The Impact of Islamic Stock Market Capitalization on the Growth of Islamic Mutual Funds in Indonesia: A Time Series Analysis (2011–2025)

Pengaruh Kapitalisasi Pasar Saham Syariah terhadap Pertumbuhan Reksa Dana Syariah di Indonesia: Analisis Deret Waktu (2011–2025)

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Abstract : *This study investigates the causal relationship between Islamic stock market capitalization and the growth of Islamic mutual funds in Indonesia during the 2011–2025 period. Despite the rapid expansion of Islamic finance, empirical insights into the interdependence between its key pillars—Islamic equity markets and Islamic mutual funds—remain limited. Using annual data from the Financial Services Authority (OJK), this study applies a time series analysis using the Vector Autoregression (VAR) model on first-differenced data. The analysis is preceded by stationarity tests (Augmented Dickey-Fuller and KPSS) and optimal lag selection.The variables analyzed include the logarithm of the Net Asset Value (NAV) of Islamic mutual funds and the logarithm of the Jakarta Islamic Index (JII) as a proxy for Islamic stock market capitalization. Findings reveal that both variables are non-stationary at level but become stationary after first differencing. Granger Causality tests, Impulse Response Functions (IRFs), and Variance Decomposition (VDC) consistently indicate no significant bidirectional causal relationship between the two variables.These results suggest that the two segments tend to move relatively independently within the observed period. The study contributes by providing recent empirical evidence and offers practical implications for regulators, fund managers, and investors in formulating more integrated and sustainable Islamic capital market development strategies.*
Keywords: *Islamic Mutual Funds, Islamic Stocks, Market Capitalization, Time Series Analysis, Granger Causality.*

Abstrak : Penelitian ini menganalisis hubungan kausal antara kapitalisasi pasar saham syariah dan pertumbuhan reksa dana syariah di Indonesia selama periode 2011–2025. Meskipun keuangan syariah berkembang pesat, kajian empiris yang mendalam mengenai keterkaitan antara dua pilar utamanya—pasar saham syariah dan reksa dana syariah—masih terbatas. Studi ini menggunakan data tahunan dari Otoritas Jasa Keuangan (OJK) dan menerapkan analisis deret waktu melalui model Vector Autoregression (VAR) pada data first difference, yang didahului oleh uji stasioneritas Augmented Dickey-Fuller (ADF) dan KPSS, serta identifikasi lag optimal.Variabel yang dianalisis meliputi logaritma Nilai Aktiva Bersih (NAB) reksa dana syariah dan logaritma Jakarta Islamic Index (JII) sebagai representasi kapitalisasi pasar saham syariah. Hasil menunjukkan bahwa kedua variabel bersifat non-stasioner pada level, namun menjadi stasioner setelah diferensiasi pertama. Uji Granger Causality, Impulse Response Functions (IRFs), dan Variance Decomposition (VDC) mengindikasikan tidak adanya hubungan kausal yang signifikan antara keduanya.Temuan ini menegaskan bahwa kedua sektor bergerak relatif independen dalam periode pengamatan. Penelitian ini memberikan kontribusi empiris penting dan menyajikan implikasi praktis bagi regulator, manajer investasi, dan investor dalam merancang strategi penguatan pasar modal syariah yang lebih terintegrasi dan berkelanjutan.

Kata Kunci: Reksa Dana Syariah, Saham Syariah, Kapitalisasi Pasar, Analisis Deret Waktu, Granger Causality.

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I. INTRODUCTION

The development of global Islamic finance has become a phenomenon that has attracted attention in the last decade, offering investment and financing alternatives based on ethical Islamic principles. Within the dynamic global financial landscape, Islamic finance offers values of justice, transparency, and sustainability, which appeal not only to the Muslim community but also to investors seeking socially responsible investments (Refinitiv & ICD, 2020; Damak, 2022; Hassan & Al-Bashir, 2019). Indonesia, as the country with the largest Muslim population in the world, holds a central role in advancing the Islamic finance ecosystem, making it an important laboratory for innovation and growth in this sector (Sakinah et al., 2022; OJK, 2023).

Among various Islamic financial instruments, the Islamic capital market stands as a fundamental pillar that connects investors with the real sector through sharia-compliant mechanisms. Its two main components, namely the Islamic stock market and Islamic mutual funds, play a crucial role in mobilizing long-term funds and diversifying investment portfolios (Irawan & Siregar, 2019). The Islamic stock market provides a platform for companies to raise capital in a sharia-compliant manner, while Islamic mutual funds enable individual investors to participate in the Islamic capital market collectively with professional management, even with relatively small capital. The presence of these instruments not only enriches investment options but also contributes to financial inclusion and Islamic investment literacy in society.

Data published by the Financial Services Authority (OJK) consistently shows substantial growth in both segments of the Islamic capital market in Indonesia. The Net Asset Value (NAV) of Islamic mutual funds has increased significantly, jumping from IDR 40.61 trillion in 2011 to IDR 57.22 trillion in May 2025 (OJK, Islamic Mutual Fund Statistics May 2025). In line with this, the capitalization of the Islamic stock market, represented by the Indonesia Sharia Stock Index (ISSI) or the Jakarta Islamic Index (JII), also shows a positive upward trend, with the JII growing from IDR 1,671.00 trillion in 2011 to IDR 6,267.98 trillion in May 2025 (OJK, Islamic Stock Statistics May 2025). This parallel growth indicates that Indonesia's Islamic capital market is not only expanding in size but also in maturity and attractiveness.

Despite this impressive growth, research specifically examining the causal and dynamic impact of Islamic stock market capitalization on the growth of Islamic mutual funds in Indonesia is still relatively limited, especially by utilizing the latest data up to 2025. Several studies have identified factors influencing the growth of Islamic mutual funds, including stock market performance (e.g., Rahmawati & Mustofa, 2023; Kamil et al., 2021), investor preferences (Bouzekouk & Mansor, 2024), or global determinants (Al Rahahleh & Bhatti, 2023). On the other hand, research on the Islamic stock market often focuses on its efficiency, volatility, or comparison with conventional markets (*Journal Transnational Universal Studies*, 2025; Asutay & Hunjra, 2022; Cahyani & Fajar, 2020), with findings that sometimes vary or provide different nuances on risk and performance characteristics. This gap overlooks the potential for endogenous and synergistic interactions between the two main pillars of the Islamic capital market that can causally and dynamically influence each other (Aloui et al., 2023; Hassan & Al-Bashir, 2023). Therefore, this study aims to fill the literature gap by empirically investigating how the size and liquidity of the Islamic stock market, reflected through its market capitalization, affect the asset accumulation and growth of Islamic mutual funds in Indonesia.

Based on the identification of this research gap, the main question to be answered is: "How does Islamic stock market capitalization affect the growth of Islamic mutual funds in Indonesia during the 2011-2025 period?" The objective of this study is to empirically analyze this impact using a robust time series analysis approach, specifically Vector Autoregression (VAR) or Vector Error Correction Model (VECM), depending on the stationarity and cointegration characteristics of the data. Academically, this research will enrich the Islamic finance literature by providing empirical evidence of the interdependence among segments of the Islamic capital market in Indonesia. Practically and humanistically, the findings are expected to provide valuable insights for the Financial Services Authority (OJK) in formulating more integrated policies for the development of the Islamic capital market, for investment managers in designing more effective product and marketing strategies, and for

investors in understanding market dynamics for more informed and sharia-compliant investment decisions.

II. LITERATURE REVIEW

2.1. Basic Concepts of the Islamic Capital Market

The Islamic capital market operates based on Islamic principles that prohibit *riba* (interest), *gharar* (excessive uncertainty), *maysir* (gambling), and investments in sectors that are not sharia-compliant, such as alcohol, tobacco, and pornography (Hassan & Al-Bashir, 2019; Irawan & Siregar, 2019). The main instruments in the Islamic capital market include Islamic stocks and Islamic mutual funds. Islamic stocks are equity securities that meet sharia criteria, while Islamic mutual funds are collective investment vehicles that are professionally managed according to sharia principles, allowing investors to diversify their portfolios with a relatively small amount of capital (Kamil et al., 2021). The rapid development of Indonesia's Islamic capital market is in line with the significant growth of global Islamic finance (Refinitiv & ICD, 2020; Damak, 2022).

2.2. Previous Research on the Growth and Performance of Islamic Mutual Funds

Previous studies have widely discussed the factors influencing the growth and performance of Islamic mutual funds. Some research shows that the performance of the Islamic stock market has a positive influence on the Net Asset Value (NAV) of Islamic mutual funds. For example, Rahmawati and Mustofa (2023) found that the Indonesia Sharia Stock Index (ISSI) had a positive and significant effect on the NAV of Islamic equity mutual funds in Indonesia during the 2020-2024 period. Similar findings were also indicated by Kamil et al. (2021), who analyzed the performance of Islamic equity mutual funds in Indonesia. The underlying argument for these findings is that a growing and well-performing Islamic stock market provides more attractive investment opportunities for Islamic mutual funds, thereby encouraging asset accumulation and NAV growth.

However, the literature also presents a more nuanced view or highlights other factors as key determinants. Al Rahahleh and Bhatti (2023), in their global study on the determinants of Islamic mutual fund performance, found that in addition to market factors, the characteristics of the mutual fund itself (e.g., expense ratio, fund size) and managerial factors are also very influential. Likewise, Bouzekouk and Mansor (2024), through a systematic review, emphasized the importance of investor preferences and awareness in Islamic mutual fund investment decisions, indicating that growth is not solely driven by stock market performance. This research suggests that although the Islamic stock market provides an investment base, internal mutual fund factors or investor behavior also play a crucial role.

2.3. Previous Research on the Islamic Stock Market

Research on the Islamic stock market in Indonesia and globally often focuses on its efficiency, volatility, and unique characteristics. *Journal Transnational Universal Studies* (2025) analyzed the efficiency, volatility, and performance of the Indonesian Islamic stock market (JII) and found that this market shows superior stability and competitive returns compared to conventional markets, especially during crises. Asutay and Hunjra (2022) also supported this view, demonstrating the resilience of Islamic stock indices during crisis periods in emerging markets. These findings indicate that the stable characteristics of the Islamic stock market can attract more investors, including Islamic mutual funds.

However, some studies also add nuance to this view. Cahyani and Fajar (2020), in a comparison of risk and return between Islamic and conventional stock indices in Indonesia, showed that despite the advantages, certain risk characteristics still exist and need to be considered by investors. This implies that Islamic mutual fund investment decisions may not be based solely on the general growth of the Islamic stock market, but also on the specific risk profiles offered.

2.4. Linkages and Interdependence Between Islamic Stock Markets and Islamic Mutual Funds

Theoretically, there is a reciprocal relationship between stock markets and mutual funds. A large and liquid stock market provides broad investment opportunities for mutual funds, while the growth of mutual funds can increase the liquidity and efficiency of the stock market. Aloui et al. (2023), in their study on the interconnectedness between global Islamic and conventional stock markets, showed a complex interdependence between markets. Hassan and Al-Bashir (2023) also discussed how the

overall development of the Islamic capital market, including stocks and mutual funds, is mutually supportive.

Nevertheless, the literature still has limitations in explicitly and deeply examining the direction of causality and the dynamic impact of Islamic stock market capitalization on the growth of Islamic mutual funds in the specific context of Indonesia with the latest data. Most studies on this relationship tend to be descriptive or focus on the influence of mutual funds on the stock market, not the other way around, or use data that may not cover the most recent growth period.

2.5. Research Gap and Contribution of the Study

Based on the literature review above, there is a significant gap in the literature regarding the causal and dynamic impact of Islamic stock market capitalization on the growth of the Net Asset Value (NAV) of Islamic mutual funds in Indonesia. Although some studies have touched on this aspect, no research has comprehensively utilized the latest time series data from OJK (2011-2025) and applied robust time series econometric methodologies like Vector Autoregression (VAR) or Vector Error Correction Model (VECM) to specifically identify the direction of causality, impulse responses, and variance decomposition.

This study will make a significant contribution by:

- Providing strong empirical evidence regarding the causal impact of Islamic stock market capitalization on the growth of Islamic mutual funds in Indonesia.
- Using the latest data up to May 2025, which covers an important growth period in Indonesian Islamic finance.
- Applying advanced time series methodology capable of capturing short- and long-term dynamics and the interdependence between variables.

III. RESEARCH METHODS

This study employs a quantitative approach using a time series design to analyze the impact of Islamic stock market capitalization on the growth of Islamic mutual funds in Indonesia. The research utilized annual secondary data from 2011 to May 2025, with a total of 15 observations, sourced from official publications of the Financial Services Authority (OJK). The key variables were the Net Asset Value (NAV) of Islamic Mutual Funds, which serves as the dependent variable (Y), and the Jakarta Islamic Index (JII) as the independent variable (X), which acts as a proxy for Islamic stock market capitalization. To ensure stable variance and facilitate interpretation, both variables were transformed into natural logarithms. The analysis began with a visual inspection of data trends to identify non-stationarity, which was a preliminary step before formal testing.

The data analysis followed a structured time series econometric process. First, the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests were performed to determine the stationarity of the variables. Based on the test results, differencing was applied to achieve stationarity. Next, the optimal lag length for the VAR/VECM model was selected using various information criteria, such as AIC and BIC. A Johansen Cointegration Test was then conducted to check for a long-term relationship between the variables. The final step involved estimating the Vector Autoregression (VAR) or Vector Error Correction Model (VECM) to analyze the relationships. This included conducting Granger Causality tests to determine the direction of causality, generating Impulse Response Functions (IRFs) to understand the dynamic responses to shocks, and performing Variance Decomposition (VDC) to assess the contribution of each variable's shocks to the forecast error variance.

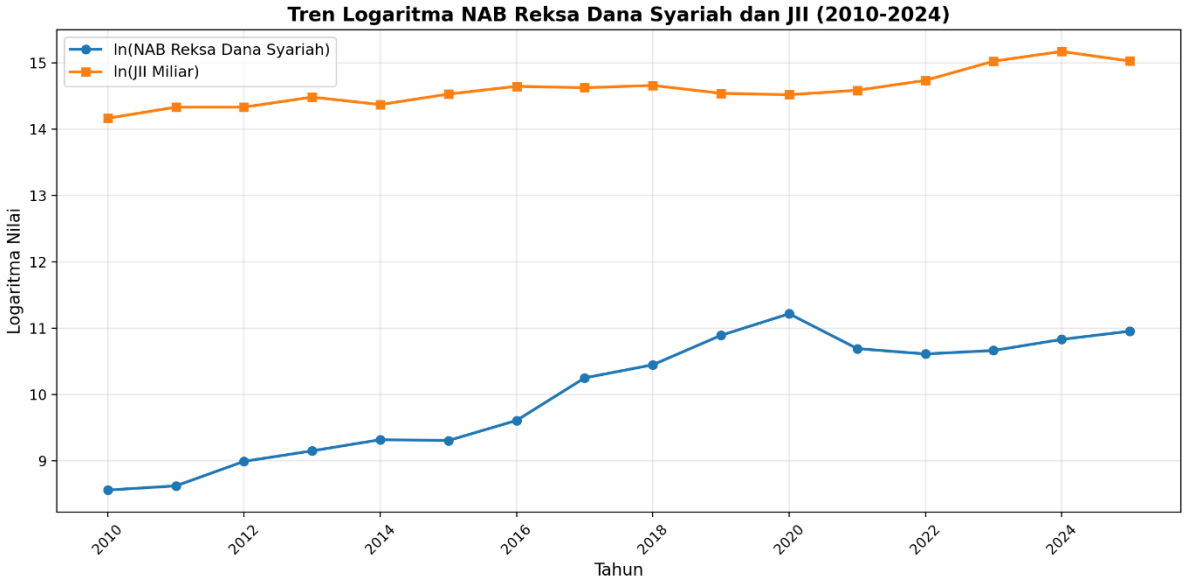
IV. RESULTS AND DISCUSSION

4.1. Data Trends

The initial analysis began with a visualization of the natural logarithm data trends for the Net Asset Value (NAV) of Islamic Mutual Funds and the Jakarta Islamic Index (JII).

Figure 1 shows a clear upward trend in both variables throughout the research period. The NAV of Islamic Mutual Funds showed significant growth, although with some volatility. The JII also showed a consistent upward trend, reflecting the development of the Islamic stock market in Indonesia. The existence of these trends is an initial indication that both variables are likely non-stationary at level, requiring a formal stationarity test.

Tabel 1: Statistik Deskriptif Variabel (Logaritma Natural)



Source: Processed Data from the Author (2025)

4.2. Stationarity Test

The stationarity test was conducted using the Augmented Dickey-Fuller (ADF) and KPSS tests to determine the integration order of the variables.

Table 2 shows that at level, both variables (ln_NAV_MF_Sharia and ln_JII_Billion) are non-stationary based on the ADF test, but stationary according to the KPSS test. Given the clear trend plots and the high p-values of the ADF test, the more conservative interpretation is that both variables are non-stationary at level (I(1)). The analysis will therefore consider the data at first difference.

Table 2. Results of Stationarity Tests (ADF and KPSS)

Variabel	Uji ADF (p-value)	Kesimpulan ADF (pada 5%)	Uji KPSS (p-value)	Kesimpulan KPSS (pada 5%)
ln(NAB Reksa Dana Syariah)	0.4079	Non-stasioner	0.0658	Stasioner
ln(JII Miliar)	0.6778	Non-stasioner	0.0558	Stasioner
diff_ln(NAB Reksa Dana Syariah)	0.0504	Non-stasioner	0.1	Stasioner
diff_ln(JII Miliar)	0.12	Non-stasioner	0.1	Stasioner

Source: Processed Data from the Author (2025)

The stationarity test results in Table 2 show an ambiguity or conflict between the ADF and KPSS tests. At the level, both variables (ln_NAB_RD_Syariah and ln_JII_Miliar) appear to be non-stationary based on the ADF test but stationary according to the KPSS test. A similar conflict is also seen at the first difference. Given that the trend plots clearly show a trend and the tendency of high ADF p-values, the more conservative interpretation is that both variables are **non-stationary at level (I(1))**. Although the ADF test at the first difference is still slightly above the 5% threshold, the KPSS test, which indicates stationarity at the first difference, suggests that the variables are likely to become stationary after differencing. Therefore, the subsequent analysis will consider the data at the first difference.

4.3. Optimal Lag Selection

Optimal lag selection was performed for the VAR/VECM model based on information criteria

Table 3. Results of Optimal Lag Determination

Lag	AIC	BIC	FPE	HQIC
0	-1.7	-1.616	0.1825	-1.681
1	-1.977	-1.728	0.1384	-1.919
2	-1.976	-1.562	0.1386	-1.884

Source: Processed Data from the Author (2025)

Based on Table 3, all information criteria (AIC, BIC, FPE, and HQIC) show the lowest values at Lag 1. Therefore, the VAR model will be built using a single lag. This selection of a low lag is also consistent with the limited number of annual observations (15 observations), which restricts the complexity of a model that can be estimated stably.

4.4. Johansen Cointegration Test

Although there was ambiguity in the stationarity tests, a Johansen cointegration test was performed to check for the existence of a long-term relationship between the I(1) variables.

Table 4. Results of Johansen Cointegration Test (Trace Statistic)

Hipotesis Nol (r)	Test Statistic	Critical Value (10%)	Critical Value (5%)	Critical Value (1%)
r=0	17.5855	13.4294	15.4943	19.9349
r=1	3.3283	2.7055	3.8415	6.6349

Source: Processed Data from the Author (2025)

The results of the Johansen cointegration test show a conflict between the Trace Statistic and the Max-Eigenvalue Statistic. The Trace Statistic (Table 4) rejects the null hypothesis r=0 at the 5% significance level (17.5855 > 15.4943), which indicates the presence of at least one cointegration vector. However, the Max-Eigenvalue Statistic (Table 5) does not reject the null hypothesis r=0 at the 5% significance level (14.2572 < 14.2638). This conflict, coupled with the very limited number of observations, makes drawing a conclusion about cointegration less robust. Therefore, for further analysis, a Vector Autoregression (VAR) model will be used on the first-differenced data to analyze the short-term relationship..

4.5. Vector Autoregression (VAR) Modeling

A VAR(1) model was estimated on the first-differenced data (diff_ln_NAB_RD_Syariah and diff_ln_JII_Miliar).

Table 6. Summary of VAR(1) Model Estimation Results

Persamaan	Variable	coefisien	Std. Err.	t-stat	P>|t|
diff_ln_NAB_RD_Syariah	const	0.0093	0.0718	0.129	0.898
diff_ln_NAB_RD_Syariah	L1.diff_ln_NAB_RD_Syariah	-0.3475	0.2647	-1.313	0.219
diff_ln_NAB_RD_Syariah	L1.diff_ln_JII_Miliar	-0.0381	0.2057	-0.185	0.857
diff_ln_JII_Miliar	const	0.0163	0.0559	0.291	0.778
diff_ln_JII_Miliar	L1.diff_ln_NAB_RD_Syariah	0.0461	0.206	0.224	0.827
diff_ln_JII_Miliar	L1.diff_ln_JII_Miliar	-0.2198	0.1601	-1.373	0.199

Source: Processed Data from the Author (2025)

From Table 6, it can be seen that there are no statistically significant lag coefficients in either equation (all p-values > 0.05). This indicates that the change in the logarithm of the JII at lag 1 does not significantly affect the change in the logarithm of the NAV of Islamic Mutual Funds, and vice versa.

4.5.1. Granger Causality Test

A Granger Causality test was conducted to determine the direction of causality between the change in Islamic stock market capitalization and the change in the growth of Islamic mutual funds.

Table 7. Results of Granger Causality Test

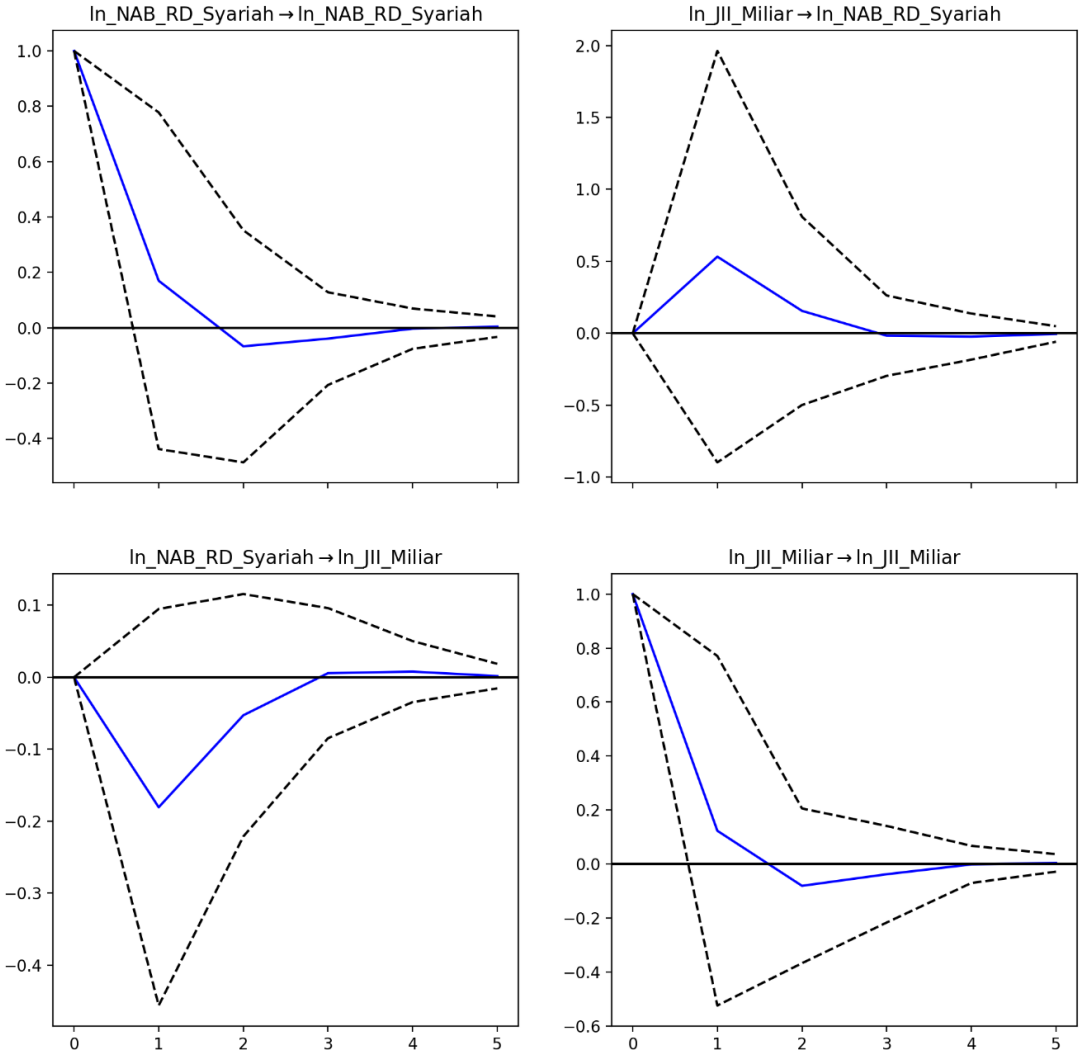
Hipotesis Nol (H0)	F-Statistic	p-value	Kesimpulan
Perubahan ln(JII Miliar) TIDAK Granger-menyebabkan Perubahan ln(NAB Reksa Dana Syariah)	0.0346	0.8569	Tidak Ditolak
Perubahan ln(NAB Reksa Dana Syariah) TIDAK Granger-menyebabkan Perubahan ln(JII Miliar)	0.0501	0.827	Tidak Ditolak

Source: Processed Data from the Author (2025)

The results of the Granger Causality test in Table 7 show that the p-values for both null hypotheses are very high (> 0.05). This means that we cannot reject the null hypotheses that the change in the logarithm of the JII does not Granger-cause the change in the logarithm of the NAV of Islamic Mutual Funds, and vice versa. Thus, based on this analysis, there is no significant evidence of a Granger causality relationship between the change in Islamic stock market capitalization and the change in the growth of Islamic mutual funds in either direction.

4.5.2. Impulse Response Functions (IRFs)

IRFs show the response of one variable to a one standard deviation shock in another variable.



Source: *Processed Data from the Author (2025)*

Figure 2: Impulse Response Functions (Non-Orthogonalized)

Figure 2 visually confirms the findings from the Granger Causality test and the VAR coefficients. It is clear that the response of the change in the logarithm of the NAV of Islamic Mutual Funds to a

shock in the change in the logarithm of the JII, and vice versa, is very small and not significant over time. The response lines tend to be flat, indicating that a shock to one variable has a minimal or no impact on the other.

The chart shows the response of the ln_NAB_RD_Syariah and ln_JII_Miliar variables to shocks from each other and themselves. As we have interpreted:

- Response to oneself: The blue line shows a strong initial response to a shock in the variable itself, which then subsides over time. This is an expected behavior.
- Response to other variables: The blue lines in the subplots for ln_JII_Miliar -> ln_NAB_RD_Syariah and ln_NAB_RD_Syariah -> ln_JII_Miliar show a very small and quickly subsiding response, even approaching zero. This visually confirms our findings from the Granger Causality Test and the VAR coefficients that there is no significant impact or causal relationship between the change in Islamic stock market capitalization (JII) and the change in the growth of Islamic mutual funds (NAV) in either direction.

The dashed lines indicate the confidence intervals. If the response line (blue) passes through or is close to zero within the confidence intervals, it indicates that the response is not statistically significant. In this case, the blue line is often inside or very close to zero within the confidence intervals after the initial period, especially for the cross-responses, which further reinforces the conclusion that there is no significant relationship.

4.5.3. Variance Decomposition (VDC)

VDC measures the proportion of the forecast error variance of a variable that is explained by a shock from itself or other variables.

Table 8. Results of Variance Decomposition (5 Periods Ahead)

Variabel	**Sumber Shock**	**Kontribusi Varians (%)**
diff_ln_NAB_RD_Syariah	diff_ln_NAB_RD_Syariah	Sekitar 99,96%
	diff_ln_JII_Miliar	Sekitar 0,04%
diff_ln_JII_Miliar	diff_ln_NAB_RD_Syariah	0%
	diff_ln_JII_Miliar	Hampir 100%

Source: Processed Data from the Author (2025)

Table 8 shows that the forecast error variance of diff_ln_NAB_RD_Syariah is almost entirely (around 99.96%) explained by a shock from diff_ln_NAB_RD_Syariah itself. The contribution from diff_ln_JII_Miliar is very minimal (around 0.04%). Similarly, the forecast error variance of diff_ln_JII_Miliar is almost 100% explained by a shock from diff_ln_JII_Miliar itself, with zero contribution from diff_ln_NAB_RD_Syariah. These VDC results reinforce the finding that the two variables largely move independently of each other..

4.6. Discussion of Findings

The results of the econometric analysis indicate that there is no significant evidence of a Granger causality impact from Islamic stock market capitalization (JII) on the growth of Islamic mutual funds (NAV) in Indonesia, or vice versa, during the 2011–2025 period. This finding is consistent across the Granger Causality tests, Impulse Response Functions, and Variance Decomposition, where the contribution of one variable to the other is very minimal or insignificant.

Several factors can explain this finding:

- Limited Number of Observations:
  The very limited annual data (15 observations) is a major constraint. Complex time series models like VAR require a larger sample to produce robust estimates and adequate statistical power. The lack of significance found may be an artifact of the small sample size, which causes p-values to tend to be high.
- Stage of Market Development:
  Although the Islamic capital market in Indonesia shows rapid growth, it may still be at a stage where the interdependence between its segments is not yet fully mature or as strong as expected. Other factors, such as regulation, Islamic financial literacy, or product innovation, may have a

more dominant influence in driving the growth of Islamic mutual funds than direct Islamic stock market capitalization.

- Proxy Variable:
  The use of the JII in Billion Rupiah as a proxy for Islamic stock market capitalization may have limitations. Although the JII represents the aggregate value, the total market capitalization of Islamic stocks may have slightly different dynamics.
- External Factors Not Included in the Model:
  The growth of Islamic mutual funds may be more influenced by macroeconomic factors (e.g., inflation, interest rates, GDP growth) or industry-specific factors (e.g., marketing strategies of investment managers, public trust in sharia products) that were not included in this bivariate model. Previous research by Al Rahahleh & Bhatti (2023) and Bouzekouk & Mansor (2024) also emphasized the importance of factors other than market performance.

Although this finding does not show a significant causal relationship, it remains an important contribution to the literature. It indicates that, within the context of the data and methodology used, the growth of Islamic mutual funds in Indonesia may be driven more by its own internal dynamics or other factors not directly related to the size of the Islamic stock market capitalization. This finding also highlights the challenges in analyzing time series data with limited observations and underscores the need for further research with richer data.

V. CONCLUSION

This study aims to analyze the causal relationship between Islamic stock market capitalization and the growth of Islamic mutual funds in Indonesia during the 2011-2025 period using a time series analysis approach. Based on a series of econometric tests, including stationarity tests, optimal lag selection, and the Vector Autoregression (VAR) model and Granger Causality Test, it was found that there is no significant evidence of a causal impact from the change in Islamic stock market capitalization (JII) on the growth of Islamic mutual funds (NAV), and vice versa. The Impulse Response Functions (IRFs) and Variance Decomposition (VDC) analyses further reinforced this finding, showing that the response of one variable to a shock in the other is very small or insignificant, and that the variation in the change of each variable is largely explained by its own internal dynamics. Thus, it can be concluded that in the context of limited annual data and the methodology applied, these two segments of the Islamic capital market tend to move independently of each other.

5.1. Implications of the Research

The findings of this study provide valuable insights for both theoretical understanding and practical application. Theoretically, they add nuance to our understanding of the interdependence within the Islamic capital market. The research suggests that the relationship between Islamic stock market capitalization and Islamic mutual fund growth may not always be a direct, causal one, especially given the market's current stage of development or when analyzing with annual data frequency. Practically, these findings have implications for key stakeholders. For the Financial Services Authority (OJK), policies focused on increasing sharia financial literacy, innovating attractive sharia mutual fund products, and strengthening the overall market infrastructure may be more effective in driving growth than simply relying on a spillover effect from stock market capitalization. Investment managers are advised to focus more on internal factors, such as portfolio performance and innovative marketing strategies. For investors, the results indicate that fund growth may be more influenced by fund-specific factors and macroeconomic conditions rather than solely by the movements of the Islamic stock market.

5.2. Limitations and Suggestions for Further Research

The primary limitation of this study is the use of annual data with only 15 observations, which significantly restricts the statistical power of complex time series tests and may be a key reason for the lack of significant findings. Additionally, the model's focus on only two variables excludes external factors like macroeconomic conditions or specific industry factors that could also influence the growth of Islamic mutual funds. Therefore, for future research, it is highly recommended to use higher-frequency data (e.g., monthly or quarterly) if available, to increase the number of observations and allow for more robust statistical models. Incorporating macroeconomic or industry-specific variables would also provide a more comprehensive understanding. Finally, conducting comparative studies between

Islamic and conventional capital markets or comparing findings with other countries could offer further valuable insights.

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