

Analysis of the Impact of the Sukuk Market and Sharia Financing on Economic Growth in Indonesia

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Abstract: This study aims to analyze the impact of outstanding sukuk and Islamic banking financing on economic growth in Indonesia, incorporating Gross Fixed Capital Formation (GFCF) and inflation as control variables. The study utilizes monthly time-series data for Indonesia over a specific observation period, analyzed using a dynamic econometric approach. The results indicate the existence of a long-term relationship among all the variables under study. Empirically, outstanding sukuk and Islamic banking financing exert a positive influence on Gross Domestic Product in the long run, reflecting the role of Islamic financial instruments in supporting development financing and real-sector activities. GFCF is identified as a primary driver of economic growth in both the short and long term, whereas inflation demonstrates a negative impact on economic output. These findings underscore the importance of strengthening the sukuk market and the intermediation function of Islamic banking supported by macroeconomic stability to foster sustainable economic growth in Indonesia.

Abstrak: Penelitian ini bertujuan untuk menganalisis pengaruh outstanding sukuk dan pembiayaan perbankan syariah terhadap pertumbuhan ekonomi di Indonesia dengan memasukkan Gross Fixed Capital Formation (GFCF) dan inflasi sebagai variabel kontrol. Penelitian menggunakan data runtut waktu bulanan Indonesia dalam periode pengamatan tertentu yang dianalisis menggunakan pendekatan ekonometrika dinamis. Hasil pengujian menunjukkan adanya hubungan jangka panjang antara seluruh variabel penelitian. Secara empiris, outstanding sukuk dan pembiayaan perbankan syariah berpengaruh positif terhadap Produk Domestik Bruto dalam jangka panjang, yang mencerminkan peran instrumen keuangan syariah dalam mendukung pembiayaan pembangunan dan aktivitas sektor riil. GFCF terbukti menjadi faktor utama pendorong pertumbuhan ekonomi baik dalam jangka pendek maupun jangka panjang, sementara inflasi menunjukkan pengaruh negatif terhadap output ekonomi. Temuan ini menegaskan pentingnya penguatan pasar

Keywords: Sukuk; Sharia Financing; Economic Growth; Investment; Inflation.

sukuk dan fungsi intermediasi perbankan syariah yang didukung oleh stabilitas makroekonomi untuk mendorong pertumbuhan ekonomi berkelanjutan di Indonesia.

Kata Kunci: Sukuk; Pembiayaan Syariah; Pertumbuhan Ekonomi; Investasi; Inflasi.

A. Introduction

Indonesia's economic growth demonstrates resilience in the post-pandemic era; however, the structure of financing sources and their distribution mechanisms have undergone significant transformation over the past few decades. Overall, Indonesia's Gross Domestic Product (GDP) grew by 5.03% in 2024 (cumulative-to-cumulative) a slight slowdown compared to 2023 reflecting recovery dynamics driven by investment and specific consumption patterns (OJK, 2024). In terms of expenditure, the investment component measured by Gross Fixed Capital Formation (GFCF) has made a significant contribution to economic activity. For instance, GFCF in 2022 stood at IDR 5,714.97 trillion (at current prices), with investment growth accelerating over the last few quarters (BPS, 2025b). Inflationary conditions also remained relatively controlled at the end of 2024, with a year-on-year inflation rate of 1.57% in December 2024, which influenced real financing costs and investment decisions in the real sector (BPS, 2025a).

In the context of financing, the market for Sharia-compliant debt instruments or sukuk and Sharia banking finance play a pivotal role in distributing alternative funding for infrastructure projects and the real sector. By the end of 2024, the outstanding value of sovereign sukuk is projected to range between IDR 1.53 trillion and IDR 1.60 trillion. This underscores the significant scale of fund mobilization through sukuk instruments to finance the state budget (APBN) and strategic projects (Kemenkue, 2024). Regarding Sharia banking intermediation, the total volume of Sharia financing (outstanding financing) continues to grow. The Financial Services Authority (OJK) reported that

Sharia banking financing reached approximately IDR 643.55 trillion in 2024, with year on year growth approaching double digits, underscoring the role of Sharia banks in channeling credit to the real sector (OJK, 2024).

Theoretically, the relationship between Sharia capital market instruments sukuk, banking financing, and economic output can be explained through the frameworks of financial intermediation and resource mobilization. Intermediation theory posits that the mechanism of channeling funds from surplus units to deficit units via capital markets and the banking sector improves capital allocation and fosters productive investment, thereby driving economic growth (Levine, 2005). Within the context of Islamic finance, sukuk can serve a dual function. First, they act as a source of financing for governments and corporations to fund productive projects (*supply of funds*). Second, sukuk serve as an investment instrument that supports the development of a deeper Islamic capital market, thereby strengthening financial depth and long-term financing capacity. Several studies examining the role of sukuk in development and infrastructure financing have confirmed this mechanism, providing a basis for empirically testing the relationship between sukuk, Islamic financing, and economic growth in a country (Sukmana, 2020); (Ledhem & Mekidiche, 2022); (Tan & Khan, 2021)).

Studies conducted over the past decade have reported mixed findings. Nevertheless, the overall evidence generally supports the view that the development of the sukuk market and Islamic financial instruments contributes to economic growth (Ledhem & Mekidiche, 2022). Other studies have found a positive relationship between the development of sukuk markets in major issuing countries, such as Malaysia and the Gulf Cooperation Council (GCC) countries, as well as several Southeast Asian countries (Tan & Khan, 2021). However, other studies have emphasized that the effectiveness of sukuk as a channel for development financing largely depends on institutional factors, including the quality of governance, market liquidity, and regulatory standards (Aman & Nordin, 2022). In the Indonesian context, several studies have also indicated that sukuk have significant potential as a source of public financing and as an instrument

supporting the transmission of monetary policy, although they continue to face operational challenges related to product design and market institutions (Sukmana, 2020); (Suriani et al., 2021)). Therefore, the accumulated empirical evidence underscores the need for a contextual analysis of Indonesia to better understand the interactions among outstanding sukuk, Islamic banking financing, investment, inflation, and economic growth.

Although the literature has highlighted the role of sukuk and Islamic finance in shaping macroeconomic performance, studies that simultaneously integrate outstanding sukuk, Islamic banking financing, and investment indicators such as Gross Fixed Capital Formation (GFCF) in explaining economic growth (GDP) in Indonesia remain limited. Most previous studies tend to examine the effects of sukuk or Islamic financing separately or focus on cross-country contexts, and therefore have yet to provide a comprehensive picture of the interaction between Islamic financing instruments, investment dynamics, and macroeconomic stability in Indonesia. Furthermore, the literature emphasizes the importance of controlling for macroeconomic factors, such as inflation and investment, to capture the transmission mechanisms more accurately.

Against the backdrop of national conditions characterized by increasing outstanding sukuk, strengthening Islamic financing, and the significant role of GFCF, this study aims to analyze the contribution of sukuk and Islamic financing to economic growth in Indonesia, while incorporating GFCF and inflation as control variables. The study seeks to provide relevant empirical evidence to inform fiscal policy formulation, the development of the Islamic capital market, and the strengthening of Islamic banking intermediation.

B. Research Method

Data

This study uses quarterly secondary time-series data covering the period from January 2010 to December 2024, collected from various official government institutions

in Indonesia. The selection of quarterly data is based on the availability of more detailed observations and its ability to capture both short- and long-term dynamics in the relationship between Islamic financial instruments and economic growth. Table 1 below presents a brief definition of the variables used in this study and their respective data sources.

Tabel 1. Variable Definitions and Data Source

Variabel	Definotion	Data Source
GDP	The total value of final goods and services produced in the Indonesian economy	BPS
<i>Outstanding Sukuk</i>	The total value of outstanding government sukuk as a government financing instrument	DJPPR
Islamic Financing	Total financing extended by Islamic commercial banks and Islamic business units to the non-bank sector	OJK
GFCF	The value of Gross Fixed Capital Formation (GFCF), reflecting the level of investment in the national economy	BPS
Inflation	The monthly percentage change in the Consumer Price Index (CPI), measured year-on-year	BPS

Based on Table 1 above, Gross Domestic Product (GDP) is used as the primary indicator of economic growth, as it comprehensively represents the overall performance of the economy (BPS, 2024). Outstanding sukuk is proxied by the total value of outstanding government sukuk, reflecting the role of the Islamic capital market in supporting fiscal financing and government productive projects (Kemenkue, 2024). Islamic banking financing is measured by the total financing extended to the non-bank sector, reflecting the role of Islamic banking in supporting the real sector (OJK, 2024). Gross Fixed Capital Formation (GFCF) is used to assess the role of investment in promoting economic growth over both the short and long term (BPS, 2024). Meanwhile, inflation is proxied by the quarterly changes in the Consumer Price Index (CPI), serving as an indicator of price stability and macroeconomic conditions that influence

consumption and investment decisions ((BPS, 2024); (BI, 2025)). The selection of variables and data sources is grounded in the empirical literature, which emphasizes the importance of integrating financial, investment, and macroeconomic stability indicators in time-series analyses of economic growth (Ledhem & Mekidiche, 2022); (Tan & Khan, 2021).

Empirical Models

This study aims to analyze the relationship between the development of Islamic financial instruments and economic growth. Economic growth is measured by Gross Domestic Product (GDP), while the main explanatory variables consist of outstanding sukuk and Islamic financing. In addition, this study incorporates Gross Fixed Capital Formation (GFCF) and inflation as control variables to examine the role of real investment and price stability in the economy.

Given that all variables employed in this study are time-series data, the initial step of the analysis is to examine the stationarity properties of the data. This test is conducted to ensure that none of the variables is integrated of order two, $I(2)$, thereby ensuring the validity of the model estimation and avoiding spurious regression. Stationarity is examined using the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests. After confirming that all variables are integrated at either order $I(0)$ or $I(1)$, the analysis proceeds by testing for the existence of a long-run relationship among the variables through a cointegration approach. If a long-run relationship is identified, both the long-run economic relationship and short-run dynamics can be estimated simultaneously within a single modeling framework. In general, the relationship between economic growth and the Islamic financial variables can be expressed in functional form as follows:

$$GDP_t = f(SUKUK_t, FIN_t, GFCF_t, INF_t)$$

For the purpose of estimation, the function is specified in econometric form as follows:

$$\ln GDP_t = \alpha_0 + \alpha_1 \ln SUKUK_t + \alpha_2 \ln FIN_t + \alpha_3 \ln GFCF_t + \alpha_4 \ln INF_t + \varepsilon_t$$

Where GDP_t denotes real Gross Domestic Product, $SUKUK_t$ represents outstanding sukuk, FIN_t denotes total Islamic financing, $GFCF_t$ represents Gross Fixed Capital Formation as an indicator of investment, and INF_t denotes the inflation rate. The variables are expressed in natural logarithmic form to reduce the potential for heteroscedasticity and allow for the interpretation of the coefficients in terms of elasticities. To capture short-run dynamics and the adjustment mechanism toward long-run equilibrium, the research model is subsequently transformed into an Error Correction Model (ECM). The short-run model specification can be expressed as follows:

$$\begin{aligned} \Delta \ln GDP_t = & \beta_0 + \sum_{i=1}^p \beta_1 \Delta \ln GDP_{t-i} + \sum_{i=0}^q \beta_2 \Delta \ln SUKUK_{t-i} \\ & + \sum_{i=0}^r \beta_3 \Delta \ln FIN_{t-i} + \sum_{i=0}^s \beta_4 \Delta \ln GFCF_{t-i} + \beta_5 \Delta \ln INF_t \\ & + \lambda ECM_{t-1} + u_t \end{aligned}$$

The coefficient of ECM_{t-1} is expected to be negative and statistically significant, indicating an adjustment process from short-run disequilibrium toward long-run equilibrium. This coefficient also reflects the speed of adjustment of the economic system. Furthermore, to ensure the validity of the estimation results, a series of diagnostic tests is conducted, including tests for autocorrelation, heteroscedasticity, and model parameter stability. Parameter stability is assessed using the Cumulative Sum of Recursive Residuals (CUSUM) approach to ensure that the model parameters remain stable throughout the observation period

This empirical model specification is expected to provide a comprehensive assessment of the role of outstanding sukuk and Islamic financing in promoting economic growth in Indonesia, while controlling for the effects of investment and macroeconomic conditions.

C. Result and Discussion

Data Stationarity Test

Stationarity testing is conducted to identify the integration characteristics of the variables prior to estimating the Autoregressive Distributed Lag (ARDL) model. The tests employ the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) methods at both the level and first-difference stages. Utilizing both tests aims to provide a more robust assessment regarding the presence of a unit root in each variable. This step is crucial because the ARDL approach is applicable when research variables exhibit a mixed order of integration specifically I(0) and I(1) but cannot accommodate variables integrated at the second order, or I(2).

Tabel 2. Unit Root Test

Variabel	ADF test		PP test	
	Level	1st	Level	1st
LNGDP	-0.940248	-3.140590	-1.672273	-10.06833***
LNSUKUK	-2.006335	-1.475487	-5.000093**	-9.575498***
LNFIN	-5.139845**	-4.922404**	-3.670779**	-5.056066**
LNGFCF	-1.586492	-2.836214	-1.721860	-10.89938***
LNINFLASI	-7.336196***	-7.440683***	-7.398228***	-38.77138***

*Note: Significant at the level of *10, **5 and ***1 percent*

Based on Table 2, the test results indicate that the research variables exhibit diverse integration characteristics. LNGDP and LNGFCF became stationary after the first difference, thereby being categorized as I(1). Meanwhile, LNFIN and LNINFLASI were stationary at the level, classifying them as I(0). LNSUKUK is also categorized as I(0) based on PP results, which show a statistic value of -5.000093 at the level with a 5% significance level. These results demonstrate that the variables in the model consist

of a combination of $I(0)$ and $I(1)$, with no variables found to be integrated at the second order $I(2)$.

This composition meets the fundamental characteristics required for applying the ARDL approach. Pesaran et al., (2001) explain that the bounds testing approach is applicable when explanatory variables exhibit either $I(0)$ or $I(1)$ characteristics, whereas the presence of $I(2)$ variables poses a significant limitation to the approach's application. Consequently, the stationarity test results provide an empirical basis for proceeding with the analysis using the ARDL model to examine the short- and long-term relationships among the research variables.

Ardl Bounds Test Cointegration

Once the integration characteristics of the variables have been determined, the next step involves cointegration testing using the ARDL Bounds Test. This test aims to determine whether a long-run relationship exists among the variables in the model. The null hypothesis (H_0) posits the absence of a levels relationship, whereas the alternative hypothesis (H_1) posits the existence of a long-run relationship. This approach compares the F-statistic value against the $I(0)$ lower bound and the $I(1)$ upper bound, as developed by Pesaran et al., (2001).

Tabel 3. ARDL Cointegration Test

F-Bounds Test			Null Hypothesis: No levels relationship	
Test Statistic	Value	Signif.	I (0)	I (1)
Asymptotic: n=1000				
F-statistic	13.28233	10%	2.2	3.09
k	4	5%	2.56	3.49
		2.5%	2.88	3.87
		1%	3.29	4.37
Actual Sample Size		56	Finite Sample: n=60	
		10%	2.323	3.273
		5%	2.743	3.792
		1%	3.71	4.965
Finite Sample: n=55				

10%	2.345	3.28
5%	2.763	3.813
1%	3.738	4.947

The results in Table 3 show that the F-statistic value of 13.282331 exceeds the upper bound I(1) value at all significance levels employed. At the 5% level, for instance, the upper bound I(1) ranges from 3.792 to 3.813, whereas the F-statistic reaches 13.282331. The same pattern is observed at the 10% and 1% significance levels. Consequently, the null hypothesis (H_0) stating that no relationship exists at the level is rejected. These findings indicate the presence of a long-run relationship among economic growth (LNGDP), sukuk (LNSUKUK), financing (LNFIN), gross fixed capital formation (LNGFCF), and inflation (LNFLASI) within the research model. This result aligns with the ARDL Bounds Test principle, which posits that an F-statistic exceeding the upper bound I(1) provides evidence of a long-run relationship between variables (Pesaran et al., 2001). Given the identification of this long-run relationship, subsequent analysis can focus on estimating the long-run relationship to determine the direction and magnitude of the impact each variable has on economic growth.

Estimation of Long Term Relationships

After the Bounds Test results confirmed the existence of a long-run relationship, long-run estimation was conducted to identify the direction and magnitude of the relationship between each variable and economic growth.

Tabel 4. Estimation of Long Term Relationships

<i>Levels Equation</i>				
<i>Case 2: Restricted Constant and No Trend</i>				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNSUKUK	-0.557416	5.267181	-0.105828	0.9162
LNFIN	-0.624742	6.086287	-0.102647	0.9188
LNGFCF	2.386991	17.21453	0.138661	0.8904
LNFLASI	-1.360295	11.54030	-0.117873	0.9068

C	-9.025665	161.0326	-0.056049	0.9556
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*Note: Significant at the level of *10, **5 and ***1 percent*

The results in Table 4 show that sukuk has a coefficient of -0.557416 with a probability of 0.9162. The direction of the coefficient indicates a negative relationship, though it is not statistically significant. This finding differs from that of Naz & Gulzar, (2022), who found that sukuk positively influences long-term economic growth in several Islamic countries. Similar findings were reported by Masrizal & Tianro, (2022), who identified a positive contribution of sukuk financing to Indonesia's real sector output in the long run. These discrepancies suggest that the relationship between sukuk and economic growth does not always yield the same direction or level of significance; this may be attributed to variations in the time periods, sukuk indicators, and economic structures analyzed in the respective studies.

Financing has a coefficient of -0.624742 with a probability of 0.9188, indicating a negative and insignificant relationship in the long run. These results differ from those of Abduh & Omar, (2012), who found a significant relationship between the development of Islamic banking financing and economic growth, as well as Kamaruddin & Kassim, (2022), who found a positive and significant impact of Islamic banking sector development on Malaysia's economic growth in the long run. Thus, the findings of this study do not provide empirical support for the positive relationship observed in a number of previous studies.

Furthermore, gross fixed capital formation shows a positive coefficient of 2.386991 with a probability of 0.8904. The direction of this relationship aligns with the study by Nurfadia & Nurkarim, (2025), which found that GFCF has a positive and significant effect on economic growth in the long run. Conversely, Sari & Purwiyanta, (2026) obtained different results, finding a negative relationship between GFCF and long-term economic growth in Indonesia. These differing results indicate that the

contribution of capital formation to economic growth can vary depending on model characteristics and the observation period.

Meanwhile, inflation has a coefficient of -1.360295 with a probability of 0.9068. This negative direction aligns with a number of previous studies. An IMF study using data from 14 Indian states found a long-term negative relationship between inflation and economic growth, particularly when inflation was at relatively high levels. Similar results were found by Melac et al., (2024) Male in Ethiopia, indicating that inflation is negatively associated with economic growth.

Short Term Estimation

Once the long run cointegration relationship has been identified via the Bounds Test, short-run estimation is conducted using the Error Correction Model (ECM) to examine the impact of changes in each variable on changes in economic growth, as well as the adjustment process toward long-run equilibrium.

Tabel 5. Short Term Estimation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LNSUKUK)	0.009072	0.041780	0.217135	0.8289
D(LNFIN)	0.076670	0.071865	1.066856	0.2909
D(LNGFCF)	0.316750	0.088455	3.580934	0.0007
D(LNFLASI)	0.002423	0.002305	1.051405	0.2978
ECT(-1)	-0.530910	0.138935	-3.821295	0.0004
C	0.003610	0.005298	0.681413	0.4986

The results in Table 5 indicate that sukuk has a positive coefficient of 0.009072 with a probability of 0.8289; thus, it does not significantly affect economic growth in the short term. This implies that changes in sukuk during the current period do not yet demonstrate a substantial relationship with changes in economic growth. These results align with Yusuf et al., (2025), who showed that the relationship between sukuk and the economic growth of issuing countries is not significant in the short term. Financing has

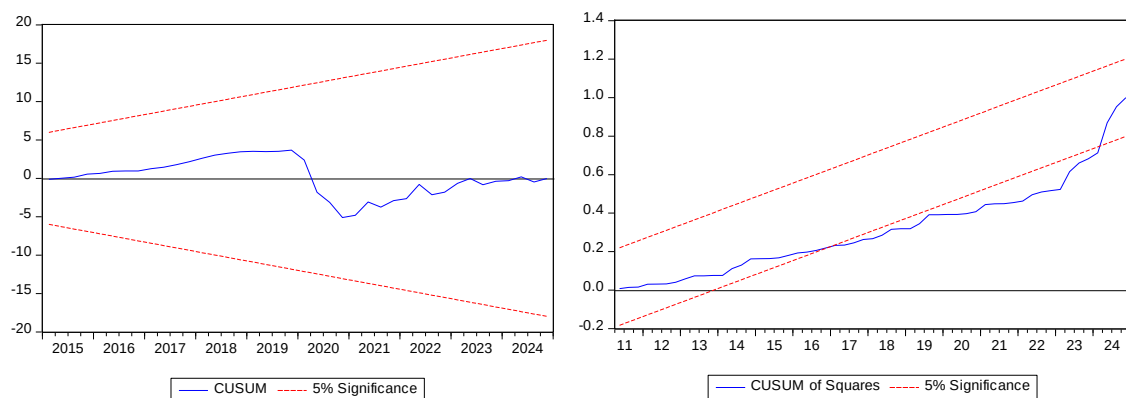
a positive coefficient of 0.076670 but is not significant, with a probability of 0.2909. These results indicate that changes in financing do not yet exert a significant influence on economic growth in the short term. This finding differs from the results of a study by Nawaz et al., (2019) in Pakistan, which found that Islamic finance has a positive and significant relationship with economic growth in the short term.

Unlike the two previous variables, GFCF has a positive and significant effect on economic growth in the short run. A coefficient of 0.316750 with a probability of 0.0007 indicates that an increase in gross fixed capital formation is accompanied by an increase in economic growth during the same period. This finding aligns with research conducted in Ghana, which found that GFCF has a positive and significant impact on economic growth in the short run Poku et al., (2022). These results reinforce the study's finding that capital formation is a component directly linked to the dynamics of economic growth in the short run.

Meanwhile, inflation has a positive coefficient of 0.002423 with a probability of 0.2978, indicating no significant effect on economic growth in the short term. This finding differs from that of Melac et al., (2024), who identified a negative relationship between inflation and economic growth. However, the results of this study indicate that changes in inflation during the observation period have not exerted a statistically significant influence on changes in economic growth.

Furthermore, ECT(-1) has a coefficient of -0.530910 with a probability of 0.0004, rendering it negative and significant at the 1 percent level. This coefficient indicates the presence of an adjustment mechanism moving from short-run conditions toward long-run equilibrium. In other words, approximately 53.09 percent of the disequilibrium occurring in the previous period is corrected within a single quarter. This negative and significant value also supports the existence of an error correction mechanism, following the earlier finding of a cointegration relationship via the Bounds Test. Overall, the short-run estimation results indicate that GFCF has a positive and significant impact on economic growth, whereas sukuk, financing, and inflation do not

show a significant influence in the short run. On the other hand, the negative and significant ECT(-1) demonstrates the existence of a correction mechanism for short-run disequilibrium, with an adjustment rate of 53.09 percent per quarter. These results suggest that short-run economic growth dynamics are more strongly driven by changes in capital formation than by changes in sukuk, financing, or inflation.



Gambar 1. Hasil Uji Stabilitas CUSUM dan CUSUMSQ

Based on Figure 1, the CUSUM line remains within the 5% critical bounds throughout the observation period. This indicates the absence of any significant systematic change in the model parameters. These results align with the findings of Saleem et al., (2021), who observed that CUSUM and CUSUMSQ values fell within the 5% critical bounds, thereby confirming the stability of the ARDL model parameters. Similar findings were reported by Poku et al., (2022), where CUSUM testing supported the stability of the model parameters.

However, the CUSUMSQ results in this study reveal a different pattern. While the CUSUMSQ line remains within the critical bounds for the majority of the period, it crosses the 5% upper bound toward the end of the observation period. This indicates potential parameter instability in the final period, specifically around 2024. These findings mirror the pattern observed by Melac et al., (2024), who found that while CUSUM remained within critical bounds, the CUSUMSQ statistic for certain models

crossed the 5% threshold, signaling parameter instability during specific periods. Thus, the stability test results indicate that the model parameters are stable according to the CUSUM test, whereas the CUSUMSQ test suggests a shift in parameters toward the end of the observation period. This outcome warrants careful consideration when interpreting the ARDL estimates, as it suggests a possible change in variance dynamics or the structural relationship between variables during the final period.

D. Conclusion

This study examines the relationship between Sharia financial instruments (sukuk and Sharia banking financing), investment (GFCF), and inflation regarding economic growth in Indonesia, employing the dynamic Autoregressive Distributed Lag (ARDL) econometric approach. The Bounds Test results confirm the existence of cointegration or a long-run equilibrium relationship among all the variables under study. Empirically, short-run economic growth dynamics in Indonesia are significantly dominated by gross fixed capital formation (GFCF). Meanwhile, the variables of sukuk, Sharia financing, and inflation do not exhibit a significant influence in the short run. The adjustment mechanism via the Error Correction Term (ECT) proves to be significant and negative, indicating a process of correcting short-run imbalances toward long-run equilibrium, with an adjustment speed of 53.09% per quarter.

The implications of these findings underscore that physical investment (GFCF) remains the primary driver of national economic output in the short term. Therefore, the strengthening of the *sukuk* market and Sharia banking financing needs to be optimized so that they not only serve as instruments for fund mobilization but are also effectively channeled into productive sectors and real investments that support sustainable growth.

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