

CHAPTER V

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

This research has attempted to explore the relation between Islamic banking development and economic growth in Indonesia over the period of 2003-2014, focusing on Granger causality effects within the context of VECM framework. For this purpose, FINC and DEPT are used as a measure of Islamic banking development, while GDP and GFCF used as indicators of economic growth.

It is found that there is causality between Islamic banking development and economic growth in the short run. Based on the financing model, there is bi-directional causality between financing and GDP. Meaning that total financing of Islamic banks affects GDP and vice versa. So that H_{1a} is accepted. There is uni-directional causality between financing and GFCF running from GFCF to financing. Meaning that GFCF affects the total financing of Islamic banks. So that H_{1b} is accepted.

Based on the deposit model, There is uni-directional causality between deposit and GDP running from deposit to GDP. Meaning that the total deposit of Islamic banks affects the GDP. So that H_{1c} is accepted. There is uni-directional causality between deposit and GFCF running from deposit to GFCF. Meaning that the total deposit of Islamic banks affects GFCF. So that H_{1d} is accepted.

Based on the result above, all of the minor hypothesis are accepted. It can be concluded that the major hypothesis (H_1) can be accepted. This means that there is causality between Islamic banking development and economic growth in the short-run. Besides, it also found that it is bi-directional causality.

It is found that there is the causality between Islamic banking development and economic growth in the long run. Based on the financing model, there is bi-directional causality between financing and GDP. Meaning that total financing of Islamic banks affects GDP and vice versa. So that H_{2a} is accepted. There is uni-directional causality between financing and GFCF running from GFCF to financing. Meaning that GFCF affects the total financing of Islamic banks. So that H_{2b} is accepted.

Based on the deposit model, There is bi-directional causality between deposit and GDP. Meaning that the total deposit of Islamic banks affects the GDP and vice versa. So that H_{2c} is accepted. There is uni-directional causality between deposit and GFCF running from deposit to GFCF. Meaning that the total deposit of Islamic banks affects GFCF. So that H_{2d} is accepted.

Based on the result above, all of the minor hypothesis are accepted. It can be concluded that the major hypothesis (H_2) can be accepted. This means that there is causality between Islamic banking development and economic growth in the long-run. Besides, it also found that it is bi-directional causality.

5.2. Recommendations

In this part the researcher will present recommendation toward some parties who have close relation and interest toward this topic. The researcher hopes that this recommendation can give the advantage toward the improvement of government, Islamic banking in Indonesia and for the further research. The recommendations are as follows:

5.2.1. For the Indonesian Government and Islamic Banking

As it is found that there is bi-directional relationship between economic growth and Islamic banking development, government who has the authorities in regulate and manage the economic growth must have a good harmonization with the Islamic banking which has the important role in the development of Islamic banking itself. These two institutions can make a good economic condition by supporting each other.

- As it has shown that Islamic banking has the contribution on the economic growth, government needs to promoting more about Islamic banking. This can be done by encouraging the establishment of Islamic commercial banks, Islamic windows, and Islamic rural banks while at the same time encourage existing Islamic banks to establish more branches.

In addition, allowing foreign Islamic banks to operate in Indonesia can also help to foster more innovation in the domestic Islamic banking industry.

- Indonesia also needs competent Sharia personnel and advisers apart from trained Islamic bankers. In this regard, more universities and specialized training institutes will be required to produce the required labor.
- It is important to re-check the current regulations and guidelines in order to bring it at par with the development of Islamic banking worldwide.
- Islamic banking will not be able to contribute fully to economic growth if the economy is not growing well, hence a positive economic growth will help spur Islamic banking growth further.

5.3.2. For Future Research

In order to improve this study in the future, following are some directions for further researches:

- Combining some countries which have implemented Islamic financial system for a reasonable time so that adequate number of data can be collected;
- Use different method of analysis in order to find the robustness of the results; and
- Comparative analysis towards countries with fully Islamic financial system and dual-banking system to find the consistency of the results.