

# Analysis of the Development, Implementation, and Contribution of Islamic Economics in Indonesia in Improving Social Welfare and National Economic Stability in the Modern Era

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## Abstract

*The Islamic economy in Indonesia has experienced significant development in recent decades, marked by the increasing number of Islamic financial institutions, supportive regulations, and public awareness of the Sharia-based economic system. The background of this research is based on the importance of assessing the extent to which the development and implementation of Islamic economics can make a real contribution to improving social welfare and maintaining national economic stability in the modern era full of challenges of globalization and digitalization. This study aims to analyze the development of Islamic economics in Indonesia, examine its implementation in various sectors, and evaluate its contribution to social welfare and national economic stability. The method used in this research is a qualitative method with a library research approach, which examines various scientific literature, journals, books, and official reports related to Islamic economics in Indonesia. The results show that the Islamic economy in Indonesia is growing rapidly through the Islamic banking sector, Islamic social finance such as zakat, infaq, sedekah, and waqf, and the halal industry. The implementation of Sharia principles in the economic system has been proven to increase financial inclusion, reduce social inequality, and strengthen national economic resilience. However, challenges remain, such as low Islamic financial literacy, limited human resources, and regulatory and technological optimization. The conclusion of this study confirms that Islamic economics plays a strategic role in promoting social welfare and national economic stability in Indonesia. With appropriate policy support, increased literacy, and digital-based innovation, Islamic economics has the potential to become a key pillar of equitable and sustainable economic development.*

**Keywords :** *Islamic Economics, Indonesia, Social Welfare, Economic Stability, Islamic Finance*

## INTRODUCTION

Islamic economics in Indonesia is one of the economic systems that has experienced rapid development in recent decades. This is inseparable from the characteristics of the Indonesian people, who are predominantly Muslim, and the growing awareness of the importance of implementing sharia principles in economic life. Islamic economics presents itself as an alternative economic system that is not solely profit-oriented but also prioritizes the values of justice, balance, and the common good (Suci and Hasibuan 2024) . In this context, Islamic economics seeks to address various modern economic problems, such as social inequality, unequal income distribution, and recurring economic crises caused by the conventional system's speculative tendencies. The development of Islamic economics in Indonesia is marked by the growth of various sharia financial institutions, such as sharia banking, sharia insurance, and sharia capital markets. Furthermore, the Islamic social finance sector, such as zakat, infaq, sedekah, and waqf, has also experienced significant improvements in its management. The Indonesian government has also played an active role in supporting this development through supportive regulations and policies, such as the establishment of the National Committee for Islamic Economics and Finance (KNEKS) and strengthening the legal framework governing the operations of Islamic financial institutions. This demonstrates that Islamic economics is no longer viewed as merely an alternative system but has become an integral part of the national economic system.

In the modern era marked by globalization and digitalization, Islamic economics faces increasingly complex challenges and opportunities. Globalization has opened wider access for Sharia-compliant products and services to compete in the international market, but also demands increased competitiveness and innovation. Digitalization has significantly transformed the economic landscape, including in the Islamic financial sector, which is now adopting financial technology (fintech) to increase efficiency and financial inclusion. In this situation, Islamic economics is required to adapt without abandoning its fundamental principles, such as the prohibition of usury (riba), gharar (gharar), and maysir (gambling), as well as an emphasis on productive and equitable economic activities. The implementation of

Islamic economics in Indonesia is not limited to the formal sector but also extends to various aspects of community life. Sharia-compliant economic practices are increasingly being applied in micro, small, and medium enterprises (MSMEs), the halal industry, and the social sector. This demonstrates that Islamic economics has significant potential to improve social welfare, particularly through community-based economic empowerment. With an inclusive and equitable approach, Islamic economics is expected to be able to reduce poverty levels and social inequality, which are still major problems in Indonesia (Susanto and Amiruddin 2024) .

However, despite showing positive developments, the Islamic economy in Indonesia still faces various obstacles. One major challenge is the low level of public literacy regarding Islamic economics and finance. Many people do not yet comprehensively understand the concepts, principles, and benefits of Islamic economics, resulting in suboptimal utilization. Furthermore, the limited human resources competent in Islamic economics also hinder the development of this sector. Regulatory and infrastructure aspects that are not yet fully supportive also affect the effectiveness of Islamic economic implementation in Indonesia (Shiddiqy 2023) . Therefore, integrated efforts are needed between the government, financial institutions, academics, and the community to encourage the sustainable development of the Islamic economy. Increasing public literacy and education, strengthening regulations, and utilizing digital technology are key factors in optimizing the role of Islamic economics in the national economy. With good synergy between various parties, the Islamic economy in Indonesia has great potential to become an economic system capable of creating social welfare and maintaining national economic stability amidst ever-evolving global dynamics.

## **RESEARCH METHODS**

This research employs a qualitative method with a library research approach . This approach was chosen because the research focuses on examining concepts, theories, and previous research results relevant to the theme of Islamic economics in Indonesia. Library research is a method carried out by collecting, reading, understanding, and analyzing various written sources related to the research object,

thus obtaining a comprehensive and in-depth understanding. The data sources in this study consist of secondary data obtained from various scientific literature, such as books, national and international journals, scientific articles, official reports from related institutions, and government policy documents related to the development and implementation of Islamic economics in Indonesia. Furthermore, data was also obtained from publications from Islamic financial institutions and official institutions authorized to develop Islamic economics. Sources were selected selectively, considering the credibility, relevance, and novelty of the information used in the research.

Data collection techniques were conducted through documentation, namely by identifying, classifying, and organizing various literature relevant to the research focus. The collected data were then analyzed using qualitative descriptive analysis techniques, namely by describing, interpreting, and linking various existing concepts and findings to answer the research problem formulation. The analysis was conducted systematically to fully describe the development, implementation, and contribution of Islamic economics in Indonesia. To maintain data validity, this study employed source triangulation techniques, namely by comparing and reviewing various different but related references. Thus, the research results are expected to have a high level of validity and reliability. Through this method, the research is able to provide an in-depth picture of the role of Islamic economics in improving social welfare and national economic stability in the modern era.

## **RESULTS AND DISCUSSION**

### **A. Development of Sharia Economy in Indonesia, Regulations, Supporting Institutions, Opportunities, and Challenges**

#### **1. Development of Sharia Economy in Indonesia**

The development of the Islamic economy in Indonesia has shown a very positive trend over the past few decades. This is marked by the increasing number of Islamic financial institutions, such as Islamic banks, Islamic insurance, and Islamic capital markets. Furthermore, the halal industry sector is also experiencing rapid growth, encompassing food and beverages, Muslim

fashion, cosmetics, and even halal tourism. Indonesia is even beginning to be seen as a global hub for the Islamic economy due to its significant market potential. This growth is driven by increasing public awareness of the Sharia-based economic system and government support in developing a comprehensive Islamic economic ecosystem (Halim, 2023a; Suci & Hasibuan, 2024).

## 2. Sharia Economic Regulation in Indonesia

Regulation is a crucial factor in supporting the development of the Islamic economy. The Indonesian government has issued various policies and regulations that serve as the legal basis for the operation of the Islamic economy. For example, these include the Law on Islamic Banking, regulations regarding zakat and waqf, and regulations regarding halal product guarantees. Furthermore, the role of authorities such as the Financial Services Authority (OJK) and Bank Indonesia is crucial in supervising and regulating Islamic financial institutions to ensure their compliance with Islamic principles and financial system stability. These regulations provide legal certainty and increase public trust in the Islamic economic system (Shiddiqy, 2023; Susanto & Amiruddin, 2024).

## 3. Institutions Supporting Sharia Economics

The development of the Islamic economy in Indonesia is inseparable from the role of various supporting institutions. Institutions such as the National Committee for Islamic Economics and Finance (KNEKS), the National Zakat Agency (BAZNAS), and the Indonesian Waqf Board (BWI) play a strategic role in developing and managing various aspects of the Islamic economy. Furthermore, educational institutions and universities also contribute to producing competent human resources in the field of Islamic economics. The presence of these institutions creates an ecosystem that supports the growth of an integrated Islamic economy, from regulatory and operational aspects to public education (Halim, 2023b; Nasiruddin et al., 2025).

## 4. Sharia Economic Opportunities in Indonesia

Indonesia has enormous potential for developing the sharia economy. A key supporting factor is its large Muslim population, creating a vast domestic

market. Furthermore, the development of digital technology is opening new opportunities through sharia-compliant fintech, halal e-commerce, and innovative digital financial services. The halal industry sector also has significant export potential in the global market. With the support of government policies and the growing interest of the younger generation in the sharia economy, the opportunity to establish Indonesia as a global center for the sharia economy is increasingly wide open (Indrawati, 2025a; Wahyudi, 2025).

#### 5. Challenges of Sharia Economics in Indonesia

Despite its enormous potential, the Islamic economy in Indonesia still faces various challenges. One major challenge is the low level of public literacy regarding Islamic economics and finance. Many people do not yet understand the differences between the Islamic and conventional systems. Furthermore, the limited human resources skilled in Islamic economics are also a constraint. Another challenge is the need for product innovation and increased competitiveness to compete globally. Suboptimal regulations and the need for improved integration between institutions are also factors that must be considered. Therefore, a joint effort is needed from the government, institutions, and the community to overcome these challenges so that the Islamic economy can develop optimally (Shiddiqy, 2023; Rusmiati, 2024).

### **B. Implementation of Islamic Economic Principles in Various Sectors**

The implementation of Islamic economic principles in Indonesia is a concrete manifestation of the application of sharia values in people's economic activities. The main principles of Islamic economics, such as justice ('adl), balance (tawazun), benefit (maslahah), and the prohibition of usury (riba), gharar (gharar), and maysir (gambling), serve as the foundation for conducting various economic activities. The application of these principles is not limited to the financial sector but extends to various other sectors, supporting sustainable and equitable economic development. In the Indonesian context, this implementation has shown quite rapid progress along with increasing public awareness and regulatory support from the government.

One of the key sectors in the implementation of Islamic economics is the Islamic banking and finance sector. In this sector, sharia principles are applied through various contracts, such as mudharabah (profit sharing), musyarakah (partnership), murabahah (sale and purchase), and ijarah (rental). Unlike conventional interest-based systems, Islamic banking prioritizes a fairer and more transparent profit-sharing system. This implementation not only provides an alternative for the Muslim community but also attracts wider public interest due to its more stable system and minimal speculative risk. Furthermore, the development of non-bank financial institutions such as Islamic insurance, Islamic pawnshops, and Islamic capital markets has also strengthened the Islamic economic ecosystem in Indonesia. In the social finance sector, Islamic economic principles are implemented through the management of zakat, infaq, sedekah, and waqf. These instruments play a crucial role in creating a more equitable distribution of wealth and assisting the underprivileged (Indrawati, 2025b). Zakat and waqf management in Indonesia is now increasingly modern and professional, utilizing digital technology to increase efficiency and transparency. The funds collected are not only used for consumer assistance but are also directed towards economic empowerment programs, such as micro-enterprise financing, skills training, and education sector development. Thus, Islamic social finance has become a crucial pillar in improving public welfare (Indrawati, 2025b; Suci & Hasibuan, 2024).

### **C. Contribution of Islamic Economics to the Social Welfare of Society**

Islamic economics has made a significant contribution to improving social welfare, particularly through an approach that emphasizes distributive justice, social awareness, and a balance between individual and collective interests. Unlike conventional economic systems, which tend to focus solely on economic growth, Islamic economics prioritizes societal well-being as a primary goal to be achieved equitably. In the Indonesian context, this contribution is increasingly evident with the development of various Islamic economic instruments and institutions that play a direct role in improving the quality of life.

One tangible contribution of Islamic economics to social welfare is through the management of Islamic social finance, such as zakat, infaq, sedekah, and waqf. These instruments serve as a mechanism for redistributing wealth from the wealthy

to those in need. Zakat, for example, is not only an obligatory act of worship but also has a significant social impact in reducing poverty and economic inequality. Professionally managed zakat funds can be used for various empowerment programs, such as business capital assistance, skills training, and the provision of education and health services for the underprivileged. Thus, Islamic economics is able to create a more inclusive and equitable system. Furthermore, the contribution of Islamic economics is also evident through the role of Islamic financial institutions in increasing financial inclusion in society. Many people, especially those from the lower-middle class, who previously lacked access to formal financial services, can now utilize Islamic financial products that are more flexible and tailored to their needs. The profit-sharing financing system allows people to obtain business capital without the burden of burdensome interest. This is very helpful in encouraging the growth of small and medium enterprises, which ultimately contributes to increasing income and community welfare (Indrawati, 2025b; Susanto & Amiruddin, 2024).

#### **D. The Role of Islamic Economics in Maintaining National Economic Stability in the Modern Era**

Islamic economics plays a strategic role in maintaining national economic stability, particularly amidst the dynamics of the modern era characterized by globalization, digitalization, and global economic uncertainty. Economic stability is a condition in which a country's economy is able to grow sustainably, avoid extreme volatility, and maintain balance between various economic sectors. In this regard, Islamic economics offers a more stable system because it is based on principles that avoid speculative practices, usury, and uncertainty (*gharar*), which often cause crises in conventional economic systems. One of the main roles of Islamic economics in maintaining economic stability is through a financial system based on the real sector. In Islamic economics, every financial activity must have a clear transaction basis and be directly related to productive economic activities. This differs from conventional systems that allow speculative transactions without the support of real assets. With a strong link between the financial sector and the real sector, Islamic economics can reduce the risk of economic bubbles *that* can lead to crises. The profit-sharing system implemented in Islamic finance also helps

create a more equitable risk distribution between the parties involved, thereby increasing overall economic resilience (Halim, 2023b) .

Furthermore, Islamic economics plays a role in maintaining stability through mechanisms for more equitable wealth distribution. Instruments such as zakat (alms), infaq (donations), sedekah (charity), and waqf (endowments) serve as tools to reduce social and economic disparities. High economic inequality is often a trigger for economic and social instability. A more equitable distribution of wealth can maintain people's purchasing power, thus encouraging more inclusive and sustainable economic growth. In this context, Islamic economics focuses not only on growth but also on equitable distribution of development outcomes. The role of Islamic economics is also evident in its ability to weather economic crises. Experience shows that Islamic financial institutions tend to be more resilient to crisis shocks than conventional financial institutions. This is due to the principle of prudence and the prohibition against investment in high-risk and speculative sectors. Furthermore, the Islamic financial system does not recognize fixed interest rates, thus avoiding undue pressure on businesses during economic downturns. This flexibility allows businesses to survive and adapt to unstable economic conditions.

In the modern era, the development of digital technology has strengthened the role of Islamic economics in maintaining national economic stability. Digitalization enables Islamic financial services to become more efficient, transparent, and accessible to the wider public. Through Islamic fintech, people can access financing, investments, and other financial services more quickly and securely. This not only increases financial inclusion but also strengthens the national financial system as a whole. With more people involved in the formal financial system, economic stability can be better maintained. Furthermore, Islamic economics also encourages ethical and responsible economic practices. Principles such as honesty, fairness, and trustworthiness are the foundation of all economic activities. By implementing these values, the potential for corruption, fraud, and manipulation can be minimized. A clean and transparent economic environment is a crucial factor in creating long-term economic stability. Furthermore, public trust in the

economic system will also increase, ultimately supporting sustainable economic growth (Wahyudi, 2025) .

However, the role of Islamic economics in maintaining national economic stability still faces various challenges. One major challenge is the need to strengthen regulations and oversight to ensure optimal implementation of sharia principles. Furthermore, there is a need to increase public literacy and develop competent human resources in the field of sharia economics. Another challenge is how Islamic economics can continue to innovate and adapt to technological developments without neglecting the fundamental principles that underpin its foundation (Halim, 2023b) .

## **CONCLUSION**

Islamic economics in Indonesia has shown significant and sustainable development, both in terms of institutions, implementation, and its contribution to social life. Through the application of sharia principles in various sectors, such as finance, the halal industry, and social finance, Islamic economics has been able to create a more just, inclusive, and welfare-oriented system. This development is supported by the active role of the government, increasing public awareness, and the use of digital technology, which has further expanded the reach of sharia economic services. Thus, Islamic economics is not merely an alternative but has become a vital component of the national economic system.

Furthermore, Islamic economics has made a significant contribution to improving social welfare and maintaining national economic stability. Through wealth distribution mechanisms such as zakat and waqf, as well as a real-sector and profit-sharing financial system, Islamic economics can reduce social disparities and strengthen economic resilience. Despite facing various challenges, such as low literacy and limited human resources, the prospects for Islamic economics in Indonesia remain very promising. Therefore, strong synergy between various parties is needed to continue developing and optimizing the role of Islamic economics as a key pillar in realizing equitable and sustainable economic development.

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