

# THE ROLE OF ISLAMIC ECONOMICS AND FINANCE IN THE ERA OF DIGITAL TRANSFORMATION, SUSTAINABLE GROWTH AND GEOPOLITICAL UNCERTAINTY

Perry Warjiyo\*

Governor, Bank Indonesia

## I. INTRODUCTION

Over the past years, despite challenges brought by digital transformation, the sustainability agenda, geopolitical uncertainty, and adverse shocks such as the global financial crisis and COVID-19 pandemic experienced by the global economy, Islamic economy and finance have witnessed rapid growth. Islamic economy and finance have flourished not only in Muslim-majority countries but also in advanced countries where Muslims are the minority. According to the State of the Global Islamic Economy Report 2024/2025 by the DinarStandard, the halal economy is projected to reach US\$3.36 trillion by 2028 from US\$2.43 trillion recorded in 2023. This is more than 90% over five years or over 18% annually. The increase is broad-based, covering all key halal economic sectors, namely, Halal Food, Islamic Finance, Modest Fashion, Muslim-Friendly Travel, Halal Pharmaceuticals, Halal Cosmetics, and Media & Recreation. Respectively, by 2028, they are expected to grow to US\$1.94 trillion, US\$7.3 trillion, US\$433 billion, US\$384 billion, US\$149 billion, US\$118 billion, and US\$337 billion.

I strongly believe that this remarkable progress that we have observed and expect to observe in the Islamic economy stems principally from the teachings of Islam, from the first word “أَفْرَأُ”, which literally means “read” or “recite”. As I studied Islam in my early years, I often asked myself and contemplated deeply: why “أَفْرَأُ”? I read books and articles on Islamic economics and finance, one of which is Prof. Mannan’s seminal book titled *Islamic Economics: Theory and Practice*. Through “Iqra’”, I came to realize that reading is the key source for progress and guidance. “Iqra’” is the gateway to deep understanding and wisdom. Reading or “أَفْرَأُ” drives our advances and progress in Islamic economy and finance. It is “أَفْرَأُ” that informs us how to unravel, answer, and address issues that we face so that we can move the Islamic economy forward and contribute to the well-being of society and *ummah*.

The Islamic economic system is founded on its values and a framework for addressing contemporary issues related to digital transformation, sustainable growth, and geopolitical uncertainty. The Islamic economic system will surely guide us in resolving future problems. The remainder of this note will dwell on and deliberate on these in more detail.

---

\* CONTACT Perry Warjiyo: perry\_w@bi.go.id; Bank Indonesia, M.H. Thamrin Street No. 2, Central Jakarta 10350, Indonesia

## II. VALUES IN ISLAMIC ECONOMICS AND FINANCE

Islamic economics and finance are fundamentally different from conventional economics and finance, in that the former is founded on Islamic values and teachings, while the latter is driven mainly by the attainment and optimization of one's objectives. From "أقرأ", I come to the conclusion that there are at least four elements that underline the value proposition of Islamic economics and finance: devotion, productivity, collaboration, and creativity. I see these four elements as the key drivers of Islamic economy and finance in the past and moving forward.

**Devotion:** Islamic economy and finance is not simply a system that coordinates the allocation of resources, production, consumption, financing, and other economic and financial transactions to answer the basic problems in economics: what to produce, how to produce, and for whom to produce. Deep-rooted within these economic and financial exchanges and transactions is a devotion to the Creator. It is a faith and submission in one's pursuit to be a servant (عَبْد) of Allah (سُبْحَانَهُ وَتَعَالَى) and a vicegerent (خليفة) on this earth that all economic and financial transactions and exchanges are bound by the teachings of Islam in all aspects.

There is no absolute ownership in the Islamic economy and finance. Men only act as trustees, entrusted in the utilization of all resources for the devotion to Him (سُبْحَانَهُ وَتَعَالَى) and for the prosperity of all. From these, there are at least three corollaries. First, as a form of devotion and a part of faith, all economic actors must have a clear intention (نِيَّة) that their economic activities are to seek the blessing of Allah (سُبْحَانَهُ وَتَعَالَى) and hence the economic activities must be scaffolded within Islamic teachings and Islamic laws. Second, "the trusteeship" in its form and substance means "inclusion", where economic benefits do not belong to only certain segments in society. Instead, prosperity must be shared and hardships must be shouldered together. This is indeed the essence of Islamic finance strongly emphasized by scholars, inclusivity in its totality where no one should be left behind. And third, "the trusteeship" and "devotion" mean maintaining balance on earth not only intra-generationally but also inter-generationally. Islamic economy and finance, which view economic actors as trustees and vicegerents, emphasize sustainability and sustainable growth. Not only must the well-being of the present generation be uplifted, but also that of the future generation must not be compromised or jeopardized.

**Productivity:** Islamic economy and Islamic finance are inseparable. They cannot be compartmentalized or decoupled into two separate systems. One basic feature often noted in the literature is the real connectivity of Islamic finance. That is, all financial transactions must be linked to the real sector. They should be productive.

We have observed, periodically, the decoupling of conventional finance from real activities to the extent that, instead of supporting the real sector, conventional finance harms it. Take the Asian financial crisis, the subprime crisis, and the European Sovereign Debt crisis as examples. Due to breakdowns in only a segment of conventional systems (respectively, forex, subprime mortgage, and debt markets), many countries plunged into economic hardships and recessions. Within the finance-growth nexus literature, it is well acknowledged that the financial sector, once it becomes too large, drags the economy down. It would stifle productivity.

The deleterious effects of finance on the economy are mitigated in Islamic finance and the Islamic economy because Islamic finance is closely coupled with the Islamic economy. The principle that Islamic financing must be linked to the real sector and to production means that Islamic finance is productive. Being an essence of Islamic finance, risk sharing means that all bear burdens and share prosperity, and hence the financial sector cannot be a separate sector that would only benefit at the expense of others. The social element eluded earlier under “devotion” means that no one can have all the benefits from economic and financial undertakings.

**Collaboration:** When I mention that Islamic economy and Islamic finance cannot be separated and that they must work and support each other, I hint at one key element underlying the Islamic economy and finance. This key element is collaboration (الجماعة). While each segment has its own roles to play, all must collaborate to achieve the same objectives, as emphasized in the notion that we are servants and vicegerents and we have no absolute ownership. We act like body parts, each supporting the other. All perform their respective responsibility not in isolation but in collaboration, such that benefits and harms are shared. Islam not only emphasizes collective welfare but also emphasizes collective responsibilities where all of us have to come together to advance the Islamic economy and finance.

**Innovation and Creativity:** Innovation and creativity are part of the Islamic economy and finance. In Islam, the main sources of guidance are al-Quran and al-Hadith or sayings of our beloved Muhammad (صَلَّى اللهُ عَلَيْهِ وَسَلَّمَ). With the guidance of these two main sources, Islam allows legal reasoning or “ijtihad” to address emerging and contemporary issues not directly captured in the Quran and Hadith. This requires innovation and creativity by scholars and experts. And this legal reasoning is even more important in this era of digital transformation marked by the development of financial technology, digital assets, and the like.

### III. MECHANISMS

We are blessed with robust and complete values underlying the Islamic economy and finance. The questions that we should raise here are: how should we leverage these values to develop our economy? What are the mechanisms needed? In my view, these depend crucially on how we develop a sustainable Islamic economy, how we develop sustainable Islamic finance, how we introduce digital transformation, and finally, how we do all of the above in collaboration.

**Development of Sustainable Islamic Economy:** The Islamic economy is sustainable by its nature, and the development and design of the sustainable Islamic economy centres on how we build the Halal economy supply or value chain. We realize that for the success of the Halal economy and, consequently, the Islamic economy in promoting inclusivity and welfare for the ummah, hard work, network, and community-based approaches are essential. Hence, in Indonesia in general and at Bank Indonesia in specific, we build the Halal economy around madrasah (مدرسة) or Islamic boarding schools. Students of the madrasah are hardworking. The Islamic schools are, by their nature, community-based. We have brought about 1000 Islamic schools to build a network to support the development of the Islamic economy.

I strongly believe that a madrasah is not merely a place for education. It is also a place for developing Islamic businesses. In bridging education and Islamic businesses, therefore, we have embarked on training in entrepreneurship. We have established gatherings of Islamic boarding schools' businesses in Indonesia. Through this network, we shape the Halal economy supply chain in support of the Islamic economy.

**Development of Sustainable Islamic Finance:** Recall my key point earlier that Islamic finance is inseparable from the Islamic economy. They are two parts of one integrated system that function towards sustainable growth and the welfare of the ummah. We must be cognizant of the fact that the Islamic economy is not driven solely by the single bottom line, i.e., profitability. The Islamic economy is not a shareholders' economy. Instead, it is the economy for both shareholders and all stakeholders, where their welfare must be uplifted under the spirit of inclusivity. Islamic finance upholds the following objectives, encapsulated by the principle of "maqasid al-sharia": safeguarding the source of truth (religion), knowledge (mind), life (soul), the source of life (wealth), and the life of humankind (descendants). Hence, Islamic finance must support Islamic business projects, taking note that Islamic business projects are not all commercial or commercially viable.

Accordingly, in my view, the key to the development of sustainable Islamic finance is blended finance. It is now more than ever that we realize the importance of both Islamic business finance and Islamic social finance. They must be integrated into a single system for the Islamic financial system to be a truly Islamic finance system. Both must work toward "blended" finance. To date, we have witnessed some successes of blended finance in Indonesia and other countries. However, more still needs to be done.

**Digital Transformation:** Digital technology is now part and parcel of life, and it is fast-growing in Indonesia. We have an Indonesian QR adopted throughout Indonesia, also known as QRIS (Quick Response Code Indonesian Standard). Online and mobile banking are here to stay and are used by more than 57 million people. We introduce QRIS and mobile banking for use by Mosques and madrasahs that form Islamic business networks and thereby support the Halal economy. We need "ijtihad" to optimize digital technology for economic and financial inclusion.

**Togetherness and Collaboration:** Needless to state, in putting all these together, we need togetherness and collaboration. No one and no institution can achieve them alone. We must be in jama'ah (الجماعة). Indeed, it is even more important than ever for us to be together, to collaborate, and to be in jama'ah (الجماعة) to survive and sustain in this VUCA world, highlighted presently by heightened geopolitical uncertainty.

#### IV. CONCLUSION

Islamic economy and finance play a significant role in the present era of digital transformation, sustainable growth, and geopolitical uncertainty. We all have the responsibility to work together in collaboration to develop the Islamic economy and Islamic finance. As such, we have to seek guidance from iqra' (أقرأ) to be creative and innovative with ijtihad in the introduction of digital transformation, to provide us pathways to sustainable growth, and to cope with geopolitical

uncertainty. Our objective in building the Islamic economy via the Halal economy supply chain and the Islamic finance via blended finance is to attain blessing from Allah (سُبْحَانَهُ وَتَعَالَى).

We are blessed with iqra' (أَقْرَأُ). We are proud of the progress that we have made so far in Indonesia. We are proud of the achievements of our Bank Indonesia journals, notably this journal (JIMF - *Journal of Islamic Monetary, Economics and Finance*). We are also proud to work with prominent scholars. Let us continue our collaboration, our conversation, and our iqra' (أَقْرَأُ) for us to get more blessings from Him (سُبْحَانَهُ وَتَعَالَى). Aameen YRA.

This page is intentionally left blank