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# Indonesia's Middle Class

The Untapped Islamic Investment Opportunity

Understanding a Sector  
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## Abstract

Indonesia's 'middle class' represents one of the most compelling yet structurally underserved investment markets globally.

Over the past five decades, the country has demonstrated sustained economic growth averaging approximately 5% annually, driving the rapid expansion of a middle class that now exceeds 160 million individuals when including both economically secure and aspiring segments.

This demographic transformation has fundamentally altered household financial behavior, shifting Indonesia from a consumption-led economy toward one characterized by rising surplus income and increasing demand for investment products.

Despite this structural shift, investment participation remains low, with fewer than 10% of the population actively engaged in capital markets. At the same time, the financial system remains heavily bank-dominated, with a significant proportion of household wealth concentrated in deposits and low-yield instruments. Capital market depth remains limited, with mutual funds, equities, and pension assets representing a small share of GDP relative to global benchmarks. Within Islamic finance, the gap is even more pronounced, as Shariah-compliant assets account for only a minor proportion of the overall financial system despite Indonesia having the world's largest Muslim population.

This paper argues that the core constraint is not demand, but structural friction within the investment ecosystem. In particular, the complexity, fragmentation, and manual nature of Shariah certification frameworks spanning standards such as AAOIFI, DSN-MUI, MSCI Islamic, and FTSE Yasaar create significant barriers to product development, scalability, and market access. These constraints limit the ability of financial institutions to efficiently deliver diversified, compliant investment solutions at scale.

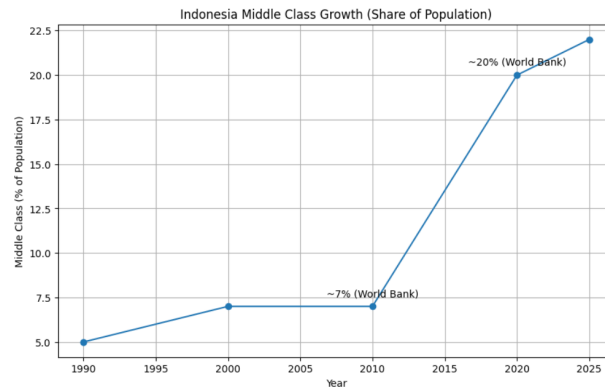
The result is a quantifiable and persistent gap between a rapidly expanding pool of investable capital and a limited supply of accessible investment products. This paper identifies this imbalance as a structural inefficiency rather than a function of market immaturity. It further proposes that addressing this gap requires a fundamental shift toward technology-enabled, real-time compliance infrastructure capable of supporting portfolio-level monitoring and scalable product delivery.

By enabling continuous Shariah compliance, expanding access to global asset classes, and reducing operational friction, such platforms have the potential to unlock significant latent demand and transform Indonesia's investment landscape. Institutions that successfully address these structural constraints are uniquely positioned to capture a large and growing opportunity within one of the world's most underpenetrated Islamic investment markets.

## 1. The Rise of Indonesia’s Middle Class

Indonesia has demonstrated one of the most consistent long-term growth profiles among emerging markets. World Bank data shows that the economy has expanded at an average rate of approximately 5.1% annually over the past five decades (1961–2024). While experiencing periodic shocks, including the Asian Financial Crisis in 1998, Indonesia has maintained a stable long-term growth trajectory, positioning it as a resilient, compounding economy with strong fundamentals for sustained middle-class expansion and investment demand.

Indonesia’s economic transformation has been underpinned by the rapid expansion of its middle class. Over 52 million Indonesians are now classified as economically secure, with a further 115 million forming an ‘aspiring middle class’. Together, this represents more than 160 million individuals transitioning into higher income brackets. Indonesia’s middle class has expanded rapidly over the past two decades, growing from approximately 7% of the population in 2010 to around 20% today, according to World Bank data. More significantly, an additional 45% of the population now sits within the “aspiring middle class,” representing over 115 million individuals transitioning into higher income brackets.



Indonesia’s macroeconomic trajectory remains strong and stable. According to the World Bank (2025), the economy grew approximately 5.0% in 2025 and is expected to sustain growth at similar levels through 2026 and 2027, supported by investment and export activity. Over the medium term, GDP growth is projected to average 4.8%, with potential to reach 5.5% annually under continued structural reform. This sustained growth profile provides a strong foundation for middle class expansion, rising household income, and increasing demand for investment products.

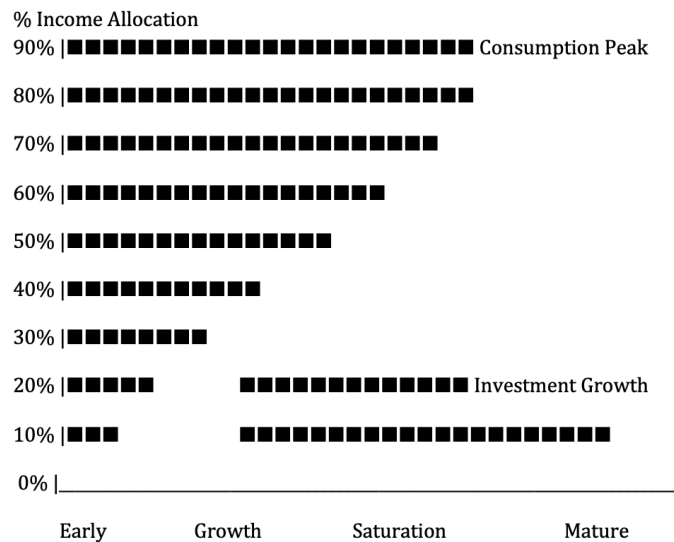
## 2. Transition from Consumption to Investment

Indonesia’s middle class has historically been a consumption-led economic force, driving national growth through rapid increases in household spending. According to the World Bank, middle-class consumption has grown at approximately 12% annually since 2002 and now accounts for close to half of total household consumption. This reflects a period in which rising incomes were primarily directed toward the acquisition of goods and services that improve living standards.

A significant portion of this consumption growth has been concentrated in durable household goods and lifestyle assets, often referred to as “white goods,” including refrigerators, washing machines, air conditioning units, and vehicles. As highlighted by Boston Consulting Group, Indonesia’s expanding middle class has spent the past decade making first-time purchases of major consumer durables, marking a critical phase of economic transition. This phase is characteristic of emerging economies, where rising income is initially deployed toward asset accumulation and improvements in household quality of life.

However, as ownership of these essential goods becomes widespread, the marginal utility of additional consumption declines. In practical terms, this means that many middle-class households have now reached a point of consumption saturation, where the majority of essential and aspirational durable goods have already been acquired. Supporting this shift, recent analysis shows that middle and upper-income households increasingly allocate spending toward non-food categories such as education, healthcare, and services, rather than incremental purchases of physical goods. This transition signals a maturing consumption profile.

At this stage, household financial behavior begins to change fundamentally. With major one-off expenditures largely completed and income levels continuing to rise, households start to generate consistent surplus income. This marks a transition from consumption-driven behavior to cash-flow availability, where the central financial question shifts from “what to buy” to “how to allocate excess capital.” This behavioral evolution is consistent with broader economic patterns, where increased disposable income leads to greater demand for financial assets and investment products.



Conceptual model of the transition from consumption-led behavior to investment-driven allocation among Indonesia’s middle class (author’s analysis based on World Bank, 2020; BPS, 2024; Carnegie Endowment, 2025).

Importantly, this shift is occurring at scale in Indonesia. The middle class and those approaching it represent approximately 66% of the population and over 80% of total household consumption, indicating that a large share of the population is now either in, or entering, a phase of financial surplus. Yet despite this, investment participation remains low, and a significant proportion of wealth continues to be held in deposits or low-yield instruments rather than diversified investment portfolios.

### 3. Rising Investment Demand

Indonesia’s investment market is experiencing rapid expansion, with the number of capital market investors increasing more than fivefold from approximately 3.9 million in 2020 to over 20 million investors by 2025. Mutual fund participation has grown even more dramatically, expanding more than twentyfold since 2017.

Metric	Data Point	Time Period	Growth / Insight	Source
Total Cap Market Investors	~3.9M → 20M+	2020–2025	~5x growth	KSEI; The Diplomat (2026)
Total Investors	~1M → 14.6M	2017–2024	~14x growth	Katadata (2025)
Mutual Fund Investors	~622K → 14.6M	2017–2024	~24x growth	Katadata (2025)
P.A Investor Nos	12.1M → ~17M	2023–2025	~40% growth	Invest Indonesia (2025)
Participation Rate	~20M / 270M	2025	<10% penetration	Derived
Retail Ownership	~18%	2025	Institutional	Retail Investor IDN(2025)
Financial Literacy	29.7% → 65.4%	2016–2024	Doubled	The Diplomat (2026)
Demographics	54% under 30	2025	Young investors	Market Reports

**Source:** Indonesia Central Securities Depository (KSEI, 2025); Indonesia Stock Exchange (IDX, 2026); CEIC Data (2025); ASEAN Exchanges (2025).

The data shows a clear pattern; investment demand is accelerating rapidly, but penetration remains structurally low, confirming that Indonesia is not an early-stage market it is an underpenetrated market at scale

Despite this acceleration, overall participation remains below 10% of the population, highlighting a significant gap between rising middle-class investment demand and actual market penetration.

Indonesia’s financial system is overwhelmingly bank-dominated, meaning wealth is concentrated in deposits rather than investment products.

Wealth is stuck in deposits

- Financial system deposits ≈ 41% of GDP
- Bank assets ≈ 43% of GDP
- Banks hold ~75–78% of total financial system assets

Investment products are extremely shallow

- Mutual fund assets ≈ 3.7% of GDP
- Pension funds ≈ 6.4% of GDP (vs 80%+ in developed markets)
- Portfolio equity assets ≈ 0.8% of GDP

Capital markets are structurally underdeveloped

- Corporate bond market  $\approx$  2.5% of GDP
- Private sector credit  $\approx$  31% of GDP (vs  $\sim$ 120% in peers)

Islamic finance is still small (relative to demand)

- Islamic banking growing fast ( $\sim$ 11% YoY) but still small
- Islamic banks  $\approx$   $\sim$ 2% of total financial system assets

#### 4. The Underservice Problem

Despite clear and accelerating demand for investment products, Indonesia's financial institutions have not evolved at the same pace as the underlying economy or its emerging middle class. The banking sector remains predominantly oriented toward traditional financial intermediation, with a strong emphasis on deposit gathering and credit extension. While these functions are critical to economic development, they do not adequately address the growing need for capital allocation among households that are transitioning into surplus income positions. As a result, a significant portion of middle-class wealth remains concentrated in low-yield savings accounts and term deposits, limiting long-term wealth creation and portfolio diversification (World Bank, 2020; IMF, 2023).

This structural imbalance is further compounded by the limited maturity of Indonesia's investment product ecosystem. Compared to more developed markets, the availability of accessible, diversified, and professionally managed investment vehicles remains constrained. Retail investors face a narrow range of options, often concentrated in a small number of domestic equities or basic mutual funds, with limited access to exchange-traded funds (ETFs), thematic strategies, or globally diversified portfolios (OECD, 2022; World Bank, 2020). Distribution channels are also fragmented, with inconsistent access across regions and platforms, further restricting participation at scale.

The gap becomes even more pronounced within the context of Shariah-compliant finance. Despite Indonesia having the world's largest Muslim population and a strong cultural preference for ethical and Shariah-aligned investments, the supply of compliant investment products remains disproportionately low. Shariah-compliant equity funds are limited in number, ETF offerings are underdeveloped, and access to international Shariah-compliant assets is both operationally complex and commercially restricted (Islamic Financial Services Board, 2023; Refinitiv, 2023). This results in a market where demand for compliant investment solutions significantly exceeds available supply.

## 5. Structural Constraints

The persistent underservice of Shariah-compliant investment markets in Indonesia is not driven by weak demand or low awareness, but by structural and operational constraints within the financial system. Despite a rapidly expanding middle class and rising financial literacy, institutions remain limited in their ability to efficiently design, certify, and scale compliant investment products. As a result, a large portion of capital remains underutilized or concentrated in low-yield instruments such as deposits and basic savings products (World Bank, 2020; OJK, 2024).



At the core of this issue is the complexity and fragmentation of Shariah certification. Frameworks differ across AAOIFI, DSN-MUI, MSCI Islamic, and FTSE Yasaar, each applying distinct screening methodologies, thresholds, and interpretations of non-permissible income. This requires ongoing

monitoring, manual screening, and periodic validation, creating operational burden and delaying product development (AAOIFI, 2022; MSCI, 2023; FTSE Russell, 2023).

This fragmentation introduces significant friction across the product lifecycle. Fund managers must navigate multiple standards and maintain continuous compliance, increasing cost, complexity, and time-to-market. Consequently, many institutions lack the capability or incentive to scale Shariah-compliant products, resulting in a limited pipeline of funds, ETFs, and globally diversified offerings.

The absence of integrated, technology-enabled compliance infrastructure further constrains the market. Current processes are largely static and manual, rather than real-time and automated. This limits the ability to dynamically construct and manage compliant portfolios, while restricting innovation in areas such as index design, passive strategies, and ETF development (IFSB, 2023; World Bank, 2020).

The result is a clear structural gap between demand and supply. A large, growing base of middle-class investors with surplus capital and a preference for Shariah-compliant solutions is met by an underdeveloped ecosystem lacking scalability and product breadth (World Bank, 2020; OJK, 2024).

This gap reflects systemic limitations, not market immaturity. Addressing it requires a shift from fragmented, manual compliance processes to integrated, real-time, and scalable infrastructure. Institutions that can embed technology-driven compliance and enable efficient product development are well positioned to unlock a significant and largely untapped pool of capital in Indonesia.

## 6. Market Opportunity

Indonesia represents one of the most compelling structural investment opportunities globally, driven by the convergence of three powerful forces: a large Muslim population, sustained macroeconomic growth, and the rapid expansion of a middle class with increasing financial capacity. As the world’s largest Muslim-majority country, Indonesia has over 230 million Muslims, representing a significant base of investors with a natural preference for Shariah-compliant financial products (World Bank, 2020; Pew Research Center, 2021). At the same time, the economy has demonstrated consistent long-term growth of approximately 5% annually over the past several decades, providing a stable foundation for wealth creation and capital accumulation (World Bank, 2025).

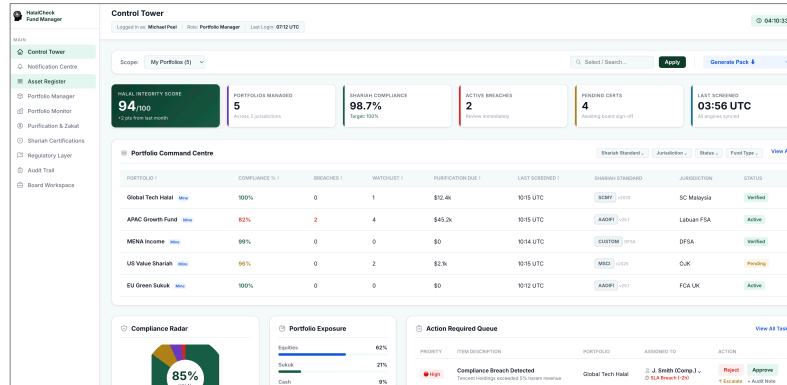
This macroeconomic stability has translated into a structural shift in household financial behavior. Indonesia’s middle class has expanded significantly, now accounting for approximately 20% of the population, with a further 45% classified as “aspiring middle class,” representing over 100 million individuals transitioning into higher income brackets (World Bank, 2020). As consumption patterns mature and households move beyond basic asset accumulation, a growing proportion of income is becoming available for savings and investment. This creates a large and expanding pool of capital actively seeking deployment into financial markets.

However, the financial system has not yet evolved to meet this demand at scale. Investment participation remains relatively low, with fewer than 10% of Indonesians actively participating in capital markets, despite rapid recent growth in investor numbers (KSEI, 2025). Product availability is constrained, particularly within the Shariah-compliant segment, where there are limited equity funds, underdeveloped ETF offerings, and fragmented access to global investment opportunities (IFSB, 2023; Refinitiv, 2023). This results in a structural imbalance in which demand for investment products—especially compliant ones—significantly exceeds supply.

The underlying cause of this imbalance is not market immaturity, but structural friction embedded within the investment ecosystem. As previously outlined, Shariah certification processes are complex, fragmented, and operationally intensive, requiring manual screening, periodic validation, and adherence to multiple standards such as AAOIFI, DSN-MUI, MSCI Islamic, and FTSE Yasaar. These constraints increase time-to-market, limit product scalability, and restrict the ability of financial institutions to innovate and expand their offerings efficiently (AAOIFI, 2022; MSCI, 2023; FTSE Russell, 2023).

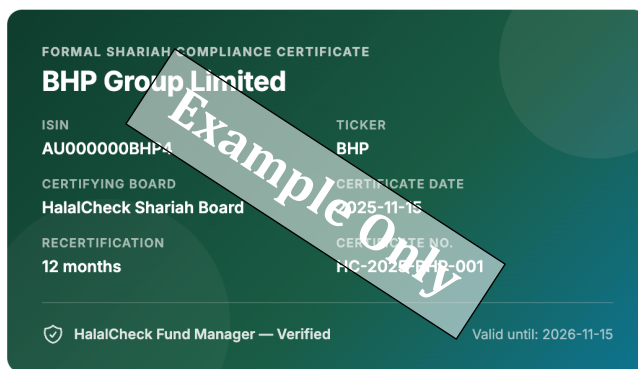
This combination of high demand, constrained supply, and structural friction creates a rare and highly attractive market condition. In effect, Indonesia’s investment market—particularly in the Shariah-compliant segment—is not saturated, but underdeveloped relative to its demographic and economic potential. The gap between available capital and accessible investment products represents a significant untapped opportunity for institutions capable of addressing these structural constraints.

The solution lies in fundamentally rethinking how investment products are designed, certified, and delivered. Specifically, there is a clear need for platforms that enable broader asset access, including equities, funds, ETFs, and global investment products, while simultaneously embedding real-time, portfolio-level Shariah compliance monitoring. By replacing static, manual certification processes with dynamic, technology-driven infrastructure, such platforms can reduce operational friction, accelerate product development, and enable scalable distribution of compliant investment solutions.



A real-time monitoring and compliance platform also enables continuous validation of portfolios against multiple Shariah standards, allowing asset managers to construct and manage diversified portfolios with confidence and efficiency. This not only expands the range of available products but also unlocks new asset classes and investment strategies that were previously constrained by certification complexity. In doing so, it bridges the gap between investor demand and product availability, transforming compliance from a bottleneck into an enabler of growth.

Ultimately, the opportunity in Indonesia is not simply to participate in a growing market, but to unlock a structurally constrained one. Institutions that can deliver scalable, compliant, and diversified investment solutions supported by real-time monitoring and integrated compliance infrastructure are uniquely positioned to capture this opportunity.



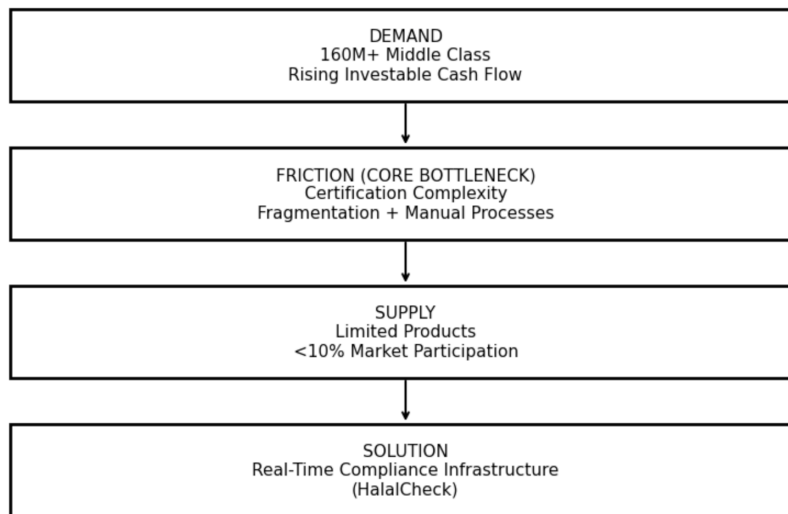
By doing so, they can convert latent demand into active investment flows and establish a leading position within one of the largest underserved Islamic investment markets in the world.

Indonesia's Islamic investment opportunity is not defined by demand it is defined by the ability to remove the structural constraints that prevent that demand from being served at scale.

## 7. Strategic Conclusion

Indonesia's middle class is evolving into an investment-driven segment yet remains structurally underserved. The institutions that can bridge this gap will capture a large and growing pool of capital.

The key to unlocking this market lies in reducing the friction associated with delivering compliant investment products. Platforms that enable scalable, efficient Shariah compliance will play a critical role in transforming this opportunity into realized market growth.



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