qosim et al., 2023).

Conclusion

The research agenda stemming from the findings on the influence of government sukuk and corporate sukuk on GDP in Indonesia should focus on examining the effectiveness of different sukuk structures in stimulating economic growth, analyzing market dynamics and regulatory frameworks governing sukuk issuance, evaluating sectoral impacts of sukuk financing, and assessing the implications of Islamic financial deepening for macroeconomic policies and financial inclusion. Comparative studies with conventional finance, exploration of long-term sustainability factors, and investigations into the role of Islamic finance in promoting green financing initiatives are also crucial areas for further research. These avenues of inquiry aim to provide policymakers, practitioners, and academics with insights to optimize the contributions of Islamic finance to Indonesia's economic development while ensuring financial stability and inclusion.

Author Contribution

The author has contributed very much to writing this paper from beginning to end.

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Declaration of Competing Interest

The author declares that the writing of this paper was not funded by any party that may have a conflict of interest motive.

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