

## **THE ANALYSIS OF INFLUENCE STATE EXPENDITURES, ISLAMIC BANKING FINANCE AND FOREIGN INVESTMENT (PMA) ECONOMIC GROWTH IN INDONESIA 2017-2022**

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### **Abstract:**

The purpose of this research were assessing the effect of the correlation between state spending, Islamic banking finance and foreign investment (PMA) economic growth in Indonesia. The research sources of data were secondary data from 2017-2021. From this analysis, the Gross Domestic Product at constant prices was used to measure Indonesia's economic growth. This study were included in quantitative research and applies the Multiple Linear Regression Method. The results of the study based on the t-test (partial test) found that Islamic banking finance and foreign investment (PMA) significantly affect economic growth in Indonesia. Then for the variable State Expenditure did not significantly affect Economic Growth in Indonesia.

**Keywords:** State Expenditure, Islamic Banking Finance, PMA, Economic Growth in Indonesia, GDP.

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## **INTRODUCTION**

Indonesia was survive on 2020, the economic were down and turn, that only -2.07% year over year (yoy), placing it fourth among the G20 nations at a time when the worlds economy were slowing. As 2021 began, improved pandemic management also encouraged Indonesia's economy to expand by 7.07% (yoy) in the second quarter of that year. The rate of increase were highest, it has been in 16 years. This demonstrates Indonesia's resilience in the face of adversity. Even in the second quarter of 2021, government consumption still actively contribute to strengthening economic development during the epidemic. This endeavor may therefore encourage a rise in household consumption and investment levels.

In theory, the high economic growth would have an impact on job creation and number of unemployment will decrease. If the aggregate output (Y) increases, it will cause a reduction in the unemployment rate and will ultimately reduce the number of poor people (poverty level). Therefore, one of the main focuses in economy are how to increases the amount of production of goods and services in an economy.

The role of government was inseparable from economic growth. Various policy instruments related to the government's economic development reflect this role. Keynes

thought that the two types of economic policy-fiscal and monetary-had a strategic role to play in encouraging higher production of goods and services. One of the strategies used to keep the economy stable is fiscal policy. The Keynesian idea that the state has the economic resources to stimulate the economy through fiscal policy, one of which is state spending, is still widely accepted in almost all nations today. One of the nations that adheres to this theory is Indonesia. As a result, annual budget increases are continuously allocated by both the national and regional governments. According to the statistical data agency, state spending has increased significantly every year for the past few years. This is shown by state expenditures of Rp 2,595,481.10 billion in 2020 and Rp 2,714,155.72 billion in 2022.

According to the Keynesian school of thought, increasing government spending can help an economy's output (or income). Government spending is regarded as a factor that can promote economic expansion. On the other hand, a rise in government spending may result in a budget deficit. Empirical studies on the effect of state spending on economic growth found at least three patterns of relationship, namely; First, it is positively related. This means that state spending can increase economic growth and reduce poverty. Second, it has a negative effect, meaning that state spending actually has a negative impact on economic growth. This shows there is a waste in state spending. Third, the relationship between the two is not significant, meaning that state spending does not have a significant impact on economic growth.<sup>1</sup>

The banking sector has an impact on economic growth in addition to state spending. The country's economic growth is significantly influenced by the financial sector. Through capital accumulation and technological advances, the financial sector is transformed into a driving force for real sector growth, more specifically, the financial sector can mobilize savings and provide borrowers with a variety of low-risk financial products<sup>2</sup>. involvement of the financial sector (financial inclusion) in Indonesia, is needed to improve the welfare of the community, it will have an effect on reducing poverty, reducing income inequality, and promoting economic growth.

The financial sector is one sector that can influence economic growth and plays an important role in triggering the country's economic growth. If the financial sector grows well, there will be more sources of funding associated with productive economic sectors. In the end it will encourage the development of economic sector capital to help economic growth.

Possible approaches that can explain the causal relationship between the banking sector and economic growth, namely; 1) banking and finance are determinants of economic growth (finance growth hypothesis) or commonly called the "supply-leading view", 2) banking and finance follow economic growth (growthled finance hypothesis) or commonly called the "demand-following view", 3) the relationship of mutual influence between banking and finance and growth or commonly called "the bidirectional causality view", and 4) banking and finance and growth are not interconnected or commonly called "the independent hypothesis."<sup>3</sup>

Currently, there is also a sharia banking system that is different from conventional

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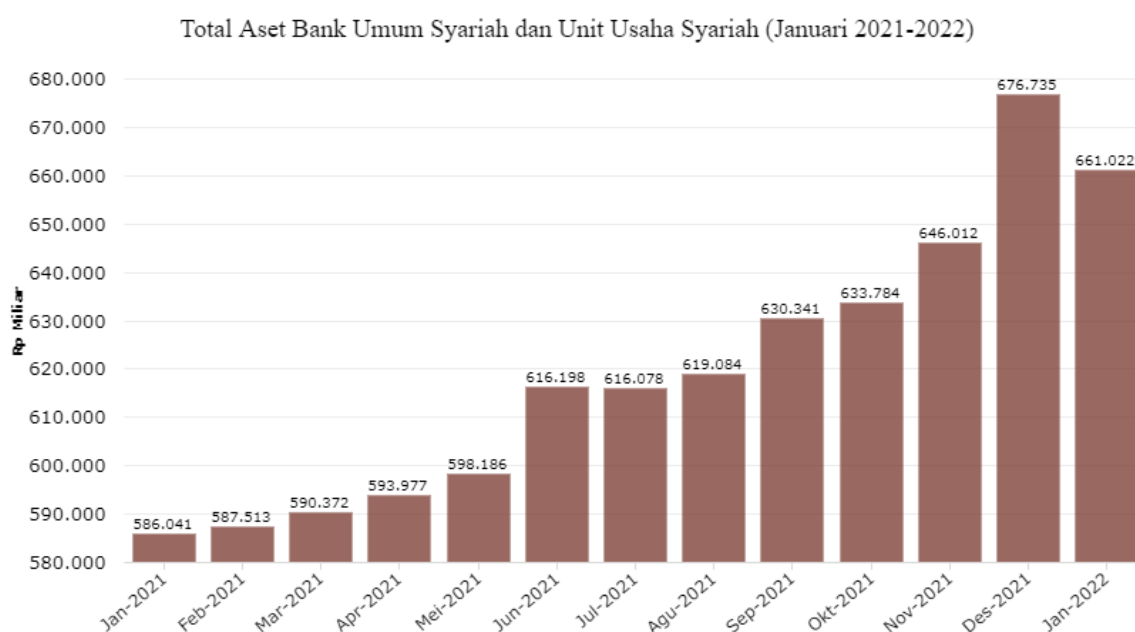
<sup>1</sup> Ade Ananto Terminanto and Ali Rama, "Pembiayaan Bank Syariah Terhadap Pertumbuhan Ekonomi : Studi Kasus," *Iqtishadia* 10, no. 1 (2017): 100.

<sup>2</sup> Yesi Hendriani Supartoyo et al., "Pengaruh Sektor Keuangan Bank Perkreditan Rakyat Terhadap Perekonomian Regional Wilayah Sulawesi," *Kajian Ekonomi dan Keuangan* 2, no. 1 (2018): 23.

<sup>3</sup> *Ibid.*, 101.

banks in several respects, namely that it is based on the principle of profit sharing, the Islamic banking system provides a banking system that benefits the community and banks, places justice in transactions, has ethics in investment, and prioritizes brotherly values and values. refrain from engaging in speculative financial transactions<sup>4</sup>. Islamic banks are an alternative to the banking system that can be trusted and can be used by all levels of Indonesian society because they provide a more diverse range of financial banking products and services.

Assets held in total by Islamic commercial banks and sharia business units reached IDR 661.02 trillion in January 2022. This number increased by 12.8% per year (YoY) from IDR 586.04 trillion in 2021. Meanwhile, from IDR 390,252 billion in May 2021, the total financing of Islamic commercial banks and sharia business units grew to Rp 432,004 billion in May 2022, according to sources from the Financial Services Authority (OJK).



**Figure 1.** Aset Total BUS dan UUS (January 2021-2022)

Meanwhile, in total, BUS and UUS offices decreased by 190 offices as of May 2022. Sharia banking offices became 2,255 offices from the original 2,445 offices as of May 2021. Meanwhile, the total number of BPRS offices increased to 165 as of May 2022 from 163 offices as of May 2022. May 2021. Currently, most business sectors, rely heavily on bank financing for capital, especially in developing countries. As a component of the national banking system, Islamic banking plays a positive role in the economy. The majority of people in Indonesia are Muslims, making it the largest Muslim-dominated country in the world. As a result, Islamic banking plays a special role in encouraging economic growth<sup>5</sup>.

In addition to Islamic banking financing, a country's economic growth can also be

<sup>4</sup> Ayief Fathurrahman, "Meninjau Ulang Landasan Normatif Perbankan Syariah Di Indonesia," *Journal of Chemical Information and Modeling* 9, no. 1 (2019): 2.

<sup>5</sup> Heri Irawan, Ilfa Dianita, and Andi Deah Salsabila Mulya, "Peran Bank Syariah Indonesia Dalam Pembangunan Ekonomi Nasional," *Jurnal Asy-Syarikah: Jurnal Lembaga Keuangan, Ekonomi dan Bisnis Islam* 3, no. 2 (2021): 154.

influenced by several other factors, one of which is foreign direct investment (PMA). The government is trying to find new sources of funding for good development, both from within and outside the country, which is one of the things the government can do to encourage economic growth<sup>6</sup>. Basically, investment is the formation of capital that encourages the private sector in the economy. To support economic growth, new investment is needed as capital stock, such as domestic investment and foreign investment. For undeveloped countries such as Indonesia, foreign investment has advantages over commercial loans for development financing. Foreign investment is one of the sources of funding and development services in developing countries. in the form of a package of capital, technology and management skills that are selective and their use can be synchronized with the stages of development of a country<sup>7</sup>.

The economic growth of a country is closely related to investment, because the government is actively seeking investors from abroad. Investors are given great convenience in obtaining business permits and other guarantees, such as guarantees for the availability of energy, raw materials, and other resources<sup>8</sup>. This is done to improve the economic situation in Indonesia. Investing brings many benefits, including creating jobs, increasing per capita income, reducing poverty, increasing living standards, and increasing gross domestic product. (GDP). And for the relationship between state spending and economic growth, in research conducted by Yurdakul, et al (2015) in Terminanto & Rama in (2017)<sup>9</sup> state expenditure has a negative effect on economic growth, meaning that an increase in state spending will cause a deficit in the country. state funds for economic activities is still not optimal. This is in line with research conducted by Islamiah (2015)<sup>10</sup>, the results of research on state spending on economic growth found that development/capital has a significant negative effect on economic growth, meaning that when capital expenditure increases, economic growth tends to decrease.

Regarding the relationship between Islamic bank financing and economic growth, research by Mohammad Nasir, Tasdik Ilhamudin, and Rasyidusman Hannamara Furqan Nur (2020) shows that financing provided by Islamic banks has a positive effect and is very useful in supporting economic growth. The results show that the research results are in harmony with one of Schumpeter's theoretical hypotheses that the Islamic banking sector encourages economic growth in the real sector in Indonesia<sup>11</sup>. In another study conducted by Deni Andrean and Imam Mukhlis (2021) on research on Islamic bank financing on economic growth, the research results obtained between Islamic financing and GDP. The VECM estimation results show a significant positive effect between Islamic banking and long-term economic growth. However, Islamic Banking Financing does not have a significant effect in the short term. So if sharia banking financing increases in the

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<sup>6</sup> Ibid.

<sup>7</sup> Sukandriah Sulistiawati et al., "Analisis Pengaruh Penanaman Modal Asing, Penanaman Modal Dalam Negeri, Dan Ekspor Total Terhadap Pertumbuhan Ekonomi Indonesia Periode 1990-2015," *Jurnal Ilmiah Mahasiswa Universitas Surabaya* 7, no. 2 (2019): 4205.

<sup>8</sup> Alice et al., "Pengaruh Investasi Penanaman Modal Terhadap Pertumbuhan Ekonomi Melalui Peningkatan Produk Domestik Bruto Di Indonesia," *WACANA EKONOMI (Jurnal Ekonomi, Bisnis dan Akuntansi)* 20, no. 2 (2021): 78.

<sup>9</sup> Terminanto and Rama, "Pembiayaan Bank Syariah Terhadap Pertumbuhan Ekonomi : Studi Kasus."

<sup>10</sup> Nurhidayati. Islamiah, "Analisis Pengaruh Belanja Pembangunan/Modal Dan Tingkat Inflasi Terhadap Pertumbuhan Ekonomi Dan Penerimaan Pajak Di Indonesia.," *Economix* 3, no. 1 (2015).

<sup>11</sup> Muhammad Nasir, Tasdik Ilhamudin, and Rasyidusman Hannamara Furqan Nur, "Analisis Pembiayaan Terhadap Pertumbuhan Ekonomi Di Indonesia," *Ekonis: Jurnal Ekonomi dan Bisnis* 22, no. 1 (2020): 32-38.

long term it will cause economic growth in Indonesia to increase in the long term<sup>12</sup>.

As for the relationship between investment and economic growth, according to Kuncoro in Sulistiawati in (2012), economic growth also depends on the amount of investment value that is considered capable of driving the economy. This study resulted in the conclusion that investment has a significant negative effect on growth an economy<sup>13</sup> what is interesting in this study is that the research results are inversely proportional to several previous studies and existing theories, one of which is Keynesian theory which states that investment is one of the factors that influence economic growth. This explains that in fact investment has not been able to increase economic growth in Indonesia. This is due to several factors inhibiting investment in Indonesia, such as low human resources and a lack of existing facilities. This is in line with research conducted by Shopia and Sullasmiyati (2018)<sup>14</sup> using the panel data regression analysis method showing that Foreign Investment and Exports have a significant and positive effect on the economic growth of the three countries, but for Indonesia Foreign Investment has a negative relationship to growth. economy.

Based on the research above, this study wanted use independent variables, namely State Expenditure, Islamic Banking Finance and Foreign Investment (PMA), which was found in publications, which used the three comparisons together in research that to influence growth in economy. Another thing that made this research different from previous research was that the subject focuses on a country's economic growth as measured by using the GDP growth rate at constant prices at the period 2017-2021. The purpose of this study was to analyze whether there was an influence of state spending, Islamic bank finance and foreign investment on economic growth in Indonesia since 2017-2021

## LITERATURE REVIEW

### Economic Growth

Growth is the process of a country's economic situation continuously improving for a predetermined amount of time. The process of growing an economy's production capacity, which results in a rise in national income, is sometimes referred to as economic growth. Economic growth is a sign that economic development has been successful. Economic growth is a good indicator of how well a nation has developed economically. The increase in output, which is reflected in the Gross Domestic Product, can be used to calculate a country's economic growth (GDP). One of the metrics recognized as the best gauge of a nation's economic performance is GDP. The growth rate of the GDP at constant prices can be used to calculate a nation's economic growth rate.

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<sup>12</sup> Deni Andrean and Imam Mukhlis, "Analisis Pengaruh Kredit Perbankan, Pembiayaan Bank Syariah Dan Investasi Terhadap Pertumbuhan Ekonomi Di Indonesia Periode Sebelum Pandemi Covid-19 (2015-2019) Dan Periode Pandemi Covid-19 Tahun 2020," *Jurnal Ekonomi, Bisnis dan Pendidikan* 1, no. 9 (2021): 844–853.

<sup>13</sup> Rini Sulistiawati, "Pengaruh Investasi Terhadap Pertumbuhan Ekonomi Dan Penyerapan Tenaga Kerja Serta Kesejahteraan Masyarakat Di Provinsi Di Indonesia," *Jurnal Ekonomi Bisnis dan Kewirausahaan* 3, no. 1 (2012): 29–50.

<sup>14</sup> A Shopia and S Sullasmiyati, "Pengaruh Foreign Direct Investment, Ekspor, Dan Utang Luar Negeri Terhadap Pertumbuhan Ekonomi ASEAN," *Fakultas Ilmu Administrasi Universitas Brawijaya* (2018): 180, <http://administrasibisnis.studentjournal.ub.ac.id/index.php/jab/article/view/2594>.

These are the three most important aspects of determining economic growth<sup>15</sup>. This shows that in the long term, economic welfare results in an increase in people's purchasing power and an increase in output per capita, and there are various preferences in consuming goods and services<sup>16</sup>.

A country's economic performance and development can be demonstrated by economic growth which can be positive or negative. If the economy shows that economic activity has increased in that country then there is positive growth. Meanwhile, a decline in national economic activity is indicated if the economy experiences negative growth. This is in line with the current phenomenon where in the second quarter of 2020 it was inevitable that Indonesia's growth would experience a fairly deep contraction, namely minus 5.32%. Various policies to save the economic sector were immediately issued, although still prioritizing the health sector. These policies are such as Social Assistance for affected communities, micro or area-scale PSBB, and optimization of the state expenditure sector.<sup>17</sup>

Thus, that the government has issued an economic policy to overcome the problems caused by the Covid-19 pandemic, namely by issuing Regulation in lieu of Law No. 1 of 2020 has become Law No. 2 of 2020 concerning State Financial Policies and Financial System Stability for Handling the COVID-19 Pandemic and/or In the Context of Dealing with Threats That Endanger the National Economy and/or Financial System Stability, Government Regulation No. 23 of 2020 concerning Implementation National Economic Recovery Program in the Context of Supporting State Financial Policy for Handling the Covid-19 Pandemic and/or Facing threats that endanger the National Economy and/or Financial system stability as well as saving the National Economy<sup>18</sup> which is expected to boost the Indonesian economy during the Covid-19 pandemic.

### **State Expenditure**

State Expenditure is a major part of economic development. If the role of the private sector decreases along with increasing economic development, the government can encourage economic development by increasing the amount of state expenditure. Other sectors can also develop as a result of increased state spending. The definition of State Expenditure is the activity taken by the government to control economic flow by calculating the amount of government revenues and expenditures each year that are shown in regional or regional APBD documents.

Fiscal policy is to boost economic growth whereas stabilizing prices, output levels, and employment opportunities. State spending plays a very important role in this when everything is going well, the economy accelerates the economy in a country and when the economy is stable there will certainly be more job opportunities and business

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<sup>15</sup> Yola Yolanda, Amir Machmud, and Nabilah Yusof, "Analisis Pengaruh Pembiayaan Bank Umum Syariah Dan Inflasi Terhadap Pertumbuhan Ekonomi Di Indonesia Periode 2010-2019," *Jurnal Imara* 5, no. 2 (2021): 116.

<sup>16</sup> Rinaldi Syahputra, "Analisis Faktor-Faktor Yang Mempengaruhi Pertumbuhan Ekonomi Di Indonesia," *Jurnal Samudra Ekonomika* 1, no. 2 (2017): 183.

<sup>17</sup> Yenni Ratna Pratiwi, "Pemulihan Perekonomian Indonesia Setelah Kontraksi Akibat Pandemi Covid-19," *Kementerian Keuangan Republik Indonesia*, last modified 2022, <https://www.djkn.kemenkeu.go.id/kpknl-banjarmasin/baca-artikel/14769/Pemulihan-Perekonomian-Indonesia-Setelah-Kontraksi-Akibat-Pandemi-Covid-19.html>.

<sup>18</sup> Anita Widiastuti and Silfiana, "Dampak Pandemi Covid-19 Terhadap Pertumbuhan Ekonomi Di Pulau Jawa," *Jurnal Ekonomi-QU* 11, no. 1 (2021): 100.

opportunities in Indonesia.

### Islamic Banking Financing

One of the financial institutions that has a significant impact on a nation's economy is banking. The establishment of financial institutions, especially those based on sharia, is one of Indonesia's economic developments.<sup>19</sup>

In the banking system in Indonesia, there are two types of banking operational systems, namely conventional banks and Islamic banks.<sup>20</sup> According to the Banking Law no. 10 of 1998, financing based on sharia principles is an inter-bank agreement in which the bill is returned after a predetermined repayment period or profit sharing<sup>21</sup>. In today's era, Islamic banking is estimated to be very promising and not detrimental to Indonesian customers, and from year to year it can be seen that the interest is increasing so the role of Islamic banking is important for the people of Indonesia<sup>22</sup>.

The importance of banking for the Indonesian economy, banking is regulated and supervised by Bank Indonesia (BI) and the Financial Services Authority (OJK). Law number 21 of 2008 concerning Islamic banking, states that Islamic banks are banks that carry out business activities based on sharia principles, or Islamic legal principles contained in the fatwas of the Indonesian Ulema Council (MUI) such as the basic principles of justice and balance (*'adl wa tawazun*), benefit (*maslahah*), universalism (*alamiyah*), and do not contain *gharar*, *maysir*, and unlawful objects<sup>23</sup>. The growth of Islamic banking in Indonesia is a form that is highly prioritized so that some of them can be distinguished into three stages, namely (the introduction phase), the (recognition phase), and (the purification phase). Each of these three stages. The increasing development of Islamic banking in Indonesia must be accompanied by a contribution to the growth of an economy.

In the world, the rise of the Islamic economic system and Islamic banking has been widely used by various countries in the world. As is the case in other Muslim-majority countries, Islamic financial institutions in Indonesia are well developed. Islamic banks in Indonesia are included in the top 10 countries with the most Islamic bank assets in the world (Financial Services Authority, 2017). Because the majority of the population is Muslim, various regulations regarding banking have been enacted, as well as the support of the clergy and the government, can make Indonesia compete with other countries in the world. Islamic banks in Indonesia actually have extraordinary opportunities and potential. Increasing the financial performance of Islamic banks can help contribute to the growth of the real sector. In the *Global IFinance Report 2021*, Indonesia ranks first in the *Finance Country IslamicIndex* (IFCI) because Indonesia has the most dynamic Islamic

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<sup>19</sup> Andika Ramadhana Simarmata, "Strategi Dalam Menangani Pembiayaan Bermasalah Di Pt. Bank Sumut Kantor Cabang Pembantu Syariah Karya Medan," *Al Iqtishod: Jurnal Pemikiran dan Penelitian Ekonomi Islam* 9, no. 2 (2021): 94-108.

<sup>20</sup> Ismail, *Perbankan Syariah*, Jakarta, Kencana, 2017).

<sup>21</sup> Novi Mubyarto and Hansen Rusliani, "Dampak Penerapan Perbankan Syari'ah Terhadap Pertumbuhan Ekonomi Negara: Kajian Perbandingan Malaysia Dan Indonesia," *ILTIZAM Journal of Sharia Economic Research* 1, no. 1 (2017): 43.

<sup>22</sup> Dahruji Dahruji and A'yunina Amalia Muslich, "Pengaruh Profitabilitas Terhadap Financial Distress Pada Bank Umum Syariah Periode 2018 - 2020," *Jurnal Ekonomi Syariah Teori dan Terapan* 9, no. 3 (2022): 389.

<sup>23</sup> Angriani and Ambo Asse, "Penerapan Shariia Compliance Sebagai Prinsip Sharia Governance Pada Bank Muamalat Indonesia Tbk. Cabang Makassar," *Al- Mashrafiyah: Jurnal Ekonomi, Keuangana, dan Perbankan Syariah* 3, no. 1 (2019): 5-10.

social finance sector in the world. between all countries in the world<sup>24</sup>. IFCI's achievements are expected to support development of the Indonesian sharia financial industry to continue to grow, as part of global economic plan to support post-pandemic economic recovery. In this case, Bank Indonesia requires sharia banking to continuously encourage development Islamic social finance industry which is expected to help maintain monetary stability and improve the Indonesian economy.

### **Foreign Investment**

The Foreign investment known as PMA is a type of investment with the aim of building, purchasing a whole, or purchasing a company<sup>25</sup>. Advances in technology have also made it easier for investors around the world to make investments and facilitate the movement of capital.<sup>26</sup> Foreign Investment finds it easier to raise the capital required for the project due to increased international financial flows. Based on the law that regulates investment in Indonesia, No. 25 of 2007 (PMA) on foreign investment that foreign investment is an activity of investing to conduct business in the Unitary State of the Republic of Indonesia. This investment can be carried out by foreign investors or investors from other countries, either entirely using foreign capital or in partnership with domestic investors.

A government action or action connected to the interests or basic needs of the community toward the establishment of numerous employment opportunities, the degree of technological mastery, and the level of people's income is constrained and directed by the existence of an investment policy.<sup>27</sup> The presence of investment in a nation must be controlled and guided in order for its execution to be in line with the requirements and interests of the community and not clash with strategies for economic development.

There are numerous instances that may be used as a guide to understand the existence of investment in different nations. Investments are assumed not to contribute to or benefit the recipient country when there are no clear policies governing their regulation (host country). The existence of investment, on the other hand, is solely viewed as a parasite in a nation's economic structure. Considering the instances in almost all of the countries of Latin America where foreign investment was only used as a means for the powerful to enrich themselves and the massive depletion of natural resources that resulted in the people of Latin America developing a strong sense of hatred and antipathy towards foreign investment in their countries. They vehemently reject the national economy as a result. It will, of course, lead to limited regulation and the perception that it is simply a temporary need. in the absence of a fundamental investment policy.<sup>28</sup>

Our government should have developed a fundamental strategy for developing

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<sup>24</sup> Muhammad Nur, "Indoneisa Raih Peringkat Pertama Islamic Finance Country Index (IFCI) Pada Global Islamic Finance Report 2021," *Bank Indonesia*, [https://www.bi.go.id/id/publikasi/ruang-media/news-release/Pages/sp\\_2328321.aspx](https://www.bi.go.id/id/publikasi/ruang-media/news-release/Pages/sp_2328321.aspx).

<sup>25</sup> Sri Linda Sari, Gayatria Oktarina, and Ryan Hasianda Tigor, "Analisis Pengaruh Penanaman Modal Luar Negeri Dan Utang Luar Negeri Terhadap Laju Pertumbuhan Produk Domestik Bruto Di ...," *Jurnal Akuntansi Bisnis & ...* 8, no. 2 (2021): 71, <http://fiskal.kemenkeu.go.id/ejournal>.

<sup>26</sup> Muhamamd Ghazi, "The Determiannt of Foreign Direct Investment in Indonesia," *Jurnal Bisnis dan Akuntansi* 23, no. 2 (2021): 297–306, <http://jurnaltsm.id/index.php/JBA>.

<sup>27</sup> Amiruddin Ilmar and dkk, *Hukum Penanaman Modal Di Indonesia*, Jakarta, Kencana, 2017.

<sup>28</sup> Sri Husnulwati and Susi Yanuarsi, "Kebijakan Investasi Masa Pandemi Covid-19 Di Indonesia," *Jurnal Unpal* 19, no. 2 (2019): 187.



investment in Indonesia to regulate and direct investment, especially foreign capital, so that it is in line with development interests in light of the cases that have occurred in Latin American countries regarding the existence of investment, especially foreign capital. country's economy. Without a fundamental investment strategy, it is possible for there to be basic investment arrangements, of course, as well as partial regulation and what appears to be a fleeting requirement. In this situation, the requirement for investment, particularly foreign capital, has replaced the role of a supporting factor in the advancement of our country's economy and has instead taken the lead.

## RESEARCH METHOD

### Research flow

The outline of the research that would be carried out from start to finish is as follows:

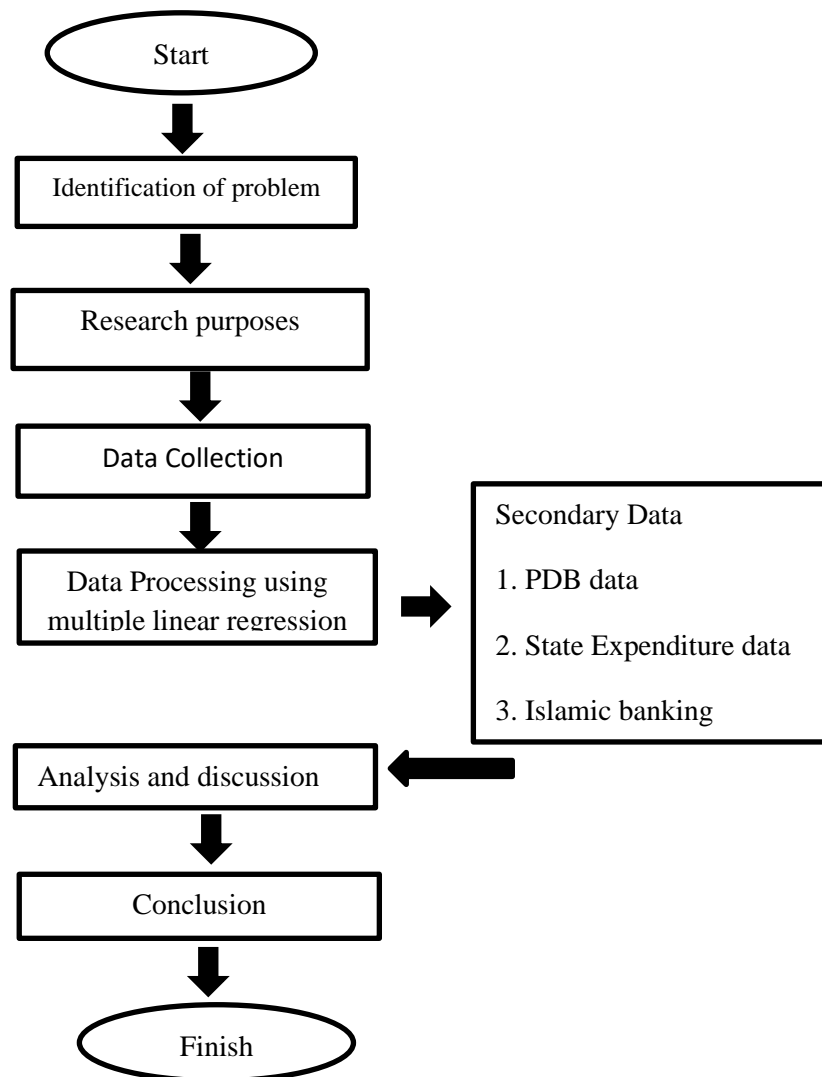


Figure 1. Chart of research conducted

### **Type of Research**

This research was quantitative approach, and the data can be calculated or presented by numerically. The main focus of this research were data collections and analysis in form of numerical data. To make this research clearer in scope, this research used a time-series, where the data collected was determined based on data for the last 5 years (2017 to 2022).

### **The Data Sources**

Annual quantitative data and secondary data gathered from media information, specifically the Central Statistics Agency and OJK that were employed at this analysis. However, the data on Foreign Investment from BPS did not include data on investors from Oil and Gas, Banking, Non-Bank Financial Institutions, Insurance, Home Industries, Micro and Small Businesses. GDP based on constant prices was used to measure the variable of economic growth, for the PMA variable was measured based on the realization of FDI, while the State Expenditure variable was based on the realization of provincial state expenditures throughout Indonesia.

### **Data Collection Methods**

The data Collection methods were used on this research:

#### **1. Documentation**

This data collection method were used to fulfill the information or data needed for the benefit of the research variables. The researcher completes the data used by collecting data, literature, reviews from books, journals, and scientific articles on the issues raised. This collection of documents or data were used to obtain information for the research process. This method was the way to get an annual report on variables related to the research topic.

#### **2. Internet Research**

This research was obtained from data collection that has been published on the website to find GDP data, state expenditure data, total Islamic banking finance and PMA data.

### **The data analyzing Techniques**

The analyzing techniques were multiple linear regression testing that was used in this research. But before being tested, several classical assumption tests were used to find out whether this study has problems with classical assumptions or not. Testing could be done through SPSS.

### **Classical Assumption Test**

#### **1. Normality Test**

This test is to know whether the variables in this study are normally distributed or not. The test aims to determine whether the confounding or residual variables have a normal distribution. As a basis that the t test and F test assume that the residual values follow a normal distribution. If the significant value  $< 0.05$  means the data is not normal but if the significant value is  $> 0.05$  it means the data is normal.

## 2. The Multicollinearity Test

Purpose of this test is to see the correlation between independent variables. It is said to be good if there is no correlation between the variables used. Multicollinearity test is done by looking at the tolerance value and VIF value. If the tolerance is above 0.1 and the VIF value is below 10, then multicollinearity does not occur between independent variables<sup>29</sup>.

## 3. The heteroscedasticity Test

This test aims to detect whether there is heteroscedasticity. This observation can be done by means of the Glejser, to find out whether a regression model has an indication of heteroscedasticity by means of absolute residual regression. The basis for decision making with this test is that if the significance value is  $> 0.05$  then the data does not have heteroscedasticity but if the significance value is  $< 0.05$  then the data has heteroscedasticity.

## 4. Autocorrelation Test

This test aims to determine whether there is a correlation between the confounding variables in a certain period with the previous variables. Autocorrelation detection can be done with the Durbin-Watson test. data there is no autocorrelation.

## Multiple Linear Regression Analysis

Multiple linear regression analysis to determine the significance of the connection and the effect of more than two independent variables (Padilah & Adam, 2019). This multiple linear regression analysis is employed to establish if there is a relationship between state expenditure (X1), Islamic banking financing (X2), and PMA (X3) variable independent (free) on economic growth (Y) as the dependent (bound).

The equations of the multiple linear regression model can be shown as:

$$\text{Economic Growth} = \alpha + \beta_1 \text{State expenditure} + \beta_2 \text{Islamic banking financing} + \beta_3 \text{PMA} + \varepsilon$$

That is where:

$\alpha$	= Constant number
$b_1 \dots b_3$	= regression coefficient each variable
X1	= State expenditure
X2	= Islamic banking finance
X3	= Foreign Investment (PMA)
E	= Error Term

## Test R2 (coefficient of determination)

The coefficient of determination test is performed to identify the amount of the independent variable's influence on the dependent variable. The independent variable can be said to be sufficient to elucidate the dependent variable if the estimated value of the coefficient of determination (R-squared) is close to one (1). On the other hand, If the R-Squared is less than or equal to zero, the independent variable is less effective in explaining the dependent variable (0).

## Simultaneous Test (F-Statistics)

The purpose of this F-test is to ascertain whether the dependent variable as a whole can be affected by the independent variable. In multiple regression equations, the F test

<sup>29</sup> Musriha, *Statistik Induktif Dan Metode Kuantitatif Untuk Ekonomi Dan Bisnis* (Surabaya: Jakad Media Publishing, 2019).

can be used to determine whether the independent variable and the dependent variable influence each other simultaneously or not. The following are the F test criteria for testing:

1.  $H_0$  is rejected and  $H_1$  is accepted if the significance value of  $F < 0.05$ . It shows that all independent variables are significantly affected by the variable dependent.
2.  $H_0$  is accepted and  $H_1$  is rejected if the significance value of  $F > 0.05$ . It shows that all independent variables have no significant effect on the dependent variable.

### Partial Test (T-Statistics)

The purpose of the t-test is to ascertain whether the regression coefficient is significant or not. The t-test is used in statistical analysis to assess if each independent variable has an impact on the dependent variable.

## RESULT AND DISCUSSION

### Classical Assumption Testing

#### 1. Normality Test

Test values the . Sig is greater than ( $\alpha = 0.05$ ), then it is not disturbed by the normal distribution. From the picture above it can be seen that the *Asymp. Sig. (2-tailed)* is 0.05 and above the significant value (0.05). It can be concluded that the data is normally distributed.

**Table 1.** Result of data Normality Test

One-Sample Kolmogorov-Smirnov Test			
		Unstandardized Residual	
N		60	
Normal Parameters <sup>a,b</sup>	Mean	0.0000000	
	Std. Deviation	14846.90479841	
Most Extreme Differences	Absolute	0.131	
	Positive	0.131	
	Negative	-00.091	
Test Statistic		0.131	
Asymp. Sig. (2-tailed)		0.012 <sup>c</sup>	
Monte Carlo Sig. (2-tailed)	Sig.	0.233 <sup>d</sup>	
	99% Confidence Interval	Lower Bound	0.223
		Upper Bound	0.244

Source: Output data SPSS,(2022)

## 2. Multicollinearity Test

**Table 2.** Result of data Multicollinearity Test

Model		Coefficients <sup>a</sup>	
		Collinearity Statistics	
		Tolerance	VIF
1	State expenditure	0.101	9.950
	Sharia banking expending	0.112	8.906
	PMA	0.482	2.073

Source: Output data from SPSS, (2022)

Based on the results of table 2, the analysis shown that all the independent variables have a tolerance above 0.1 and VIF below 10. This shown that the regression model used in this study did not contain symptoms of multicollinearity.

## 3. Heteroscedasticity Test

In calculating heteroscedasticity can be done using the *Glejser*. Testing with the *Glejser* as follows:

**Table 3.** Result of data Heteroscedasticity Test

Model		Coefficients <sup>a</sup>				
		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	-4.548E-13	0.000		-0.173	0.863
	State expenditure	0.034	0.177	0.197	0.189	0.851
	Syariah banking finance	4.394E-05	0.000	0.407	0.575	0.568
	PMA	0.000	0.000	-0.174	-0.279	0.782

Source: Output data SPSS, (2022)

Based on the results of the heteroscedasticity test it shown that all three variables have a sig value > 0.05 so it could be assumed that each variable did not have heteroscedasticity.

## 4. Autocorrelation Test

The autocorrelation test in this study was carried out using the Durbin-Watson test and the results of the test.

**Table 4.** Result of data Autocorrelation Test

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.971 <sup>a</sup>	0.944	0.940	8658.40375	1.790

Source: Output data from SPSS, (2022)

Based on the table above, it was known that the regression model formed did not occur autocorrelation because it has a DW value between  $1.6889 < DW < 2.3111$ , which is equal to 1.790.

**Result Multiple Linear Regression Analysis**

The effect of State Expenditure, Islamic Banking Financing, and Foreign Investment (PMA) on Economic Growth in Indonesia since 2017-2021 was tested using Multiple Regression Analysis. The summary of the outcomes of multiple regression calculations with the SPSS 23 program is presented in Table 1 below:

**Table 5.** Result of Multiple Linear Regression Test

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	678567.148	25855.714		26.244	0.000
State expenditure	0.325	0.363	0.192	0.894	0.375
Sariah banking expending	0.001	0.000	0.826	3.990	0.000
PMA	-0.001	0.000	-0.259	-3.857	0.000

Sumber: Output data from SPSS, (2022)

The following multiple regression equations were developed based on the previous table:

$$\text{Economic Growth} = \alpha + \beta_1 \text{State expenditure} + \beta_2 \text{Islamic banking financing} + \beta_3 \text{PMA} + \varepsilon$$

$$\text{Economic Growth} = 678,567,148 + 0,192X_1 + 0,826X_2 + (- 0,259X_3) + e$$

The following could be inferred from the coefficients of the multiple linear regression equation above:

- The constant value (a) in the regression of 678,567,148 means that if the variables X1, X2, X3 (State Expenditures, Islamic Banking Financing, and PMA) are zero (0), then the Y variable (Economic Growth) is 678,567,148.
- The regression coefficient of the State Expenditure variable is 0.192 and a positive value indicates if the State Expenditure variable increases by 1 unit, then the dependent variable, namely Economic Growth, will also increase by 0.192 and vice versa.
- The regression coefficient value for the Islamic Banking Financing variable is 0.826

and a positive value indicates if the Islamic Banking Financing variable increases by 1 unit, then the dependent variable, namely Economic Growth, will also increase by 0.862 and vice versa.

- d. The value of the regression coefficient for the PMA variable is - 0.259 and is negative, which means that if the PMA variable decreases by 1 unit, then the dependent variable, namely Economic Growth, will also decrease by - 0.259 and vice versa.

**Hypothesis Testing**

**1. t-test**

Decision-making t-test is if the value of t count > t table and significant value < 0.05 then there is a significant effect. The results of the regression coefficients using SPSS version 23 are shown below:

**Table 6.** Result of data T-test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	678567.148	25855.714		26.244	0.000
State expenditure	0.325	0.363	0.192	.894	0.375
Sariah banking expending	0.001	0.000	0.826	3.990	0.000
PMA	-0.001	0.000	-0.259	-3.857	0.000

Source: Output data from SPSS, (2022)

- a. Testing the outcomes of the partial t-test that was conducted revealed that the significance value of State Expenditure (X1) on Economic Growth (Y) was 0.375 > 0.05 then for the t-count value X2 = 0.894 and the t-table value was 2004 so that t-count < t table (0.894 < 2004), then Ha is turned down while Ho is approved. Therefore, it can be said that the factor of State expenditure has no significant effect on Economic Growth.
- b. According to the findings of the partial t-test that was performed, the results showing the significance value Islamic Banking Financing (X2) on Economic Growth (Y) is 0.000 less than 0.05 while the value of t-count X2 = 3.990 and t-table 2004 so that t-count > t table (3.990 > 2004), then Ho is approved and Ha is turned down, meaning that there is a significant impact of Islamic Banking Financing on Economic Growth.
- c. According to the outcomes of the SPSS test that was conducted, the results show that the significance value of Foreign Investment (X3) on the dependent variable Economic Growth (Y) is 0.000 less than 0.05 while the t-count value X3 = -3.857 and the t-table value is 2004 so that the t-count < t table (-3.857 < 2004) then Ha is accepted. so it may therefore be said that the foreign investment variable partially has a considerable and negative impact on economic growth.

It is explained in the IBM SPSS Statistics 19 smart book that if the value of t count is negative (-) then the negative number t does not mean minus (count) and hypothesis testing is tested on the left, and its position is in the area of rejecting H0 and accepting H1. Responding to the hypothesis that has been described previously, it demonstrates the

outcomes that the Foreign Investment variable has a negative and significant effect on the dependent variable of Economic Growth.

## 2. F test

Decision-making f test is if the F count is exceeds the F table value then the significance value is less than  $< 0.05$  then it has a significant effect on the dependent variable together.

Considering the following table, it can be seen that the significance value for State Expenditure (X1), Islamic Banking Financing (X2), and PMA (X3) on economic growth is  $0.000 < 0.05$  and for F count of  $89.648 > F$  table 2.77.

**Table 7.** Result of data F test

ANOVA <sup>a</sup>						
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	62459455435.242	3	20819818478.414	89.648	0.000 <sup>b</sup>
	Residual	13005404343.498	56	232239363.277		
	Total	75464859778.740	59			

Sumber: Output data from SPSS, (2022).

Thus, that it shown that State Expenditure, Islamic Banking Financing, and PMA have a significant influence together on economic growth.

## 3. Coefficient of Determination (R<sup>2</sup>)

**Table 8.** The Results of Coefficient Determination Test

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.910 <sup>a</sup>	.828	.818	15239.40167

Source: Output data from SPSS, (2022).

The ability of the independent variable to explain the dependent variable was measured using the R2 statistic. The R<sup>2</sup> for the data produced by SPSS as followed that from the *output* below it has a coefficient of determination (R2) which indicates that the value of R = 0.910 while R<sup>2</sup> 0,818 or 81.8% means that the dependent variable of Economic Growth can be explained by the independent variables, namely State Expenditures, Islamic Banking Financing and Foreign Investment (PMA) of 81.8% and the rest can be explained by other variables not included in this study.

## Discussion

### The Effect of State Expenditure on Economic Growth

The test result shown that the variable of State Expenditure has no significant effect on Economic Growth. It shown the gross domestic product through state spending has not



succeed in increasing economic growth.

The ability of state spending based on this study shown there was no effect, caused by the lack of spending for the central government that was carried out, and has an insignificant effect. Apart from that, this was because the government, through the state expenditure budget for regional expenditure funds, has not prioritized funding for regional incentive funds, namely adjustment funds in the APBN used for the implementation of the education function allocated to the regions.

Previous research confirmed the findings of Anitasari & Sholeh (2012)<sup>30</sup> which revealed that state spending had an effect on economic growth. Meanwhile, the findings of Anitasari & Sholeh (2012) confirm that state spending has no effect on economic growth. And the result of this study turned out to be the same as the result of Wahyudi's research (2020)<sup>31</sup> but different from Anitasari & Sholeh's research (2012). This study confirms that state spending has no effect on economic growth. Differences in the result of this study with those of Anitasari & sholeh (2012) may occur due to several indicators such as differences in terms of data such as objects, research methods and data analysis techniques used. Therefore the conclusion  $H_0$  accepted.

Therefore, budgetary support from the government for education is urgently needed as a concrete manifestation of *human capital investment* to increase people's productivity in the long term. In this context, the budget allocation for education must continue to be made relatively larger than other sectors. So that in future the government in this public sector budget allocation is focused on improving educational facilities and infrastructure including increasing education personnel which is basically aimed at improving the quality of human resources, so that it will have a direct impact on the development process and increasing economic growth.

### **The Effect of Islamic Banking Financing on the dependent variable of The Economic Growth**

The independent variable namely Islamic Banking Financing, has significant impact on the dependent variable of partial economic growth. partially. This shows that Islamic banking financing has an influence on economic growth in Indonesia. Promotion and socialization strategies play an important role in growing customer interest in sharia-based banking, which cannot be separated from the success of Islamic banking as an engine that drives the economy in Indonesia. Bank Indonesia, which is one of the institutions that regularly organizes sharia economic weeks every year in several provinces in Indonesia, is to educate and socialize sharia banking products and sharia economic activities and lifestyles.

Previous research confirms the findings of Ramadhanty & Auwalin (2021)<sup>32</sup> which reveal that Islamic banking financing has a negative effect on GRDP. Meanwhile, the findings of Terminanto & Rama (2017)<sup>33</sup> confirm that Islamic banking financing has an

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<sup>30</sup> Ahmad Soleh and Merri Anitasari, "Pengaruh Pengeluaran Pemerintah Terhadap Pertumbuhan Ekonomi Di Provinsi Bengkulu," *Ekombis Review* (2012): 117-127.

<sup>31</sup> Wahyudi, "Pengeluaran Pemerintah Dan Implikasinya Terhadap Pertumbuhan Ekonomi Dan Tingkat Kemiskinan Di Indonesia," *Prosiding Seminar Akademik Tahunan Ilmu Ekonomi dan Studi Pembangunan* (2020): 103-113.

<sup>32</sup> Rifka Putri Ramadhanty and Ilmiawan Auwalin, "Pengaruh Pembiayaan Perbankan Bank Umum Syariah Terhadap Pdrb Provinsi Di Indonesia Tahun 2010-2019," *Jurnal Ekonomi Syariah Teori dan Terapan* 8, no. 1 (2021): 8.

<sup>33</sup> Terminanto and Rama, "Pembiayaan Bank Syariah Terhadap Pertumbuhan Ekonomi : Studi Kasus."

effect on economic growth. And the results of this study turned out to be the same as those of Terminanto & Rama's (2017) research, but different from Ramadhanty & Auwalin's (2021) research. This study confirms that Islamic banking financing has an effect on economic growth. Differences in the results of this study with Ramadhanty & Auwalin's (2021) can occur due to several indicators such as differences in terms of data such as objects, research methods and data analysis techniques used. Therefore the conclusion H0 accepted.

### **The Effect of Foreign Investment on Economic Growth**

The test result show that the Foreign Investment variable has a significant and negative effect on Economic Growth. This shows that foreign investment influences economic growth in Indonesia. Furthermore, changes in PMA will be inversely proportional to changes in GDP, it's mean, if there is an increase 1 unit, It will lead to a 0.259 unit decline in economic growth.

It shows that PMA has not succeeded in increasing economic growth, due to PMA growing unevenly and only growing mostly in cities or large industries that located on java island. The provisions are equalized in each region, because if we look further each region or province has advantages and disadvantages in developing investment sector. Besides that, in Harrod Domar's investment theory , the easier investment process, it will be more investment activities carried out, and higher income generated by the state.

According to the Foreign Investment Coordinating Board (BKPM) there are several obstacles that hinder the development of foreign investment or PMA in Indonesia. According to the Research Center for the DPR RI Expertise Agency (2019) These obstacles were lack shapement investors and the lack coordination between relevant departments. so that foreign investors were less interested in investing in Indonesia. The slowdown in global economic growth which had an impact on Indonesia gave rise to concern over potential economic recession.

Previous research confirmed the finding of Fuad Afdal (2018)<sup>34</sup> which revealed that FDI has an effect on economic growth. Then in the finding of Alice, et al (2021)<sup>35</sup> said that FDI has no significant effect on GDP growth in Indonesia. Meanwhile, the finding of Humaini, Safri and Umiyati (2017)<sup>36</sup> confirm that PMA has a negative effect on Jambi province's economic growth. And the results of this study turned out to be the same as those of Humaini, Safri and Umiyati (2017) but different from Fuad Afdal's research (2018). This study confirms that PMA has a negative effect on economic growth. Differences in the results of this study with those of Fuad Afdal (2018) can occur due to several indicators such as differences in terms of data such as objects, research methods and data analysis techniques used. Therefore the conclusion H0 accepted.

It is hoped that the government will be able to create a conducive climate for investment and facilitate the investment process for foreign investors so that PMA will increase. In this way, Indonesia's economic growth will have a positive impact on

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<sup>34</sup> Fuad Afdal, "Pengaruh Investasi Asing Langsung, Penanaman Modal Dalam Negeri, Dan Tenaga Kerja Terhadap Produk Domestik Bruto Pada 33 Provinsi Di Seluruh Indonesia," *Jurnal Ilmiah* (2018).

<sup>35</sup> Alice et al., "Pengaruh Investasi Penanaman Modal Terhadap Pertumbuhan Ekonomi Melalui Peningkatan Produk Domestik Bruto Di Indonesia."

<sup>36</sup> Hayatullah Humaini, M Safri, and Etik Umiyati, "Analisis Penanaman Modal Dalam Negeri Dan Penanaman Modal Asing Dan Pengaruhnya Terhadap Pertumbuhan Ekonomi Provinsi Jambi," *e-Jurnal Perspektif Ekonomi dan Pembangunan Daerah* 6, no. 2 (2017): 57–64.

increasing investment.

PMA has a negative impact on economic growth. This goes against the theory if Foreign Investment increases, then economic growth will increase. According to this theory, the government must establish a secure environment to improve investment and make it simpler for foreign investors to make investments in Indonesia. In this way, Indonesia's economic growth will have a positive impact on encourage investment. The result of this study in line with research<sup>37</sup> which says that the findings shows that FDI has a significant and negative impact on the economic growth of Jambi province.

## CONCLUSION

Based on the result of these research, the following conclusion can be drawn: First, there were influences between State Expenditures, Islamic Banking Financing, and Foreign Investment (PMA) Economic Growth in Indonesia. This result is indicated by the significant value of F test of  $0.000 < 0.005$ . Second, the significance level of t-test of State Expenditure Variable (X1) on Economic Growth (Y) is  $0.375 > 0.05$  and the t-count value is  $0.894 < t\text{-table value } 2004$  which shown that state expenditure did not affect Economic Growth partially, while for testing Islamic Banking Financing (X2) on the t-test, significant value on Economic Growth (Y) is  $0.000$  less than  $<0.05$  and the value for t count  $3.990 > t\text{ table } 2004$ , it is successfully known that Islamic Banking Financing variable partially affect Economic Growth. Finally, the Foreign Investment variable (X3) has a significance value of  $0.000$  less than  $<0.05$ , while the t-count X3 =  $-3.857$  and the t-table value of 2004 so that t-count less than  $<t\text{-table } (-3.857 < 2.004)$  therefore, it is evident that the PMA variable got negative effect but significant effect by the dependent variable Economic Growth partially.

## Suggestion

To ensure every state expenditure issued has a high contribution value to economic growth, the government needs to control state expenditure and pay more attention to funds allocated so that can be used and carried out properly. The government must increase investment in the right direction so that, the increasemen in existing investment can expand job opportunities for the community, reduce unemployment and increase public consumption investment. therefore it is certain the Indonesian economy will positive growth in coming year. It hoped on further conducting research, the researchers can take advantages of others macro economic variables so that, estimation model can be more proven and show development economic growth in Indonesia.

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<sup>37</sup> Hayatullah Humaini, M. Safri, and Etik Umiyati, "Analisis Penanaman Modal Dalam Negeri Dan Penanaman Modal Asing Dan Pengaruhnya Terhadap Pertumbuhan Ekonomi Provinsi Jambi," *Jurnal Perspektif Ekonomi dan Pembangunan Daerah* 6, no. 2 (2017): 62.

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