

ISLAMIC CAPITAL MARKET IN INDONESIA AS A DRIVER OF INVESTMENT

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Abstract

This study aims to examine the Indonesian capital market as a key driver of investment. The capital market serves as a platform for the trading of various financial instruments, such as stocks and bonds, which enables companies and the government to obtain funds from investors to support economic growth and development. The research employs a qualitative method. Data sources include documents related to the research as well as literature reviews and journal articles. The type of data used is derived from documents and journal articles relevant to the research. Data collection techniques involve literature reviews and journal articles related to the study. The data analysis technique involves tracing sources connected to the research through literature reviews and journal articles. The findings of this study suggest that the capital market in Indonesia plays a crucial role in driving investment, both domestic and foreign. In addition to being a source of funding for companies, the capital market also contributes to national economic growth by supporting the financing of government strategic projects through government bonds.

Keyword: *Bond, Capital Market, Economy, Investment*

A. INTRODUCTION

Economic welfare in a country is essential, as it is what drives the development of that country. One of the ways to achieve equitable economic welfare is through investment. Investment is the act of committing resources to gain a future benefit. The difference between conventional and Islamic (sharia) investments lies in the fact that conventional investment practices do not adhere to Islamic values and laws, such as the halal (permissible) and haram (forbidden) nature of a transaction. In contrast, sharia investment involves transactions that comply with Islamic law, applying specific contracts (akad) and ensuring the halality of the transaction by considering the way the funds are obtained, the nature of the assets, and ensuring that the investment is not used for prohibited purposes in Islam (Susana & Safitri, 2023).

Through investment, investors can gain returns by allocating funds, and thus companies can use investment capital without waiting for operational profits. The capital market's role is evident in its ability to provide investors with opportunities to earn returns, depending on the type of investment they select (Batubara, 2020). The capital market is designed to drive economic performance and provide funding alternatives for companies. With access to capital, companies can expand their operations, leading to increased revenue and supporting the broader welfare of society.

B. LITERATURE REVIEW

Investors in the capital market can invest in various securities, including equities (stocks), debt (bonds), and derivative instruments like rights, warrants, and options. Capital market investment involves allocating capital to financial assets with the expectation of generating returns from the purchased securities. Investment becomes significant when aggregate demand drives an increase in aggregate supply by boosting a company's production capacity (Fitria Puteri Sholikah et al., 2022). From an Islamic perspective, the capital market is categorized as a product of muamalat (transactions). The transactions carried out in the capital market must comply with Islamic law, provided they do not involve prohibited elements based on sharia principles. Adaptation within the sharia capital market involves the use of sharia-compliant contracts instead of interest-based instruments. This ensures clarity in the contract between the company (issuer) and the investor, with the financial manager overseeing the investments affiliated with the capital market, including managing risks that could generate profit through investment processes (Ali Basya, 2020).

Sharia securities ownership serves as a form of investment in the sharia capital market. These securities include sharia-compliant stocks, sharia bonds (sukuk), and sharia mutual funds. Investments in sharia securities can be made through initial offerings, direct investments, or via secondary market transactions and exchanges. In Islam, economic agreements must be based on a valid contract (akad)(Nafis, n.d.). Investment itself is the placement of funds, usually money, in a specific project with the aim of generating profit. Islam encourages its followers to invest and emphasizes that it is permissible to store resources as long as they are used productively, while storing resources without use is prohibited. In sharia investment, there is a key element that influences investment success, in addition to human effort: the will of Allah(Fauziah & Andri Ibrahim, 2022).

C. METHOD

This study employs a qualitative approach. We are using this method to deeply understand people's personal experiences by gathering and analyzing information(Haryoko et al., 2020). The data sources include documents related to the study, as well as literature reviews and journal articles. The data is gathered through literature studies and journal articles relevant to the research topic. The data analysis technique involves tracing sources related to the study through literature reviews and journal articles.

D. RESULT AND DISCUSSION

A. Definition of Sharia Capital Market

In theory, The capital market is a marketplace for long-term financial instruments (securities), which includes individual investments or loans, and is organized by both government and private entities. The sharia capital market refers to a market that applies sharia values in its transactions and is free from prohibited elements such as interest (riba), speculative activities (maisir), and other bans(Rahman Abdi et al., 2021).

In the capital market, activities are carried out in relation to issuers and the types of securities being traded, all of which must comply with Sharia principles. Sharia-compliant securities are financial instruments that follow sharia contracts, whether in the management of the company or in the issuance process itself. Sharia-compliant securities include sharia stocks, sukuk (sharia bonds), sharia mutual funds, and other sharia-compliant securities. From an Islamic viewpoint, the capital market aims to create a market characterized by ethics and justice. Therefore, transactions in the capital market must align with Islamic ethical norms, ensuring fairness, transparency, and efficiency(Permata & Ghoni, 2019).

The capital market plays a critical role in a nation's economy by performing two key functions. First, it offers companies a platform to secure funding from investors, which can be utilized for growth, expansion, and operational capital. Second, it provides the public with opportunities to invest in a variety of financial assets, such as stocks, bonds, and mutual funds, enabling individuals to make investment choices according to their risk preferences and anticipated returns(Pardiansyah, 2017).

B. Legal Foundation of the Sharia Capital Market

The establishment of the sharia capital market is based on legal principles drawn from the Qur'an and Hadith, as outlined below:

- 1) According to the Qur'an, Surah Al-Baqarah, verse 275:

"...Allah has permitted trade and forbidden usury..." (QS. Al-Baqarah 2:275).

This verse allows trade and prohibits usury (riba), which exploits one party and harms the(Saputra, 2014).

- 2) Hadith of the Prophet

One of the prophetic traditions that serve as the foundation for Islamic capital markets states:

"Do not harm yourself or others." (HR. Ibn Majah from 'Ubaidah bin Shamit, Ahmad from Ibn 'Abbas, and Malik from Yahya).

C. Contracts in the Sharia Capital Market

A contract (akad) is an agreement or pact made between two or more parties to carry out a transaction, based on the principles of Sharia, with the implementation of the offer and acceptance (ijab and qabul). In the Sharia capital market, various types of contracts are applied in transactions, including

ijarah, istishna, salam, kafalah, mudharabah, musyarakah, and wakalah. The scope of Sharia contracts fundamentally follows the principle of contractual freedom, meaning that the parties involved have the freedom to determine the terms of the agreement, as long as they do not conflict with Islamic law, the applicable legal framework, public order, or morality. What distinguishes Sharia contracts is that Islamic law prohibits agreements that involve elements such as riba (usury), maisir (gambling), gharar (excessive uncertainty), bathil (invalidity), and the inclusion of non-halal (forbidden) items (Isfandiari, 2016).

D. Principles of Sharia Investment

The principles of Sharia investment in stocks are regulated by the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) to ensure that investment activities comply with Islamic law (Qodir & Kurniawan, 2023). The key principles in Sharia stock investment include:

- Compliance with Sharia Principles
- Screening of Issuers: Evaluating company types, revenue structures (to avoid non-halal sources), and financial ratios that align with sharia principles.
- Sharia-based Contract Management
- No Speculation or Gharar
- Prohibition of Manipulation and Monopoly
- Applying the Principle of Maslahah (public interest)

By adhering to these principles, sharia stock investments are more ethical and in line with Islamic values, promoting sustainable and fair financial growth.

E. Capital Market and Investment in Indonesia

The capital market in Indonesia plays a strategic role in attracting both domestic and foreign investment. As a pillar of the economy, the capital market provides financing channels for companies through the issuance of stocks and bonds, fostering business growth and job creation. Through the Indonesia Stock Exchange (IDX), investors can invest in a variety of instruments, such as stocks, bonds, and mutual funds, which offer high potential returns, making the Indonesian market increasingly attractive to global investors. In addition to providing financing for companies, the capital market contributes to national economic growth by supporting government projects through the issuance of government bonds. Capital market activities strengthen liquidity and market efficiency, creating a healthy investment climate that attracts investors. Government policies and regulations that support the capital market, such as tax incentives and investor protection, further strengthen investor confidence and participation, making Indonesia's capital market a key driver of sustainable investment and national economic growth (Nur Ajizah & Nurdiansyah, 2024).

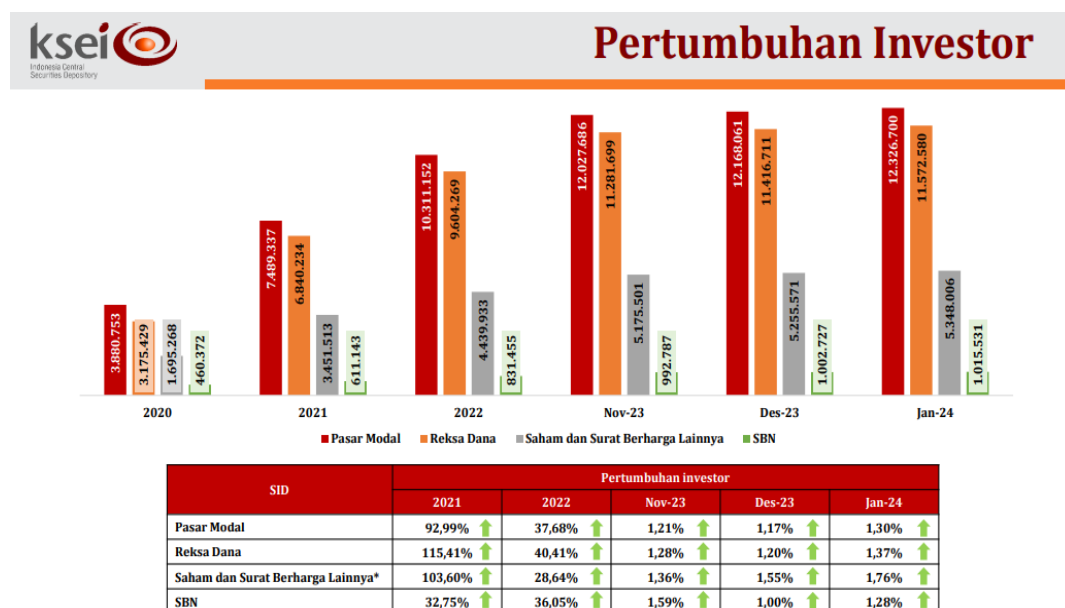
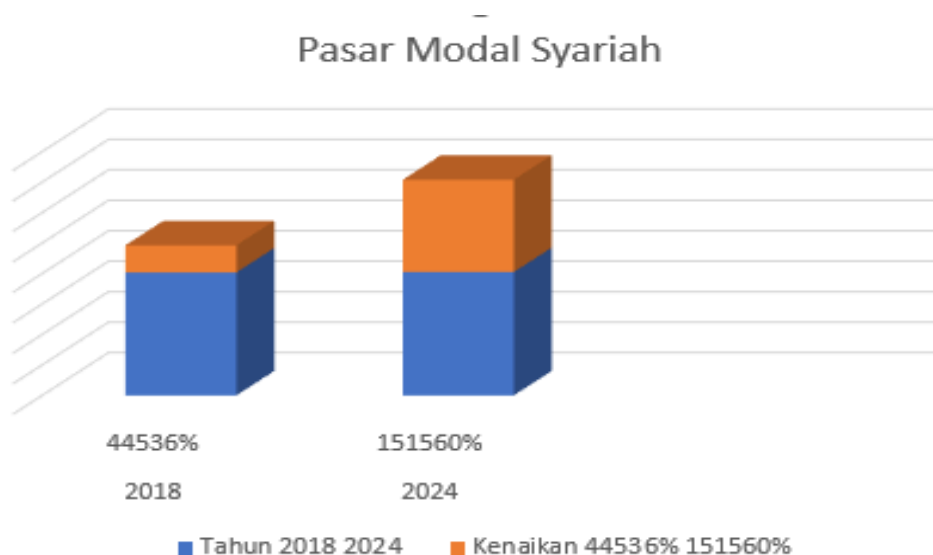


Figure 1 source: Ksei (Ksei, 2024)

Illustrates the growth of the capital market in Indonesia, with a 92.99% increase in 2021, followed by 37.68% growth in 2022, and slight increases in 2023. As of 2024, the capital market has grown by 1.30%. This shows the significant role the capital market plays in investment, attracting numerous investors seeking returns.



The development of the sharia capital market can be seen from the 240% increase in investors annually. Data shows that in 2018, there were 44,536 investors, and by 2024, the number had grown to 151,560 investors, with an active rate of 14.1%. Additionally, the sharia stock market itself has increased by 54.6%, attracting investors to invest in sharia-compliant instruments. The Indonesian sharia capital market has become the best in its field, fully compliant with the standards set by the Indonesian Sharia Board and the Ulema Council (Krisnawati, 2024).

E. CONCLUSION

This study shows that the sharia capital market is a form of stock investment that applies Islamic values. Through the Indonesia Stock Exchange (IDX), investors can invest in a range of instruments, such as stocks, bonds, and mutual funds, offering high potential returns, which increasingly attract global investors to emerging markets like Indonesia. The sharia capital market in Indonesia has become a preferred investment option, as evidenced by the steady growth in investors over time. This increase demonstrates that the sharia capital market contributes to the growth of investment in Indonesia. Therefore, the sharia capital market can significantly impact a country's economic growth by optimizing investment education for the public, promoting collective welfare and progress.

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