ABSTRACT

Sharia-compliant stock and sukuk are financial instruments in the islamic capital market that are based on the shari'a principles (Islamic law). Sharia-compliant stock and sukuk have different characteristics and can be useful for a country because they can increase the equitable prosperity. The shari'a principle is basically aimed to ensuring fairness in a transaction. Thus, it can protect the relevant parties from exploitation, fraud or injustice in transaction returns. This research aimed to analyze the relationship between the development of Islamic stock market, the development of sukuk market, and economic growth. In addition, this study also analyze whether trade openness influences the development of islamic stock market, the development of sukuk market, and economic growth.

This research was conducted using secondary data consisting of Islamic stock market capitalization, outstanding corporate sukuk, GDP growth, and import-export value for February 2008 to December 2017. The sample countries in this research were Indonesia and Malaysia. The analysis methods are Granger Causality test, Vector Auto-Regressive model (VAR) and Vector Error Correlation Model (VECM) using econometric analysis tool, Eviews9.

The results show that there is a bi-directional causality between the development of islamic stock market and the development of sukuk market in Indonesia and Malaysia. There is a bi-directional causality between the development of Islamic stock market and economic growth in Indonesia. There is a bi-directional causality between sukuk market development and economic growth in Indonesia. Unidirectional causality is found between economic growth and sukuk market development in Malaysia. And no causality (neutrality) is reported between the development of Islamic stock market and economic growth in Malaysia. While trade openness has a significant effect on the sukuk marke development as well as economic growth in Malaysia.

Keywords: Islamic Capital Markets, Economic Growth, trade openness, VECM