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Does Islamic Financial Foster Economic Growth? Evidence from Indonesia

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ABSTRACT

The purpose of this study was to determine the effect of Third-Party Funds (X1), Financing (X2), FDI and PMDN Investment Realization (X3) and Exchange Rates (X4) on Economic Growth (Y). This type of research is quantitative research with Error Correction Model (ECM) as a method of data analysis using secondary data in the form of time series. The data used is quarterly data from Third Party Funds, Financing, Investment Realization (FDI and PMDN), Exchange Rates and Gross Domestic Product (GDP) for 2013-2022. The data obtained were 40 samples which were then analyzed using the E-views 12 tool. Based on the results of this study indicate that partially the dependent variable Third Party Funds in the short term and long term has a positive and insignificant impact. Financing has a significant positive effect in the long term, Exchange Rate has a positive and significant effect, Investment Realization (FDI and PMDN) in the short and long term has a positive and significant effect on Indonesia's Economic Growth as indicated by the Gross Domestic Product (GDP) in 2013-2022.

ABSTRAK

Tujuan penelitian ini adalah untuk mengetahui pengaruh Dana Pihak Ketiga (X1), Pembiayaan (X2), Realisasi Investasi FDI dan PMDN (X3) dan Nilai Tukar (X4) terhadap Pertumbuhan Ekonomi (Y). Jenis penelitian ini merupakan penelitian kuantitatif dengan Error Correction Model (ECM) sebagai metode analisis data menggunakan data sekunder dalam bentuk deret waktu. Data yang digunakan adalah data triwulanan dari Dana Pihak Ketiga, Pembiayaan, Realisasi Investasi (FDI dan PMDN), Nilai Tukar dan Produk Domestik Bruto (PDB) untuk tahun 2013-2022. Data yang diperoleh sebanyak 40 sampel yang kemudian dianalisis menggunakan alat E-views 12. Berdasarkan hasil penelitian ini menunjukkan bahwa sebagian variabel dependen Dana Pihak Ketiga dalam jangka pendek dan jangka panjang memiliki dampak positif dan tidak signifikan. Pembiayaan memiliki efek positif yang signifikan dalam jangka panjang, Nilai Tukar memiliki efek positif dan signifikan, Realisasi Investasi (FDI dan PMDN) dalam jangka pendek dan panjang memiliki efek positif dan juga signifikan terhadap Pertumbuhan Ekonomi Indonesia yang ditunjukkan oleh Produk Domestik Bruto (PDB) pada tahun 2013-2022.

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1. INTRODUCTION

The exchange rate is defined as the unit price of a country's currency to get the currency of another country. Each country is required to have its own medium of exchange in the form of currency. This is because it will facilitate transactions in international trade activities because each country's currency has a different value so a comparison of currency values is needed (Rinaldi dkk., 2017). Impact of Rupiah Exchange Rate Instability on the United States Dollar which will directly or indirectly have an impact on the Indonesian economy, especially during the pandemic (Lestari & Anggraeni, 2021)..

In 2019 the rupiah exchange rate strengthened by IDR 13,901 against the US dollar, but during the pandemic the rupiah depreciated by the US dollar in 2020 IDR 14,105, IDR 14,269 in 2021, and until 2022 the rupiah against the dollar reached IDR 14,848. This pandemic also threatens Indonesia with an economic recession where there is a decline in GDP of up to -2.07% in 2020, layoffs, soaring unemployment and poverty (Vanani & Suselo, 2021). The global geopolitical situation also adds to the crisis which has not been completely over after the pandemic took place and can cause inflationary pressures and disruption of the energy and food supply chain (Bakrie dkk., 2022).

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Gross Domestic Product (GDP) is the total value of goods and services produced by a country in one year by the economic unit of a country where what will be included in the calculation and category of GDP is the product or output produced by the people themselves in the country. (Nabila et al., 2021). Indonesia's GDP growth rate begins to decline in 2014 to 5.01% until 2015 and there was an increase in 2016 of 5.03% or IDR 934,361.5 billion and continued to grow from year to year until 2019 GDP decreased again to 5.02% or IDR 1,119 trillion and decreased to -2.07% or Rp. 1,059 trillion in 2020, this is due to the lack of population mobility and economic activities that have stopped due to the impact of the Covid-19 pandemic. However, Indonesia's GDP continues to move up in 2021 to 3.69% and in 2022 the GDP growth rate has reached 5.31%.

The financial sector, which in this case is represented by Islamic banking, It is one of several sectors that can contribute to Indonesia's economic growth (Fitri, 2022). In addition, economic growth will also be supported by investment activity and a stable rupiah exchange rate (Nurhasibah & Sukmana, 2020). Investments made by the State will increase the country's production output, while exchange rate stability reflects the state of a country's economy (Adinata et al., 2018). Indonesia's FDI and PMDN continue to increase every year even though there are restrictions on mobilization in 2020 to 2021 Indonesian investment can still continue to increase. Until the second quarter of 2022 Indonesia's total investment that has been successfully realized amounted to IDR 295,828.3 billion and at the end of 2022 investment realization reached IDR 552,766. The appreciation of the rupiah against the US dollar shows the good condition of the Indonesian economy. The rupiah strengthened in 2016 to IDR 13,436 from the previous 2015-rupiah exchange rate of IDR 13,795 and weakened again in 2017-2018. However, in December 2019, the rupiah strengthened again to IDR 13,901 and in the following years the rupiah weakened against the US dollar.

Research by El Ayyubi et al., (2018) and Sofariah et al., (2022) It points out that long-term economic growth has been positively and significantly impacted by Islamic banking financing., while the Third-Party Funds variable responds negatively but is significant for Indonesia's economic growth while the financing variable has a negative effect to GDP. Another study by Hidayat & Irwansyah, (2020) shows that variable Islamic banking deposits influence GDP and Islamic bank financing variables do not significantly affect GDP. Setiawan's research, (2017) It has been shown that there is a causal relationship between bank credit and Islamic banking finance on economic growth and Jamili (2017) contributed to the study showing that Islamic banking finance has a partially positive impact on economic growth.

Research on the effect of FDI and PMDN was conducted by Yunita & Sentosa, (2019) with the result that PMDN has an impact or can explain its influence on economic growth in a significantly positive way. Research on this matter was also carried out by Kambono & Marpaung, (2020) which showed the results that economic growth was influenced by foreign investment (FDI) while domestic investment (PMDN) had no effect on economic improvement. Research on the impact of exchange rates on economic growth was examined by Rinaldi et al., (2017) which showed that the exchange rate did not affect economic growth. The results of another study, namely by Ismanto et al., (2019) stated that the exchange rate positively affects economic growth. Lastri & Anis, (2020) also examined the same matter with As a result, exchange rates have a significant negative impact on economic growth. Kinanda's research, (2021) shows that Economic growth is affected by exchange rates in the long and short term in a positively significant and negatively significant way.

2. LITERATURE REVIEW

Economic Growth

Economic growth is defined as a country increasing its Gross Domestic Product (GDP) or gross national income within a particular period of time can be said to experience economic growth if the real remuneration of a country increases every year (Sari, 2020). In the Islamic view, economic growth is defined when when there is an increase in production or results continuously and consistently in the right way and the increase in results can also contribute or can be a good influence for the welfare of mankind. Anything that affects economic growth, such as investment in the form of assets which can generate income in the future, capital in the form of savings and these savings can be reused for things that are beneficial for future economic life, competent human resources both as workers and entrepreneurs, new innovations carried out by business actors and technological advances (Abidin, 2019)

GDP=C+I+G+(N-X)

C : National household consumption

I : Investment
G : State Consumption
N-X : Export-Import

One of the Islamic economic thinkers who contributed his thoughts on the economy was Ibn Taimiyah where according to him economic growth was greatly influenced by the policies of the country's own government (Abu Bakar, 2022). According to Ibnu Taimiyah, the state has the right to intervene on individual rights that are useful for economic interests and benefits such as eliminating poverty by creating new jobs or financing new businesses, supervising market mechanisms, controlling currency expansion and overseeing currency decline and carry out economic planning such as cooperation, monetary policy, and so on which will increase the economy and prosperity of a country (Fasiha, 2017).

Generally, the term or definition of Islamic bank is a financial institution that acts as an intermediary where its operational activities are to collect or collect funds from customers or the public who have more funds and then channel these funds back through financing that will be made to those who need funds. Funding must be based on the application of the Al-Quran and As-Sunnah (Agustin, 2021).

Third Party Funds

Third Party Funds, namely savings in the form of time deposits and current accounts from people who have excess funds and have been successfully collected by the bank. The bank then distributes the third-party funding to those who need it. If the bank could increase the amount of funding it receives from public third parties, it would increase the amount of funding it provides. This will have the opportunity to increase the profit earned by the bank (Dewi & Shara, 2021).

The funds raised by banks from the public are third party funds. The higher the proportion of third-party funds raised by a company, the better the company's financial performance and bank performance will be. A study by Febriaty et al. (2020) shows that Indonesia's economic growth has been positively and significantly affected by third-party financing. This is also in line with research by Hasyim (2016), Novi Zumaidah & Soelistyo (2018), Syahrijal Hidayat & Rudy Irwansyah (2020), and Abdul Jalil & Indah Nurjannah (2021) where the research stated that the effect of Third-Party Funds on economic growth showed a positive and significant response.

Increasing bank third-party funds has resulted in an increase in the output of the Indonesian financial sector where this financial sector will have an impact on Indonesia's macro-economy and financial stability (Febriaty et al., 2020). Increasing bank third-party funds has resulted in an increase in the output of the Indonesian financial sector where this financial sector will have an impact on Indonesia's macro-economy and financial stability (Febriaty et al., 2020).

Financing

In principle, the lending process undertaken by banks is highly beneficial for the continuity of Islamic banking itself. Therefore, Islamic banks must be able to carry out thorough supervision and lending activities properly. (Habibah, 2020). Based on research conducted by Jamili (2017), Afandi & Amin (2019), Nurhasibah & Sukmana (2020), Jalil & Nurjannah (2021), Arum & Himmati (2021) and Dermawan et al (2022) show the results that economic growth is responded positively significantly by financing. Sofariah et al's research (2022) shows that in ong-term economic growth is positively and significantly affected by financing.

Research by Sugianto et al., (2021) states the reasons why economic growth has been positively and significantly impacted by Islamic banking financing. This is because the greater the financing provided to the community, the greater the impact on Indonesia's economic activity. The funding provided to the community will be used by the community to start new businesses which will lead to an increase in the economy in the real sector. Increased economic activity will bring people welfare and this will increase economic growth.

Realization of Investment (FDI and PMDN)

Investment is an economic activity as an investment activity. The capital is then expected to produce new products in the future and generate profit (Liow et al., 2022). The effect of FDI and PMDN on economic growth has been extensively researched and studied, Kambono & Marpaung (2020) conducted research whose results FDI affected Indonesia's economic growth positively and significantly. Other research conducted by Islahul Amri & Misbahul Munir (2020), Meilaniwati & Tannia (2021), Akbar (2022) has results where economic growth is positively and significantly influenced by PMDN. Meanwhile, another study by Kurniawati & Islami (2022) has the result that Indonesia's economic growth is positively and significantly influenced by FDI and PMDN.

The main source in efforts to encourage economic development and economic growth of a country is investment. Investment

activities carried out increase the stock of capital so that it can be used for production activities and improve the capacity and quality of these production activities. The output of these production activities will absorb labor and will increase the economy (Purba, 2020).

Exchange Value

The large amount of domestic currency needed to get another country's currency based on the selling price and purchase price that has been determined is the definition of the foreign exchange rate (Lestari & Anggraeni, 2021). There have been numerous studies on the impact of exchange rates on economic growth, including Chughtai et al., (2015), R. Syahputra (2017), Syamsuyar & Ikhsan (2017), Ismanto et al., (2019), and Kinanda (2021) where these studies have the result that economic growth is positively and significantly influenced by the size of the exchange rate.

The movement of the rupiah's foreign currency value serves as an indicator of how well the Indonesian economy is doing. When the value of the rupee falls against the dollar, the movement of the Indonesian economy is not good. Conversely, an appreciating rupiah exchange rate will increase the rate of good economic growth for Indonesia. The rupiah exchange rate which continues to increase will attract foreign investors so that inflows of foreign capital continue to increase which drives the Indonesian economy (Sianipar, 2019).

Based on the above explanation, the research framework can be described as follows:

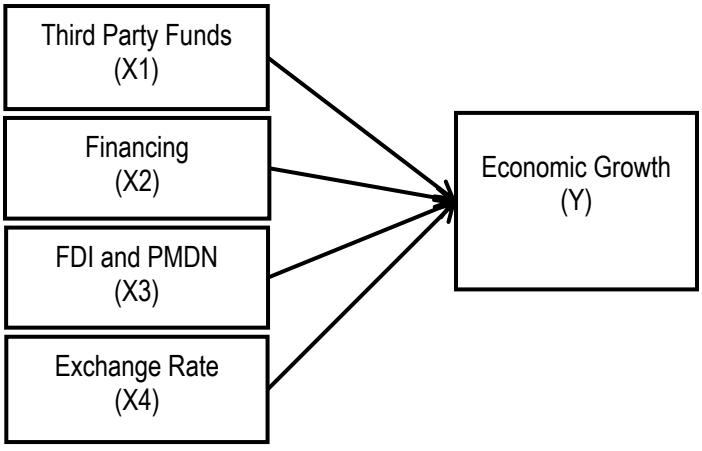


Figure 1. Research Framework

3. METHODOLOGY

This type of research is quantitative research using secondary data, according to Hikmawati (2017) secondary data is data to obtain not from the first source but from literature studies that have existed before in the form of scientific writings and are official sources such as journals, books, financial reports etc. The study was conducted using the error correction model (ECM) method or error correction model if the data was stationary at the first difference level.To look at the long-term effects, multiple linear regression models with ordinary least squares (OLS) models were used and to see the short-term effect, an analysis was carried out by regressing all data variable in difference.

Error correction model (ECM) modeling is a model for identifying non-stationary characteristics between variables under the condition that the non-stationary variables must be mutually cointegrated in order to use the ECM model, and the model is valid. The distinctive feature of the Error Correction Model (ECM) is the presence of an ECT or Error CorrectionTerm value which is a residual value that arises in the ECM model. If the ECT coefficient has a statistically significant value, that is, if the ECT coefficient is <1, then the model specification is valid (Safari, 2016).

The long-term equation can be written as follows:

Y = a + b1X1 + b2X2+…..+bnXn+ and **(1)**

Y = dependent variable
X = Independent variable
a = Constant (intercept)
b = Regression coefficient of each independent variable
e = Error term

While the equation in the short term can be written as follows:

D(GDP) = β0+ β1D(TPF) + β2D(Financing) + β3D(Investment) + β4D(Exchange Rate) + β5ECT (2)

D(GDP) = Variable GDP at the first difference
D(TPF) = Variable DPK in the first difference
D(Financing) = Variable PYD in the first difference
D(Investment) = Investment variable in the first difference
D(Exchange Rate) = Exchange rate variable at first difference
ECT = Error Correction Term (residual lag 1)

For the research model, various test processes were carried out including the stationarity test, cointegration test, normality test, multicollinearity test, autocorrelation test and heteroscedasticity test and hypothesis testing.

4. RESULT AND DISCUSSION

Stationary Test

Table 2. First Difference Level Stationarity Test Results

Series	Prob.	Lag	Max Lag	Obs
D(PDB)	0.0000	1	9	37
D(DPK)	0.0000	0	9	38
D(Pembiayaan)	0.0000	0	9	38
D(Investasi)	0.0000	0	9	38
D(Nilai Tukar)	0.0004	0	9	38

Source: Eviews 12 Data Processing Results (2023)

Based on the results of the Augmented Dickey-Fuller test (ADF), it is shown that the probability values of the variables economic growth, external financing, financing, investment (FDI and PMDN) and exchange rate are stationary at the first difference level, as the probability values are less than 0.05. In conclusion, the data used in this study is suitable for further testing, as the data tested is stationary.

Cointegration Test

Table 3. Johansen System Cointegration Test Results

Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.721261	85.00273	69.81889	0.0019
At most 1	0.425879	36.45852	47.85613	0.3736
At most 2	0.196554	15.37173	29.79707	0.7555
At most 3	0.169163	7.055591	15.49471	0.5712
At most 4	0.000352	0.013366	3.841465	0.9078

Source: Eviews 12 Data Processing Results (2023)

From the cointegration test in Table 3, we obtained a statistical trace value of 85.00273, which means that this value is greater than the critical value at the 0.05 level, i.e., 69.81889, suggesting that the data are cointegrated.

Table 4. Short Term ECM Estimation Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.786815	0.989819	0.794908	0.4323
D(DPK)	0.005728	0.005201	1.101244	0.2788
D(Pembiayaan)	-0.005574	0.005098	-1.093358	0.2822
D(Investasi)	0.542825	0.167954	3.231988	0.0028
D(Nilai Tukar)	2.365614	2.110376	1.120944	0.2704
ECT(-1)	-0.705787	0.158780	-4.445054	0.0001
R-squared	0.431332	Mean dependent var		2.641641
Adjusted R-squared	0.345170	S.D. dependent var		6.222988
S.E. of regression	5.035740	Akaike info criterion		6.211636
Sum squared resid	836.8364	Schwarz criterion		6.467569
Log likelihood	-115.1269	Hannan-Quinn criter.		6.303463
F-statistic	5.006064	Durbin-Watson stat		1.863934
Prob(F-statistic)	0.001605			

Source: Eviews 12 Data Processing Results (2023)

a) X1 (TPF)

The results of partial significance test of third party funding yielded a positive coefficient of 0.005728 with a probability of 0.2788 > α 5% and the variable Y of Indonesia's economic growth from 2013 to 2022 is provided by third parties.

b) X2 (Financing)

From the results of the partial significance test the probability of financing is 0.2822 > alpha 5% with a negative coefficient of -0.005574, this shows that the Y variable of Indonesia's economic growth in the 2013-2022 year is not affected by the financing variable in the short term.

c) X3 (FDI and PMDN)

From the results of the partial significance test the probability of FDI and PMDN in the short term is 0.0028 <5% with a positive coefficient of 0.542825 which means that the variable Y Indonesia's economic growth in the short term is influenced by FDI and PMDN where if there is an increase in FDI and PMDN by 1%, the Indonesian economy will grow by 0.542825.

d) X4 (Exchange Rate)

From the results of the partial significance test the exchange rate probability is 0.2704 > from alpha 5% with a positive coefficient of 2.365614 where the Y variable of Indonesia's economic growth in 2013-2022 in the short term is not affected by the exchange rate variable.

From the short-term ECM estimation regression test, an R-squared value of 0.431332 or 43% is obtained, this proves that the variables of TPF, financing, investment realization and the exchange rate can explain the effect on GDP by 43%, while 57% of GDP is influenced by other variables that are not used in this research.

Table 5. Long-Term ECM Estimation Results

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	128.6721	13.51607	9.519929	0.0000
DPK	0.002417	0.004153	0.581984	0.5643
Pembiayaan	0.009196	0.003800	2.419775	0.0209
Investasi	0.766926	0.075416	10.16927	0.0000
Nilai Tukar	4.260282	1.329935	3.203375	0.0029
R-squared	0.963849	Mean dependent var		249.9443
Adjusted R-squared	0.959718	S.D. dependent var		29.08772
S.E. of regression	5.838028	Akaike info criterion		6.483132
Sum squared resid	1192.890	Schwarz criterion		6.694242
Log likelihood	-124.6626	Hannan-Quinn criter.		6.559462

F-statistic	233.2925	Durbin-Watson stat		1.551845
Prob(F-statistic)	0.000000			

Source: Eviews Output Results 12 (2023)

a) X1 (TPF)

The significance test results in a probability value of 0.5643 > Alpha level = 5% with a coefficient of 0.002417, which means that variable X1 or TPF does not have a positive impact on Indonesia's economic growth which is explained by the GDP variable in 2013-2022. This means that when the number of TPF in Islamic banking increases or decreases will have no effect on economic growth.

b) X2 (Financing)

From the results of the X2 significance test, the probability value is 0.0209 <alpha = 5% with a coefficient of 0.009196 which means that Indonesia's economic growth in 2013-2022 is positively and significantly influenced by financing. Where when the financing provided by Islamic banking increases by 1%, it will increase economic growth by 0.009196%.

c) X3 (FDI and PMDN)

From the results of the T test, a probability value of 0.0000 <alpha = 5% and a coefficient of 0.766926 is obtained, which means that the variable Y economic growth in 2013-2022 is significantly influenced by the variable X3 FDI and PMDN. So, when the amount of Indonesian FDI and PMDN investment increases by 1%, Indonesia's economic growth will increase by 0.766926%.

d) X4 (exchange rate)

From the results of the T test, a probability value of 0.0029 <alpha = 5% is obtained and a coefficient value of 4.260282 means that the variable Y economic growth in 2013-2022 is positively and significantly influenced by the variable X4 the exchange rate. This means that if the amount Indonesia's exchange rate rises by 1%, then Indonesia's economic growth will increase by 4.260282%. The coefficient of determination is used to show how much the total variation of the Y variable can be explained by the X variable in a study. The coefficient of determination is usually denoted by R2 (Pramesti & Ario Wiraya, 2021).

From the long-term ECM regression test, an R-squared value of 0.963849 or 96.3% is obtained, this proves that the variables of TPF, financing, investment realization and the exchange rate can explain the effect on GDP by 96.3% while the remaining 3.7% of GDP is influenced by other variables not explained in this study.

Based on the results of the ECM regression test, the variable Third Party Funding (TPF) has a probability level of 0.2788 (not significant) in the short run with a positive coefficient and in the long run the probability level of third party funding is 0.5643 (not significant) with a positive coefficient. Since the probability value of generated third party funding (TPF) is greater than the alpha level of 0.05, it can be said that the variable Y economic growth is statistically positively affected by third party funding in both the short run and the long run but not significantly affected. This means that the size of Islamic bank TPF does not affect Indonesia's economic growth. In this case, hypothesis (H1) is rejected. This is contradictory to the economic growth theory of this study which states that capital in the form of savings can affect economic growth. This may be because third-party financing does not directly affect economic growth. According to El Ayyubi et al. (2018) external financing does not affect Indonesia's economic growth because it leads to a phenomenon called commercial risk transfer. This phenomenon occurs when interest rates at traditional banks increase and customers transfer their savings to traditional banks.

Based on the results of research conducted using the ECM regression test, it shows that the short-term Islamic banking financing variable has a regression coefficient with a negative direction with a probability level of 0.2822 (not significant) and in the long-term financing has a positive coefficient direction of 0.009196 and probability 0.0209 (significant). So, it can be said that variable Y economic growth in the short term is not statistically influenced by variable X2, namely Islamic banking financing. However, in the long term, variable Y economic growth is positively and significantly influenced by Islamic banking financing. So that if there is an increase in financing by 1 unit, in the long-term economic growth will increase by 0.009196. It can be concluded that the hypothesis (H2) is accepted.

This is in accordance with the growth theory which states that one of the factors that support Indonesia's economic growth is financing. Where according to Sugianto et al (2021) financing carried out by Islamic banks and accepted by the community can be used to open a new business or provide employment for the community. This will increase the income of the people themselves and have a positive impact on the economy in the real sector. The distribution of financing to micro-economic sectors or MSME business actors will increase economic activity which will have a positive impact on the Indonesian economy. As it is known that

MSME are the largest sector in supporting Indonesia's economic growth, so financing is needed for the capital of these MSME business actors. This is in accordance with research conducted by Jamili (2017), Afandi & Amin (2019), Nurhasibah & Sukmana (2020), Jalil & Nurjannah (2021), Arum & Himmati (2021) and Dermawan et al (2022) which show the results that the influence financing for economic growth has a positive and significant response. This is also in line with other research conducted by Sofariah et al (2022) with long-term results of positive and significant economic growth affected by financing.

Based on the results of research conducted using the ECM regression test in the short term, it shows that the variable investment realization represented by FDI and PMDN has a coefficient with a positive coefficient direction and a probability level of 0.0028 (significant) in the short term. Meanwhile, based on the results of long-term regression estimation, investment realization (FDI and PMDN) has a regression coefficient with a positive direction and a probability of 0.0000 (significant). So, it can be said that economic growth is statistically influenced by variable X3, namely investment realization (FDI and PMDN) significantly and positively. Where if investment realization (FDI and PMDN) increases by 1 unit in the short term, economic growth will increase by 0.542825 and if there is an increase in investment realization (FDI and PMDN) by 1 unit in the long term then economic growth will increase by 0.766926. So, it can be concluded that the hypothesis (H3) is accepted.

Based on the theory used in this study, namely the theory of economic growth, it states that one of the factors of economic growth is influenced by investment. So that the theory and results in this study are in line. This is in accordance with a statement from Purba (2020) where investment activities can increase capital stock to increase productivity as well as capacity and quality of production results. This output will absorb labor which will have an impact on improving the economy. This is in line with research conducted by Kambono & Marpaung (2020) which says that FDI is positively and significantly affected by economic growth. In addition, there are also other studies which state the results of the same research with the results that economic growth is influenced by PMDN with a significant positive response. This research was conducted by Islahul amri & Misbahul Munir (2020), Meilaniwati & Tannia (2021) and Akbar (2022). The results of other studies that are in line with this research were also carried out by (Kurniawati & Islami, 2022) with economic growth positively and significantly influenced by FDI and PMDN.

The results of the study conducted in the short run using ECM test show that the exchange rate variable has a coefficient in a positive direction and the magnitude of the probability of short run exchange rate is 0.2704 (not significant). Meanwhile, based on the results of long-term estimation, the exchange rate has a positive regression coefficient with a probability of 0.0029 (significant) in the long run. So that it can be said that statistically in the long-term Indonesia's economic growth in 2013-2022 is influenced by X4, namely the exchange rate which if the exchange rate rises by 1 unit will cause the economy to increase by 4.260282. Therefore, it can be concluded that the hypothesis (H4) is accepted. This is in line with the theory of economic growth, i.e. the theory used in this study, which states that a good economy and economic growth are affected by the exchange rate. An appreciation of the rupee exchange rate against the dollar will attract foreign investors and increase the inflow of foreign capital into Indonesia. The inflow of foreign capital will boost economic growth. Therefore, an appreciation of the exchange rate against the dollar will have a positive impact on the economy (Sianipar, 2019). The results of this study are in line with previous studies conducted by Chughtai et al (2015), R. Syahputra (2017), Syamsuyar & Ikhsan (2017) which resulted in the exchange rate having a positive and significant response to economic growth. Other studies whose results are in line with this study were also carried out by Ismanto et al (2019) and Kinanda (2021).

5. CONCLUSIONS

The variable Third Party Funds (TPF) of Islamic banking in the short term and long term responds to Indonesia's economic growth in 2013-2022 positively but not significantly. because people need more financing for business capital than saving their funds in banks. Moreover, there may be a phenomenon of business risk transfer where rising interest rates of conventional banks affect customers who choose to transfer their savings to conventional banks.The variable of Islamic bank lending to economic growth from 2013 to 2022 shows a significant positive response in the long run because more Islamic bank lending increases people's economic activity and improve the Indonesian economy in the real sector.

Investment Realization Variables (FDI and PMDN) in the short and long term respond positively and significantly to Indonesia's economic growth in 2013-2022. Investment is very useful for improving the Indonesian economy because investment activities increase Indonesia's production activities. Production output results with good quality will increase the economy. Exchange Rate Variables on Indonesia's economic growth in 2013-2022 in the long term have a significant positive influence. The higher the

value of the rupiah against the dollar reflects the state of Indonesia's economy growing well and attracting foreign investors to invest their capital thereby increasing the flow of foreign capital into Indonesia.

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