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THE EFFECT OF ISLAMIC BANKING FINANCING AND MACROECONOMIC VARIABLES ON ECONOMIC GROWTH IN INDONESIA, 2010-2020

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Abstract

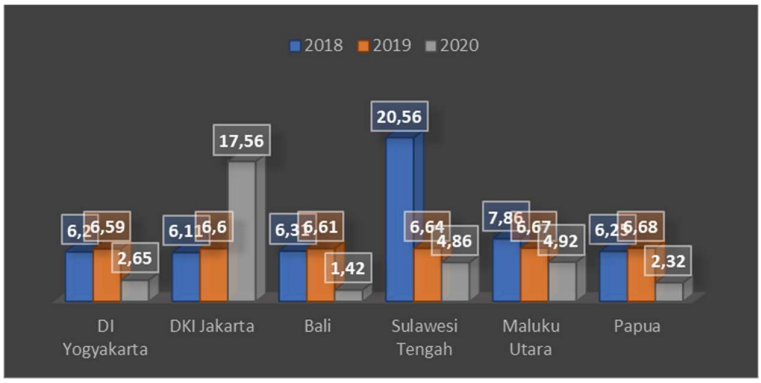
Economic development in a country or region is essentially aimed at improving the welfare of its inhabitants. In this study using panel data analysis method in the form of a cross-section of 34 provinces in Indonesia with a time-series from 2010-2020. Followed by using quantitative analysis methods with the Eviews 10 analysis tool. The test results of the specification model state that FEM (*Fixed Effect Model*) is the best choice model to use. seen from all independent variables, only PMDN variable has a positive influence on economic growth. However, for the variables of Islamic Banking Financing, PMA Inflation and LFPR have a negative influence on Indonesia's economic growth. Thus, in the context of increasing economic growth, it can be ensured that the presence of several indicators such as a quality workforce and more productive investment coupled with more attention to the socialization of Islamic banking to the public means that economic growth in Indonesia is increasing and continues to increase.

Keywords : Economic Growth, Islamic Banking Financing, PMDN, PMA, Inflation, TPAK.

1. INTRODUCTION

Economic development in a country or region is essentially aimed at increasing the welfare of its inhabitants. One of the main indicators for measuring the success of economic development in a region is economic growth. Economic growth is the development of activities in the economy that cause the goods and services produced in society to increase. The problem of economic growth needs to be seen as a macroeconomic problem in the long run. From one period to another, the ability of a country to produce goods and services will increase due to factors of production which will always increase in quantity and quality, investment will increase the amount of capital goods, and the technology used will further develop (Sukirno, 2008).

Economic growth is the development of activities in the economy that cause the goods and services produced in society to increase. Todaro argues that economic growth is defined as a process in which the amount of production in an economy increases continuously, resulting in an even greater increase in income (Todaro & Smith., 2011).



Source: Indonesian Central Bureau of Statistic, 2020

Figure 1

Economic Growth by Province (percent) 2018–2020

From Figure 1, it can be seen that the province experiencing the highest economic growth in 2020 is DKI Jakarta, with a gross regional domestic product (GRDP) value of 17.56 percent. North Maluku was followed by Central Sulawesi at 4.92% and 4.86%, indicating that economic activity in these areas is improving.

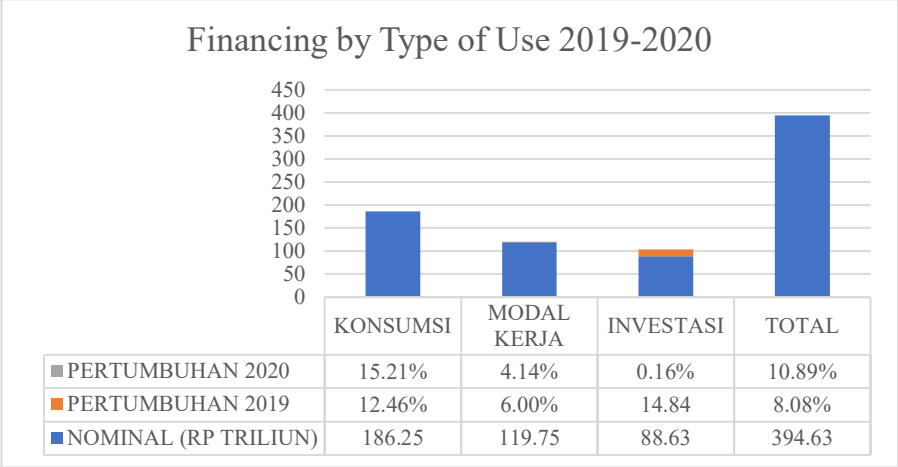
The findings made by Jhingan (2007) pay attention to all developing countries and show that a lack of capital can lead to reduced investment and savings. Like Harrod-Domar's view that the presence of investment and savings can encourage economic growth on the grounds that investment has a function and a role in the process of economic expansion, increasing capital stock can help increase production (Mankiw, 2004).

Based on the estimated data from the Central Bureau of Statistics for 2018–2020, domestic investment receipts (PMDN) in 2018 amounted to U$ 328.6 million, but increased in 2019 to U$ 386.4 million. There was a further increase of U$ 413.5 million in 2020. This means that there is an increase in economic growth due to domestic investment in a country. The more invested the factors of production are, the more money is generated and economic income is stimulated. This is consistent with the findings of Alice et al. (2021), who found that domestic investment (PMDN) has a beneficial impact on economic growth (Alice *et al.*, 2021).

This is followed by Solow's view (1956), which states that the impact of savings or capital, labor population, and technology on production and economic growth is that the higher the saving rate, the higher the capital output obtained (Suwardi, 2019).

High inflation and instability lead to the stagnation of an economy, which generally results in rising prices for products and services that continue to increase, resulting in a high level of poverty in Indonesia. Communities that were previously able to meet their daily needs with high prices for products and services cannot fulfill them because inflation is getting bigger, which results in poverty and rising inflation rates in Indonesia, which experiences ups and downs every year (Salim *et al.*, 2021).

According to Eliza (2015), the existence of a variable labor force participation rate (TPAK) can stimulate economic growth on the grounds of increasing the labor force and also productivity, resulting in an increase in total production that is higher so that it can affect growth (Lumbantoruan & Hidayat, 2014).



	KONSUMSI	MODAL KERJA	INVESTASI	TOTAL
PERTUMBUHAN 2020	15.21%	4.14%	0.16%	10.89%
PERTUMBUHAN 2019	12.46%	6.00%	14.84	8.08%
NOMINAL (RP TRILIUN)	186.25	119.75	88.63	394.63

Source: Financial Service Authority, 2020

Figure 2

Sharia Banking Financing Growth in 2019-2020

According to the data presented above, distribution for Islamic banking financing increased by 8.08 percent in 2020, slowing from 10.89 percent in 2019. Working capital financing grew at a slower rate of 4.14 percent last year, compared to 6.00 percent the previous year, and investment financing grew at a slower rate of 0.16 percent, compared to 14.84 percent the previous year. Despite experiencing a decline in growth due to the COVID-19 pandemic, which disrupted financial flows to the industrial sector, Islamic banking is growing at a good rate.

2. METHODOLOGY

This study uses a quantitative research approach. Quantitative research is research with data in the form of numbers and analysis using statistics (Sugiyono, 2013). The secondary data used in this study is time series data from 34 Indonesian provinces from 2010 to 2020. This data source was obtained from the publications of Bank Indonesia and the Central Bureau of Statistics, and data from the Report on the Development of Islamic Finance in Indonesia on the Financial Services Authority website. The independent variables in this study are Islamic Banking Financing, PMDN, FDI, Inflation, TPAK, and economic growth, with the dependent variable being economic growth. This research method is panel regression.

Empirical and Econometric Model

The analysis technique in this study can be modeled as follows:

$$Y_{it}=a+\beta 1X1_{it}+\beta 2X2_{it}+\beta 3X3_{it}+\beta 4X4_{it}+\beta 5X5_{it}+\varepsilon_{it}$$

Notation :

Y : Economic Growth (PDRB)

α : Constant

X1 : Amount of sharia banking financing

X2 : Domestic investment

X3 : Foreign investmnet

X4 : Inflation (IHK)

X5 : TPAK

ε : *Error term*

3. RESULT AND DISCUSSION

3.1. RESULT

Table 3.1 presents the descriptive statistics of GRDP and the independent variables used in this study. In that time period, GRDP was 1836198. Financing had a minimum value of 1.011000 and a maximum value of 986.0000, while PMDN had a minimum value of 0.10 and a maximum value of 62094.80, meaning that the contribution of PMDN to economic growth in Indonesia ranged from 0.10 to 62094.80. The maximum and minimum PMAs are 0.000000 and 7124.900, respectively. Inflation has a minimum value of 103.4400 and a maximum value of 176.5200, meaning that inflation contributes a lot to economic growth in Indonesia. TPAK has a minimum value of 59.41000 and a maximum value of 80.99000

Table 3.1

Descriptive Analysis

	PDRB	PEMBIAYAAN	PMDN	PMA	INFLASI	TPAK
Mean	266720.0	161.4740	6150.469	786.2663	130.1416	67.50142
Median	111451.6	10.66700	2314.150	272.2000	130.2750	67.29000
Maximum	1836198.	986.0000	62094.80	7124.900	176.5200	80.99000
Minimum	14983.91	1.011000	0.100000	0.000000	103.4400	59.41000
Std. Dev.	380262.5	253.0048	10263.27	1220.749	12.42078	3.749408
Skewness	2.307300	1.695113	2.856554	2.629487	-0.029695	0.633436
Kurtosis	7.621511	4.850347	11.60418	10.41384	3.388112	3.723612
Jarque-Bera	664.6743	225.6260	1662.297	1287.524	2.402300	33.17034
Probability	0.000000	0.000000	0.000000	0.000000	0.300848	0.000000
Sum	99753282	58615.05	2300276.	294063.6	48672.95	25245.53
Sum Sq. Dev.	5.39E+13	23172141	3.93E+10	5.56E+08	57544.84	5243.655
Observations	374	363	374	374	374	374

Source: Output, 2022

Best Model Selection Test

Tabel 3.2

Estimation of *Fixed Effect Model*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	268875.8	110648.3	2.430005	0.0156
PEMBIAYAAN	-0.000899	12.42461	-7.24E-05	0.9999
PMDN	9.728429	0.371283	26.20220	0.0000
PMA	8.295729	4.861245	1.706503	0.0889
INFLASI	185.2081	202.4333	0.914909	0.3609
TPAK	-1296.377	1506.141	-0.860727	0.3900

Source: Output, 2022

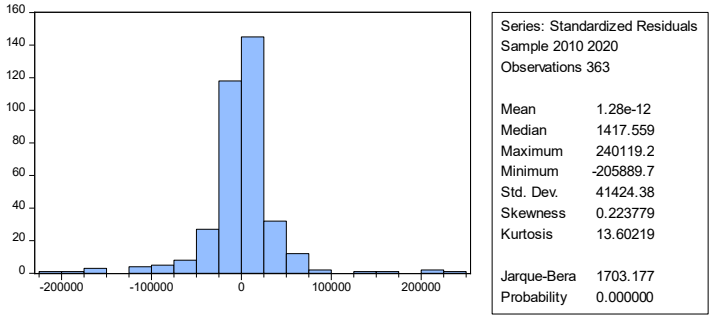
Tabel 3.3

Test of Chow *Redundant Fixed Effect-Likelihood Ratio*

Effects Test	Statistic	d.f.	Prob.
Cross-section F	145.775135	(32,325)	0.0000
Cross-section Chi-square	991.471625	32	0.0000

Source: Output, 2022

Table 3.3 shows the value of the Chow test statistic (F statistic) of 145.775, and the probability value is 0.0000. If the value is less than 0.05, FEM is the appropriate model to use.



Sumber: output, 2022

Figure 3

Normality Test

Figure 3 shows the probability value of Jarque Bera below 0.05, meaning that the residual data is not normally distributed. This study can ignore the normality test because the number of observations in this study is 349, as with the assumption of the Central Limit Theorem as a support for the test results, namely, if the number of research data is relatively large (n > 30), then the assumption of normality can be ignored (Gujarati, 2003).

Table 3.4

Test of Multikolinieritas

	PEMBIAYAAN	PMDN	PMA	INFLASI	TPAK
PEMBIAYAAN	1.000000	-0.264167	-0.184311	0.046818	0.152653
PMDN	-0.264167	1.000000	0.623076	-0.110952	-0.153595
PMA	-0.184311	0.623076	1.000000	-0.047113	-0.157271
INFLASI	0.046818	-0.110952	-0.047113	1.000000	-0.058181
TPAK	0.152653	-0.153595	-0.157271	-0.058181	1.000000

Source: output, 2022

The results of this test illustrate that each independent variable has a coefficient below 0.85, meaning that the independent variables are free from multicollinearity problems. Number 1 is ignored because it shows the correlation of the variable itself.

Tabel 5

Test of Heteroskedestisitas

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-19571.89	33912.45	-0.577130	0.5642
PEMBIAYAAN	-10.75147	6.331119	-1.698195	0.0903
PMDN	1.288822	0.193794	6.650485	0.0000
PMA	4.121912	1.595892	2.582827	0.0102
INFLASI	-8.191566	128.6643	-0.063666	0.9493
TPAK	512.7774	415.7559	1.233362	0.2183

Sumber: Output, 2022

The probability value of each independent variable is above 0.05, meaning that there is no heteroscedasticity disorder.

Tabel 6

Test of t-statistic

Variabel	*Coefficient*	*t-statistic*	*Probabilitas (sig)*
PEMBIAYAAN	-0.000899	-7.24E-05	0.9999
PMDN	9.728429	26.20220	0.0000
PMA	8.295729	1.706503	0.0889
INFLASI	185.2081	0.914909	0.3609
TPAK	-1296.377	-0.860727	0.3900
Sum squared resid	6.21E+11		
Prob (f-statistic)	0.000000		
R-squared	0.988367		

Sumber: output. 2022

3.2. Discussion

1) Effect of Islamic Banking Financing on Economic Growth in Indonesia

Furthermore, the results of testing the hypothesis on the t-statistic test of Islamic bank financing have an insignificant negative effect on economic growth in Indonesia. if seen from the variable coefficient of -7.24E-05. This means that a 1 percent increase in Islamic bank financing will increase economic growth by -7.24E-05.

Like Iwan Setiawan's research, which states that statistically Islamic bank financing has no significant positive effect on economic growth (Setiawan, 2021). Then Sherly Anggraini et al.'s research found that Islamic banking financing has a significant negative effect on economic growth in Indonesia (Angrayni *et al.*, 2016).

2) Effect of PMDN on economic growth in Indonesia

Furthermore, the results of testing the hypothesis on the PMDN t-statistic test have a positive and significant influence on economic growth in Indonesia. According to the variable coefficient of 26.20220. This means that a 1 percent increase in PMDN will increase economic growth by 26.20220. Such as research by Alice et al., which states the link between PMDN and economic growth, which has a significant impact on economic growth in Indonesia (Alice *et al.*, 2021). Furthermore, Melani Yunita and Sri Ulfa Santosa's research stated that there was a good relationship between economic growth and domestic investment (PMDN) (Yunita & Sentosa, 2019). These findings are supported by Harrod's (1939) and Domar's (1947) theories, which hold that investment is essential to the process of economic growth and that growing an economy necessitates an investment as additional capital (Boediono, 2018).

3) Effect of FDI on economic growth in Indonesia

Furthermore, the results of hypothesis testing on the FDI t-statistic test have a negative effect on economic growth in Indonesia. According to the variable coefficient of 1.706503. That is, a 1 percent increase in FDI will increase economic growth by 1.706503. Such as research by Ahmad Ali Ridwan and Syamsul Huda (2022), which states that FDI has a significant positive influence on economic growth in the province of East Java (Ridwan & Huda, 2022). Furthermore, research from Bernhard Peter Nabut and Romulo Sinabutar (2021) states that FDI has a significant negative effect on economic growth in East Java (Bernhard Peter Nabut, 2021).. However, this study proves that the influence of FDI has a significant negative effect on economic growth in Indonesia.

4) Effect of Inflation on Economic Growth in Indonesia

Furthermore, the results of testing the hypothesis on the t-test statistic Inflation has a negative effect on economic growth in Indonesia. As seen from the variable coefficient of 0.914909, That is, a 1 percent increase in inflation will increase economic growth by 0.914909. However, based on the results of this study, inflation has a negative and significant effect on economic growth in Indonesia. The results of this study are reinforced by research from Herman Ardiansyah (2017) that shows inflation has a significant negative effect on economic growth in Indonesia (Ardiansyah, 2017). If inflation rises, then economic growth will decrease; if inflation falls, then economic growth will rise.

5) Effect of TPAK on Economic Growth in Indonesia

Furthermore, the results of hypothesis testing on the t-statistic test of TPAK have a negative but insignificant effect on economic growth in Indonesia. According to the variable coefficient of -0.860727.This means that a 1 percent increase in TPAK will increase economic growth by -0.860727. The results of this study cannot prove the theory of Licolin (Licolin, 1996), which states that an increase in employment is seen as a positive indicator to encourage economic growth. This is due to an increase in total production in an area, and in measuring the economic growth of a region, one of the methods used is the total productivity. After testing, the results show that the variable labor force participation rate (TPAK) shows a negative interaction with stimulating economic growth.

4. CONCLUSION

The results of testing and analyzing the hypotheses in the discussion described that economic growth in Indonesia, as measured by Islamic Banking Financing, PMDN, FDI, inflation, and TPAK, has a simultaneous effect on Indonesia's economic growth in 2010-2020, meaning that, for example, there are independent variables occurring simultaneously, and so economic growth in Indonesia is increasingly leading to change.

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