

Sharia Stock Exchange and Its Contribution To National Economic Growth Comparative Analysis Of Indonesia And Malaysia

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ABSTRACT

Penelitian ini mengkaji peran bursa saham berbasis syariah dalam mendorong pertumbuhan ekonomi nasional dengan fokus perbandingan antara Indonesia dan Malaysia. Dengan menggunakan pendekatan penelitian berbasis kepustakaan, studi ini mensintesis temuan dari literatur akademik, laporan resmi, dan data statistik untuk menganalisis kinerja pasar, keterkaitan makroekonomi, serta kerangka kelembagaan. Hasil penelitian menunjukkan bahwa pasar saham syariah di Indonesia cenderung memiliki volatilitas yang lebih tinggi dan lebih sensitif terhadap kondisi makroekonomi domestik, sementara pasar Malaysia yang lebih matang dan terintegrasi secara global menunjukkan stabilitas yang lebih besar serta keterhubungan internasional yang lebih mendalam. Di kedua negara, pasar modal syariah—melalui instrumen seperti *sukuk*, saham syariah, dan reksa dana—berkontribusi positif terhadap pertumbuhan PDB jangka panjang dengan mendorong inklusi keuangan, memobilisasi tabungan, dan mendukung sektor-sektor produktif. Penelitian ini menyimpulkan bahwa tata kelola yang kuat, harmonisasi regulasi, dan peningkatan literasi keuangan merupakan faktor penting untuk memperkuat dampak ekonomi dan keberlanjutan pasar modal syariah di tengah lingkungan global yang semakin terintegrasi.

Kata kunci: *Bursa saham syariah, keuangan Islam, pertumbuhan ekonomi, kerangka regulasi, inklusi keuangan*

ABSTRACT

This study examines the role of Sharia-compliant stock exchanges in advancing national economic growth, focusing on the comparative experiences of Indonesia and Malaysia. Using a library-based research method, the paper synthesizes findings from scholarly works, official reports, and statistical analyses to explore market performance, macroeconomic linkages, and institutional frameworks. The results reveal that while Indonesia's Sharia stock market is characterized by higher volatility and sensitivity to domestic macroeconomic factors, Malaysia's more mature and globally integrated market exhibits greater stability and deeper international linkages. In both countries, Islamic capital markets through instruments such as *sukuk*, Sharia equities, and mutual funds contribute positively to long-term GDP growth by promoting financial inclusion, mobilizing savings, and supporting productive sectors. The study concludes that strong governance, regulatory harmonization, and financial literacy are essential to enhance the economic impact of Islamic capital markets and sustain their growth in an increasingly globalized environment.

Keyword: *Sharia stock exchange, Islamic finance, economic growth, regulatory framework, financial inclusion*

INTRODUCTION

The development of Sharia-compliant capital markets has become a defining feature of modern Islamic finance, offering mechanisms for ethical investment that align economic growth with the principles of fairness, transparency, and social responsibility. As the global Islamic finance sector surpasses USD 4 trillion in assets, Indonesia and Malaysia have emerged as regional leaders in fostering Islamic stock exchanges that contribute directly to national economic performance (Mohammed & Taiton, 2024). These markets integrate Sharia-compliant instruments such as Islamic equities, sukuk, and mutual funds into broader financial systems, helping to channel resources into productive and socially beneficial sectors of the economy.

Indonesia's Sharia stock market, represented by the Jakarta Islamic Index (JII), has experienced significant expansion in recent years. Despite this progress, studies indicate that the Indonesian Islamic market is characterized by relatively higher volatility, weaker liquidity, and greater sensitivity to macroeconomic fluctuations, such as exchange rates and inflation, compared to its Malaysian counterpart (Mohammed & Taiton, 2024). The country's reliance on foreign investors who account for more than 60% of market participation has contributed to heightened responsiveness to global shocks, particularly those originating from U.S. monetary policy changes (Nurbaidah et al., 2025). Behavioral economics also plays a notable role; investor sentiment during Ramadan, for example, has been shown to temporarily boost trading activity and liquidity in Sharia-based sectors such as food and beverages, without significantly altering overall market volatility (Lai & Windawati, 2017).

In contrast, Malaysia's Islamic capital market is among the most mature and integrated globally. The Bursa Malaysia Emas Syariah Index represents a large portion of the country's stock exchange, with nearly 79% of all listed equities classified as Sharia-compliant (Bank Negara Malaysia, 2023). Supported by a robust regulatory ecosystem led by the Securities Commission Malaysia (SC) and Bank Negara Malaysia (BNM), Malaysia has consistently ranked first in the Global Islamic Finance Development Indicator for over a decade. Its Sharia stock market demonstrates a high degree of integration with international financial systems, showing particular responsiveness to movements in the U.S. Federal Reserve rate (Antonio et al., 2013). However, this global linkage also increases exposure to external risks, underscoring the balance between market openness and domestic stability.

The economic contribution of Sharia stock exchanges extends beyond financial performance metrics. Empirical evidence from Indonesia shows that Islamic financial instruments especially sukuk and Islamic bank assets exert a statistically significant long-term positive effect on gross domestic product (GDP), despite limited short-term impacts (Kamali, 2025; Yakubu et al., 2025). These findings suggest that Sharia-compliant financial systems contribute to national development primarily through capital accumulation, infrastructure financing, and enhanced financial inclusion. A related study further confirms that Islamic financial deepening—measured by the growth of Islamic banking assets, sukuk issuance, and zakat distribution—positively correlates with Indonesia's GDP growth in the long run (Anwar, 2024).

Malaysia's experience reinforces this long-run relationship between Islamic capital markets and economic development. The country's extensive sukuk market, which accounts for over 50% of global issuance, serves as a critical funding source for national infrastructure

and development projects (Mohammed & Taiton, 2024). Moreover, the institutionalization of Sharia governance through dedicated committees at both the SC and BNM enhances transparency and investor confidence, ensuring that Islamic finance contributes sustainably to macroeconomic stability and inclusive growth (Kusnawirawan et al., 2025).

Collectively, these findings indicate that the Sharia stock exchanges of Indonesia and Malaysia not only embody religious and ethical financial principles but also serve as dynamic engines for economic growth. Their comparative evolution highlights how differing regulatory structures, market maturity, and investor behavior shape their respective economic contributions. This study therefore aims to analyze the distinctive roles of Sharia stock exchanges in Indonesia and Malaysia, exploring how they promote national economic growth through market performance, macroeconomic linkages, and institutional development.

METHODOLOGY

This study employs a library-based research approach that systematically collects and examines information from various scholarly and documentary materials. According to Daruhadi & Sopiati (2024), rigorous data collection is vital in both quantitative and qualitative research to ensure the credibility and dependability of results. By adopting this method, this study synthesizes existing literature, empirical studies, and official reports to explore the structure, performance, and macroeconomic implications of Sharia-compliant stock exchanges. The objective is to provide a comprehensive overview of these topics through the lens of economists and Islamic finance experts. The data utilized in this research comprise two main types: primary sources original works and reference books offering firsthand insights and secondary sources, including analytical and interpretive materials such as scientific articles, reports, article, and newspapers.

DISCUSSION

MARKET PERFORMANCE AND MACROECONOMIC LINKAGES

The contribution of Sharia-compliant stock markets to national economic growth is a complex issue, mediated by market performance, investor behavior, and the responsiveness of macroeconomic variables. In recent years, both Indonesia and Malaysia have cultivated robust Islamic capital markets, yet their dynamics and linkages to broader economic indicators reveal distinct characteristics. An analysis of market indices, volatility, and causal relationships with macroeconomic factors provides a foundational understanding of how these markets function as engines for growth.

Indonesia's Sharia equity market has demonstrated significant dynamism, though its performance metrics present a mixed picture. The Jakarta Islamic Index (JII), one of the country's primary benchmarks, has shown higher volatility compared to its Malaysian counterpart (Kafabih, 2025). This heightened sensitivity can be attributed to various factors, including the significant influence of foreign investors, who accounted for over 60% of the capital market in an earlier study, making it vulnerable to global policy shifts (Antonio et al., 2013). Despite this, studies comparing performance using the Sharpe, Treynor, and Jensen methods yield conflicting results. While some analyses indicate negative performance across all three metrics, suggesting poor risk-adjusted returns, another study using the Jensen method found a positive value for the JII during 2014–2019, implying superior performance relative to

the market (Azhar & Wulandari, 2021; Khan, 2016). This suggests that while absolute returns may be challenged, the Indonesian market exhibits unique characteristics that can generate alpha. Further complicating the assessment, Ramadan appears to influence trading activity; research shows it increases liquidity and average returns for Sharia-based food and beverage companies but does not significantly alter overall market volatility or abnormal returns (Husen et al., 2021; Lai & Windawati, 2017).

In contrast, Malaysia's Islamic equity market, represented by the Bursa Malaysia Emas Shariah index, has also shown high integration with regional markets (Kafabih, 2025). However, unlike Indonesia, no long-term relationships were identified between its Islamic stock index and key macroeconomic variables like interest rates, inflation, exchange rates, or foreign exchange reserves (Zahara et al., 2020). Moreover, research indicates that Malaysia's Islamic equity market tends to react more sensitively to external disturbances, especially fluctuations in the U.S. Federal Reserve's interest rate, which plays a greater role in explaining forecast error variance compared to domestic oil prices or local interest rates (Antonio et al., 2013). This indicates a deeper integration into the global financial system, which can offer diversification benefits but also exposes it to greater external risks. The Malaysian market has also seen issues with price clustering, where certain ending digits in stock prices appear more frequently than expected, a phenomenon observed in all four analyzed Malaysian stocks but only two in Indonesia, suggesting potentially different levels of negotiation-driven pricing (Lobão, 2023).

The connection between these markets and the real economy is critical for assessing their contribution to GDP. Research employing Vector Error Correction Models (VECM) reveals a nuanced relationship. One study on Indonesia found that while short-term impacts are limited, Islamic banking assets, outstanding sukuk, and zakat distribution have a statistically significant positive effect on GDP in the long run (Kurniawan et al., 2025). Another study focusing specifically on the Islamic capital market found that government sukuk had a significant positive influence on GDP, whereas corporate sukuk did not (Anwar, 2024). Collectively, Shariah stocks, sukuk, and mutual funds were found to explain approximately 50.6% of the variation in Indonesia's economic growth between 2012 and 2021 (Atichasari et al., 2023). However, other econometric approaches have yielded different results. A study using a Pooled Mean Group (PMG) model found a negative, albeit significant, long-run relationship between Islamic finance and economic growth overall, with the exception of the positive impact from the total assets of Islamic banks (Yakubu et al., 2025).

The linkages with macroeconomic variables further illuminate this complexity. For Indonesia's JII, the long-term drivers of performance include inflation and exchange rates, with short-term effects also driven by inflation (Kafabih, 2025). Studies confirm that exchange rates have a positive long-term effect on the JII, while interest rates and inflation have a significant negative effect on returns (Kafabih, 2025). This implies that a stronger rupiah and lower interest rates are conducive to Islamic stock performance. In Malaysia, the relationship is less direct, with KLIBOR interest rates showing a bi-directional causal link with shares, indicating a closer feedback loop between monetary policy and the stock market (Zahara et al., 2020). The differing sensitivities to macroeconomic factors suggest that while both countries' markets are influenced by the broader economy, they do so through different channels, reflecting their respective structural and regulatory environments.

This comparative analysis highlights that although both countries are prominent players in Islamic finance, their capital markets function based on distinct dynamics. Indonesia's market tends to be more influenced by domestic macroeconomic factors and demonstrates greater volatility, likely due to its relatively younger and more domestically oriented structure. In contrast, Malaysia's more mature and globally integrated market exhibits stronger stability against local disturbances but is more susceptible to international influences, especially those originating from the United States.

REGULATORY FRAMEWORKS AND INSTITUTIONAL DEVELOPMENT

The growth of Sharia stock exchanges relies on strong, transparent regulation. Both Indonesia and Malaysia have established comprehensive yet distinct frameworks that ensure Sharia compliance, enhance investor trust, manage risks, and shape their markets' roles in the national economy.

Malaysia's regulatory architecture is characterized by its comprehensiveness and deep integration with conventional finance. The primary regulators are Bank Negara Malaysia (BNM), which oversees monetary policy and macroprudential stability, and the Securities Commission Malaysia (SC), which regulates the capital market (Bank Negara Malaysia, 2023). A defining feature of the Malaysian system is the establishment of dedicated Shariah committees at both institutions. The SC Shariah Committee provides guidance on the application of Shariah principles to capital market products and activities, ensuring that instruments like Sukuk adhere to standards such as AAOIFI No. 17 (Bank Negara Malaysia, 2023). This institutionalization reflects a mature ecosystem where Shariah governance is embedded at the highest level of regulation. Furthermore, Malaysia has pioneered innovative solutions like the Malaysia Islamic Overnight Rate (MYOR-i), a fully Shariah-compliant benchmark replacing the conventional KLIRR, based on commodity murabahah transactions. This demonstrates a proactive approach to building the fundamental infrastructure necessary for a sophisticated Islamic financial system.

In contrast, Indonesia's regulatory framework is primarily led by the Financial Services Authority (OJK), which was created to consolidate oversight of the financial sector, including banking, capital markets, and insurance (Burwono et al., 2025). OJK's mandate includes protecting investors and maintaining market stability through rules like POJK No. 31/POJK.04/2015 on transparency and POJK No. 43/POJK.04/2020 on fraud prevention (Kusnawirawan et al., 2025). A crucial component of Indonesia's system is the National Sharia Council of the Indonesian Council of Ulama (DSN-MUI), which issues fatwas that form the basis of Sharia compliance screening (OJK, 2024). These fatwas, such as DSN-MUI No. 40/DSN-MUI/X/2003 on general principles and No. 80/DSN-MUI/III/2011 on quantitative ratios, are legally recognized and used by OJK to create regulations (Suryadi & Alim, 2025). The synergy between OJK's legal enforcement and DSN-MUI's religious authority creates a unique dual-layered governance structure. Recent developments, such as OJK Regulation No. 8 of 2025, aim to strengthen this by formalizing stricter criteria for the Sharia Securities List and expanding disclosure obligations for issuers (Pratiwi et al., 2025).

Despite these well-defined structures, Indonesia faces significant challenges in regulatory implementation. Issues such as weak enforcement, bureaucratic inefficiencies, and gaps in technological supervision have been noted as major impediments to market growth (Kusnawirawan et al., 2025). The infamous Jiwasraya and Asabri scandals are cited as

examples of systemic regulatory failures that erode investor trust (Kusnawirawan et al., 2025). The effectiveness of the Sharia Supervisory Board (DPS) and sharia auditors is also a concern, with a noted shortage of certified auditors relative to the number of Islamic banks (Ayu et al., 2024). This contrasts sharply with Malaysia's more centralized and proactive regulatory posture.

The institutional differences have profound implications for market development. Malaysia's centralized, top-down approach has fostered a highly developed and liquid market, enabling it to become a global hub for sukuk issuance. Indonesia's decentralized, multi-stakeholder model, while inclusive, suffers from inconsistencies and implementation gaps. The recent push by OJK to tighten screening criteria and enhance disclosure is a critical step towards addressing these weaknesses. By harmonizing standards and strengthening enforcement, Indonesia can build a more resilient and trustworthy market, which is essential for attracting long-term investment and realizing its potential contribution to national economic growth.

INVESTOR BEHAVIOR AND MARKET LIQUIDITY

Understanding investor behavior and its impact on market liquidity is crucial for assessing the health and growth potential of a Sharia stock exchange. In both Indonesia and Malaysia, investor sentiment is shaped by a unique blend of religious observance, cultural practices, and behavioral biases, leading to distinct patterns in trading activity that have direct consequences for market stability and efficiency.

One of the most prominent behavioral drivers in Indonesia is the influence of Ramadan. Multiple studies confirm that this holy month has a measurable impact on the stock market. Specifically, Ramadan tends to increase liquidity across most stock indices, including the conventional Jakarta Composite Index (JCI) and the Sharia-focused Jakarta Islamic Index (JII) (Lai & Windawati, 2017). For the food and beverage sector, which is heavily represented in Sharia indices, Ramadan leads to a significant increase in both average returns and trading volume (Husen et al., 2021). This suggests that consumption-related sectors experience heightened investor attention and speculative activity during the month. However, the effect is not uniform; some studies find no significant difference in returns or volatility for the broader JII during Ramadan, pointing to a more nuanced impact that varies by sector and time period (Lai & Windawati, 2017). Beyond Ramadan, investor sentiment is also influenced by psychological factors, particularly in low-individualism societies. Research suggests that high investor sentiment during Ramadan can lead to overconfidence, resulting in the mispricing of assets and creating opportunities for arbitrage strategies (Cheema & Fianto, 2024). This behavioral aspect highlights a potential source of market inefficiency that requires careful monitoring.

Foreign institutional ownership represents another critical factor influencing market dynamics in Indonesia. Historically, foreign investors have held a dominant position, accounting for over 60% of the capital market in one study, which makes the market highly sensitive to global economic and political developments (Antonio et al., 2013). This reliance on foreign capital presents a double-edged sword. On one hand, it brings in substantial liquidity and expertise. On the other hand, it introduces significant volatility and makes the market vulnerable to external shocks, such as changes in U.S. monetary policy. Reducing this dependence by fostering a larger base of domestic retail and institutional investors is considered

a strategic priority for enhancing market stability and reducing vulnerability (Antonio et al., 2013).

Market liquidity itself remains a persistent challenge in Indonesia's Sharia market. It is often described as "low" due to a combination of a limited range of innovative products and a relatively narrow investor base (Nurbaidah et al., 2025). Low liquidity can deter investors and increase transaction costs, thereby constraining market growth. However, there are positive signals. Internet-driven investor attention, measured by Google Search Volume, has been shown to have a strong positive and statistically significant relationship with stock liquidity (Usman et al., 2024). This indicates that improving public awareness and access to information through digital channels can be a powerful tool for boosting market participation. Similarly, initiatives by organizations like the National Commission on Sharia Economy and Finance (KNEKS) to improve financial literacy, especially among younger generations, are vital for expanding the investor base and, consequently, market liquidity.

Comparatively, Malaysia's market appears more stable in terms of investor composition and liquidity. With a much larger proportion of its equity market being Sharia-compliant (79%) and a longer history of development, it likely has a more diversified and knowledgeable investor base (Bank Negara Malaysia, 2023). The focus on price clustering in Malaysia points to a different set of behavioral drivers related to negotiation and preference for round numbers, rather than the seasonal, religion-based sentiment seen in Indonesia (Lobão, 2023). To conclude, while Indonesia's market is rich with behavioral phenomena that can drive short-term activity, its long-term growth hinges on overcoming structural weaknesses in liquidity and investor education. Malaysia offers a model of a mature market with high liquidity and deep investor engagement, but it too faces challenges in areas like derivatives and harmonizing its diverse market segments.

Contribution to GDP: Evidence and Causal Mechanisms

The true measure of a Sharia stock exchange's impact on national growth is reflected in its contribution to GDP. Evidence from Indonesia shows that while short-term effects may be limited, Islamic finance particularly its capital market segment has a clear positive influence in the long run. Econometric studies support this by highlighting how Sharia-compliant instruments direct resources into productive sectors of the economy.

A pivotal finding from several studies is the distinction between short-term and long-term effects. A 2025 study using quarterly data from 2011Q1 to 2023Q4 concluded that in the short term, Islamic banking assets, outstanding sukuk, and total zakat distribution do not have a significant effect on GDP growth (Kurniawan et al., 2025). Similarly, other research has found that individual components like the Islamic stock market capitalization or corporate sukuk have no significant immediate impact on GDP (Anwar, 2024). This initial lack of statistical significance should not be interpreted as a lack of contribution. Instead, it points to a lagged, structural process where the integration of Islamic finance into the economy takes time to manifest in macroeconomic aggregates.

It is in the long run that the positive correlation emerges with remarkable consistency. The same 2025 study found that after this adjustment period, all three variables banking assets, sukuk, and zakat have a positive and statistically significant effect on economic growth (Kurniawan et al., 2025). This finding is corroborated by other research, which collectively

concludes that when taken together, Shariah stocks, sukuk, and Shariah mutual funds significantly impact economic growth, explaining nearly half of its variation (Atichasari et al., 2023). Even a study using a Pooled Mean Group (PMG) model, which yielded a negative overall relationship, found that the positive impact of the total assets of Islamic banks was statistically significant (Yakubu et al., 2025). This convergence of findings strongly supports the hypothesis that Islamic finance contributes to sustained economic development.

The mechanisms driving this long-term growth are multifaceted. The most direct channel is financing. Islamic banking assets are shown to support the real sector, particularly Micro, Small, and Medium Enterprises (MSMEs), which are the backbone of Indonesia's economy but often struggle to access conventional credit (Kurniawan et al., 2025). The sukuk market serves as a powerful vehicle for funding large-scale infrastructure projects. Data from 2022 showed that sukuk funds had financed 578 road projects and 130 transportation projects, directly contributing to physical capital formation and economic productivity. Zakat, once distributed, enhances societal welfare and aggregate consumption, stimulating demand and supporting businesses (Kurniawan et al., 2025). This tripartite mechanism financing MSMEs, funding infrastructure, and stimulating consumption forms the core of how the Islamic capital market translates investor capital into tangible economic output.

Moreover, capital market development serves as a catalyst for broader economic progress. A 2025 study identified a one-way Granger causality from financial inclusion measured by deposit-to-GDP and loan-to-GDP ratios to capital market activity (Hartanto et al., 2025). This indicates that greater public participation in savings and lending enhances engagement in the capital market. Such a virtuous cycle shows that the capital market not only benefits from financial deepening but also reinforces it. Rising transaction values in stocks and mutual funds stimulate public savings, further strengthening the financial system and supporting sustained economic growth (Hartanto et al., 2025).

However, the path to realizing this contribution is fraught with challenges. The effectiveness of these mechanisms depends heavily on the quality of implementation. For instance, despite the potential of sukuk to fund infrastructure, the market must overcome issues like low liquidity and a limited product range to scale up effectively (Nurbaidah et al., 2025). The success of zakat in boosting consumption relies on efficient distribution networks and targeting the right beneficiaries. And the ability of Islamic banking to finance MSMEs is hampered by barriers like low financial literacy among entrepreneurs and market imperfections (Adam et al., 2025). Therefore, while the evidence strongly indicates a positive long-term contribution of the Sharia stock exchange to GDP, the magnitude of this contribution is contingent upon addressing these underlying structural issues. Enhancing inclusivity, strengthening financial infrastructure, and improving literacy are not just peripheral goals; they are essential prerequisites for unlocking the full economic potential of the Islamic capital market (Syahna et al., 2025).

COMPARATIVE OUTLOOK: STRENGTHS, WEAKNESSES, AND FUTURE TRAJECTORIES

When comparing Indonesia and Malaysia as leaders in the global Islamic finance landscape, it becomes evident that they occupy different strategic positions defined by their market maturity, regulatory philosophy, and comparative strengths. While Malaysia stands out as a global powerhouse, Indonesia is a rapidly developing giant whose future trajectory holds

immense potential for reshaping the region's economic dynamics. Their divergent paths offer valuable insights into the multifaceted nature of Islamic capital market development and its contribution to national economic growth.

Malaysia's primary strength lies in its sheer size, depth, and sophistication. As of 2021, it boasted the world's largest sukuk market, valued at \$285 billion, which constituted 52% of the total global outstanding sukuk (Bank Negara Malaysia, 2023). Its Islamic equity market is equally advanced, with 79% of all listed stocks on the Kuala Lumpur Stock Exchange classified as Shariah-compliant. This extensive market infrastructure is backed by a robust regulatory framework, featuring dedicated Sharia committees at both BNM and the SC, and a forward-looking approach to product innovation, exemplified by the creation of the MYOR-i benchmark rate (Bank Negara Malaysia, 2023). Malaysia's achievement of topping the Islamic Finance Development Indicator (IFDI) for twelve consecutive years is a testament to this maturity (Zahara et al., 2020). For Indonesia, Malaysia serves as a powerful model of what can be achieved with consistent, long-term strategic investment in regulatory and market infrastructure.

However, Malaysia's deep integration with the global financial system also represents a weakness. Its market is highly sensitive to external shocks, particularly fluctuations in the U.S. dollar and interest rate policies, as evidenced by the significant influence of the Fed rate on its Islamic stock indices (Antonio et al., 2013). This vulnerability could pose a risk in an era of increasing global economic fragmentation. Furthermore, despite its market depth, Malaysia's Islamic derivatives market remains underdeveloped, limiting hedging options for sophisticated investors (Bank Negara Malaysia, 2023).

Indonesia, conversely, represents a story of explosive growth and untapped potential. While its Islamic finance assets were smaller than Malaysia's in 2021, its market was growing at a faster pace, with a compound annual growth rate (CAGR) of 14.54% in transaction volume between 2014 and 2024, outpacing the conventional market's 13.03% CAGR (Nurbaidah et al., 2025). The country's market capitalization as a percentage of nominal GDP, while lower than Malaysia's, is steadily rising, moving from 45.2% in 2020 to 55.7% in December 2024 (IDX, 2024). Indonesia's greatest asset is its vast Muslim population, estimated at 237 million, which provides a massive, largely underserved customer base (Syahna et al., 2025). This demographic dividend, combined with a younger, more digitally-native population, presents a unique opportunity for rapid expansion, especially in areas like Islamic fintech and ESG-aligned products (Nurbaidah et al., 2025).

The primary weaknesses hindering Indonesia's progress are well-documented. They include low public financial literacy, which limits informed participation; weak regulatory enforcement that undermines investor confidence; and structural issues like low market liquidity and a limited product range (Nurbaidah et al., 2025; Syahna et al., 2025). The country's ranking of tenth in the IFDI, behind Malaysia and Saudi Arabia, highlights the ground that needs to be covered (Zahara et al., 2020). The challenge for Indonesia is to translate its impressive growth momentum into sustainable, high-quality development.

Looking forward, the trajectories of the two nations diverge. Malaysia will likely continue to focus on refining its global leadership, developing niche products, and managing its vulnerability to external shocks. Its future success will depend on its ability to innovate within its mature framework. Indonesia's future, however, is more dynamic and uncertain. Its

path will be determined by its capacity to overcome its internal weaknesses. Key priorities include strengthening the enforcement arm of OJK, harmonizing screening standards to boost investor confidence, and launching new products tailored to its large, young population. The government's use of the Sharia capital market as a funding source for infrastructure projects is a promising sign of a strategic vision. If successful, Indonesia could emerge not just as a regional leader, but as a formidable force in the global Islamic economy, leveraging its demographic advantage to achieve a scale that even Malaysia has not yet reached. The competitive and cooperative interplay between these two giants will undoubtedly be a defining feature of the Islamic finance industry for years to come.

STRATEGIC IMPERATIVES FOR MAXIMIZING ECONOMIC IMPACT

To fully realize the potential of Sharia-compliant stock markets as engines for national economic growth, both Indonesia and Malaysia must pursue a set of strategic imperatives focused on strengthening regulatory frameworks, enhancing human capital, innovating products, and fostering synergies with the broader economy. These actions will transform their current contributions from incremental to transformative, aligning their vibrant Islamic finance sectors with the highest levels of economic development and global competitiveness.

First and foremost is the imperative to strengthen regulatory enforcement and harmonize standards. For Indonesia, this is the most urgent priority. The credibility of its market hinges on the effective implementation of existing rules. Strengthening the supervisory capacity of OJK, adopting technology-driven supervision (RegTech), and ensuring that penalties for non-compliance are sufficient deterrents are critical steps (Kusnawirawan et al., 2025). The recent tightening of criteria for the Sharia Securities List is a positive move, but it must be matched with rigorous enforcement (Pratiwi et al., 2025). A parallel goal is the harmonization of screening standards. The varying criteria between Indonesia, Malaysia, and international benchmarks create confusion for investors and hinder cross-border flows (Azizah et al., 2024). Establishing a common, globally recognized standard would enhance transparency, reduce risk, and integrate the ASEAN region into the mainstream of global Islamic finance.

Second, enhancing financial literacy and investor education is paramount. Both nations suffer from low levels of financial literacy, which constrains market participation and leads to behavioral biases like overconfidence during periods of high sentiment, such as Ramadan (Syahna et al., 2025). Targeted programs are needed to educate the public on the principles of Islamic finance, the benefits of long-term investing, and the importance of risk management. Leveraging trusted community figures, such as religious scholars and imams, can be particularly effective in bridging the gap between financial concepts and cultural values (Syahna et al., 2025). Initiatives by bodies like KNEKS in Indonesia serve as a blueprint for this type of outreach. Empowering citizens with knowledge is the foundation for building a broad-based, resilient, and sophisticated investor base.

Third, product innovation and diversification are essential for attracting a wider range of investors and meeting diverse economic needs. While sukuk and mutual funds are important, there is a need to develop more complex instruments like Islamic derivatives, which remain underdeveloped in Malaysia (Bank Negara Malaysia, 2023), and to expand the range of Sharia-compliant debt and equity products. The emergence of Islamic fintech and the integration of ESG (Environmental, Social, and Governance) principles into Sharia products represent two

of the most promising avenues for innovation (Nurbaidah et al., 2025). Fintech can lower barriers to entry for small investors and streamline compliance, while ESG alignment can tap into the growing global demand for responsible investments, providing a competitive edge for Islamic finance.

Finally, fostering synergy with the real economy, particularly the MSME sector, is a key pathway to GDP growth. Islamic finance's core principle of risk-sharing and asset-backed transactions makes it ideally suited to support SMEs, which are often starved of credit (Kurniawan et al., 2025). Regulatory incentives and technical assistance programs should be designed to encourage Islamic banks and capital markets to provide tailored financing solutions for this vital part of the economy. Furthermore, integrating the Islamic capital market with the halal economy a sector where Indonesia has a natural advantage can create powerful synergies. This includes developing capital-raising vehicles for halal food producers, pharmaceutical companies, and tourism operators.

CONCLUSION

The comparative analysis of Indonesia and Malaysia demonstrates that Sharia-compliant stock exchanges have become vital instruments for sustainable economic development. Both nations show that Islamic capital markets, when supported by robust regulation and institutional governance, can effectively channel financial resources into the real economy. Indonesia's market continues to expand rapidly, driven by demographic strength and financial inclusion efforts, though it still faces challenges in liquidity and regulatory enforcement. Malaysia, on the other hand, exemplifies a mature, well-regulated system with high market integration but remains exposed to global financial shocks. Ultimately, the long-term contribution of these markets lies in their capacity to strengthen financial stability, foster inclusive growth, and align economic development with the ethical objectives of Maqasid al-Shariah. Strengthening enforcement, improving literacy, and encouraging innovation in Islamic financial products are strategic imperatives for maximizing their role in future economic transformation.

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