IQTISHADUNA Jurnal Ekonomi & Keuangan Islam

Iqtishaduna, Vol. 13 No. 2 December 2022

pISSN 2087 9938 | eISSN 2655 9714

online:

https://journal.uinmataram.ac.id/index.php/iqtishaduna

SHARIA BANKING CONTRIBUTION TO INDONESIA'S ECONOMIC GROWTH DURING PANDEMIC

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Abstract

This study aims to describe the contribution of Islamic banks to economic growth in Indonesia during this pandemic, the variables used are third-party funds, financing, total assets of Islamic banking, and the pandemic. The research method uses quantitative by analyzing secondary data which is processed using Eviews 10 with the VECM method and using quarterly time-series data from 2010-2021. The results of the data processing using the VECM method showed several findings, namely: the variables of third-party funds, Islamic banking financing, and the pandemic had a negative effect and total Islamic banking assets had a positive effect on economic growth for a long time. Meanwhile, the results of the IRF test show that the response to economic growth in responding to shocks to these variables was unstable for 60 periods with contributions from third-party funds (4%), financing (7%), total Islamic banking assets (24%) and pandemics (6%). The theoretical implications can describe the conditions of Islamic banking and the results of this study provide an overview of total wealth, third-party funding, funding contributions, and the pandemic that affects Indonesia's economic growth. As the authorized party in the development of Islamic banks, the government needs to work harder to develop the Islamic economy and finance, including Islamic banks with the support of facilities and infrastructure.

Keywords: *Islamic Banking, Pandemic, Economic Growth, VECM*

1. INTRODUCTION

Economic growth is important for a country where economic growth is one indicator of the success of economic development. Along with the progress of economic growth, countries not only increase the production of goods and services that are applied every year, but also invest in various things such as education development, technology development, medical treatment improvement, available infrastructure improvement, and infrastructure improvement in increasing income and income. prosperity. Therefore, economic development involves various aspects of changes in economic activity.

The following figure shows the general condition of the development of economic growth which continues to fluctuate from year to year during the period 2010 to 2021, as follows:

Source: processed data, 2022

Picture. 1. Conditions of Economic Growth

One of the factors that measure the success of economic growth is the financial sector. The financial sector, including banking, capital markets, and others, is a sector that plays an important role in the economic development of a country. This is due to the ability of the financial sector to mobilize capital from those who have excess funds to invest in various economic sectors that need it. If the financial sector grows well, there will be more sources of funding that can come from production or the real sector. Increased funding for the manufacturing industry will contribute to the physical development of capital, which in turn will actively contribute to economic growth (Sasana et al., 2020).

The relationship between economic growth and financial sector development has been the subject of ongoing research in development economics for many years. This idea was first expressed by the neoclassical economist Schumpeter (1911) who argued that the financial sector plays an important role in the development of the real sector. Furthermore, several economists after Schumpeter also examined the relationship between the two sectors, assuming that support from financial sector progress is needed to achieve stable economic growth (Goldsmith, 1969; Gurley. J. G & Shaw, 1960; McKinnon & Shaw, 1993). However, in contrast, Robinson (1952) stated that the financial sector did not have an impact on the growth of the real sector, or that the relationship between the real sector and the financial sector was not very strong (Caporale & Helmi, 2018; Ductor & Grechyna, 2015; Herwartz & Walle, 2014). Singh

(1997) provides opinions and evidence that there is an inverse relationship between financial sector development and economic growth (Bist, 2018; Salman & Nawaz, 2018).

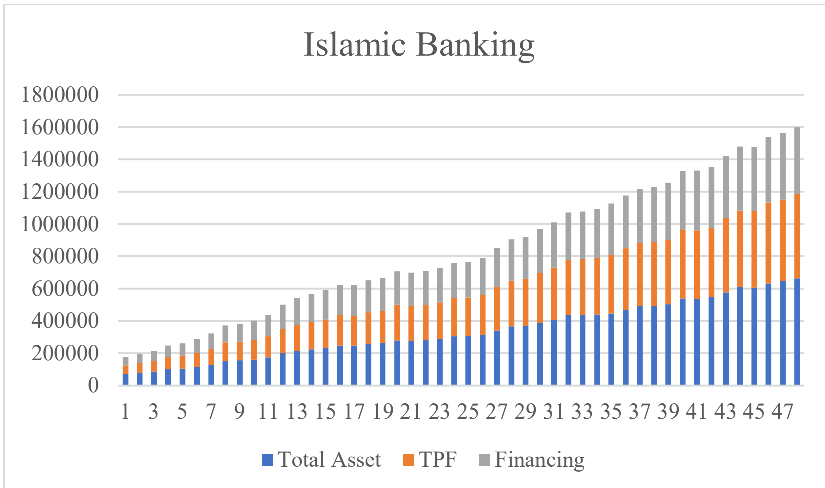
It can be concluded that the existence of an optimally managed financial sector encourages economic growth through the flow of funds from surplus units to shortage units, which can increase effective and efficient resources. In particular, the existence of the financial sector includes various economic activities such as trading, hedging, diversification of profits and potential losses, unit allocation of resources, monitoring of management and management activities of enterprises, forms of mobilization and promotion of savings activities, and also promoting units of exchange of goods and services (Beck et al., 2000; Levine, 2005; M. P. Todaro & Smith, 2011).

Economic growth is one of the indicators that determine the success of a country's development. The higher the country's economic growth, the more prosperous the people will be (Sukirno, 2010). Therefore, economic growth requires investment in its development, and investment always results in investments that increase capital stock. Increasing the capital stock can increase productivity, capacity, and product quality, which can encourage economic growth, increase employment and improve people's welfare.

In theory, economic growth is correlated with investment, as stated by the classical economist Adam Smith, as the process of capital accumulation (Jhingan, 2007). Therefore, Schumpeter believes that economic development is largely led by a group of innovative entrepreneurs (M. P. Todaro & Smith, 2011). In addition, Keynes suggested that the government increase spending, because it sees the government as an independent body that can stimulate the economy through public works (McKinnon & Shaw, 1993).

The economic growth of a country can be measured by its national income. This means that the value of goods and services produced by a country in a given year is conceptually called gross domestic product (GDP). This value can be calculated based on daily prices (the price of the year in which GDP is calculated) and fixed prices (the price of the base year). Real national income, calculated based on fixed prices, is calculated annually and represents the actual development of the production of goods and services in the economy. Therefore, the rate of economic growth is the development of an economic activity that applies in a certain year (Fauzi, 2019; Siregar & Suryani, 2022).

The literature cites two sectors of the financial industry: the Islamic banking sector and the traditional banking sector. The relationship between the development of the financial sector and economic growth has long been the subject of research in development economics. The development of the financial sector is defined as an increase in the volume of banking goods and services, other intermediaries, and financial transactions in the capital market. The Indonesian economy is still dominated by banking financial institutions. In terms of assets, banking financial institutions still have the largest share of assets compared to other financial institutions' assets. In 2019, the assets of banking financial institutions accounted for more than 76% of total assets (Utami et al., 2018).



Source: processed data, 2022

Picture. 2. Conditions of Islamic Banking

Based on Figure 2 showing the conditions of Islamic banking from 2010 to 2021, it can be explained that the total assets, deposits, and financing of Islamic banking from year to year continue to increase steadily, this proves that the banking sector is experiencing good development.

Banks act as development agents, and the business activities they carry out can have an impact on the development of the country, which can improve people's living standards. The financial sector plays an important role in the growth of various economic sectors. This is because banks can mobilize surplus capital from third parties to be invested in various economic sectors that require funding (Rama, 2013). If the financial sector grows well, more sources of funding can be applied to the production sector, creating more physical capital development and contributing actively to economic growth. Therefore, bank growth is an important aspect to pay attention to (Deti et al., 2017). Islamic banks as part of the national banking system play an important role in the economy. The growth of Islamic banks can be seen in total assets, total third-party funds, and total funding.

The purpose of this study is to describe the contribution and influence of Islamic banking before and during the Covid-19 pandemic as the current trend in Indonesia's economic growth with a timeframe from 2010 to 2021 using the variables DPK, financing, and total assets of Islamic banking with the pandemic as the renewal variable. in this research and the development of other research.

2. METHODOLOGY

This study presents Islamic banking with each variable total assets, total third-party funds, total financing, pandemic, and economic growth. This economic growth will determine the success achieved by a country in the form of the banking sector. Then the higher the economic growth in a country, the higher the welfare of the community (Sugiyono, 2019).

The purpose of this study is to empirically prove the influence and contribution of total assets, total third-party funds, and total Islamic bank financing on economic growth. Research on the banking sector and economic growth as a whole have been studied by several previous researchers, but now researchers present several developments from the limitations of previous research in the form of pandemic variables and the latest data (Basuki, 2018; Widarjono, 2018). The analytical tool used in this research is the Vector Error Correction Model (VECM) with the help of Eviews 10 software.

This study uses a quantitative approach. Data collected The data used in this study is secondary data, namely data obtained by researchers indirectly from the object of research (Sekaran, 2019). This type of data is obtained from published reports, meaning that the data are open/non-confidential, originating from historical reports that have been compiled and published by several institutions.

Data collection techniques are the methods used by researchers to obtain the required data. The data used in this study is a time series with a quarterly scale from 2010 to 2021. During this time there have been developments in Islamic banks, and economic growth in Indonesia until now. The research data is accessed from the OJK, BPS, and BI websites.

the VECM model is formulated as follows:

$$Y_t = A_0 + A_1 Y_t - 1 + A_2 Y_t - 2 + \cdots + APY_t - p + e_t$$

Information:

Y_t = The dependent variable vector ($Y_{1.t} Y_{2.t} Y_{3.t}$)

A_0 = Intercept vector sized n x 1

A_1 = Parameter vector size n x 1

e_t = Residual vector ($\sum t.1 \sum t.2 \sum t.3$) size n x 1

With an equation model like this:

$$PE = \alpha_0 + \sum_{I-1}^{5} \alpha_1\, PE_{t-1} + \sum_{I-1}^{5} \alpha_2\, TA_{t-1} + \sum_{I-1}^{5} \alpha_3\, DPK_{t-1} + \sum_{I-1}^{5} \alpha_4\, PEM_{t-1} + \sum_{I-1}^{5} \alpha_5\, PAN_{t-1} + \mu_{iT}$$

3. RESULT AND DISCUSSION

Descriptive statistics are statistics that are used to describe data in a form that is easier to understand. In this study, the results of the analysis used are the mean, maximum, minimum, and standard deviation. The following is a presentation of descriptive statistics processed using Eviews 10 software.

Table 3.1

Descriptive Statistical Results

Variable	Mean	Maximum	Minimum	Std. Dev.
EG	14.63352	14.86138	14.31164	0.161778
TPF	12.31985	13.16905	10.89898	0.624922
FIN	12.23296	12.93224	10.85702	0.576705
TA	12.56918	13.40376	11.16685	0.612129
PAN	0.208333	1.000000	0.000000	0.410414

Source: Data processed, 2022

Based on table 1 above, shows that in the period 2010 to 2021, the PE variable has the highest value of 14,86138 and a minimum value of 14,31164, for a median value of 14,63352 with a standard deviation of 0.161778. While the TPF variable has the highest value of 13.16905 and a minimum value of 10.89988, which has an average value of 12.31985 with a standard deviation of 0.624922. When compared with TPF, the financing variable has the highest value of 12.93224 and the smallest value is 10.85702 with a median value of 12.23296 and a standard deviation of 0.576705.

The variable total assets of Islamic banking has the highest value of 13,40376 and a minimum value of 11,16685, the variable of total assets in the initial period 2010 to 2021 with a mean value of 12,56918 with a standard deviation of 0.612129. As for the pandemic variable, the highest value is 1.0000000 and the minimum value is 0.000000. The pandemic variable has a median value of 0.208333 with a standard deviation of 0.410414. This description can explain the influence of Islamic banking and the pandemic on economic growth in Indonesia.

Table 3.2

Stationary Test

Variable	Level			*First Difference*		
	PP Test	Critical Values (5%)	Prob.	PP Test	Critical Values (5%)	Prob.
EG	-2.266538	-2.925169	0.1868	-10.45476	-2.926622	0.0000*
FIN	-6.394801	-2.925169	0.0000	-2.855390	-2.926622	0.0486*
TPF	-8.001123	-2.925169	0.0000	-5.573804	-2.926622	0.0000*
TA	-5.245642	-2.925169	0.0001	-4.630831	-2.926622	0.0001*
PAN	-0.482589	-2.925169	0.8854	-6.782332	-2.926622	0.0000*

Description * = Significance at the critical value of 5%
Source: Data processed, 2022

The results of the stationarity test at the level show that not all stationary variables, only financing, TPF, and total assets are below a probability of 0.05, while the first difference shows that all variables are stationary concerning the first difference level with a probability of 0.05, then all variables are taken. stationary at the first difference level. This is used so that the variables used in the study have the same level.

Table 3.3

Optimum Lag Test Results

Lag	LogL	LR	FPE	AIC	SC	HQ
0	259.2924	NA	6.57e-12	-11.55875	-11.35600	-11.48356
1	481.7427	384.2323	8.39e-16	-20.53376	-19.31726*	-20.08262
2	510.9319	43.78385	7.26e-16	-20.72418	-18.49394	-19.89710
3	556.4203	57.89436	3.22e-16	-21.65547	-18.41149	-20.45244
4	596.4087	41.80602*	2.09e-16*	-22.33676*	-18.07903	-20.75779*

Source: Data processed, 2022

Based on the results of the optimum lag test in this study, it shows that the smallest values of FDE, AIS, and HQ are in the lag 4 positions with values, namely: 2.09e-16, -22.33676, -20,75779. So it can be ascertained that the optimum lag used in this study is lag 4.

Table 3.4

VAR. Stability Test Results

Root	Modulus
0.966906	0.966906
0.891940 - 0.022160i	0.892215
0.891940 + 0.022160i	0.892215
0.348266 - 0.093605i	0.360626
0.348266 + 0.093605i	0.360626

Source: Data processed, 2022

The VAR test is said to be stable when the modulus numbers are less than 1. In the results of the VAR test in this study, the modulus value is less than 1, so it can be interpreted that the VAR model used is stable, thus the VAR estimation results are not biased.

Table 3.5

Johansens Cointegrity Test Results

Hypothesized	Trace Statistic	Critical Value (0,05)
None *	67.56522	60.06141
At most 1	26.33310	40.17493
At most 2	10.65793	24.27596
At most 3	3.676674	12.32090
At most 4	0.017461	4.129906

Source: Data processed, 2022

Based on the cointegration test above, shows a cointegration equation indicated by the trace statistic value which is greater than the critical value (67.56522 > 60.06141). Because there is cointegration, the model used in this study is the Vector Error Correction Model (VECM).

Table 3.6

VECM, IRF, and FEVD Test Results

Variable	Long Term	Short Term	IRF	FEVD
TPF	-3.10326	0.29259	Positive, increase	4,40%
FIN	-4.00509	1.18396	Negative, increase	7,80%
TA	3.75352	2,84702	Positive, increase	24,10%
PAN	-2.46076	1.95629	Negative, increase	6,30%

Source: Data processed, 2022

TPF has a negative effect in the long term with a value of -3.10326 while in the short term it has a value of 0.29259 and has no effect on economic growth because it is below the t statistic of 1.684. In the results of the IRF test, the TPF variable was answered positively by economic growth. That is, along with the growth of deposits, economic growth also does not develop. Based on the results of the FEVD analysis, the TPF variable on average contributes to the formation of financial deepening of 4.40%. From these results, it can be seen that TPF hurts economic growth.

Financing has a negative effect in the long term with a value of -4.00509 while in the short term with a value of 1.18396 has no effect because below the t statistic of 1.684 on economic growth. The results of the IRF test, the financing variable responded negatively to economic growth. This means that, along with financing growth, economic growth will also not develop. Based on the results of FEVD analysis, the average financing variable contributes to the formation of financial deepening by 7.80%. From these results, it can be seen that financing hurts economic growth.

Total assets have a positive effect both long term and short term with a value of 3.75352, 2.84702 on economic growth because it is above the t statistic of 1.684. The results of the IRF test showed that the total asset variable was answered positively by economic growth. That is, along with the growth of total assets, economic growth also does not develop. Based on the results of the FEVD analysis, the average total asset variable contributes to the formation of financial deepening by 24.10%. From these results, it can be seen that total assets have a positive effect on economic growth.

The pandemic has a negative effect in the long term with a value of -2,46076 while in the short term it has a value of 1,95629, it does not affect economic growth because it is below the t statistic of 1,684. The results of the IRF test, the pandemic variable was responded to negatively by economic growth. This means, that along with the increase in the pandemic, economic growth will also not develop. Based on the results of the FEVD analysis, the TPF variable on average contributes to the formation of financial deepening by 3.60%. From these results, it can be seen that the pandemic hurts economic growth

The development of total assets is long-term because the test results of Islamic banks prove that Islamic banks are resistant to global crises including the Covid-19 pandemic, because they play an important role in economic growth, it can be concluded that it is important to increase GDP. On the other hand, the total assets of Islamic banks are still widely used for Islamic banking purposes such as expansion and improvement of bank quality, so total assets are not important to GDP in the short term. In addition, the total assets of Islamic banks are still relatively small compared to the total assets of traditional banks, so the assets of Islamic banks do not have a significant impact on supporting economic growth. In addition, the third-party funding variable is short-term due to the phenomenon that when the interest rates for third-party funds from traditional banks rise, customers shift their savings to traditional banks, which means that business risk shifts, rather than continuing to choose Islamic bank savings.

This shows that the character of Islamic bank customers is still influenced by profit. In addition, Islamic banks have much less total third-party funds than traditional banks. This lack of trust has made many people reluctant to invest in Islamic banks. There is still a lack of absorption of funds to Islamic banks, which investors use as capital to encourage economic growth, and an important financing variable for GDP in the long term.

This is because an increase in the number of funds issued will affect the growth of company capital, which in turn will encourage economic growth in the real sector. An increase in the real sector economy means an increase in economic activity, which will increase economic growth. In the short term, the funding variable does not depend on GDP. This is because a decrease in the total amount of funding made will have an impact on reducing the capital of a company and result in a decrease in the actual economic sector. The decline in the real economy means a decrease in economic activity which leads to a decline in economic growth.

The fluctuating pandemic hurts economic growth in the long term and has a positive impact in the short term. The pandemic is said to hurt economic growth. The results of this study are following the hypothesis that the pandemic affects people's economic activities on the use of the financial sector in leadership (Ilhami & Thamrin, 2021; Syaifullah et al., 2021). Consistent with studies of. The family economy has influenced the country's economy to encourage economic growth in Indonesia (Azhari & Wahyudi, 2020).

If the variables of total assets, total third-party funds, and total funding are important for the GDP variable, this is following investment theory. Investment theorists have an investment in one or more assets and usually want to make a profit in the long run (Mifrahi & Tohirin, 2020; Siregar & Suryani, 2022). As stated by the classical economist Adam Smith, economic growth is correlated with investment, which is a process of capital accumulation (Jhingan, 2007; M. Todaro & Smith, 2011). Second, Smith considers capital accumulation as one of the absolute conditions for economic development. Therefore, the problem of economic development in general means the human capacity to invest more savings and more capital. Therefore, the rate of investment is determined by the rate of saving, so savings need to be fully invested.

One of the investments in economic growth is the development of technology which is part of the financial sector, both Islamic and traditional banks, both of which have an impact on economic growth. Banks can then collect and distribute funds to customers and the general public in the sense that the bank will benefit from these results. The more customers collect money, the more the bank can profit. The same applies to financing. The more money the customer collects, the more profitable the bank is. Therefore, this can mean good economic growth, and the higher the country's economic growth, the more prosperous the people will be.

After discussing the theory, further refined by the latest research by Tabash & Dhankar (2013), they found a positive and important relationship between growth and bank lending in the long term. Later, supported research conducted by Al-Ayubi et al., (2018), Rizki & Fakhrudin (2015), and Rama (2013), found that there is only a long-term relationship between the Islamic banking sector and economic growth. A study by Abduh & Azmi Omar (2012), Abduh & Chowdhury (2012), Kassim (2016), Sukmana & Kassim (2010), and Yusof & Bahlous (2013), found a positive and significant relationship between Islamic banks and economic growth in both the short and short term.

4. CONCLUSION

Among the variables of total assets, third-party funds, financing, and pandemics, there is a long-term effect on the economic growth variables of Islamic banks, and in the short term, only total assets affect economic growth. In addition, total assets contributed 24%, third-party funds contributed 4%, financing contributed 7%, and the pandemic contributed 6% to economic growth and the volatile economy due to shocks Total assets, third-party funds, financing, and pandemics in the next 60 periods.

Recommendations, this study has several theoretical and practical recommendations. Theoretically, the results of this study provide an overview of total wealth, third-party funding, funding contributions, and the pandemic that affects Indonesia's economic growth. As the authorized party in the development of Islamic banks, the government needs to work harder to develop the Islamic economy and finance, including Islamic banks with the support of facilities and infrastructure. In connection with further studies, it is necessary to increase the accuracy of economic data and Indonesian Islamic banks and it takes a long time to compare them with the post-pandemic situation.

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