THE IMPLEMENTATION OF SHARIA BANKING ON THE ECONOMY OF SOCIETY IN INDONESIA

Andi Muhammad Reza

Faculty of Economic and Business, Universitas Malikussaleh

Abstract

The rapid development of Islamic banking in Indonesia, which must be balanced with contributions to economic growth, is the background for writing this article. The analysis in this article uses the Ordinary Least Square (OLS) method to find out how much influence Islamic banking has on economic growth as represented by the Gross Domestic Product. The financial sector plays an important role in driving a country's economic growth. This study aims to analyze the causal relationship between Islamic banking on Indonesia's economic growth, analyze the response of Indonesia's economic growth when shocks occur in Islamic banking variables, and determine the contribution of Islamic banking variables to Indonesia's economic growth. Total deposits, total credit/total financing, and total assets as a variable that represents banking. GDP (Gross Domestic Product) as a variable that represents economic growth. Using the Cointegration and Granger Causality methods, the results show that in general conventional and Islamic banking have an effect on economic growth in Indonesia.

Keywords: Syariah Banking, Indonesian Economy.

1. INTRODUCTION

The history of the development of Islamic banks in Indonesia itself began with the emergence of ideas and concepts for Islamic financial institutions in 1980, then an MUI workshop was held where participants agreed to establish Islamic banks in Indonesia in 1990, so that on May 1, 1992 the first Islamic bank was named Bank Muamalah Indonesia. So that in its current development the banking system in Indonesia adheres to a dual banking system, namely Conventional Banks and Islamic Banks. This is recognized and known since the enactment of Law no. 7 of 1992 concerning banking. Then strengthened by the existence of Law no. 10 of 1998 as a substitute for Law no. 7 of 1992. The dual banking system or dual banking system is the implementation of two banking systems (conventional and sharia) side by side. Muhammad Abduh and Mohd Azmi Omar found evidence that in the long term, the development of Islamic finance has a positive and important role and is related to economic growth and capital increase. Domestic financing provided by the Islamic banking sector has contributed to Indonesia's economic growth. In other words, Islamic banking has proven to be effective as a financial intermediary that facilitates the transfer of funds from "surplus households to deficit households". The relationship between sharia financing and economic growth in Indonesia plays a role in stimulating economic growth and encouraging the development of sharia banking in Indonesia.

2. LITERATURE REVIEW

Much research has been done on the effect of sharia banking financing and DPK on economic growth. Furqani and Mulyany (2009) conducted research to see the relationship between Islamic banking and economic growth in Malaysia. The methods used in this study are the Cointegration test and VECM. The results of this study in the long term there is a two-way relationship between banks.
Sharia, as well as the existence of a "demand following" relationship that supports the hypothesis between GDP and Islamic banking. The results of the study show that there is a two-way relationship and a significant relationship between Islamic banking financing and economic growth in the long and short term. This means that Islamic banking shows an effective performance as an intermediary institution in channeling financing. Kassim (2015) analyzed the effect of Islamic finance on macroeconomic indicators using the ARDL approach. The results of the study show that Islamic finance already has an important role in the economic sector by collecting and channeling funds effectively for investment.

2.1 Economic Growth

Economic growth theories look at the relationship between economic growth and the determinants of economic growth. The difference between one theory and another lies in the different focus of discussion and/or assumptions used.

Optimal Population Theory This theory has been developed by the Classics. According to this theory, the application of the law of diminishing returns means that not all residents can be involved in the production process. If forced, it will actually reduce the level of economic output.

2.2 Neo Classic Growth Theory

The focus of the discussion on Neo-Classic growth theory is the accumulation of stocks of capital goods and their relation to people's decisions to save or invest.

2.3 Endogenous Growth Theory

The weakness of the classical and neo-classical models lies in the assumption that technology is exotic. The consequence of this assumption is the law of diminishing returns, because technology is considered a fixed input.

2.4 Schumpeter Theory

Schumpeter believes that economic growth is largely determined by entrepreneurship skills. This is because entrepreneurs have the ability and courage to apply new inventions in production activities. Steps to apply new inventions in the business world are innovation steps.

2.5 Banks and Economic Growth

Related to the role of Islamic Banks in economic growth, Said Al-Halaq (2005) in his research on the practice of Jordan Islamic Bank (JIB) as a case study during the 1980-2000 period. The two stage ordinary least square (2SLS) method is used to determine the direct and indirect effects of Jordan Islamic Bank (JIB) on real income per capita as a proxy for economic growth. The results obtained are the indirect effect of total JIB financing and investment as a percentage of total credit which is relatively small (0.048) compared to conventional banks (0.50). David and Ikechukwu (2011) this study examines the contribution of Nigerian Banks to economic growth. Using the cointegration method, the results show that the bank intermediary variable has no significant impact on economic growth.

2.6 Financial Development and Economic Growth

Perera and Paudel. (2009) examined the causal relationship between financial development and economic growth in Sri Lanka during the period 1955–2005, the main findings of this study strongly do not support the view that financial development increases economic growth. In general, these results are in line with the findings of Sinha and Macri (2001). In financial terms, the causal relationship is influenced by the type of bank and the type of loan. Kar and Pentecost (2000) tested a causal relationship between financial development and economic growth in Turkey during the period 1963–1995, empirical results showed that there was a causal relationship

2.7. Economic Growth and Gross Domestic Product (GDP)

Gross Domestic Product is generally used as an indicator of the good and bad of a country's economy and as a measure of people's welfare. For economists, statisticians and journalists, national income calculations provide in-depth information that can be used to project economic growth and development. Although the calculation of national income is not an exact science, it does provide economic performance and how production or income is generated and allocated. The value of the Gross Domestic Product (GDP) used to measure economic growth is GDP based on constant prices. In this case, the effect of price changes has been removed, so that even if the figures that appear are the monetary value of the total output of goods and services,

3. RESEARCH METHODS

The type of data used in this research is secondary data in the form of monthly time series data from 2008–2012. The data was obtained from Bank Indonesia (BI) and the Indonesian Central Bureau of Statistics (BPS), the period selection is determined by data availability. Total deposits, total loans/total financing, and total assets as variables that represent banking. GDP (Gross Domestic Product) as a variable that represents economic growth. The data analysis method used is descriptive quantitative. The analytical tool used in this study is the Vector Autoregression (VAR) method if the data used is stationary at the level, but if the data used is stationary at the first difference then it is continued with the Vector Error Correction Model (VECM) method. The data were processed using Eviews 8 and Microsoft Excel 2007 software.

4. RESULTS AND DISCUSSION

One way that can be done to see the economic growth of a country is by looking at the GDP of that country. GDP (Gross Domestic Product) is the sum of all the total goods and services produced by a country in a certain period of time. GDP (Y) is formed from four major components, namely consumption (C), investment (I), government spending (G), and net exports (XM). Technically it can be written briefly as follows: \( Y = C + I + G + (XM) \). GDP in a country can change (increase or decrease), while the causes for these changes can be caused by changes in prices, the effect of a real increase in the GDP component or both. Changes in GDP caused by changes in prices can occur if there is an increase or decrease in prices, the amount of goods that can be purchased by the public will undoubtedly change as well. If prices rise, most people will be poorer than they were before, even though the amount of income they receive remains the same. Furthermore, changes in GDP can also be caused by real changes in GDP, as explained above that GDP is formed from four major components, namely, consumption (C), investment (I), government spending (G), and net exports (XM). Changes in just one of the four elements will certainly cause changes in GDP. Consumption In economics, consumption can be interpreted as the use of goods and services to satisfy human needs. If a person has earned income from his work/business, this income will be spent for the first time for consumption purposes, whereas if there is still some left over, it will be saved. Technically the statement can be briefly written as follows: \( a) Y = C + S \). In Indonesia, the consumption component has a very large portion of its influence on GDP.

Indonesia, from the data from the Indonesian Central Statistics Agency (BPS) in the fourth quarter of 2012 in terms of the pattern of distribution of GDP usage (current prices), the component of household consumption expenditure is still the largest contributor to the use of...
Indonesia's GDP with a proportion of 54.61% in 2011 and 54.56% in 2012. This increase in the consumption sector was made possible due to an increase in people's income, or in other words it can be said that in general Indonesian people are getting richer. So that with an increase in people's income, it will also be followed by an increase in consumption activities and will ultimately have an impact on increasing Indonesia's GDP. With an increase in GDP, it can also be said that the Indonesian people are generally more prosperous than in previous years. The moment of economic growth driven by household consumption expenditure needs to be maintained by the government. This is because consumption is the largest contributing component to Indonesia's GDP. One of the ways that can be done is to maintain the inflation rate, by keeping the inflation rate as low as possible so as to increase people's purchasing power.

5. CONCLUSION

The causality relationship supports the existence of bidirectional causality between Islamic banking and economic growth in Indonesia. Real GDP growth increases, will increase the total financing provided by Islamic banking. Increased financing disbursed will increase sources of capital and economic activity. In the long term, economic growth is positively and significantly influenced by total financing and international trade. The DPK variable has a significant negative response. This can be explained by the phenomenon of displacement commercial risk. This means that the role of Islamic banking for economic growth is relatively small. This relatively small influence is caused by the still small market share of Islamic banking and financing in Islamic banks which is still dominated by murābaḥah (consumptive sector). Whereas,

REFERENCES


THE IMPLEMENTATION OF SHARIA BANKING ON THE ECONOMY OF SOCIETY IN INDONESIA

Andi Muhammad Reza


THE IMPLEMENTATION OF SHARIA BANKING ON THE ECONOMY OF SOCIETY IN INDONESIA

Andi Muhammad Reza


Syahputra, A., Indriani, F., Gunawan, D., Sinurat, M., Ilham, R. N., Hutauruk, R. P. S., &
THE IMPLEMENTATION OF SHARIA BANKING ON THE ECONOMY OF SOCIETY IN INDONESIA

Andi Muhammad Reza


