



## The Influence of Islamic Capital Market Capitalization and Labor Force on the Economic Growth of Indonesia

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### ABSTRACT

Sharia capital and labor markets play an important role in driving the economy of a country, including Indonesia. Sharia capital market capitalization is a key indicator of organized economic activity and has a significant impact on the allocation of resources to economic sectors with potential for growth. On the other hand, labor is the main asset in realizing economic potential through their productivity and contribution to development. This research explores the influence of Islamic Capital Market Capitalization and Labor on Indonesia's Economic Growth, using secondary time series data from the Central Bureau of Statistics and the Financial Services Authority covering the period from 2014 to 2022. Employing a quantitative analysis method and the Error Correction Model (ECM), the study reveals that: (a) The sukuk variable positively and significantly impacts Indonesia's economic growth. (b) The Sharia mutual fund variable also has a positive and significant effect on Indonesia's economic growth. (c) The labor variable contributes positively and significantly to Indonesia's economic growth.

**Keywords:** *islamic capital market; labor; sukuk; economic growth*

### A. INTRODUCTION

Economic growth is a long-term objective for a country, aiming to improve conditions over a specific period. It is often associated with an increase in production capacity, reflected in a rise in national income. The presence of economic growth signifies successful economic development. In macroeconomic analysis, a country's economic growth is measured by the balance of real national income it achieves (Arini & Kusuma, 2019). Economic growth refers to the expansion of economic activities that result in higher production of goods and services within a society, thereby enhancing the overall prosperity of the community (Sukirno, 2011). Economic growth is often associated with economic development. Development itself carries the meaning of a process that encompasses significant changes in social structures, community attitudes, national institutions, and the acceleration of economic growth (Pratama & Darsana,

2019). This means that economic growth becomes the most prominent characteristic in the process of development. According to Sukirno (2011), economic growth is predominantly characterized in economic literature as a quantitative assessment that demonstrates the advancement of an economy in a given year compared to the previous year. The progress of economic growth can be expressed in the form of a percentage of the national income, which can change from year to year.

Economic growth can serve as a measure that demonstrates the progress of an economy in a specific time period. Economic development in a country is often identified by its economic growth, where Gross Domestic Product (GDP) serves as a key indicator. This is done with the aim of achieving well-being (falah) in this world and the hereafter (Yusuf et al., 2021). Similarly, Indonesia also uses GDP as a reference value to measure economic growth.

**Table 1 Economic Growth in Indonesia 2014-2022**

<b>Year</b>	<b>Economic growth (%)</b>
2014	5.01
2015	4.88
2016	5.03
2017	5.07
2018	5.17
2019	5.02
2020	-2.07
2021	3.69
2022	5.31

Source: data is processed from [www.bps.go.id](http://www.bps.go.id)

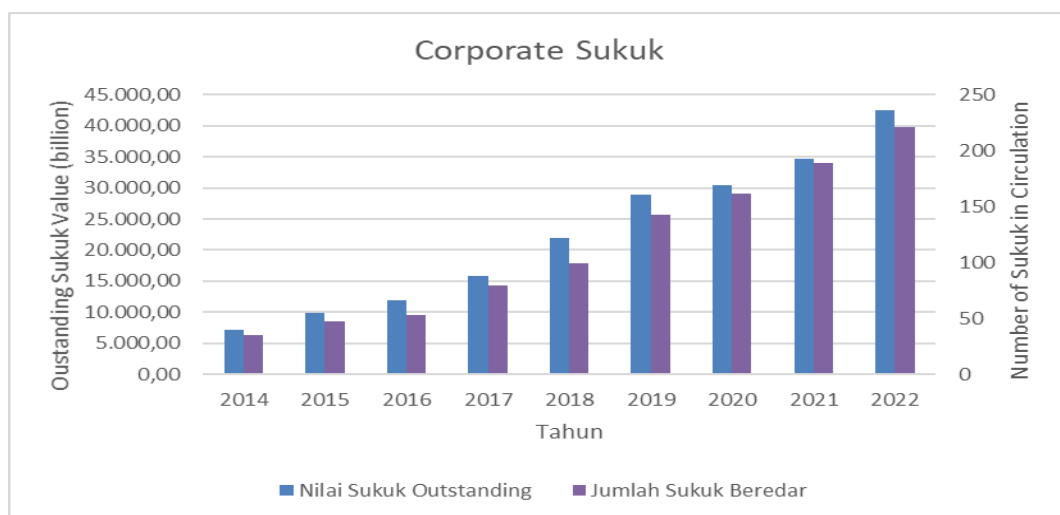
Indonesia's economic growth has fluctuated between 2014 and 2022, reaching its peak at 5.31% in 2022 and its lowest point at -2.07% in 2020, largely influenced by the Covid-19 pandemic. The country rebounded strongly in 2022 with a growth rate of 5.31%, driven primarily by increased investment, signaling a robust recovery from the economic challenges posed by the pandemic in previous quarters. This economic improvement is indeed a good sign, but it is still important to ensure that there will be no further decline in the following year. So there needs to be maximum effort to increase Indonesia's economic growth.

Indonesia is actively improving its economic landscape by promoting investment through capital market instruments, emphasizing the significant role and attention given to the capital markets sector. Functioning similarly to banking, the capital market serves as a vital intermediary that facilitates the flow of capital across borders, connecting parties with surplus funds to those in need (Yusuf et al., 2021). Given Indonesia's status as home to the world's largest Muslim population, there is a rising demand for investment avenues grounded in Sharia principles, reflecting a desire among many to enhance the productive and beneficial impact of their wealth in line with Islamic muamalah principles. On this basis, investment instruments are needed that are guided by Islamic law (Irawan & Siregar, 2019).

The rapid development of Islamic economics and demands from Muslims themselves who

want an economic system based on sharia have encouraged the existence of sharia financial instruments. This is because, in practice, conventional economic activities have a system that contains elements of ribawi and speculation, both of which are prohibited in Islam. The existence of elements of speculation and usury in conventional capital market operations is an obstacle for Muslims. To realize supportive sharia financial instruments, sharia financing institutions such as the sharia capital market were formed which are expected to be able to become an alternative to investing according to Islamic law (Irawan & Siregar, 2019). Sharia capital market instruments include sukuk and sharia mutual funds.

The inception of Indonesia's sharia capital market dates back to July 3, 1997, when PT. Danareksa Investment Management introduced sharia mutual funds. Subsequently, the market expanded with the emergence of PT Sukuk Indosat Tbk in early September 2002. The formal establishment of the sharia capital market occurred on March 14, 2003, through a Memorandum of Understanding (MoU) between the Capital Market and Financial Institutions Supervisory Agency (Bapepam LK) and the National Sharia Council of the Indonesian Ulema Council (DSN MUI), signaling strong support for its development. Statistical reports from the Financial Services Authority (OJK) demonstrate a positive trend in sharia capital market instruments. The presence of sukuk, a key sharia-compliant instrument, is expected to stimulate economic growth and further advance Indonesia's sharia capital market. The current sukuk are more similar to asset security products, namely a form of capital investment using real assets as collateral (Irawan & Siregar, 2019). The development of sukuk from 2014 to 2022 can be seen from the table below.



Source: data is processed from [www.bps.go.id](http://www.bps.go.id)

**Figure 1 Development of Corporate Sukuk**

Figure 1 shows the development of corporate sukuk as assessed by the total value of outstanding sukuk and the number of sukuk in circulation in Indonesia in 2014-2022. It can be seen that corporate sukuk continues to experience positive and significant developments consistently every year. In 2014, the outstanding sukuk value was IDR. 7,105.0 (billion) has grown to Rp. 42,497.76 in 2022. Meanwhile, the number of sukuk in circulation in 2014 was

35, experiencing growth to 221 in 2022. Sharia mutual funds, as integral sharia capital market instruments managed according to Islamic legal principles, are overseen and receive religious rulings (fatwas) from key entities including the National Sharia Council of the Indonesian Ulema Council (DSN MUI) and the Sharia Supervisory Board (DPS) in Indonesia. Their role involves monitoring transactions within the sharia capital market to ensure compliance with Islamic law. Sharia mutual funds are prohibited from investing in shares or bonds of companies engaged in activities contrary to Islamic principles, such as those involved in alcohol or pork production, conventional financial services, immoral activities, or other practices prohibited in Islam (Irawan & Siregar, 2019).

Sharia mutual funds serve as an avenue for investors to deploy their capital, providing a means for individuals with capital and a desire to invest, yet limited time and expertise, to participate. Assessing the return on mutual funds typically involves monitoring the Net Asset Value (NAV), as noted by Wirman (2020). NAV represents the aggregate value of all managed funds under the purview of the investment manager. This value is derived from the total market worth of assets within the mutual fund portfolio, inclusive of interest reserves from debt securities or deposits, and subtracting operational expenses such as management fees, custody fees, taxes, and other associated costs (Irawan, 2018). Below is the table illustrating the evolution of sharia mutual funds from 2014 to 2022.

**Table 2 Development of Sharia Mutual Funds 2014-2022**

Year	Number of Mutual Funds	NAV of Sharia Mutual Funds (Rp Billion)
2014	74	11.158,00
2015	93	11.019,43
2016	136	14.914,63
2017	182	28.311,77
2018	224	34.491,17
2019	265	53.735,58
2020	289	74.367,44
2021	289	44.004,18
2022	274	40.605,11

Source: [www.ojk.go.id](http://www.ojk.go.id)

The evolution of sharia mutual funds in Indonesia has shown fluctuations from 2014 to 2022, with the peak observed in 2020 at 74,367.44 billion and the lowest in 2014 at 11,158.00 billion. In 2021, there was a notable decline in the Net Asset Value (NAV) of sharia mutual funds to 44,004.18 billion, primarily due to reduced investments by the Hajj Financial Management Agency (BPKH).

Besides Islamic capital market instruments, labor is another critical factor influencing economic growth by affecting regional output. A large workforce typically correlates with a sizable population, though rapid population growth raises concerns about its potential negative impact on economic development (Todaro, 2000). Generally, the workforce is defined as the segment of the population that has reached working age. The working age referred to in this case varies from country to country, namely depending on the provisions of the law in force in

the country concerned. This difference is due to the labor situation of each country being different (Murtala & Iskandar, 2017). As per Law No. 13 of 2003, labor is defined as any individual capable of performing tasks aimed at producing goods or services, whether for personal fulfillment or for the benefit of society at large. In Indonesia, individuals are considered part of the workforce if they are within the working age range of 15-64 years, as specified by Buana et al. (2018).

**Table 3 Number of Indonesian Workers 2014-2022**

Year	Labor (Soul)
2014	114.628.026
2015	114.819.199
2016	118.411.973
2017	121.022.423
2018	126.282.186
2019	128.755.271
2020	128.454.184
2021	131.050.523
2022	135,296,713

Source: [www.bps.go.id](http://www.bps.go.id)

The table above shows that the number of workers has increased very rapidly, the number of workers in 2014 was 114,628,026 people and continues to increase until 2022 reaching 135,296,713 people. With the increasing number of the workforce, the government should be able to use it as a tool to help increase economic growth in Indonesia. This can be done if there are sufficient job opportunities for the workforce. From what has been explained above, the researcher wishes to carry out research related to “The Influence of Islamic Capital Market Capitalization and Labor Force on the Economic Growth of Indonesia”

## **B. LITERATURE REVIEW**

### **1. Economic Growth Theory**

The growth of economic activities that result in an augmentation of goods and services within society, leading to heightened prosperity among its members (Irawan & Siregar, 2019). A country's economic growth is said to have increased or developed if the current achievement of economic activity is higher than the previous year. Economic growth is a process where income increases without linking it to population growth rates, population growth rates are generally often associated with economic development. The economy is considered to be experiencing growth if all real returns to the use of production factors in a particular year are greater than in the previous year. The growth rate of Gross Domestic Product (GDP) serves as the primary indicator used to measure economic growth, chosen for its comprehensive reflection of economic activity and outcomes, as outlined by Irawan & Siregar (2019).

- a. Gross Domestic Product (GDP) represents the total value added by all economic activities' production.

- b. Gross Domestic Product (GDP) measures the cumulative value added by all economic activities, calculated on a flow basis that includes only current-period production, allowing for year-to-year comparisons. This calculation is confined within national borders, focusing on a country's domestic economy. This allows us to measure the extent to which the economic policies implemented by the government are able to encourage domestic economic activity.

## **2. Economic Growth Theory**

According to Nurafiati (2019) the capital market serves as a platform where a diverse array of long-term financial instruments, including debt and equity securities issued by private companies, are traded. It serves a dual role, fulfilling an economic function by facilitating the matching of surplus funds with those in need, and a financial function by providing investment opportunities for fund owners to earn returns (Awaluddin, 2016). In its financial function, the capital market serves as a conduit for business financing and enables companies to raise funds from investors.

The sharia capital market, on the other hand, operates in accordance with Islamic principles throughout its mechanisms, including issuer activities, types of tradable securities, and trading procedures. Sharia securities, as defined by statutory regulations in the capital market sector, adhere to sharia principles in their contracts, company governance, and issuance methods (Nurmawilis et al., 2021). In essence, the sharia capital market ensures compliance with Islamic principles in all its operations, offering sharia-compliant investment opportunities for individuals and institutions adhering to Islamic finance principles (Awaluddin, 2016).

## **3. Sukuk**

Sukuk are long-term financial instruments adhering to sharia principles, issued by entities to investors who receive returns through profit sharing, margins, or fees, thereby distinguishing them from conventional bonds primarily in their approach to compensation and profit distribution instead of interest payments. Additionally, sukuk issuance involves supporting transactions in the form of assets, which serve as the foundation for sukuk issuance, and contracts adhering to sharia principles (Awaluddin, 2016). According to Purnamawati (2015), types of sukuk can be categorized based on the underlying contract of issuance:

- a. Mudharabah Sukuk is a type of sukuk issued under a mudharabah contract, wherein one party supplies the capital (rab al maal) and the other party contributes labor and expertise (Mudharib). The profits generated from their collaboration are shared based on a mutually agreed-upon arrangement. In the event of a loss, however, the capital provider bears the loss. Sukuk holders possess the entitlement to receive a portion of the profits and also share the burden of losses, without any assurance of profits or immunity from losses.



- b. Musyarakah Sukuk are issued under a Musyarakah contract, where multiple parties collaborate by pooling capital to finance projects or business activities, and profits and losses are distributed proportionally to their respective capital contributions
- c. Murabahah Sukuk are sukuk instruments structured according to a murabahah contract. Murabahah is a sale and purchase contract where the seller sells the goods to the buyer plus a profit margin.
- d. Sukuk Salam is a prepayment contract, which is made for goods that are delivered later. It is not permitted in this contract to sell commodities before the commodities are received. For this reason, the recipient of the commodity is greeted before receiving it.
- e. Istisna Sukuk are issued under an istisna contract, in which parties agree on a sale and purchase arrangement to finance a project or asset, specifying the price, delivery time, and project or asset specifications beforehand.
- f. Ijarah Sukuk are issued under an ijarah contract, where one party leases or sells the beneficial rights of an asset to another party for an agreed-upon price and duration, without transferring ownership. These sukuk represent ownership of assets and are closely associated with lease or hire-purchase agreements.

#### **4. Sharia mutual funds**

Sharia mutual funds are investment vehicles designed to operate in accordance with Islamic sharia principles and guidelines. This adherence extends to the contractual agreements between investors as asset owners and investment managers, as well as the management of investments by managers acting on behalf of the sahib al mal (capital provider), and interactions between investment managers and users (Awaluddin, 2016). These funds are financial instruments aligned with the sharia financial system, guided by Islamic principles. For instance, they refrain from investing in shares or bonds issued by companies whose products conflict with Islamic sharia, such as those involved in alcohol, pork, tobacco, or hotel industries (Masrurah, 2014). The objective of sharia mutual funds is to cater to investor groups seeking investment returns from ethical and transparent sources and methods (Putriana, 2017).

According to (Putriana, 2017) jenis-jenis reksadana syariah adalah :

- a. Fixed income mutual funds without equity components employ an investment strategy aimed at preserving the initial capital value while generating fixed income.
- b. Fixed income mutual funds with equity components allocate at least 80% of their assets to equity securities, while the remainder may be invested in debt securities.
- c. Stock mutual funds, also referred to as equity mutual funds, must invest a minimum of 80% of their assets in equity securities or shares

- d. Mixed Mutual Funds where this mutual fund has the freedom to determine asset allocation thus enabling the fund to maintain an investment portfolio predominantly composed of shares and at other times change it to bonds.

Operationally, there are significant differences between Sharia-compliant and conventional mutual funds. Sharia mutual funds involve a screening and purification process as part of their operations. The screening process is the process of placing public funds in a portfolio that must be categorized as halal. This process is the first filtering in forming a portfolio that meets all Islamic principles. Second is Cleansing, namely freeing all investment vehicles from prohibited elements (Masrurroh, 2014).

## **5. Labor**

According to Mulyadi (2014), labor refers to the segment of the population within the working age range (typically 15-64 years old) or the total population capable of producing goods and services provided there is a demand for their labor and they are willing to engage in such activities. Sumarni and Suprihanto (2014) characterize workers as individuals who employ their skills and abilities to produce goods or services, thereby enabling companies to generate profits. As a result, these individuals receive compensation in the form of salaries or wages commensurate with their skills. Based on the definition above, it can be concluded that what is meant by workforce is every resident over 15 years of age who has the ability to produce goods or services to obtain a profit so that they can meet their daily needs. Labor absorption denotes the capability of a company or agency to hire a specific number of individuals for employment. This absorption of labor will accommodate all available labor if the available jobs are sufficient or balanced with the number of workers available (Kadir et al., 2016).

## **C. METHODS**

The objective of this research is to analyze how sukuk, sharia mutual funds, and labor influence economic growth in Indonesia from 2014 to 2022. The study utilizes secondary data, specifically time series data collected from publications, books, journals, and other relevant sources. Population is a generalization area that exists in targets or materials with specific characteristics determined by researchers for further analysis and conclusions (Sugiyono, 2016). The population for this study comprises information on sharia-compliant equities, sukuk, sharia mutual funds, and sharia capital market capitalization in Indonesia. The data was taken over a period of nine years from 2014 to 2022. The total amount of data used was 9 data collected. A sample is a small fraction of a population. The sample was taken from a large number of individuals in the population and not all populations could be sampled (Uma Sekaran, 2006). In this research, the sample used was the saturation sampling technique. The saturation sample is the entire population used as the research sample (Nida et al., 2020). The sample for this study comprises published reports from the Financial Services Authority spanning nine years, from 2014 to 2022, specifically focusing on sharia sukuk and mutual funds. Additionally, data on Indonesia's economic growth, measured by GDP and labor statistics, is gathered from reports published by the Central Statistics Agency (BPS) for the period from 2014 to 2022.



This study employs quantitative research methodology, focusing on sukuk, sharia mutual funds, and labor over the period of 2014 to 2022. The analytical approach utilized is the Error Correction Model (ECM) analysis. The Eviews 10 software serves as the primary tool for conducting the analysis. The following is the Model used in research

**Short-term ECM model estimates:**

$$\text{LnPDBt} = \beta_0 + \beta_1 \text{DLnSKt} + \beta_2 \text{DLnRKSDt} + \beta_3 \text{DLnLt} + \text{ECT}$$

**Long-term ECM model estimates:**

$$\text{LnPDBt} = \beta_0 + \beta_1 \text{LnSKt-2} + \beta_2 \text{LnRKSDt-2} + \beta_3 \text{LnLt-2} + \text{ECT}$$

Information:

PDB : Gross domestic product

SK : Sukuk

RKSD : Syariah Mutual Funds

L : Labor

$\beta_0$  : Constant

$\beta_0 - \beta_4$  : Regression Coefficients

D : Changes in balance or influence in the short term

t-2 : Carrier backward lag or long-term balance adjustment

ECT : Error Correction Term atau koreksi kesalahan ketidakseimbangan

**D. RESULTS AND DISCUSSION**

**1. Stationary Test**

In the initial phase of the study, a unit root test was conducted to verify the stationarity of the data, ensuring the avoidance of issues such as spurious regression or misleading results. This test is crucial for analyzing time series data, which includes Gross Domestic Product (GDP), sukuk (SK), sharia mutual funds (RKSD), and labor (L) observations spanning from 2014 to 2022.

The unit root test at the level indicates that none of the variables GDP, SK, and L are stationary at a significance level of five percent (0.05%). Therefore, the data requires further analysis through first differencing to achieve stationarity. However, even after the first difference, the GDP and L variables remain non-stationary at the five percent significance level (0.05%). Consequently, a second difference is applied to attain stationarity.

After conducting the unit root test at the second difference level, all variables were found to be stationary at a significance level below 0.05%. This confirms that the data is stationary at this level, ensuring the reliability of subsequent analyses.

**2. Cointegration Test**

The cointegration test is performed to establish a stable long-term relationship between variables that are integrated to the same degree. Based on the results of the stationarity test, all variables in this study are integrated at the second difference level. Consequently, the cointegration test can be conducted using the Augmented Dickey-Fuller (ADF) test.

**Table 4 Cointegration Test Results**

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-5.096489	0.0055
Test critical values:	1% level	-4.582648	
	5% level	-3.320969	
	10% level	-2.801384	

Source: data processed through the eviews 10 program

In this study, if the residual is stationary at level level, it can be said to have cointegration. The table above shows that the residual is stationary, namely by looking at prob. 0.0055 which is smaller than 0.05. This shows that the residual is stationary.

### 3. Error Correction Model Test (ECM)

ECM is a method that is widely used in econometrics. This model is used to determine whether the variable is dependent or independent, this variable has short-term and long-term effects. This Error Correction Model only applies to cross section data and time series data. ECM examines economic events over time, identifying various variables to address non-stationary variable issues. This method was used to analyze the relationship between economic growth, sukuk, sharia mutual funds, and labor in Indonesia. The analysis was performed using Eviews 10 software, with the short-term and long-term results of the ECM evaluated as follows:

**Table 5 Long Term Equation Regression Results for the ECM Model**

Variabel	Koefisien	Std.Error	t-Statistik	Prob.
LN_SK	1.82E-05	0.002376	0.007657	0.9942
LN_RKSD	0.009734	0.002112	4.608932	0.0058
LN_L	1.512512	0.115821	13.05902	0.0000
C	11.00392	0.524455	20.98164	0.0000
R-squared	0.995910	Mean dependent var		18.43590
Adjusted R-squared	0.993456	S.D. dependent var		0.104825
S.E of regression	0.008480	Akaike info criterion		-6.401121
Sum squared resid	0.000360	Schwarz criterion		-6.313466
Log likelihood	32.80505	Hannan-Quinn criter.		-6.590281
F-statistic	405.8167	Durbin-Watson stat		3.199109
Prob(F-statistic)	0.000002			

Source: data processed through the eviews 10 program

Using the ECM regression data table above, the regression equation can be formulated as follows:  $\text{LnPDBt} = 11.00392 + 0.0000182 + 0.009734 + 1.512512 + \text{ECT}$ .

According to the outcomes of the multiple linear regression analysis, the coefficient value for SK stands at 0.0000182 with a probability of 0.9942, exceeding the 0.05 threshold. This implies that while the SK variable exerts an influence on Gross Domestic Product (GDP), it lacks statistical significance. Conversely, the RKSD variable demonstrates a significant impact on GDP, with a coefficient value of 0.009734 and a probability of 0.0058, falling below the 0.05 mark. Similarly, the variable L exhibits both influence and significance on GDP, with a coefficient value of 1.512512 and a probability of 0.0000, well below the 0.05 threshold.

**Table 6 Regression Results for Short Term ECM Model equations**

Variable	Coefficient	Std.Error	t-Statistics	Prob.
LN_SK	0.004317	0.000721	5.991926	0.0093
LN_RKSD	0.012639	0.000664	19.04811	0.0003
LN_L	2.051383	0.087181	23.53014	0.0002
ECT (-1)	-1.514564	0.119051	-12.72197	0.0010
C	-0.016864	0.002684	-6.284228	0.0081
R-squared	0.996780	Mean dependent var		0.039101
Adjusted R-squared	0.992487	S.D. dependent var		0.024705
S.E of regression	0.002141	Akaike info criterion		-9.185629
Sum squared resid	1.38E-05	Schwarz criterion		-9.135978
Log likelihood	41.74252	Hannan-Quinn criter.		-9.520505
F-statistic	232.1888	Durbin-Watson stat		1.937382
Prob(F-statistic)	0.000456			

Source: data processed through the eviews 10 program

The data analysis reveals that the Error Correction Term coefficient within the model is both negative and statistically significant when estimating Gross Domestic Product (GDP). The ECM estimations demonstrate a substantial impact of the variables on GDP, both in the short and long term. With an R value of approximately 0.996780 or 99 percent, it indicates that sukuk, sharia mutual funds, and labor variables collectively influence economic growth by 99 percent, while the remaining 1 percent is attributed to other unexamined variables. Short-term fluctuations in the independent variables are observed, with SK, RKSD, and L showing positive and significant effects on GDP. Utilizing the Error Correction Model method, the short-term equation produces an Error Correction Term coefficient value of -1.514564.

#### 4. Classic assumption test

Multiple linear regression analysis is a statistical approach utilized to explore the association between a dependent variable and multiple independent variables, assessing the strength and direction of influence each independent variable has on the dependent variable. The classical assumption tests carried out in multiple linear regression analysis include: Multicollinearity test: This test assesses the degree of correlation among the independent variables. High multicollinearity can distort the estimation of regression coefficients. Heteroscedasticity test: Heteroscedasticity refers to the unequal variance of residuals across the range of predicted values. This test examines whether the variance of residuals is constant. Autocorrelation test: Autocorrelation occurs when the residuals of a regression model are correlated with each other. This test determines whether there is any pattern in the residuals over time Linearity test: This test assesses the linearity of the relationship between the independent variables and the dependent variable Nonlinear relationships may require transformation of variables or use of alternative regression techniques. These classical assumption tests are essential to ensure the validity and reliability of the multiple linear regression analysis results.

## 5. Multicollinearity Test

**Table 7. Multicollinearity Test Result**

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
LN_SK	5.19E-07	2.595183	2.016614
LN_RKSD	4.40E-07	2.133297	1.715943
LN_L	0.007601	8.348419	2.654001
C	7.20E-06	12.56499	NA

Source: data processed through the eviews 10 program

Based on the multicollinearity test results, the VIF values for the SK, RKSD, and L variables are all below the threshold of 10, with values of 2.016614, 1.715943, and 2.654001 respectively. This indicates that there are no signs of multicollinearity, fulfilling one of the classical assumptions in the research.

## 6. Heteroscedasticity Test

**Table 8. Heteroscedasticity Test Result**

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.192565	Prob. F(4,6)	0.9273
Obs*R-squared	1.634390	Prob. Chi-Square(4)	0.8026
Scaled explained SS	0.267040	Prob. Chi-Square(4)	0.9918

Source: data processed through the eviews 10 program

The application of the Breusch-Pagan-Godfrey test in this study to detect heteroscedasticity resulted in a probability Chi-Square value of 0.9273, indicating that there are no signs of heteroscedasticity evident in the data.

## 7. Autocorrelation Test

**Table 9. Autocorrelation Test Result**

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	0.060201	Prob. F(2,4)	0.9447
Obs*R-squared	0.859710	Prob. Chi-Square(2)	0.6506

Source: data processed through the eviews 10 program

Based on the results of the autocorrelation test that has been carried out, the prob value is obtained. Chi-square with a value of 0.6506 > 0.05, it can be concluded that there are no symptoms of autocorrelation in this research model.

## 8. Linearity Test

**Table 10. Linearity Test Result**

	Value	df	Probability
t-statistic	0.869242	2	0.4764
F-statistic	0.755582	(1, 2)	0.4764
Likelihood ratio	2.563853	1	0.1093

Source: data processed through the eviews 10 program

According the results of the linearity test that has been carried out, the prob value is obtained. F statistic  $0.4764 > 0.05$ , so it can be concluded that the relationship between variables is linear.

## **9. Discussion**

### **a. The Impact of Sukuk on Economic Growth**

This study's findings are in line with previous research by Nurafiati (2019), Faiza & Shafiyatun (2018), and Ala'uddin (2020), all indicating that sukuk positively and significantly impact economic growth. These studies collectively highlight sukuk's contribution to fostering economic growth. However, this study's results differ from Alvionita's (2021) findings, suggesting that sukuk lack a positive and significant influence on economic growth. This discrepancy may stem from differences in methodology, sample size, or other contextual factors unique to Alvionita's study. Overall, the utilization of sukuk for fundraising purposes is seen to positively and significantly influence Indonesia's economic growth. This is attributed to the injection of investment capital into the economy when companies issue sukuk, thereby stimulating economic activity and growth. This funding is obtained from the issuance of corporate sukuk, where when a company issues debt securities or sukuk, the company will receive funds when the debt securities are sold. The additional funds from the issuance of sukuk can increase production capacity. Increased production capacity is expected to increase production, so that the economy can grow. In the end, economic growth is stimulated by an increase in output.

Sukuk provides an alternative source of funding for the government and the private sector. By issuing sukuk, the government can raise the necessary funds to finance infrastructure and development projects without having to rely entirely on conventional loans or foreign aid. This increased funding can help accelerate development projects, which in turn can stimulate economic growth through increased investment in infrastructure and other productive sectors. Sukuk attracts investors seeking financial instruments that comply with Sharia principles. This expands the investor base, including from Muslim-majority countries that may prefer Sharia-compliant investments. Increased investment from these sources can enhance liquidity in the economy and support the growth of diverse economic sectors.

The issuance of sukuk can help stabilize the government budget by providing a more stable and predictable revenue stream. This is particularly important in situations where tax revenues may not be sufficient to cover government expenditures. With better fiscal stability, the government can implement more effective economic policies and reduce dependence on foreign loans, which often come with stringent conditions. Funds raised from the issuance of sukuk are often used for infrastructure projects such as highways, bridges, airports, and other development projects. Infrastructure development has a multiplier effect on the economy, such as job creation, increased productivity, and the facilitation of trade and investment.

#### b. The Impact of Sharia Mutual Funds on Economic Growth

The results of this study are corroborated by the findings of Auliyatusaa'dah et al. (2021) and Nurhidayah et al. (2022), both of which highlight a positive and significant impact of sharia mutual funds on economic growth. These studies provide additional evidence supporting the idea that sharia mutual funds contribute positively to the advancement of economic growth. However, the results of this study diverge from the findings of Fajar et al. (2022), which indicate a negative and insignificant effect of sharia mutual funds on economic growth. This discrepancy may stem from variations in research methodologies, sample characteristics, or other contextual factors unique to Fajar et al.'s study. In essence, Auliyatusaa'dah et al. (2021) and Nurhidayah et al. (2022) have shown that sharia mutual funds, which aggregate public funds for investment in various financial instruments like the money market, capital market, or real estate, positively and significantly influence economic growth. The increasing level of public investment through sharia mutual fund products is because investors consider that these sharia mutual fund products are relatively easy to manage. This is because investors do not directly intervene in managing it, but through investment managers who are of course experienced in managing sharia mutual funds. Increasing public investment through sharia mutual funds will certainly increase net asset value (NAV). The net asset value of sharia mutual funds is supervised by an investment manager who allocates these funds to halal productive sectors such as manufacturing or services. This allocation creates significant employment opportunities, leading to an increase in labor force participation and ultimately contributing to Indonesia's economic growth.

People who are more interested in the real sector, such as property, small and medium enterprises (SMEs), or the agricultural and manufacturing sectors, may be less interested in mutual funds related to the capital market. Direct investment in the real sector tends to provide faster and more tangible returns and is easier to understand for people who are less familiar with capital market financial instruments. This diverts funds from the capital market to the real sector, which has a direct impact on economic activities. With low interest in mutual funds, liquidity in the capital market may become limited. Low liquidity can reduce market efficiency and lead to higher volatility. Direct investment in the real sector can directly boost economic activity through job creation, increased production, and infrastructure development. The real sector plays a crucial role in the economy as it produces goods and services that can be consumed by the public. Investment in this sector can directly boost GDP through increased output and productivity. Investment in the real sector is often considered more stable compared to investment in the capital market, which tends to be more volatile. This stability can provide greater confidence to investors and consumers, ultimately supporting sustainable economic growth.

#### c. The Impact of Labor on Economic Growth

The findings of this study align with the research conducted by Yunita & Sentosa (2019) and Mukamad Rofii & Sarda Ardyan (2017), which both demonstrate a positive and significant impact of labor on economic growth, providing additional support for the



assertion that labor is pivotal in fostering economic growth. However, this study's results diverge from those of Bawuno et al. (2015), which suggest a positive but insignificant effect of labor on economic growth. This disparity may arise due to differences in research methodologies, sample characteristics, or other contextual factors specific to Bawuno et al.'s study. In summary, labor is found to have a positive and significant influence on economic growth, as indicated by Yunita & Sentosa (2019) and Mukamad Rofii & Sarda Ardyan (2017), aligning with the findings of this research. Labor is needed to manage natural resources and produce goods or production results which can later be sold to the public or exported abroad. What needs to be considered is not only the number of workers but also the quality of those workers. If the quality of the workforce or human resources has sufficient expertise or ability to produce goods, it will increase the productivity of a company. The high productivity of a company tends to open up job opportunities. When a company increases its production and expands its operations, it will need more workers. This endeavor seeks to generate employment prospects within the community, thereby diminishing the unemployment rate. The aspiration is for the workforce to enhance its human capital quality, resulting in superior national output that contributes positively to Indonesia's economic advancement, starting from educational facilities and developing skills from training so that this can develop human resources that are able to boost the economy.

In many developing countries, labor productivity is often lower compared to developed countries. This low productivity can be attributed to various factors such as lack of education, training, and the technology used. Low productivity means that output per worker is also low. As a result, even though many people are employed, the total contribution of the labor sector to GDP becomes smaller. Increasing productivity through education and training can enhance this contribution. Many workers in developing countries work in the informal sector, which is not officially recorded in economic statistics. The informal sector usually involves less productive and low-wage jobs. Since the informal sector is not recorded in official statistics, its contribution to GDP is not accurately accounted for. Additionally, jobs in the informal sector tend to be less productive and generate less significant value added to the economy. High levels of unemployment and underemployment are often problems in developing countries. Many people who have jobs do not work full-time or in capacities that match their skills. Unemployment and underemployment reduce the potential contribution of labor to GDP. When people do not work full-time or do not work at all, total economic output decreases, which negatively impacts economic growth.

## **E. CONCLUSIONS**

According to the findings and analysis presented in this study, all variables examined contribute to the economic growth of Indonesia. The results of the sukuk variable have a positive and significant influence, meaning that the higher the value of the sukuk, the more Indonesia's economic growth will increase assuming *ceteris paribus*. The sharia mutual fund variable shows a positive and significant influence, suggesting that higher values in sharia mutual funds lead to increased economic growth, all else being equal. Similarly, the labor

variable has a positive and significant effect on economic growth, indicating that higher labor productivity results in greater economic growth for Indonesia.

Overall, the issuance of sukuk has the potential to support fiscal strength and drive economic growth through various mechanisms, including increased investment, fiscal stability, and infrastructure development. This support, in turn, can result in more sustainable and inclusive GDP growth. While mutual funds may not develop rapidly, direct investment in the real sector can provide a significant boost to economic growth. By increasing activity in the real sector, the economy can enjoy increased output, productivity, and income, all of which contribute to higher GDP growth. In developing countries, the low contribution of the labor sector to GDP may result in slower economic growth compared to developed countries. Low productivity and limitations in various factors affecting the labor force can hinder the potential for economic growth.

### RECOMMENDATION:

1. For Invertors: It is hoped that this research can help investors make appropriate sharia investment decisions and consider factors in determining the investment to be made both domestically and abroad.
2. For companies: This research basically does not discuss the technical level that occurs in each financial market, but as a simple description of the movement and development of the financial market itself and what factors will influence it.
3. For Labor: ultimately leading to a higher-quality national output that fosters the development of the Indonesian economy, starting from educational facilities and developing skills from training so that this can develop human resources that are able to boost the Indonesian economy.
4. For future researchers: This research only uses sukuk, mutual funds and labor variables using the ECM method in the period 2014 to 2022. Future researchers can try to create models in different time periods and add other sharia capital market variables.

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