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The Impact of Islamic Monetary Instruments and Islamic Social Funds on Indonesia's Economic Growth

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Abstract

Background: Indonesia still faces economic development disparities, making it important to examine whether inclusive growth can be achieved through Islamic monetary instruments and Islamic social funds. This study employs Gross Domestic Product (LGDP), Bank Indonesia Sharia Certificates (LSBIS), Bank Indonesia Sharia Deposit Facilities (LFASBIS), and Zakat, Infaq, and Sadaqah (LZIS) as variables.
Objective: This study aims to explore how Islamic monetary instruments and Islamic social funds affect Indonesia's economic growth.
Methods: A quantitative explanatory approach was employed using monthly data from 2017–2023 obtained from BPS, Bank Indonesia, and BAZNAS. Data were analyzed using the Vector Error Correction Model (VECM), supported by the Augmented Dickey–Fuller (ADF), Johansen cointegration, Granger causality, Impulse Response Function (IRF), and Forecast Error Variance Decomposition (FEVD) tests through EViews 11.
Results: The results show sparse and predominantly unidirectional Granger causality relationships. Based on the short-run and long-run coefficients, the Islamic variables do not have a significant influence on LGDP in the short run, while LSBIS, LZIS, and LFASBIS significantly contribute to economic growth in the long run. The FEVD results indicate that LSBIS accounts for the highest percentage of variance in LGDP (23.30%), followed by LZIS (2.16%) and LFASBIS, which contributes only 0.16%.
Conclusion: The results indicate that Islamic monetary instruments and Islamic social funds have weak short-term effects but strong long-run relationships with economic growth, suggesting a gradual adjustment process in Indonesia's Islamic economic transmission mechanism, as well as the need for timely policy coordination to foster more inclusive and sustainable growth.

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INTRODUCTION

Monetary policy plays a central role in maintaining macroeconomic stability and sustaining real economic activity (Rahman et al, 2024). If communication mechanisms work effectively, financial instruments can influence investment decisions, financing conditions, and ultimately national production (Soedarmono et al., 2023). However, maintaining its effectiveness becomes more difficult during periods of severe disruption, especially during the COVID-19 period in Indonesia (Safuan et al, 2024). The GDP data for 2019-2021 reflects this instability, as shown in Figure 1.

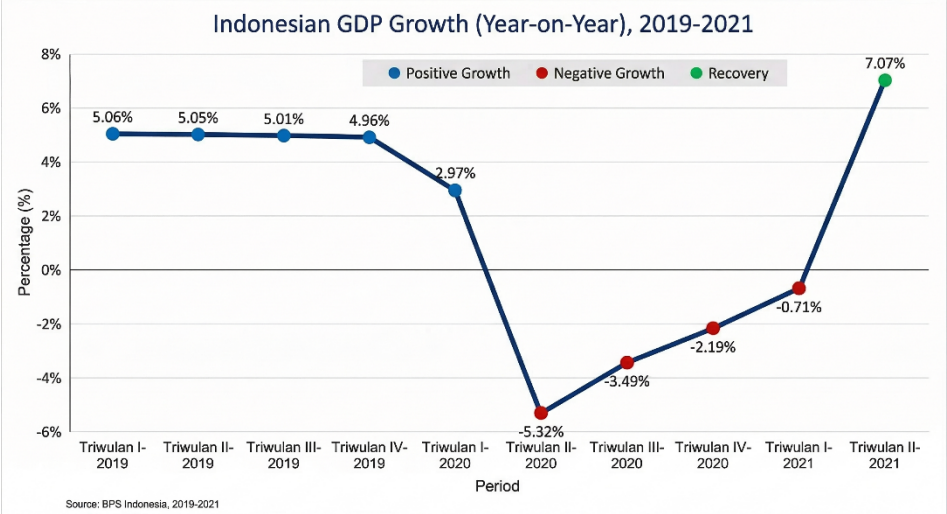

Figure 1. Indonesia's GDP Growth Rate, 2019-2021

Indonesia's economy experienced a sharp contraction of 5.32 percent in the second quarter of 2020 and a recovery of 7.07 percent in the second quarter of 2021. The pattern of volatility indicates that recovery cannot rely solely on expansionary policy settings. Tools that can sustainably transmit effects to and from the real sector are also needed (Herianingrum et al., 2024; Soemitra et al., 2021).

As a nation with a dual currency system, Indonesia has established Sharia financial activities alongside conventional financial products. There are two primary Sharia financial instruments issued by the central bank, namely the Bank Indonesia Sharia Certificate (SBIS) and the Bank Indonesia Sharia Deposit Facility (FASBIS) (Ridlo and Wardani 2020; Siswantoro 2023). As depicted in Figure 2, a high growth rate has been observed during the study period

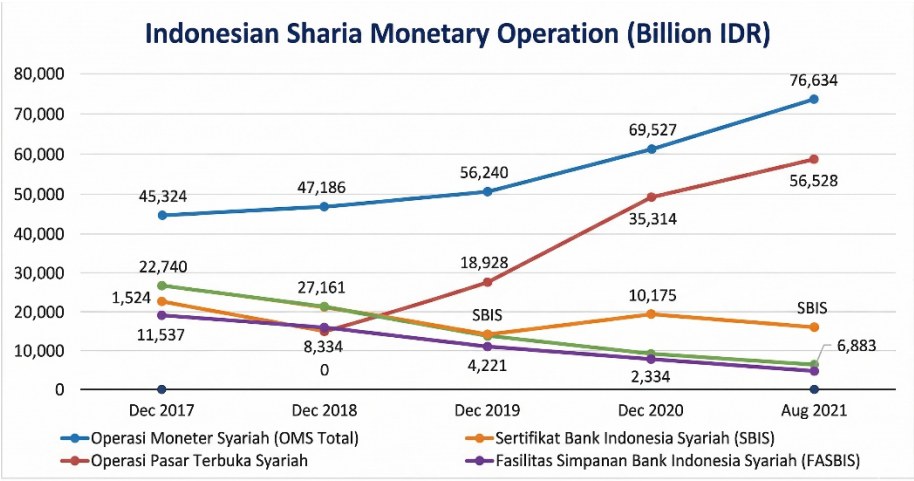

Figure 2. Indonesia's Economic and Financial Statistics, Bank Indonesia, August 2021

From 2017 to August 2021, the trajectory of sharia currency operations was not uniform across banks (Figure 2). Open market financial instruments showed a general upward trend, whereas both standing facilities and FASBIS were volatile and declined during several periods. However, the empirical evidence suggests the opposite of this indicative trend, implying that the Islamic monetary transmission mechanism does not function optimally in all respects.

Meanwhile, the prospect of Indonesia's sharia economy extends beyond the commercial sector. This is also supported by social finance aspects, especially Zakat, Infaq, and Sadaqah (ZIS). Between 2002 and 2020, the national ZIS collection increased by an average of 34.75% per year. This demonstrates the potential multiplier effect created through increased household consumption and the productive empowerment of low-income communities (Herianingrum et al. 2024; Soemitra et al. 2021). Nevertheless, Islamic social funds are often treated as peripheral in

macroeconomic analysis and are rarely integrated into a unified national growth framework alongside Islamic financial and banking variables (Ridlo and Wardani 2020; Siswantoro 2023).

Previous studies have also produced mixed evidence. Yudi (2018) claimed that the transmission channel of Islamic financial policy in Indonesia is not fully functional. Harahap (2022) suggested that the effects of Islamic monetary instruments are not consistently strong across contexts. Marpaung (2024) found that FASBIS and PUAS affect economic growth, while Octaviani (2018) reported that SBIS plays a positive role in explaining the Industrial Production Index as a proxy for the real sector. Regarding Islamic social funds, Ashfahany (2023) showed that Zakat distribution positively affected the economic growth of Indonesia, Malaysia, and Singapore. Nevertheless, Arwani and Wahdati (2020); as well as Isnaini (2024) also showed that the magnitude of the ZIS effect varies across regions and time periods.

Against this background, this study simultaneously examines Islamic financial instruments, Islamic bank liquidity, and Islamic social funds within a single empirical framework. Unlike prior studies that examined these variables in isolation, this research provides an integrated empirical framework combining Islamic monetary instruments, Islamic bank liquidity, and Islamic social funds within a unified VECM model, constituting the primary empirical novelty and addressing a recognized gap in the Islamic macroeconomics literature. The study employs a Vector Error Correction Model (VECM) to identify the long-term equilibrium relationship and short-term adjustment dynamics among the variables. The key question is whether these variables can serve as drivers of real sector growth or whether their effects are constrained by incomplete transmission mechanisms. Specifically, this study aims to: (1) examine whether Islamic monetary instruments (SBIS and FASBIS) and Islamic social funds (ZIS) significantly affect Indonesia's economic growth in both the short run and the long run; (2) identify the direction of Granger causality among these variables; and (3) determine the relative contribution of each variable to GDP fluctuations using FEVD analysis.

LITERATURE REVIEW

Islamic Financial Policy Transmission Theory

The analysis of Islamic financial instruments in this study is based on the mechanism of monetary policy transmission. This framework makes it clear that policies do not affect output directly. Instead, they operate through intermediary channels such as bank liquidity, financing, investment, and aggregate demand (Boukhatem 2022; Handayani and Setiastutti 2025). In the dual financial system, Islamic banks do not rely on interest rate transmission. Instead, policy effects are transmitted through financing decisions, liquidity management, and portfolio adjustments in accordance with Sharia principles (Fikri, 2019). In this context, SBIS and FASBIS are more than merely technical liquidity tools. They also affect the way Islamic banks allocate funds to financial instruments and the real sector in the Islamic financial market (Wahid et al. 2020; Yudhi Setiawan and Karsina 2018).

Theoretically, there are two transmission channels. When short-term Islamic financial instruments provide attractive returns, banks may prefer to place their funds in liquid financial instruments, thereby reducing the amount of money available for productive financing (H. Ibrahim 2017). On the other hand, if these instruments strengthen intermediation while stabilizing liquidity, they can improve the real sector's performance by enhancing banks' ability to mobilize funds (H. Ibrahim 2017). Therefore, the relationship between SBIS and GDP can be interpreted as a strategic indicator of the extent to which Islamic monetary policy is transmitted to real economic activities (Marpaung et al., 2024). This issue remains important, as much of the literature in Islamic economics still focuses on the technical aspects of instruments, while macroeconomic transmission mechanisms are not discussed in detail (Nabila Adenina Zidni Maurida, Slamet, Spritono 2026).

The Role of Sharia Bank Liquidity

The treatment of Islamic bank liquidity in this study is based on the theory of financial intermediation, which views financial institutions as intermediaries between surplus and deficit units that support investment and production. In Islamic finance, this relationship arises as a result of financing agreements that connect the financial and physical sectors (Jerassi and

Boucatem 2020). Thus, in the current model, FASBIS is not viewed as a financing instrument itself but rather as a measure of the liquidity conditions of Islamic banks, reflecting their intermediary capacity. These relationships are not necessarily linear, since intermediation is not only a matter of how much liquidity exists but also of allocation quality and funding market conditions (Wahid et al., 2020). Hence, FASBIS supports the assessment of whether liquidity is being held solely for internal stabilization or converted into economic activity through which value is generated (Ben Jedidiah & Salah 2022).

Comparative evidence from Malaysia and Pakistan indicates that Islamic finance has meaningful dynamic associations with real economic activities through intermediary channels, such as corporate financing and trade support (Kassim 2016; Nawaz et al. 2019). However, this association depends heavily on whether bank liquidity is genuinely directed toward the productive sector (Shaikh 2018). Evidence from Indonesia remains mixed. Shaik (2018) Evidence from Indonesia remains mixed. Nawawi (2018) reported a relationship between Islamic monetary development and economic growth, while Johari (2022) suggested that Islamic monetary financing channels are not functioning strongly enough to stimulate growth.

The Role of Islamic Social Funds

This study examines Islamic social funds from the perspective of Islamic redistribution theory. From this perspective, Zakat, Infak, and Sedekah (ZIS) are not merely charitable transfers; rather, they constitute a redistribution mechanism aimed at increasing spending capacity and economic empowerment. When managed productively, Islamic social funds have macroeconomic significance and can create multiplier effects through strengthening household purchasing power and expanding microbusinesses. This study treats LZIS as a channel through which the strengthening of low-income households can ultimately affect GDP. In contrast to financial and banking variables, the ZIS channel is expected to function more gradually through increased household capacity, which will later be reflected in aggregate output (Arwani and Wahdati 2020). Indonesian evidence suggests that Islamic social finance can support inclusive growth and poverty reduction, although the effects are often stronger in the long term (Madani and Widyastuti 2021). Studies in Southeast Asia and Bangladesh show similar findings: zakat distribution is not merely residual support but can become part of the broader development architecture (Shah & Rashid, 2019).

Economic growth from the perspective of sharia macroeconomics

Economic growth in this study is represented by gross domestic product (GDP) and is interpreted within the framework of Sharia economics. From this perspective, growth is determined not only by increased production but also by whether the process is aligned with the values of the Qur'an, maslahah (community welfare), distributive justice, and social sustainability (Huda & Ahyani, 2024). Following Ahmad Malik (2016), national income should not be evaluated solely in material terms but also through the contributions of zakat, sedekah, and waqf toward falah, or true prosperity and well-being. Therefore, GDP is used as an indicator of whether macroeconomic progress can be aligned with an ethical economic foundation.

This perspective calls for national production to be rooted in a resilient, productive, and inclusive real sector (Octaviani et al., 2018). The focus is shifted toward ensuring that economic benefits are distributed across broader layers of society, rather than merely pursuing statistical expansion (Ulya et al., 2025). In this sense, a healthy Islamic macroeconomic ecosystem is expected to encourage not only asset accumulation but also a stronger and more sustainable grassroots economic structure.

METHODS

This study used a quantitative explanatory method to analyze the effects of Islamic financial instruments and Islamic social funds on Indonesia's economic growth. The study utilized monthly time-series data from January 2017 to December 2022. The natural logarithm of gross domestic product (LGDP) was used to represent economic growth. The explanatory variables included the Bank Indonesia Sharia Certificate (LSBIS) as a proxy for Islamic financial instruments, the Bank Indonesia Sharia Deposit Facility (LFASBIS) as a proxy for Islamic bank

liquidity, and Zakat, Infaq, and Sedekah (LZIS). All variables were transformed into their natural logarithmic forms. The data were obtained from the Central Statistics Agency (BPS), Bank Indonesia (BI), BAZNAS, and other related official sources.

This analysis incorporated both descriptive and inferential approaches. The descriptive analysis was employed to illustrate the evolution of each variable during the observation period, while the inferential analysis utilized a Vector Error Correction Model (VECM). This framework was appropriate because the series were non-stationary at the level form, became stationary after first differencing, and were cointegrated in the long run (Lütkepohl, 2005). Prior to the VECM estimation, this study applied the Augmented Dickey–Fuller (ADF) unit root test, lag order selection, VAR stability diagnostics, and the Johansen cointegration test. Once the model requirements were satisfied, the analysis proceeded with VECM estimation, Granger causality testing, impulse response function (IRF) analysis, and forecast error variance decomposition (FEVD). Granger causality was used to identify the direction of short-term relationships, the IRF traced the response of economic growth to shocks in each variable, and the FEVD measured the relative contribution of each variable in explaining fluctuations in Indonesia's economic growth. All estimations were conducted using EViews 11.

The relationship framework in this study can be explained as follows.

$$LPDB\_t = f(LSBIS\_t, LFASBIS\_t, LZIS\_t)$$

The VECM equation for the economic growth model is defined as follows:

$$\Delta LPDB\_t = \alpha + \sum(i = 1..p)\beta 1i\ \Delta LPDB\_(t-i) + \Sigma(i = 1..p)\beta 2i\ \Delta LSBIS\_(t-i) + \sum(i = 1..p)\beta 3i\ \Delta LFASBIS\_(t-i) + \sum(i = 1..p)\beta 4i\ \Delta LZIS\_(t-i) + \gamma ECT\_(t-1) + \varepsilon\_t$$

Where:

LGDP	: Natural Logarithm of Gross Domestic Product
LSBIS	: Natural Logarithm of Bank Indonesia Sharia Certificate
LFASBIS	: Natural Logarithm of Bank Indonesia's Sharia Deposit Facility
LZIS	: natural logarithm of *Zakat*, *Information*, and *Sadaka*
ECT	: Error correction
α	: Definitely.
β	: Short-term coefficient
γ	: Adjustment factors to long-term equilibrium
ε	: Error term
I, p	: Lug Length

Results and discussion

Results

Stability Test

Table 1. Unit Root Test Results

Variable	Level		First difference	
	ADF Statistics	Maybe.	ADF Statistics	Maybe.
LFASBIS	-0.669588	0.8500	-2.962904*	0.0408
LPDB	-0.527115	0.8814	-3.202485*	0.0217
LSBIS	-3.535731*	0.0083	-15.20712*	0.0000
LZIS	1.571504	0.9994	-3.803412*	0.0036

In level form, only LSBIS is stationary, while LFASBIS, LGDP, and LZIS still contain unit roots. This means that most variables cannot be directly incorporated into the long-term dynamic specification at the level form. However, after the first differencing, all variables became stationary at the 5% significance level. Therefore, these series can be classified as integrated of order one, I(1), and meet the basic requirements for the Johansen cointegration test and subsequent VECM estimation.

Optimal lug length selection

Table 2. Pending Order Selection Results

Carpet	LogL	LR	FPE	AIC	SC	Headquarters
0	1084.502	OR	4.85e-12	-14.70070	-14.61933	-14.66764
1	1188.633	201.1788	1.46e-12	-15.89977	-15.49290*	-15.73445*
2	1209.541	39.25580	1.37e-12	-15.96654	-15.23419	-15.66898
3	1216.825	13.27982	1.54e-12	-15.84796	-14.79012	-15.41815
4	1220.327	6.194542	1.83e-12	-15.67792	-14.29459	-15.11586
5	1250.894	52.40007	1.51e-12	-15.87611	-14.16729	-15.18180
6	1308.384	95.42601*	8.63e-13*	-16.44060*	-14.40629	-15.61404
7	1310.575	3.517671	1.05e-12	-16.25272	-13.89293	-15.29391
8	1312.323	2.711548	1.29e-12	-16.05882	-13.37354	-14.96776

The information criteria do not refer to a single lag structure. While Schwarz Criterion (SC) and Hannan–Quinn Criterion (HQ) prefer lag 1, LR, FPE, and AIC consistently choose lag 6. Since most criteria support lag 6, the empirical model continues with the six-lag specification. This choice means that the interaction between Islamic financial products, Islamic banking liquidity, social funds, and economic growth unfolds over several periods rather than instantaneously.

VAR Stability Test

Table 3. VAR System Stability Diagnostics

Roots	Modulus of elasticity
0.992854	0.992854
0.766514	0.766514
0.644673	0.644673
0.414000 + 0.163122i	0.444977
0.414000 - 0.163122i	0.444977
0.256317 + 0.330503i	0.418247
0.256317 - 0.330503i	0.418247
0.049269 + 0.407894i	0.410859
0.049269 - 0.407894i	0.410859
-0.321692 - 0.202110i	0.379913
-0.321692 + 0.202110i	0.379913
- 0.173113 - 0.301952i	0.348057
-0.173113 + 0.301952i	0.348057
0.221546 - 0.243945i	0.329533
0.221546 + 0.243945i	0.329533
-0.317769	0.317769
-0.115721 + 0.251447i	0.276798
- 0.115721 - 0.251447i	0.276798
-0.267833	0.267833
0.111687 + 0.206529i	0.234794
0.111687 - 0.206529i	0.234794
-0.140018 + 0.117610i	0.182858
-0.140018 - 0.117610i	0.182858
-0.023599	0.023599

All characteristic inverted roots of the polynomial are within the unit circle, and the maximum modulus is 0.992854. This confirms that the VAR estimates meet the stability conditions. As a result, shocks flowing into the system through financial instruments, bank liquidity, and the Islamic Social Fund are expected to fade over time rather than create explosive dynamics.

Granger's causality test

Table 4. Consequences of Pairwise Granger's causality

Hypothesis	Probability	Conclusion
LPDB does not cause the LFAS of Granger bus	0.0112*	LPDB → LFAS BIS
LFASBIS does not cause Granger LPDB	0.9616	No causal relationship
LSBIS does not cause LFAS bis Granger	0.1108	No causal relationship
LFASBIS does not cause LSBIS Granger	0.000009*	LFASBIS→LSBIS
LZIS does not cause LFAS Granger	0.9667	No causal relationship
LFASBIS does not cause LZIS Granger	0.9924	No causal relationship
LSBIS did not say Granger caused LPDB	0.6500	No causal relationship
LPDB did not cause Granger to cause LSBIS	0.4208	No causal relationship
LZIS does not mean that Granger caused LPDB	0.5185	No causal relationship
LPDB did not cause Granger to cause LZIS	0.8584	No causal relationship
LZIS does not mean that Granger causes LSBIS	0.5739	No causal relationship
LSBIS does not mean that Granger causes LZIS	0.9711	No causal relationship

Short-term causality within the system is limited and predominantly unidirectional. A significant relationship (ρ = 0.0112) has been observed between LGDP and LFASBIS, which is consistent with a demand-side pattern in which strong economic activity is associated with increased liquidity in Islamic banks. Another important causal direction runs from LFASBIS to LSBIS (ρ = 0.0000), indicating that Islamic financial instruments responded to changes in bank liquidity conditions. No short-term causal relationships involving LSBIS or LZIS were detected for the remaining variables. This shows that the Islamic Social Fund sector is still primarily concentrated on welfare activities and has not yet become firmly integrated into the short-term macroeconomic transmission process.

Johansen's cointegral test

Table 5. Johann St. Race cointegral results

Unlimited Cointegral Rank Test (Search)				
Assumed figures. CE	**Own value**	**Trace Statistics**	**0.05 Critical Value**	**Maybe. ****
None *	0.183903	47.97764	47.85613	0.0487
Up to 1	0.069849	17.29104	29.79707	0.6185
Maximum two people	0.039908	6.357317	15.49471	0.6533
Maximum 3 people	0.001375	0.207727	3.841465	0.6486

The Johansen trace test shows that the trace statistic under the null hypothesis exceeds the critical value at a significance level of 5%, with a probability value of 0.0487. Therefore, the null hypothesis of no cointegration is rejected, indicating the presence of a single cointegrating vector. In practice, the variables may diverge in the short term, but they share a stable long-term equilibrium relationship, which justifies the use of the Vector Error Correction Model (VECM) framework in this study.

VECM Estimate

Table 6. Short-term VECM estimates

Short-term		
Variable	**Coefficients**	**t-Statistics**
KointEq(-1)	0.000428	0.53769
D (LPDB (-1))	0.270486*	2.23625
D (LPDB (-2))	0.189005	1.49382
D (LPDB (-3))	0.123520	0.96419
D (LPDB (-4))	0.070725	0.55355

D (LPDB (-5))	0.028746	0.22880
D (LPDB (-6))	0.008190	0.06616
D (LSBIS(-1))	0.000718	0.70917
D (LSBIS (-2))	0.000563	0.57618
D (LSBIS (-3))	0.000463	0.48495
D (LSBIS (-4))	0.000393	0.41572
D (LSBIS (-5))	0.000316	0.34601
D (LSBIS (-6))	0.000199	0.23646
D (LZIS(-1))	0.011620	0.24171
D (LZIS(-2))	0.007588	0.15439
D (LZIS(-3))	0.004239	0.08570
D (LZIS(-4))	0.001785	0.03617
D (LZIS(-5))	0.000831	0.01702
D (LZIS(-6))	0.006936	0.13894
D (LFASBIS(-1))	-0.001252	-0.13161
D (LFASBIS(-2))	0.000164	0.01634
D (LFASBIS(-3))	0.001418	0.13961
D (LFASBIS(-4))	0.002432	0.24140
D (LFASBIS(-5))	0.003024	0.31052
D (LFASBIS(-6))	0.001272	0.13317
C	0.001791	0.16058

Short-term VECM estimates show that only D(LGDP(-1)) is statistically significant in the economic growth equation. Therefore, Indonesia's short-term growth movement is mainly explained by its own past dynamics rather than by direct changes in Islamic financial instruments, Islamic banking liquidity, and Islamic Social Funds. Among all the lagged variables included, LSBIS, LZIS, and LFASBIS show no immediate short-term significance, suggesting that the transmission of variables within the Islamic financial sector to aggregate output requires time.

Table 7. Long-term VECM forecast

In the long term		
Variable	**Coefficients**	**t-Statistics**
LSBIS(-1)	-0.183000*	-4.48900
LZIS(-1)	-0.268000*	-5.73800
LFASBIS(-1)	-0.282000*	-2.87100

However, long-term forecasts tell a different story. LSBIS, LZIS, and LFASBIS all play important roles in long-term assessments, suggesting a significant long-run equilibrium relationship. The negative coefficients (LSBIS: -0.183, LZIS: -0.268, LFASBIS: -0.282) indicate that, in the long run, increases in these Islamic instruments are associated with a structural adjustment in GDP. This pattern likely reflects policy sterilization effects—where SBIS and FASBIS absorb excess liquidity rather than channeling it into the productive sector—and incomplete intermediation, where ZIS redistribution has yet to generate sufficient multiplier effects on aggregate output. These findings underscore the need for deeper integration between Islamic monetary management, bank financing quality, and productive deployment of social funds, suggesting that these variables are associated with economic growth after adjustments. At the same time, the negative long-run coefficients show that this relationship should not be interpreted as a wholly expansionary effect on GDP. Rather, these estimates characterize a more complicated structural chain wherein variables from Islamic monetary management and bank liquidity interact with social finance and production in an adjustment process.

Impulse response function (IRF) analysis

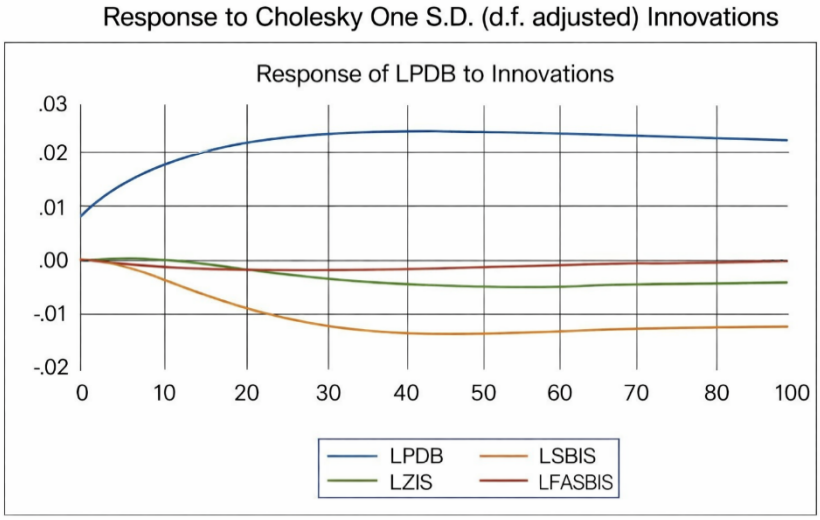

Figure 3. Impulse response to variables in LGDP.

The IRF results show that shocks to LSBIS have an impact on LGDP that primarily lies below the equilibrium line and lasts for a long time. The results indicate that shocks in Islamic finance do not immediately lead to propagation effects on production. Rather, the effects are expressed indirectly through earlier modifications in transmission fluidity and structure. LZIS and LFASBIS also display similar trends, with both showing limited responses that are generally stable in the negative zone. Overall, this evidence from the IRFs leads to the conclusion that the positive effects of these Islamic variables on LGDP are permanent.

Predictive Error Dispersion Decomposition Analysis (FEVD)

Table 8. Decomposition of the variance of LGDP prediction errors.

Period	S.E.	LPDB	LSBIS	LZIS	LFASBIS
1	0.004611	100.0000	0.000000	0.000000	0.000000
5	0.015905	99.38684	0.296515	0.021721	0.294924
10	0.031410	96.96294	2.408357	0.063710	0.564993
20	0.065294	88.42467	10.80434	0.099734	0.671258
30	0.099937	81.60511	17.23009	0.601196	0.563609
40	0.131762	77.69278	20.67099	1.180297	0.455933
50	0.159439	75.65943	22.36933	1.603134	0.368105
60	0.183091	74.67439	23.15577	1.869273	0.300567
70	0.203361	74.26179	23.46314	2.024816	0.250255
80	0.220965	74.15933	23.51767	2.109645	0.213347
90	0.236529	74.22074	23.44176	2.151215	0.186281
100	0.250552	74.36349	23.30317	2.167173	0.166165

During the early stage, the changes in LGDP were completely attributed to its own innovations. However, after 100 periods, the internal share fell to 74.36% as it became more affected by external factors. LSBIS had an external ratio of 23.30% among the explanatory variables. LZIS followed with 2.16%, while LFASBIS contributed only 0.16%. This ratio shows that Islamic financial channels play a more important role than Islamic bank liquidity and social funds in accounting for fluctuations in long-term economic growth.

Discussion

The results of the analysis show that the transmission of the sharia economy in Indonesia is not direct, but gradual. The absence of significant short-term impacts from Islamic financial instruments, Islamic banking liquidity, and social funds indicates the presence of transmission frictions. In other words, shocks caused by these variables take time to affect the real sector and

national output. This interpretation is consistent with (Johari, 2022). They argue that Islamic financing channels in Indonesia have not been clearly reflected in real-sector indicators.

LSBIS emerged as the most influential external variable from a long-term perspective. Its contribution to the FEVD reached 23.30% in the 100th period, while the shares of LZIS and LFASBIS remained much smaller. These findings show that Islamic financial transactions are still the main channel through which macroeconomic fluctuations are transmitted within Indonesia's sharia sector. These results are broadly consistent with Winarto (2024) who show that the role of Islamic finance and bank financing is more meaningful when interpreted in terms of long-term dynamics rather than direct output stimulus.

From a broader analytical perspective, these results show that Indonesia's sharia economic ecosystem is still focused on financial stability and liquidity management rather than the direct stimulation of the real sector. This interpretation is supported by Marpaung (2024) who report that the impact of Islamic financial instruments on GDP varies across instruments and becomes more pronounced only over certain periods. Therefore, the relatively weak role of LFASBIS and LZIS indicates persistent transmission bottlenecks in the sharia-based real sector.

The long-term importance of LSBIS further shows that Islamic financial instruments in Indonesia are more effective as macroeconomic stabilizers than as short-term expansion engines for the real sector. Octaviani (2018) also show that SBIS affects economic growth, although its direction and strength differ between the short and long term. This supports the view that Islamic monetary policy operates with a lag, meaning that aggregate output reacts only after liquidity adjustments and financing interactions have taken effect.

LFASBIS's very small contribution can be interpreted from the perspective of financial intermediation. The FEVD results show that available liquidity has not yet been converted into sufficiently productive financing to generate stronger GDP growth. These observations are consistent with Harahap (2022) who concluded that Islamic financial instruments and Islamic bank financing do not necessarily have a significant positive effect on Indonesia's economic performance. Therefore, improving the quality of intermediation and strengthening linkages with the real sector remain important policy priorities.

Likewise, the limited share of LZIS shows that Islamic social funds in Indonesia function more strongly as instruments of redistribution and social protection than as direct drivers of macroeconomic output. Although the Islamic financial ecosystem has evolved, the contribution of each segment to national growth remains uneven. Therefore, stronger institutions and more productive distribution mechanisms are needed to integrate Islamic social funds into the long-term productive growth agenda (Isnaini et al, 2024).

Overall, this study shows that the current strength of Indonesia's sharia economy still lies primarily in financial channels as stabilization mechanisms, while the transmission of Islamic social funds to the real sector remains limited. Therefore, strengthening the sharia economic ecosystem in the future should not be limited to merely expanding the nominal scale of financial instruments. Greater emphasis should be placed on improving the quality of transmission by strengthening connectivity among Islamic financial instruments, productive financing, and the integrated utilization of Islamic social funds so that their contribution to national economic growth becomes more substantive and inclusive.

CONCLUSION

This study concludes that Islamic financial instruments and social funds do not have a strong short-term impact on Indonesia's economic growth, but they are significantly linked to growth in the long term. Although LFASBIS has rarely been shown to play a major short-term role, it is associated with long-term economic growth. Among the variables examined, LSBIS accounted for the largest share of variation in long-term growth, while LZIS and LFASBIS made relatively limited contributions. These findings show that the transmission of the sharia economy in Indonesia develops gradually and requires an adjustment period before its effects reach the real sector.

Therefore, strengthening the Islamic economy cannot rely solely on the expansion of nominal financial instruments. It must also emphasize stronger linkages among Islamic financial instruments, Islamic banking liquidity, Islamic social funds, and productive economic activities to

enhance the effectiveness of economic transmission. Since the current model does not fully capture other determinants of macroeconomic growth, future research should incorporate institutional and sectoral aspects to provide a more comprehensive explanation of how Islamic economics contributes to Indonesia's economic growth.

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AUTHOR CONTRIBUTION STATEMENT

Khairina Tambunan Data curation, manuscript drafting Writing — review & editing. Andri Soemitra and Isnaini Harahap: formal analyses, theoretical development and interpretation of results. You performed supervision, manuscript review and editing, and final validation. All authors approved the final version of this manuscript prior to publication.

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