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# Hedging Practices in the Indonesian Banking Sector: A Maqasid al-Shari'ah Perspective

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**Abstract**

*This study aims to analyze the implementation of hedging in Islamic banking in Indonesia and its alignment with the objectives of maqashid al-shariah. The background of this research is the increasing exposure to foreign exchange risk faced by national banks in line with the growth of international trade. The research method employed is a qualitative approach, emphasizing the exploration of meaning, interpretation, and normative analysis of the concept of hedging from a sharia perspective. The findings reveal that Islamic hedging practices have been implemented through instruments that comply with sharia principles, such as 'Aqd Al-Tahawwuthal Al-Basith and 'Aqd Al-Tahawwuthal Al-Murakkab, which serve as risk mitigation tools against currency fluctuations without involving elements of riba, gharar, and maysir. Further analysis shows that Islamic hedging not only fulfills the objective of hifdz al-maal (protection of wealth) but also contributes to hifdz ad-diin (protection of religion), hifdz an-nafs (protection of life), hifdz al-aql (protection of intellect), and hifdz an-nasl (protection of progeny). Thus, Islamic hedging serves as a comprehensive risk management instrument that aligns with the holistic objectives of maqashid al-shariah. This study recommends enhancing public literacy and promoting innovation in Islamic hedging instruments to address the increasingly complex market demands while maintaining economic stability based on Islamic ethical principles.*

***Keywords: Hedging, Maqashid al-Shariah, Islamic Banking, Risk Management.***

## INTRODUCTION

Financial institutions currently possess significant opportunities amidst the environmental shifts in the modern world, driven by trade liberalization and increasingly expansive lifestyles (Wells et al., 2021; Kaplinsky & Kraemer-Mbula, 2022; Lin et al.,



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2023; Mikkila & Kanniainen, 2023). According to reports from the Financial Services Authority (*Otoritas Jasa Keuangan*/OJK), in 2022, total fund disbursements by Commercial Banks (*Bank Umum*/BU) amounted to IDR 11,065,740 billion, while Rural Banks (*Bank Perekonomian Rakyat*/BPR) disbursed IDR 161,831 billion. In 2023, fund disbursements by Commercial Banks reached IDR 11,621,114 billion, and Rural Banks recorded IDR 188,212 billion. In 2024, disbursements by Commercial Banks experienced an increase, reaching IDR 12,264,342 billion, alongside Rural Banks at IDR 196,398 billion. Meanwhile, at the beginning of 2025, fund disbursements by Commercial Banks stood at IDR 12,230,548 billion, and Rural Banks recorded IDR 195,734 billion. Furthermore, foreign currency-denominated financing (credit) distributed by Commercial Banks in 2023 to third parties amounted to IDR 1,007,604 billion and to other banks equaled IDR 31,360 billion, whereas the funding sources for Commercial Banks from foreign currency loans received stood at IDR 210,299 billion. In 2024, foreign currency credit disbursements to third parties reached IDR 1,143,464 billion, and to other banks amounted to IDR 47,191 billion, with Commercial Banks' funding sources from foreign currency-denominated third-party funds totaling IDR 1,382,382 billion. As of January 2025, total foreign currency credit extended to third parties was IDR 1,155,765 billion, and to other banks, it was IDR 44,551 billion. Additionally, Commercial Banks' funding sources utilizing foreign currency from third-party funds amounted to IDR 1,433,518 billion.

Observing recent trends, the volume of fund disbursements and funding sources within the banking sector utilizing foreign exchange has exhibited an annual upward trajectory. The banking industry plays a highly strategic role in facilitating international trade activities through financial intermediation. According to reports from the Ministry of Trade of the Republic of Indonesia, the national trade balance has experienced decelerated growth over the past five years. In 2022, Indonesia's trade balance was recorded at USD 16,568.0 million. In 2023, the total trade balance weakened, reaching only USD 11,973.2 million, before recovering to USD 14,518.7 million in 2024. Analyzed from the perspective of average growth or contraction percentages, the trade value over this period achieved a rate of 5.58%. The deceleration in the trade balance was primarily driven by a significant contraction in Indonesia's oil and gas sector, which declined by 15.30%. Examining the aggregate portrait of Indonesian trade from January to May in the 2024–2025 period, the percentage growth in trade value for the current year compared to the corresponding period in the previous year stood at 13.37%.

Within the context of international trade, the banking sector possesses the capacity to provide comprehensive trade financing for both export and import activities. Fund disbursements by banks act as a catalyst for international trade volumes, thereby serving as a strategic governmental instrument to elevate the national economy. The


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extensive demand for banking products and services necessitates that corporations and individuals secure financial guarantees associated with foreign exchange exposure (Betermier et al., 2012). Foreign exchange exposure materializes when the contractual cash flows of a firm or individual are denominated in foreign currencies, resulting from involvement in financial transactions such as deposits, loans, investments, and international export-import activities utilizing foreign exchange. Empirically, hedging operates as a vital strategy to manage foreign exchange exposure risks, particularly concerning financial transaction exposures. Such hedging strategies encompass foreign exchange forwards, money market instruments, risk shifting, risk netting, and cross-hedging (Grira et al., 2019).

In their research, Ahmad & Halim (2014) discovered that the conceptual framework of hedging from an Islamic perspective fundamentally diverges from conventional hedging; Islamic hedging aims exclusively to mitigate risks associated with real-sector economic activities. Mohamad et al. (2014) articulated that Bank Muamalat Malaysia Berhad and CIMB Islamic Berhad are the principal actors in Islamic hedging within Malaysia. The instruments offered by these institutions include Islamic foreign exchange, cross-currency and interest rate swaps, as well as commodity hedging instruments. Consequently, this indicates that pricing, documentation, bank reputation, awareness, and ownership are critical determinants influencing the demand for Islamic hedging. Abdul-Rahim et al. (2019) found that not all compliant firms report their utilization of hedging instruments and apply strict *sharia* compliance, despite the fact that the implementation of hedging is paramount for the sustainability of the Islamic capital market in Malaysia. This assertion is corroborated by Titova et al. (2020), who highlighted the critical importance of transparent disclosure regarding hedging reports across all banking reports in the European Union, positing that banks utilizing hedging derivatives exhibit lower risk profiles and higher enterprise values.

Adams et al. (2024) revealed that the Southeast Asian and Middle Eastern regions have successfully implemented Islamic hedging for currency and interest rate risk management. Furthermore, Islamic banking possesses a unique potential to develop a robust and ethical risk management framework that aligns with global financial stability and drives sustainable investments, even though Islamic banks continue to face constraints in utilizing conventional financial derivatives. In their study, Firdaus et al. (2023) discovered that hedging is capable of fulfilling the *maqasid al-shari'ah* under the concept of *hifdz al-mal* (protection of wealth), which falls into the *daruriyyat* (necessities) category. Hedging successfully protects critical assets; failure to secure these assets poses a severe threat in the event of losses triggered by adverse currency fluctuations, thereby disrupting the existential foundation of owned wealth. The implementation of hedging from an Islamic perspective has been extensively explored by previous


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researchers focusing on its execution and associated challenges (Anwar et al., 2022; Suherman, 2022). Conversely, several preceding studies have examined the impact and performance of hedging on corporations and the real sector (Betermier et al., 2012; Ahmad & Halim, 2014; Su et al., 2022; Mikkila & Kanniainen, 2023; Marston, 2023). Hasanah (2023) argued that hedging has the capacity to holistically fulfill the principles of *maqasid al-shari'ah*. Meanwhile, Firdaus et al. (2023) restricted their examination of *maqasid al-shari'ah* in hedging solely to the concept of *hifdz al-mal*. Consequently, current research presents a compelling opportunity to further investigate hedging practices within the banking sector through the lens of *maqasid al-shari'ah* in Indonesia.

## LITERATURE REVIEW

The term hedging is utilized to describe activities aimed at reducing and neutralizing future financial risks. Hedging is also depicted as the process of achieving price stability to safeguard customers or buyers from sudden price escalations. Therefore, hedging serves as a method to achieve a balance between uncertainty and missed opportunities. Within the context of asset and liability management, hedging is critically essential because it can compensate for imbalances between a company's assets and liabilities, such as long-term financing maturities and short-term deposits. Hedging functions as a price risk protection mechanism and a risk management tool in running a corporation, given that no one can predict with absolute certainty and consistency what will happen to capital markets, interest rates, or currency exchange rates. Furthermore, issues regarding credit, operational matters, and systems can exert a major influence on financial aspects.

The practice of hedging involves the substitution of commodity transactions in the physical market with futures market transactions. According to the fatwa No. 96/DSN-MUI/IV/2015, the National Sharia Board of the Indonesian Ulema Council issued fatwa No. 96/DSN-MUI/IV/2015 concerning Islamic hedging transactions (*Al-Tahawwuth Al-Islami*) or exchange rates, which outlines methods or techniques to mitigate risks arising from exchange rate fluctuations or other prices while remaining grounded in sharia principles. This fatwa specifically discusses hedging transactions within Islamic banking and permits Spot transactions, while prohibiting certain transaction types containing elements of *maysir*, *gharar*, and *riba*, such as Forwards, Options, and Swaps under specific contexts. Considering sharia-compliant hedging transactions is necessary to support the growth of the Islamic hedging industry. Additionally, exchange rates represent methods or techniques to reduce risks that materialize or are anticipated to emerge due to exchange rate fluctuations.

Islamic hedging transactions (*Al-Tahawwuth Al-Islami*) regarding exchange rates based on actual needs (*Al-Hajah Al-Massah*) can be executed under the condition that


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they adhere to the provisions stipulated in this fatwa. The fatwa recognizes three transaction methods: first, *'Aqd Al-Tahawwuth al-Basith*; second, *'Aqd Al-Tahawwuth al-Murakkab*; and third, *'Aqd Al-Tahawwuth fi Suq Al-Silah*. Among these transactions, the two that are viable for utilization by banks are *'Aqd Al-Tahawwuth al-Basith* and *'Aqd Al-Tahawwuth al-Murakkab* because they utilize the same mechanisms as spot and forward agreements. However, *'Aqd Al-Tahawwuth fi Suq Al-Silah* cannot be utilized by Islamic banks because its transactions require commodities, making it more appropriate for deployment in commodity exchanges.

Meanwhile, regulations regarding Islamic hedging swap transactions with Bank Indonesia (BI) are governed by Bank Indonesia Regulation (PBI) No. 24/20/PBI/2022 and Member of the Board of Governors Regulation (PADG) No. 24/22/PADG/2022 concerning the implementation guidelines for Islamic hedging swap transactions with BI. Bank Indonesia establishes monetary policy stances and executes monetary control through mechanisms such as Monetary Operations (OM) implemented across money and foreign exchange markets in an integrated manner, encompassing both conventional and sharia frameworks. BI manages liquidity in the Rupiah money market via liquidity absorption or injection, whereas to safeguard the exchange rate, BI implements interventions or alternative foreign exchange transactions within the foreign exchange market.

In essence, hedging represents a strategy to mitigate risk or price volatility in alignment with the objectives of Islamic law (*maqasid sharia*), which encompasses the five categories of Islamic legal objectives (*Maqasid As-Syari'ah*): preservation of religion (*hifdz ad-diin*), preservation of life (*hifdz an-nafs*), preservation of intellect (*hifdz al-aql*), preservation of wealth (*hifdz al-maal*), and preservation of lineage (*hifdz an-nasl*). Islam acknowledges the existence of risk (*mukhatarah*) across all economic activities. The Quran and Sunnah encourage Muslims to engage in business and investment, which fundamentally entail risk. Nevertheless, Islam also emphasizes the critical importance of prudent risk management. In the Quran, the concept of hedging is associated with protection and risk mitigation in strategic planning and future anticipation, which is analogized within the perspective of *maqasid sharia* in Surah Al-Hasyr verse 18 (59:18);

يٰٓاَيُّهَا الَّذِيْنَ اٰمَنُوا اتَّقُوا اللّٰهَ وَلْتَنْظُرْ نَفْسٌ مَّا قَدَّمَتْ لِغَدٍۚ وَاتَّقُوا اللّٰهَۗ اِنَّ اللّٰهَ خَبِيْرٌۢ بِمَا تَعْمَلُوْنَ ١٨

*Meaning: "O you who have believed, fear Allah. And let every soul look to what it has put forth for tomorrow - and fear Allah. Indeed, Allah is Acquainted with what you do."*

Muslim scholars and intellectuals expand the meaning of the above verse to encompass worldly planning, specifically addressing financial planning when confronting future risks that possess the potential to cause harm and disrupt livelihood sustainability.


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Implicitly, this verse supports the notion that safeguarding wealth in this world constitutes a preparation to tranquilize the soul by minimizing financial losses that would otherwise impair an individual's capacity to worship, give charity (*infaq*), or fulfill basic living requirements. Consequently, prudence and future preparation in financial planning enable hedging to fulfill the objectives of *maqasid sharia*.

Although hedging is permissible in Islam, speculation, *gharar*, *riba*, and gambling are strictly forbidden within hedging instruments. The simplicity of derivative contracts in hedging renders them susceptible to speculative purposes. This implies that while the objective of hedging is permissible, the underlying instruments and means (*wasilah*) utilized to achieve that objective become problematic. If an instrument incorporates betting and gambling, it is prohibited—even if the underlying goal is permissible under Islamic law—because the means do not justify the end. Prohibited *wasilah* can yield detrimental effects and typically contradict foundational objectives and *maqasid al-sharia*.

## METHODOLOGY

This study employs a qualitative approach aimed at acquiring an in-depth understanding of hedging practices within Islamic banking in Indonesia and their adherence to the principles of *maqasid al-shari'ah*. The selection of this qualitative methodology is predicated on the exploratory nature of the study, which emphasizes the investigation of meaning, interpretation, and normative analysis regarding the concept of hedging from an Islamic perspective. All collected data were subsequently analyzed qualitatively using triangulation techniques. The analytical focus centers on a comprehensive evaluation of hedging implementation through the framework of *maqasid al-shari'ah*, extending beyond the conventional preservation of wealth (*hifdz al-mal*) to systematically incorporate the preservation of religion (*hifdz ad-diin*), life (*hifdz an-nafs*), intellect (*hifdz al-aql*), and lineage (*hifdz an-nasl*).

## RESULTS AND DISCUSSION

The findings of this study demonstrate that Islamic banking in Indonesia has successfully implemented hedging transactions as a strategic response to global market dynamics and rising foreign exchange exposure. This implementation is supported by a robust legal framework, notably DSN-MUI Fatwa No. 96/DSN-MUI/IV/2015, which explicitly distinguishes Islamic hedging from conventional practices by prohibiting elements of *gharar* (excessive uncertainty), *riba* (usury), and *maysir* (gambling). Data analysis from the Financial Services Authority (OJK) indicates a significant surge in foreign exchange exposure within national banking. OJK reports show that total foreign currency fund disbursements by Commercial Banks continuously escalated from IDR 1,007,604 billion in 2023 to IDR 1,155,765 billion in January 2025.


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This fact is corroborated by Ministry of Trade reports, reflecting direct intensification in international trade activities. Such data serve as empirical evidence underlying the urgent necessity for business actors—both exporters and importers—to mitigate loss risks stemming from rupiah exchange rate fluctuations. Islamic hedging products are designed to fulfill genuine needs (*al-hajah al-massah*) of customers. The instruments most frequently utilized are *'Aqd Al-Tahawwuth al-Basith* and *'Aqd Al-Tahawwuth al-Murakkab*. These products are not intended for speculation, but rather function as risk management tools that assist customers in locking in future exchange rates, thereby avoiding potential losses. This directly and tangibly contributes to achieving the objective of *hifdz al-maal* (preservation of wealth), which constitutes one of the primary priorities in *maqasid al-shari'ah*.

Hedging endeavors to reduce and commit to liquidity markets to ensure the mitigation of loss risks triggered by future foreign exchange fluctuations. Hedging also acts as a futures market mechanism temporarily substituting actual purchases and sales within liquidity markets. Within the Islamic financial system, stakeholders strive to ensure that no party bears excessive risk when utilizing Islamic banking financial transactions. This principle of equity in risk-sharing fosters stability and aligns financial practices with moral and ethical obligations that safeguard individual and collective welfare. This assertion is reinforced by Hasangholipoure et al. (2021), who argue that risks occurring in financial transactions must become a shared responsibility, distributed equitably and transparently without violating prohibitions against *riba* and *gharar*.

Furthermore, the study's findings identify that Islamic hedging practices exert a broader impact on other dimensions of *maqasid al-shari'ah*, specifically *hifdz an-nafs* (preservation of life) and *hifdz ad-diin* (preservation of religion), alongside an indirect impact on *hifdz al-aql* (preservation of intellect) and *hifdz an-nasl* (preservation of lineage). These findings indicate that hedging from an Islamic perspective provides a holistic solution, extending far beyond purely financial dimensions. This discussion interprets the research findings by linking them to a theoretical framework, comparing them with contemporary literature, and analyzing the development challenges and opportunities encountered.

**Analysis of the Relationship Between Hedging and the Five Categories of Maqashid Shari'ah**

The findings of this study broaden prior research perspectives—which frequently focused exclusively on *hifdz al-maal*—and reaffirm a holistic view of *maqasid al-shari'ah* encompassing five core categories.


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***Hifdz al-Maal (Preservation of Wealth)***

Firdaus et al. (2023) and Su et al. (2022) emphasize that Islamic hedging is an essential instrument for asset preservation. By safeguarding customer assets from exchange rate volatility that can induce massive financial losses, Islamic banks guarantee business continuity and financial stability. This serves as a direct manifestation of *daruriyyat* (essential) objectives within *maqasid*, where economic survival remains a priority. Islamic hedging plays a pivotal role as a protective instrument against exchange rate fluctuations, which remain acutely vulnerable to disrupting asset values during international trade activities. Amid foreign currency fluctuations, both banks and business entities confront critical risks including asset depreciation, diminished export competitiveness, and the threat of bankruptcy.

Hedging, via *'Aqd Al-Tahawwuth al-Basith* and *'Aqd Al-Tahawwuth al-Murakkab* contracts, grants guaranteed exchange rate stability, enabling customers to lock in future prices. Consequently, losses can be minimized, and asset preservation maintained. Moreover, the practice of *hifdz al-maal* within Islamic hedging not only stresses protection aspects but also champions prudential principles. Through hedging, Islamic banks manage financing portfolios with heightened stability, minimize default risks, and protect client funds. This principle reinforces Islamic banking's position as a trustworthy institution dedicated to preserving public trust, while preempting collective losses that could inflict widespread societal harm.

***Hifdz ad-Diin (Preservation of Religion)***

Islamic hedging functions as a medium to uphold religious integrity within economic activities. Rigorous implementation of the DSN-MUI fatwa demonstrates a concrete effort to segregate financial practices from prohibited elements such as *gharar* (excessive uncertainty), *riba* (interest), and *maysir* (gambling). Thus, Islamic hedging permits customers to execute economic activities without transgressing religious tenets, forming the core of *hifdz ad-diin*. This finding aligns with Laldin and Djafri's (2021) perspective regarding the prominence of profit-and-loss sharing and risk distribution in driving Islamic financial stability.

Islamic hedging affords Muslims the space to actively engage in international trade and investment without falling into proscribed transactions. This not only maintains the purity of sharia-compliant economic practices but also affirms religious identity amidst complex global financial systems. Conversely, enforcing Islamic hedging bolsters customer trust in Islamic banking as a transparent, reliable institution strictly compliant with religious provisions. This trust translates into expanded public participation in Islamic finance, which in turn magnifies Islamic banking's contribution toward economic development rooted in Islamic values. Put differently, Islamic hedging operates not


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merely as a technical risk-mitigation tool, but as a vehicle preserving religious integrity across economic pursuits. This practice asserts that economic success in Islam cannot be decoupled from adherence to sharia, ensuring financial operations perpetually reside within the corridors of *maqasid al-shari'ah*.

***Hifdz an-Nafs (Preservation of Life)***

*Hifdz an-nafs* or the preservation of life represents a *daruriyyat* (essential) objective prioritizing the protection of human life from all structural threats, whether physical or non-physical. Livelihoods threatened by financial losses, psychological strain, and economic uncertainty can ultimately erode human quality of life. Islamic hedging practices contribute significantly toward fulfilling *hifdz an-nafs*, particularly concerning financial peace of mind. Exchange rate fluctuation risks not only endanger asset values but also cultivate deep anxiety among business actors, financial institutions, and populations engaged in international trade. Financial instability frequently triggers stress, depression, and severe mental health deteriorations. Under extreme conditions, economic shocks jeopardize individual and family survival, manifesting as an inability to procure basic necessities (food, clothing, shelter).

Deploying Islamic hedging instruments helps minimize such risks. Exchange rate predictability secured through *'Aqd Al-Tahawwuth al-Basith* or *'Aqd Al-Tahawwuth al-Murakkab* contracts delivers psychological security (*thuma'ninah*) to customers and financial institutions alike. This tranquility constitutes a form of life protection shielding individuals from psychological distress driven by market volatility. Such dynamics harmonize with divine directives in Surah Al-Hasyr verse 18, emphasizing foresight and caution when confronting future risks. Beyond psychological dimensions, Islamic hedging protects life via equitable risk-sharing mechanisms. Within the Islamic financial system, risks must never be unilaterally imposed but rather shared proportionally. This principle halts excessive burdens from crushing individual lives. Consequently, Islamic hedging contributes to individual and collective wellbeing, matching *maqasid* objectives.

*Hifdz an-nafs* within hedging contexts also intertwines with social security. When financial stability is preserved, families can fulfill core needs, sustain children's education, and access proper healthcare. These elements constitute tangible expressions of life preservation through economic dimensions. Conversely, unmanaged exchange rate volatility can cascade into social threats and potential societal conflict. Therefore, Islamic hedging acts not only to safeguard wealth but also to shield human life from psychological pressure, poverty threats, and social instability. Implementing hedging in Islamic banking manifests a holistic *maqasid* framework: sustaining life by upholding financial, psychological, and social stability.


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***Hifdz al-Aql (Preservation of Intellect)***

*Hifdz al-'aql or the preservation of intellect holds deep significance in safeguarding rational thinking capacities, sound decision-making, and knowledge advancement for societal welfare. Within financial realms, Islamic hedging contributes tangibly to achieving hifdz al-'aql by forging financial stability that empowers individuals and institutions to render logical, calculated economic decisions insulated from market pressure. Extreme exchange rate swings frequently impel market participants and households toward impulsive choices, such as liquidating assets at distressed values or acquiring high-interest loans forbidden in Islam. Integrating Islamic hedging subdues such conditions, affording individuals a calmer, more rational cognitive environment for fiscal management.*

*Islamic hedging practices also impart prudential principles that foster optimal cognitive engagement in long-term economic planning. Grounded in genuine needs (al-hājah al-massah), hedging trains operators to think strategically, anticipate risks, and govern assets in adherence to sharia parameters. This bolsters business continuity while boosting public literacy and intellectual capacity regarding Islamic financial instruments. Consequently, hedging is viewed as a mechanism protecting both wealth from loss and intellect from confusion. Economic decisions anchored in tranquility, knowledge, and sharia principles embody hifdz al-'aql, because socio-economic survival requires a protected, well-managed intellect*.

***Hifdz an-Nasl (Preservation of Lineage)***

ndirectly, by maintaining family economic and financial stability (via *hifdz al-maal* and *hifdz an-nafs*), Islamic hedging enables families to supply superior educational and environmental conditions for their progeny. Financial stability serves as an essential prerequisite for sustaining future generational welfare, constituting the core of *hifdz an-nasl*. Delivering tangible contributions through Islamic banking hedging products demands specific characteristics: needs-based alignment (*al-hajah al-massah*), documentary transparency, universal accessibility, and structured, measurable oversight by Sharia Supervisory Boards (DPS).

Islamic hedging contributes significantly toward this goal by stabilizing family or business economics. With hedging tools operational, loss risks from currency fluctuations are minimized, stabilizing household and corporate revenues. Such stability allows families to allocate resources toward long-term necessities like education, health, and human capital investment, forming the foundation of future generational prosperity. Furthermore, Islamic hedging prevents debt traps born of market uncertainty. Lacking hedging mechanisms, severe losses can force families or firms into emergency borrowing, spawning intergenerational poverty cycles. Through hedging protection,


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families maintain operations, preserve savings, and secure halal, trusted financial legacies. Socially, the resulting financial stability bolsters family capacity to fulfill communal obligations like *zakat* and *infaq*, strengthening the welfare ecosystem for future generations. Thus, hedging exhibits a sustainability dimension aligned with *maqasid*.

**Analysis of Development Challenges and Opportunities**

Research analysis identifies several core challenges facing Islamic hedging implementation that require resolution.

1. **Literacy and Education:** Low customer understanding, especially within MSME segments, regarding the mechanics and benefits of Islamic hedging acts as a primary barrier to product adoption. This finding aligns with Abdul-Rahim et al. (2019) in Malaysia, who underscore the prominence of awareness for Islamic financial market sustainability.
2. **Innovation Constraints:** Compared to conventional markets, available Islamic hedging instruments remain limited. This analysis mirrors arguments by Adams et al. (2024), highlighting that although Southeast Asian Islamic banking has advanced, it continues to face constraints in leveraging conventional derivatives, restricting its capacity to offer advanced solutions.

These challenges illustrate that despite possessing strong legal foundations and *maqasid* grounds, Islamic hedging requires optimization through education, socialization, and product development. Nonetheless, strategic opportunities remain accessible. First, rising international trade volumes demand innovative, varied Islamic hedging instruments. Second, regulatory backing from Bank Indonesia alongside DSN-MUI fatwa legitimacy establishes a conducive legal landscape. Third, global momentum toward sustainable finance renders Islamic hedging relevant as an ethical, stable, and enduring risk management tool.

Growing international trade volumes documented in Ministry of Trade reports generate continuous demand for secure, sharia-compliant trade financing products. Regulatory backing from Bank Indonesia (PBI No. 24/20/PBI/2022) signifies a conducive climate for innovation. Islamic banks possess unique potential to fill this market gap by engineering innovative yet sharia-compliant hedging instruments, allowing them to compete effectively and anchor ethical national economic growth. Conversely, hedging products remain controversial because financial transactions are visibly embedded within business hedging processes. Derivative products risk being deemed *gharar* if their underlying transactions or real products lack clarity. Finally, speculative or profit-seeking behaviors in hedging activities can drift into *maysir*. These factors explain why individuals desiring strict legal compliance avoid derivative products, whereas hedging anchored in *maqasid* principles successfully elevates welfare.


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## CONCLUSION

This study concludes that the implementation of hedging within Islamic banking in Indonesia is not merely a financial risk management strategy, but a tangible manifestation of achieving the objectives of *maqasid al-shari'ah*. This practice directly fulfills the objective of *hifdz al-maal* (preservation of wealth) by protecting assets against the risks of exchange rate fluctuations. Furthermore, fundamentally, Islamic hedging also contributes to the attainment of *hifdz ad-diin* (preservation of religion) through fatwa compliance, *hifdz an-nafs* (preservation of life) by providing financial peace of mind, *hifdz al-aql* (preservation of intellect) by fostering rational decision-making, and *hifdz an-nasl* (preservation of lineage) by safeguarding the stability of family welfare.

The implications of this study indicate that Islamic hedging must be perceived as an integral strategic element within the Islamic financial ecosystem. To maximize its potential, the following recommendations are proposed:

1. **Enhancement of Education and Literacy:** Islamic banks and relevant regulatory authorities must intensify educational and socialization programs regarding Islamic hedging products, particularly targeting business actors within the MSME segment.
2. **Promotion of Product Innovation:** Further encouragement is required for Islamic banking institutions to develop more diverse and sophisticated hedging instruments while remaining strictly within sharia corridors to satisfy evolving market demands, aligning with the insights highlighted by Mikkila & Kanniainen (2023).
3. **Advanced Research:** Future research could focus on quantitative impact analyses of Islamic hedging on bank financial performance and macroeconomic stability, alongside comparative cross-country studies to identify best practices (as conducted by Mohamad et al., 2014, and Titova et al., 2020).

Consequently, Islamic banking can solidify its position as a financial institution that is not solely profit-oriented, but is fundamentally anchored in ethics and noble objectives for the broader welfare of humanity (*maslahah*).

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