THE INFLUENCE OF THE ISLAMIC CAPITAL MARKET ON INDONESIA'S ECONOMIC GROWTH WITH INFLATION AS A MODERATING VARIABLE

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Abstract
This study uses inflation as a moderating variable to explore the impact of Islamic stocks, sukuk, and Islamic mutual funds on the growth of Indonesia's economy. This study employs quarterly secondary data from 2016 to the second quarter of 2025, sourced from Badan Pusat Statistik (BPS), Bank Indonesia (BI), and Otoritas Jasa Keuangan (OJK). A quantitative approach is utilized through Moderated Regression Analysis (MRA) using SPSS version 29. The findings demonstrate that sukuk and Islamic stocks significantly impact economic growth positively, whereas Islamic mutual funds have a statistically insignificant negative correlation. Furthermore, the link between economic growth and Islamic capital market instruments is moderated by inflation, with its effects varying across different instruments. The findings obtained emphasize the importance of maintaining stable inflation in order to maximize the contribution of Islamic financial instruments to sustained economic growth in Indonesia.

Keywords: Economic Growth, Inflation, Islamic Capital Market, Islamic Mutual Funds, Islamic Stocks, Sukuk

A. INTRODUCTION

The economic expansion of a nation, which is indicative of its capacity to produce goods and services, serves as a critical metric for assessing its long-term viability. For emerging economies such as Indonesia, ensuring the stability and sustainability of economic growth is of paramount importance in the formulation of national policies. Over the past decade, Indonesia's economic performance has experienced considerable fluctuations. Between 2016 and 2019, the economy remained relatively stable, with an average growth rate exceeding 5%. However, there was a -2.07% contraction in 2020 due to the COVID-19 pandemic. Subsequently, as the economy recovered, Indonesia recorded a growth rate of 5.02% in 2024, indicating a resilient recovery despite ongoing structural challenges (Badan Pusat Statistik, 2021).

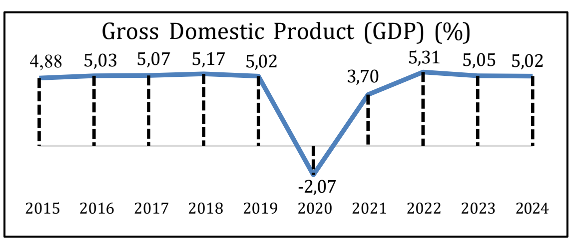

Figure 1. Indonesia's GDP rate

The World Bank changed its prediction for Indonesia's economic growth in 2025 from 5.1% to 4.7%, despite the fact that the country's economy is generally showing signs of recovery. This decline was affected by global uncertainties, which directly impacted the investment environment and consumers' purchasing power (CNN Indonesia, 2025). Meanwhile, the Islamic capital market sector has demonstrated substantial growth. The number of investors has risen from 44,536 in 2018 to 151,560 as of July 2024 (Bursa Efek Indonesia, 2024). In 2024, the total amount of sukuk issued was IDR 121.16 trillion, the capitalization of Islamic stocks was IDR 3,340 trillion, and the NAV of Islamic mutual funds reached IDR 50.54 trillion. This progress underscores the increasing interest in ethical investments that are compliant with principles of justice, devoid of elements such as maysir, usury, and gharar (Batubara et al., 2025).

Furthermore, current research indicates that the Islamic capital market's contribution to economic growth continues to be inconsistent. Nurhidayah et al. (2022) found that the positive influence of Islamic stocks on the growth of Indonesia’s economy is significant, whereas Fathurrahman et al. (2023) reported a negative and insignificant effect. Divergent results were also observed for Islamic mutual funds: Fuadi et al. (2022) reported a significant positive impact, whereas Azwar et al. (2024) found a negative effect, albeit not statistically significant. Research by Sakinah et al. (2022) showed that sukuk positively impacted economic growth and it was significant; moreover, Pratama et al. (2025) reported an insignificant effect. This inconsistency highlights a research gap that warrants further investigation, particularly by examining external factors such as inflation, which may either strengthen or the link among economic expansion and the Islamic capital market (Pujadi, 2022).

Between 2015 and 2024, Indonesia's inflation rate fluctuated, potentially affecting economic efficiency. In 2024, inflation was recorded at 1.57%, representing the lowest figure in the past two decades, below the 2.61% recorded in 2023 and significantly lower than the 5.51% observed in 2022 (Bank Indonesia, 2025). Nonetheless, low inflation does not necessarily indicate an enhancement in purchasing power, as the middle class has effectively diminished following the COVID-19 pandemic. According to a report by Badan Pusat Statistik (BPS), the middle-class population declined from 57 million in 2019 to approximately 47 million in 2024 (Tempo, 2024). This statement highlights how crucial it is to take inflation into account as a moderating variable in the correlation involving the Islamic capital market and growth in the economy.

Using data from 2016 to the second quarter of 2025, this study attempts to examine the impact of Islamic stocks, sukuk, and Islamic mutual funds on the expansion of Indonesia’s economy using inflation as a moderating variable. Theoretically, this study contributes to enriching Islamic economic literature, particularly in explaining the transmission mechanism of Sharia investment on macroeconomic performance amid inflationary pressures. Meanwhile, in practical terms, the government, financial authorities, and industry participants are anticipated to use the study's findings as a guide when developing policies to boost national economic growth and establish a sustainable Islamic capital market.

B. LITERATURE REVIEW

Economic Growth

The development of a nation’s ability to generate commodities and services is often described as economic growth. An economy is considered to be expanding if the real output derived from the utilization of production factors during a specified period exhibits an increase in comparison to the preceding period (Amalia et al., 2022). Since the GDP indicator reflects the sum of all economic output activities' contributions, it is commonly used to quantify the growth of economy. GDP (Gross Domestic Product) is computed based on the flow concept, which considers only the value of production generated within a specified period, and the calculations are restricted to domestic economic activities. Consequently, this provides an accurate reflection of the national economic condition (Susanti et al., 2007).

Islamic Stocks

Islamic stocks are proof of ownership of equity in a corporation whose operational activities adhere to Sharia principles. Through this ownership, shareholders are entitled to a proportional share of the company's income and assets. Otoritas Jasa Keuangan (OJK) states that issuers of Sharia-compliant stocks must register with Daftar Efek Syariah (DES) (Haris, 2021). Islamic stocks contribute to capital formation, which raises an economy's potential for production (Nasution, 2024). In other words, more activity in Islamic stocks might stimulate the economy to grow.

H_1: Islamic stocks have a significant positive influence on Indonesia's economic growth

Islamic Mutual Funds

Islamic mutual funds are defined as funds that collect capital from the public (investors) and are managed by investment professionals through portfolios that include Sharia-compliant securities. Investors who put their resources into this instrument will receive securities represented by Islamic mutual fund participation units (Heradhyaksa, 2022). Islamic mutual funds are going to experience an increase in their net asset value in response to increased public investment through this tool, which will ultimately benefit the economy (Nurhidayah et al., 2022).

H_2: Islamic mutual funds have a significant positive influence on Indonesia's economic growth

Sukuk

The term of sukuk means certificates of equal value that represent proportional ownership of a tangible asset. This instrument functions as a long-term security issued based on Sharia principles, where holders are entitled to profit-sharing returns and receive their capital back within an agreed period (Utami & Yulfan, 2024). Sukuk contributes to fostering economic development by promoting private sector involvement in the financing of public projects and broadening investment opportunities both domestically and internationally (Khairunnisa et al., 2017).

H_3: Sukuk have a significant positive influence on Indonesia's economic growth

Inflation

The persistent increased movement in the costs of commodities and services within a country over a given time period is referred to as inflation (Wibowo, 2020). Uncontrolled inflation can reduce purchasing power, decrease production, and lower investment interest, which ultimately impedes economic growth (Restiasanti & Yuliana, 2022). This condition incentivizes companies to decrease the volume of goods manufactured, leading to investor withdrawal of capital. Consequently, this scenario may ultimately decelerate or even diminish the pace of economic growth.

H_4: Inflation moderates the influence of Islamic stocks on Indonesia's economic growth

H_5: Inflation moderates the influence of Islamic mutual funds on Indonesia's economic growth

H_6: Inflation moderates the influence of sukuk on Indonesia's economic growth.

C. METHODOLOGY

This present study analyzes the relationship and influence between four variables. These variables are Islamic stocks, Islamic mutual funds, sukuk, and the growth of Indonesia's economy. This current study uses a quantitative explanatory research approach. Additionally, it looks at how inflation influences association among the independent and dependent variables by performing as a moderating variable. According to Sugiyono (2020), the explanatory study usually focuses on clarifying the relationship and impact among variables. The Otoritas Jasa Keuangan (OJK) provided data on certain product of Islamic capital market, including Islamic mutual funds, sukuk, and Islamic equities for the research population. Additionally, Bank Indonesia (BI) inflation statistics and Badan Pusat Statistik (BPS) GDP data from Indonesia were utilized. The observation period spans from 2016 to the second quarter of 2025, with a sample size of 38 observations. The sampling technique used is saturated sampling, meaning all members of the population were included as research samples (Sugiyono, 2020). Moderated Regression Analysis (MRA) was used in data analysis with SPSS software version 29 to explore the connection involving independent and moderating factors.

D. RESULT AND DISCUSSION

Classical Assumption Test

Normality Test

The significance value (Sig. 2-tailed) of 0.2 in the normality test findings is greater than 0.05. This confirms that the data has a normal distribution since the regression model fulfills the normality requirement.

Multicollinearity Test

A VIF value of 2.172 (below 10) and a tolerance value higher than 0.10 indicate that the result of the connection involving independent variables in the model, as shown by the multicollinearity test results, is significant.

Heteroscedasticity Test

The Islamic stock variable has a significance value of 0.778, Islamic mutual funds 0.050, sukuk 0.058, and inflation 0.507, all of which are higher than the 0.05 threshold, according to the findings of the heteroscedasticity test utilizing the Glejser technique. Thus, it may be reported that the heteroscedasticity in the regression model is not available.

Autocorrelation Test

A Durbin-Watson value of 1.914 was obtained from the autocorrelation analysis. There is a utilization of Durbin-Watson tables to determine that dU = 1.7223 and 4–dU = 2.2777, with dU < DW < 4–dU serving as the decision criterion. It is determined that the regression model does not exhibit autocorrelation since the Durbin-Watson statistic falls between these ranges (1.7223 < 1.914 < 2.2777).

Multiple Linear Regression Analysis

Table 1. Multiple Linear Regression Result

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	6.435	.181		35.500	<,001
	Saham Syariah	.120	.025	.182	4.879	<,001
	Reksadana Syariah	-.011	.010	-.053	-1.086	.285
	Sukuk	.155	.010	.914	16.147	<,001

a. Dependent Variable: Pertumbuhan Ekonomi

Source: Data processed SPSS 29 (2025)

The constant term is 6.435, according to the multiple linear regression analysis results. Featuring a t-value of 4.879 and a significant value < 0.001, the coefficient for Islamic stocks is 0.120. Therefore, Islamic mutual funds have a coefficient of -0.011, a t-value of -1.086, with a significance level of 0.285. With a t-value of 16.147 and a significance value < 0.001, the sukuk coefficient is 0.155.

Moderated Regression Analysis (MRA)

Table 2. Moderated Regression Result

Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
Inflasi	-.133	.511	-.528	-.260	.796
X1*Inflasi	.005	.075	.151	.066	.947
X2*Inflasi	.067	.022	.903	3.043	.005
X3*Inflasi	-.035	.029	-.552	-1.196	.241

a. Dependent Variable: Pertumbuhan ekonomi

Source: Data processed, SPSS 29 (2025)

An increase in inflation by one unit is associated with a potential 0.133 reduction in economic growth, based to the MRA test results, which show that the inflation variable has a coefficient of -0.133. Furthermore, the interaction coefficient between Islamic stocks and inflation is 0.005, with a significance level of 0.947. Islamic mutual funds and inflation have a connection coefficient of 0.067 at a significance level of 0.005. In addition, given a significance level of 0.241, the coefficient of the interaction between sukuk and inflation is -0.035.

DISCUSSION

The Influence of Islamic Stocks on Indonesia's Economic Growth

The study's finding strongly supports H_1, revealing that Islamic stocks positively have a significant impact on the growth of Indonesia's economy. It shows the coefficient value 0.120 and the p-value lower than 0.001. These findings suggest that increased investment activity in Islamic stocks can enhance national economic growth by increasing capital, channeling funds to productive sectors, and expanding production capacity in the real sector. These findings correlate with the study conducted by Nurhidayah et al. (2022), which states that Islamic capital market instruments contribute positively to the Indonesian economy.

The Influence of Islamic Mutual Funds on Indonesia's Economic Growth

The study's finding shows that Islamic mutual funds negatively have an impact that is statistically insignificant on the growth of Indonesia's economy, with the coefficient value -0.011 and the p-value 0.285. As a result, H_2 is rejected. This implies that the expansion of Islamic mutual fund management has not yet effectively contributed to stimulating tangible economic activity. This condition may be attributed to investment strategies mainly focused on short-term money market instruments, which reduce their influence on economic development as a result. These findings confirm those of Azwar et al. (2024), who also identified an insignificant negative association between Islamic mutual funds and growth in the economy.

The Influence of Sukuk on Indonesia's Economic Growth

The sukuk variable test show a result that a coefficient of 0.155, which is positive, and a significance value of less than 0.001. Thus, Sukuk is shown to positively and significantly contribute to the growth of the economy. As a result, H_3 is accepted. This result reinforces that a rise in sukuk issuance makes it easier to finance infrastructure development and profitable projects, resulting in the growth of the country's economy. Furthermore, the present conclusion is in agreement with the investigation undertaken by Sakinah et al. (2022), it shows that sukuk is essential for boosting economic activity utilizing asset-based financing schemes that comply with Sharia principles.

Influence of Inflation on the Relationship between Islamic Stocks and Economic Growth

No statistically significant connection was found between Islamic stocks and inflation, as evidenced by a significance value of 0.947$ (> 0.05). H_4 is rejected as a result. This implies that inflation tends to lessen rather than enhance the impact of Islamic stocks on the growth of Indonesia's economy. This condition reflects the notion that unstable price fluctuations may undermine investor confidence in the Islamic stock market, thereby mitigating its positive impact on the economy. The findings obtained are in line with the research performed by Kartika and Zamzami (2022), which asserts that inflationary pressures can impair the performance of Islamic stocks and weaken their contribution to economic growth.

The Influence of Inflation on the Relationship between Islamic Mutual Funds and Economic Growth

H5 is approved since the finding demonstrates that the connection involving the variables of Islamic mutual funds and inflation has a value of significance of 0.005 (<0.05), indicating statistical significance. This implies that the relation of Islamic mutual funds on the growth of Indonesia's economy is influenced by inflation. Under controlled inflation rates, it is possible that Islamic mutual funds will perform more successful, as investors tend to reallocate their funds towards instruments that are relatively stable and compliant with Islamic principles. Consequently, Islamic mutual funds can serve as an investment vehicle resilient to macroeconomic fluctuations, thereby continually supporting national economic activity. The results obtained are consistent with the study performed by Safitri et al. (2024), who argue that moderate inflation can foster Islamic mutual funds' success and increase their contribution to economic expansion.

The Influence of Inflation on the Relationship between Sukuk and Economic Growth

This current finding shows that there is no statistically significant connection among the sukuk and inflation variables, with a significance value of 0.241. Therefore, H6 is rejected as a result. This implies that the connection involving economic growth and sukuk is not improved by inflation and may even be diminished. Such a condition suggests that fluctuations in inflation are insufficient to bolster the effectiveness of sukuk in promoting national economic activity. These findings align with those of Safitri et al. (2024) and Kartika and Zamzami (2022), which indicates that price fluctuation may reduce sukuk's ability to boost expansion in the economy.

E. CONCLUSION

This study demonstrates that instruments within Indonesia's Islamic capital market contribute to stimulating economic growth, with the extent of their influence differing among various instruments. It is evidenced that Sharia-compliant stocks and sukuk positively impact Indonesia's economic development. Conversely, Islamic mutual funds exhibit a negative yet statistically insignificant correlation, suggesting that the management of these collective investment vehicles has not yet achieved optimal efficiency in channeling productive financing towards the real economy. Additionally, it was found that the correlation involving economic growth and Islamic capital market instruments is moderated in a variety of aspects by inflation. In particular, inflation has a weakening impact on Islamic stocks and sukuk but strengthens the correlation between Islamic mutual funds and the growth of the economy. The findings highlight the importance of price stability as a fundamental factor in sustaining the effectiveness of the Islamic capital market in influencing macroeconomic performance. Consequently, it is strategically crucial to focus on maintaining inflation stability and establishing a deeper connection among the Islamic capital market and the real sector in order to support equitable and sustainable economic expansion in Indonesia.

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