

# THE SIGNIFICANCE OF ISLAMIC BANKING ON INDONESIA'S ECONOMIC GROWTH

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## ABSTRACT

This paper study the significance of Islamic banking on Indonesia economic growth from the year of 2009 until 2015. Unit Root Test and Error Correction Model (ECM) have been used to analyse whether the financial system has an effect on economic growth in the long-run period. Variables used in this study are Gross Domestic Product (GDP), Total Investment (INV), Total Financing (TF) represents Islamic banking, Inflation (I), Export (EX) and Import (IM) as openness of economy. This study found that there is a long-run relationship between Islamic banking and economic growth. If there is a growth in the Islamic financial sector, it will somehow has a positive impact on economic growth. Likewise, the economic growth will affect positively on the development of Islamic banking. In Indonesia, the government has a policy that encourage investment, which in turn is able to develop the financial sector, both conventional and Islamic banking.

**Keyword:** *Gross Domestic Product, Total Investment, Total Financing, Inflation, Export, Import*