


Differences Between Syariah Money Markets in Indonesia and Kuwait

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Article Info	ABSTRACT
<p>Keywords: Islamic Money Market Sharia Principles Islamic Financial Instruments Sharia Financial Regulations</p>	<p>This study compares the Islamic money markets in Indonesia and Kuwait, focusing on their characteristics, instruments, and regulations. The Islamic money market, operating without <i>riba</i> (interest), <i>gharar</i> (uncertainty), and <i>maisir</i> (speculation), is a vital short-term financial instrument in the global Islamic financial system. Indonesia, as the country with the largest Muslim population, demonstrates a strong commitment to developing its Islamic money market through various regulations and innovative products such as Sharia Bank Indonesia Certificates (SBIS) and State Sharia Securities (SBSN). On the other hand, Kuwait is a pioneer in Islamic finance in the Middle East, possessing a mature Islamic money market strictly regulated by the Central Bank of Kuwait (CBK). Although both are based on Sharia principles, their implementation varies between countries due to factors such as regulation, market infrastructure, adoption rates, and macroeconomic conditions. This research employs a descriptive qualitative literature review using secondary data. The findings indicate that Indonesia excels in instrument diversification and the development of Islamic money market infrastructure, supported by progressive regulations. However, challenges in Indonesia include low Islamic financial literacy and the need for broader instrument diversification. Meanwhile, Kuwait, despite its strong foundation, faces the challenge of high reliance on Commodity Murabahah as a primary instrument, necessitating more diverse product innovation. This comparison is expected to enrich Islamic finance literature and provide practical implications for the global development of Islamic money markets.</p>
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INTRODUCTION

The current global economic development demands a financial system that is not only efficient, but also inclusive, ethical, and able to meet the needs of society in a fair and sustainable manner. In this context, the Islamic financial system has emerged as an alternative that is increasingly attracting attention, both in Muslim and non-Muslim countries. One of the important instruments in the Islamic financial system is the Islamic money market, namely a short-term financial mechanism based on Islamic principles, such as the prohibition of *usury* (interest), *gharar* (uncertainty), and *maisir* (speculation), and prioritizing the values of justice, transparency and partnership.

The Islamic money market is an important instrument in the Islamic financial system that continues to grow rapidly in various parts of the world. Unlike conventional money markets that are based on interest, the Islamic money market operates based on Islamic sharia principles, such as fairness, transparency, profit sharing (*mudharabah*, *musyarakah*), and avoiding *riba* (interest), *gharar* (uncertainty), and *maisir* (gambling). The presence of this Islamic money market not only meets the need for sharia-compliant financial instruments, but also contributes to economic stability through product diversification and risk mitigation.

The development of the global Islamic money market shows a positive trend, driven by increasing awareness of Islamic finance and regulatory support from various countries. Indonesia, as the country with the largest Muslim population in the world, has shown a strong commitment to the development of Islamic economics and finance, including the Islamic money market. Various regulations and innovative products have been introduced to encourage the growth of this sector. On the other hand, Kuwait is one of the countries in the Middle East that has a long history and strong foundation in Islamic finance. As one of the pioneers of Islamic finance, Kuwait has developed a mature Islamic money market with unique characteristics influenced by its culture, regulations, and economic structure.

Although both are based on sharia principles, the implementation and characteristics of sharia money markets can vary between countries, influenced by regulatory factors, market infrastructure, adoption rates, and macroeconomic conditions. These differences are interesting to study further in order to understand best practices, challenges, and opportunities for developing sharia money markets globally. Therefore, this study aims to comprehensively analyze and compare the sharia money markets in Indonesia and Kuwait. Thus, it is hoped that this study can provide insight into the characteristics, instruments, and regulations applicable in each country, as well as identify significant differences that exist. The results of this study are expected to not only enrich the sharia finance literature, but also provide practical implications for policy makers, market players, and academics in developing and optimizing the role of sharia money markets in the future.

METHOD

The type of research used in this paper is by using a literature study obtained from several sources. This research is descriptive qualitative which means it describes a research subject. In research using this descriptive research type, it provides an overview of the problems studied related to the analysis of consumer behavior in Islamic financial and banking institutions, the data obtained in the field. The type of data source used in this study is secondary data. Secondary data is a type of data in research based on how to obtain it, which means that the source of research data obtained and collected by researchers indirectly but with other parties.

This study uses a descriptive qualitative approach with a literature study method (library research). This approach was chosen to explore and analyze various concepts, theories, and previous findings related to financial ratios and their application in the context of financial institutions. The data used in this study are sourced from secondary literature, such as financial books, national and international scientific journals and articles related to the material (Trimulato, 2017).

RESULTS AND DISCUSSION

Globalization as a historical determination that cannot be avoided for every nation or country, so whether we like it or not, whether we are ready or not, each of us must follow the flow of globalization with all our might and ability. For countries that are ready with economic, human and technological resources, of course they have a greater chance of facing such a competition (Ardiansyah et al., 2024). Globalization accompanied by very tight competition between countries, forces poor countries and developing countries to compete with developed countries. With various shortcomings and weaknesses and the chaos of social, economic and political life, poor countries and developing countries must face this global competition. The increasingly dynamic development of the global economy demands the presence of a financial system that is not only efficient, but also inclusive, ethical, and able to answer the needs of society fairly and sustainably. In this context, the Islamic financial system is an alternative that is increasingly in demand, both in Muslim and non-Muslim countries. One of the important instruments in the Islamic financial system is the Islamic money market, namely a short-term financial mechanism based on Islamic principles such as the prohibition of usury (interest), *gharar* (uncertainty), and *maisir* (speculation), and prioritizes the values of justice, transparency, and partnership. The Islamic money market is different from the conventional interest-based money market, because this market operates on the principle of profit sharing (*mudharabah*, *musyarakah*) and avoids elements of usury, *gharar*, and *maisir*. The presence of the Islamic money market not only meets the need for sharia-compliant financial instruments, but also contributes to economic stability through product diversification and mitigation risk.

In the process of absorption function Islamic money market investment has three stages as follows: first, ensuring the alignment of securitization with production activities or development of new asset projects this phase is called "deal execution" and is supported by the initial investor. Second, the creation of a second financial trading market designed with various approaches that are regulated and incentivized together with transactions between brokers, including repurchase facilities. Third, providing services to customers with to establish agent payment (Arief et al., 2023). In Indonesia, the Islamic money market is growing rapidly along with the strong commitment of the government and regulators in developing the Islamic economy. Various regulations and innovative products have been introduced, such as Bank Indonesia Islamic Certificates (SBIS), Government Islamic Securities (SBSN), and sharia-based repo transactions. Bank Indonesia also launched the 2025 Money Market Development Blueprint which emphasizes the importance of digitalization, strengthening infrastructure, and developing products and market players that are varied, liquid, efficient, and transparent. Market players in Indonesia consist of Islamic banks, Islamic financial institutions, and institutional investors who utilize the Islamic money market for short-term liquidity management. However, the challenges faced are the low level of Islamic financial literacy and the need for wider instrument diversification in order to optimally meet the needs of various parties.

Meanwhile, Kuwait as one of the leading Islamic financial centers in the Middle East also has a growing Islamic money market under the strict supervision of the Central Bank of Kuwait. Regulations in Kuwait ensure that all money market activities comply with Islamic

principles, with dominant instruments being Commodity *Murabahah*, sukuk, and *wakalah* and *mudharabah* contracts. Islamic banks and Islamic financial institutions in Kuwait utilize this money market for short-term liquidity management needs. However, the Islamic money market in Kuwait still faces challenges in the form of a fairly high dependence on Commodity *Murabahah* as the main instrument, so that diversification and innovation of more diverse instruments are needed to increase efficiency and market depth.

Difference main between the Islamic money markets in Indonesia and Kuwait lies in the diversity of instruments, regulatory support, and the level of market innovation. Indonesia is superior in terms of instrument diversification and development of Islamic money market infrastructure, supported by progressive regulations and government commitment to developing the national Islamic economy. On the other hand, Kuwait has a strong foundation as a regional Islamic financial center, but still needs to encourage innovation and product development so that its Islamic money market is deeper and more efficient. The implementation and characteristics of the Islamic money market in both countries are also greatly influenced by regulatory factors, market infrastructure, adoption rates, and macroeconomic conditions of each country. Therefore, the exchange of knowledge and innovation between the two countries is essential to strengthen the Islamic money market at the global level. The results of this study are expected to enrich the Islamic finance literature and provide practical implications for policy makers, market players, and academics in developing and optimizing the role of the Islamic money market in the future.

Understanding Money Markets

Financial markets perform an important economic function in channeling funds from those who have funds to those who need funds. The flow of funds can be transferred directly or indirectly through financial intermediary institutions. This institution appears in the financial system because it can suppress transactions, reduce transaction prices, and facilitate the flow of funds which ultimately increases economic growth. As one of the economic transactions, the money market is a market that provides short-term money loans through a financial institution that has funds to parties who need funds or capital (Sholahuddin, 2023). The money market is a group of markets where short-term credit instruments, which are generally of high quality, are traded. The term of the money market usually matures within one year or less than one year. In conventional practice, the money market that is transacted is the right to use money for a certain period of time. In this market, there are transactions of borrowing and lending funds, which then give rise to debts. The goods transacted are pieces of paper in the form of debt securities or promises to pay a certain amount of money at a certain time (Ummah, 2019). Sales and purchases can be made at all banks, financial institutions and companies.

The money market is a meeting in an abstract market to obtain demand and supply of funds (money supply-demand) for the short term. In the money market, foreign exchange (forex) is needed to pay for export, import and foreign currency activities. Money market players are usually banks, pension funds, insurance companies, government agencies, large companies, financial institutions, leasing, pawnshops, foundations, or individuals. These funds are needed to meet working capital needs, short-term finance, liquidity, clearing. For

investors to gain interest rates, capital gains, returns, profits, and even speculation (Fatihudin, 2017).

Islamic Money Market

The Islamic money market is a market where short-term debt instruments such as securities and certificates of deposit are traded. This market does not deal with any trading elements that are contrary to the principles of Islamic law. The Islamic money market plays an important role in the financial market. The Islamic money market is a market that is free from all elements of usury, gambling and uncertainty. A market where short-term instruments are sold and bought without contradicting the principles of Islamic law commercial transactions. It plays an important role in providing funds for short-term projects or investments. In this regard, many developments have taken place in Muslim and non-Muslim countries.

There are several basic principles that cannot be left behind in designing the construction of the Islamic money market, such as transactions not on objects that are forbidden, not containing elements of usury, *gharar* and *maysir*. The money market in the Islamic perspective is only permitted in money markets that do not use an interest system and can be replaced with alternative contracts such as *mudharabah*, *musyarakah*, *al-qard*, *wadiah*, and *al-sharf* and eliminates elements of *gharar* and *maysir* contained therein (Mughtar & Najma, 2019).

The Islamic money market is an integral part of the Islamic financial system that aims to facilitate short-term liquidity needs between financial institutions, both banks and non-banks, in accordance with sharia principles. Its basic concept is based on the prohibition of *riba* (interest), *gharar* (uncertainty), *maysir* (gambling), and the encouragement to invest in real assets and halal economic activities (Usmani, 2002).

Characteristics of Islamic Money Market

The Islamic money market has several characteristics that distinguish it from conventional money markets:

- a. First, the Islamic money market is based on the principles of justice and equality between the parties involved in the transaction.
- b. Second, financial products offered in the sharia money market must meet certain requirements, such as not containing elements of usury, speculation and *gharar* (uncertainty).
- c. Third, the Islamic money market also prioritizes transparency and accountability in every transaction carried out (Rina Istiqomawati, 2023).

Functions of the Islamic Money Market

The Islamic money market also has the same function as the conventional money market, but in its operation the Islamic financial market is run based on sharia. The increase in the number of money market instruments in the Islamic money market increases the exposure of Islamic banks to various risks such as liquidity and credit risk. The Islamic money market is an integral part of the function of the Islamic banking system, first, in providing Islamic financial institutions with funding facilities and adjusting portfolios in the short term.

The following are some of the functions of the money market, namely:

- a. Control Function, Indirectly, the money market has a function as a monetary controller that exists because of the monetary authorities when they carry out open market operations.
- b. Intermediary or Mediator Function, Its function is so that financial or non-financial institutions and also the public can easily make transactions for selling or buying securities according to their needs with a short period of time. In addition, the money market can also be an intermediary for foreign investors to provide short-term credit to companies in Indonesia. Not only that, the money market can also act as a promoter for investors to be able to offer credit to companies and financial institutions in Indonesia.
- c. Liquidity Function, the liquidity function is the main function of the money market. This function has the ability for companies to fulfill their obligations to pay debts, especially those that are approaching or have passed their due dates. Financial instruments such as stocks, bonds, or other instruments can be easily liquidated through the money market. The goal is for companies to be able to obtain funds easily either through the sale of securities or short-term credit through the money market.

In addition to the above functions, there are several other functions, namely:

- a. As an intermediary in the sale and purchase of various short-term securities.
- b. As a reservoir of funds from short-term securities.
- c. As a source of funds or financing for investment companies.
- d. As an intermediary for foreign investors in terms of distributing short-term credit to domestic companies (Suzana et al., 2024).

Islamic Money Market Instruments

The types of money market instruments offered in the money market with a sharia system in Indonesia include:

- a. Bank Indonesia Sharia Certificate (Sertifikat Bank Indonesia Syariah/SBIS): Bank Indonesia Sharia Certificate (Sertifikat Bank Indonesia Syariah/SBIS) is a short-term sharia-based security in rupiah currency issued by Bank Indonesia.
- b. Repurchase Agreement (Repo): Repurchase Agreement (Repo) transactions are loan transactions provided by Bank Indonesia to BUS or UUS with SBIS collateral (collateralized borrowing).
- c. State Sharia Securities (Surat Berharga Syariah Negara/SBSN): State Sharia Securities (Surat Berharga Syariah Negara/SBSN) are state securities issued based on sharia principles, as evidence of a portion of participation in SBSN assets in rupiah currency.
- d. Repurchase Agreement (Repo) SBSN: Repo SBSN is a transaction for the sale of SBSN by a bank to Bank Indonesia with a promise to repurchase it according to the agreed price and time period within the framework of Sharia Standing Facilities (Insani et al., 2023).

Development of Islamic Money Market in Indonesia

The development of the money market in Indonesia is inseparable from the rearrangement of banking regulations in the 80s. The rearrangement succeeded in reviving the banking sector and encouraging the emergence of non-bank financial institutions such as

mutual funds, finance companies and capital markets. In the period from 1991 to 2003, there were several instruments that experienced an increase and vice versa (Khomsah & Hasna, 2022).

In line with the development of the money market in Indonesia, Bank Indonesia has launched the 2025 money market development Blueprint on December 14, 2020. The launch is a form of Bank Indonesia's efforts as a regulator to maintain the stability of the rupiah and at the same time a new spirit to develop a more modern money market in the digital era. The five new visions contained in the 2025 BPPU are:

- a. building a modern and advanced money market to support financing of the national economy and the effectiveness of monetary policy transmission and financial stability.
- b. developing products, pricing and market players that are varied, liquid, efficient, transparent and integrated.
- c. strengthening reliable, efficient, secure and integrated money market infrastructure.
- d. developing granular, real-time, and secure data and digitalization.
- e. realizing a regulatory framework that is agile, industry-friendly, innovative, and meets international standards.

In addition, one of the money market policies under Bank Indonesia is the provision of money markets based on sharia principles (ICDX Group, 2024).

Development of Money Market in Kuwait

Kuwait is one of the leading Islamic financial centers in the Middle East, with a long history in Islamic banking. The development of the Islamic money market in the country is closely monitored and regulated by the Central Bank of Kuwait (CBK). The following are the characteristics of the money market in the State of Kuwait:

- a. Regulation: The Islamic money market in Kuwait is governed by the Islamic banking and finance laws in force in the country, as well as guidelines and directives issued by the Central Bank of Kuwait. These regulations ensure that all money market activities comply with the principles of Shariah. Sources of information regarding these regulations can be found in official publications and reports of the Central Bank of Kuwait (CBK).
- b. Dominant Instrument: In managing liquidity and transactions in the Kuwaiti Islamic money market, the use of Commodity *Murabahah* is a common and dominant instrument. In addition, other Islamic financial instruments such as Sukuk (certificates of ownership of sharia-compliant assets) and instruments based on Wakala (agency) or Mudarabah (profit sharing) contracts are also used. As a comparison, in other countries such as Malaysia, Islamic interbank money market instruments also include the Government Investment Issue (GII) and Bank Negara Monetary Note-i (BNMN-i) which are based on commodity *murabahah* contracts. (ICDX Group, 2024)
- c. Market Players: The main players in Kuwait's Islamic money market are Islamic banks and other Islamic financial institutions operating in the country. They use this money market for short-term liquidity management and fund placement needs.
- d. Challenge: Despite its development, the Islamic money market in Kuwait faces several challenges. One of them is the relatively high dependence on Commodity *Murabahah*

as the main liquidity instrument. This indicates the need for diversification and development of more diverse and innovative instruments to increase the depth and efficiency of the Islamic money market in Kuwait.

This development demonstrates Kuwait's commitment to building a strong Islamic financial system, although there is still room for growth and innovation of broader instruments (REPUBLIC, 2014).

CONCLUSION

The Islamic money market is instrument crucial in system growing Islamic finance rapid globally, operating based on sharia principles such as justice, transparency, for results, and avoid usury, *gharar*, and *maisir*. The existence of the Islamic money market does not only fulfil need instrument finance in accordance with sharia but also contributes to stability economy through diversification products and mitigation risk. Indonesia has show commitment strong in developing the sharia money market, supported by regulations and products innovative like Bank Indonesia Sharia Certificates (SBIS) and State Sharia Securities (SBSN). Bank Indonesia also launched Blueprint Money Market Development 2025 for creating a modern, advanced, liquid, efficient, transparent and integrated money market, with emphasis on digitalization and strengthening infrastructure. Although Thus, Indonesia still face challenge in matter literacy low Islamic finance and needs will diversification more instruments wide. On the other hand, Kuwait, as one of the center leading Islamic finance in the Middle East, also has a mature and regulated Islamic money market strictly by the Central Bank of Kuwait, ensuring compliance to sharia principles. Instruments dominant in Kuwait is Commodity *Murabahah*, besides use of Sukuk, *Wakalah*, and *Mudharabah*. However, the Islamic money market in Kuwait is facing challenge in the form of high dependence on Commodity *Murabahah* as instrument liquidity main, shows the need diversification and innovation instrument For increase efficiency and market depth. Difference main between the Islamic money markets in Indonesia and Kuwait lies in the diversity instruments, support regulation, and level market innovation. Indonesia is more superior in diversification instruments and development infrastructure, supported by progressive regulations, while Kuwait, although own foundation strong, necessary more push innovation products. The implementation and characteristics of the Islamic money market in both countries are greatly influenced by factors regulation, market infrastructure, level adoption, and conditions economy macro. Therefore that, exchange knowledge and innovation between Indonesia and Kuwait is very necessary For strengthen the role of Islamic money markets at the global level. Research This expected can enrich literature Islamic finance and provide implications practical for maker policy, market players, and academics in develop and optimize the sharia money market in the future.

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