

The Role Of Islamic Banking In Indonesia's Economic Growth

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ABSTRACT

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Islamic banking has become a vital part of global finance, particularly in Indonesia, where the majority of the population is Muslim. The presence of Islamic banking in Indonesia, both for the public and the industrial sector, has a significant impact. This is due to the public's need for banking services, whether to strengthen capital or store funds, which have become an essential part of everyday life. This study aims to analyze the role of Islamic banks in economic growth in Indonesia. This study uses a descriptive qualitative method with a library study approach. The results of this study indicate that Islamic banking makes a significant contribution to supporting economic growth in Indonesia, particularly through financing based on Islamic principles that focus on empowering MSMEs. Through the distribution of financing to the community (MSMEs) that is productive, it will have a significant impact on economic growth.

INTRODUCTION

Money and banking have an important role in contemporary society and are indispensable in every economic system. Financial institutions play the dual role of intermediaries and transformers to facilitate the movement of goods and services (Dalimunthe & Lubis, 2023). Financial institutions, banks in particular are one of the intermediation groups, their role is to collect funds from the community through deposits and loans, which are then distributed to people in need. Banking in general is divided into two in its operations, namely conventional banks and Islamic banks.

The presence of Islamic banking is an alternative to the conventional financial system which is increasingly developing and changing market needs (Calvin Alfiansyah & Fauzatul Laily Nisa, 2024). Islamic banking has become a crucial element in the global financial system, especially in Indonesia. This is because Indonesia is one of the countries with the majority of Muslim population in the world. The existence of Islamic banking in Indonesia has a significant impact and contribution, both for the general public and various business sectors, ranging from large industries to small and medium enterprises. This influence is driven by the high public need for banking services, both for the purpose of strengthening capital and storing funds, which has become an inseparable part of daily activities. To meet these needs while making transactions more convenient and secure, the presence of Islamic banks offers solutions that are able to build public trust in banking services to be higher, especially in Indonesia (Aisyah & Ansori, 2025).

In Indonesia, Islamic banks have experienced significant institutional growth. In addition, the total assets of Islamic banks have also increased significantly from year to year. On the other hand, the contribution of Islamic banks to the Indonesian economy is inseparable from the so-called challenges. Among them are the share of the arpeggio still around 5%, low financial literacy in the community, and also the need for innovation which is a challenge. This fact shows that Islamic banks have not been able to maximize the potential of the Indonesian market, where the majority of the population is Muslim. So far, Indonesian people tend to be

realistic and rational so that they will choose banks that provide higher returns. In addition, the community is more concerned with Fitri Arwendi et al., (2024) corporal efficiency (efficiency, transaction speed and managerial ability) and core banking (competitive products) than just religious issues. In fact, the perception of customers that Islamic banks are more religious will make it easier for Islamic banks to develop.

Various government programs are carried out to increase economic growth in Indonesia. Among them is through the real sector, where the government encourages productive business actors to increase trade activities of goods and services. In addition to the real sector, the monetary sector has an important role in accelerating development and increasing economic growth. Through financial institutions, the monetary sector becomes the locomotive of the real sector through capital accumulation and technological innovation (Fitri Arwendi et al., 2024). As practiced by Islamic banking institutions, namely by collecting funds from the community and redistributing them through productive financing to real business sectors to improve business capabilities and development. In the end, this will increase investment and accelerate economic growth. This research aims to find out and analyze the role and contribution of Islamic banking in economic growth in Indonesia. This research is expected to be able to provide comprehensive information about the strategic position of Islamic banking in supporting economic growth in Indonesia.

METHOD RESEARCH

This research uses a qualitative method. The qualitative methodology used in this case includes research methodologies that produce descriptive information through written or oral language media, obtained from individuals and their observable actions. This study uses a literature study approach (Masdiana, Kadriati, et al., 2025) . The literature method is a method used by reading a number of books, documents, data, information and references related to the research theme. The literature study aims to analyze the discussion related to the research theme, namely the role of Islamic banking in economic growth in Indonesia.

RESULT AND DISCUSSION

Sharia Banking

Sharia Banks in Indonesia are financial institutions that operate based on sharia principles in conducting banking business activities. In recent years, Islamic banks have become one of the most popular options for the Indonesian people. This is due to a number of benefits offered by Islamic banks to their customers (Nur'aini, 2022). Islamic banks are financial institutions that avoid the problem of usury. The replacement of the interest system in banking and financial transactions with an interest-free economic model is a focus for Muslim economists to build the economy according to Islamic ethics (Agung et al., 2023).

Interest-free banking mechanisms, known as Islamic banks, were established on philosophical and practical grounds. The philosophy is because of the prohibition of usury in financial transactions and practically because the conventional banking system has weaknesses such as the absence of justice, inflexibility, difficulties for small businesses, impediments to innovation, and lack of incentives for business partnerships. With the existence of Islamic banks, people can obtain guarantees of fund security, a wide selection of banking products according to sharia principles, as well as contributions to economic development and community empowerment. Therefore, Islamic banks are increasingly in demand and are an alternative for people who are looking for banking solutions that are in accordance with Islamic financial principles.

Economic Growth

Economic growth is a reflection of the economic development of a country because the rate of economic growth reflects the country's economic conditions (Ivonia Auxiliadora Freitas Marcal et al., 2024). . Economic growth is stated as a reflection of the economic development of a country because it is an indicator of the success of economic development. Economic growth is the process of continuously changing the condition of a country towards a better state for a certain period. Economic growth is the process of increasing the production of an economy which is manifested in the form of an increase in national income (Yunianto, 2021). A country is said to experience economic growth if there is an increase in real GNP in the country, the purpose of economic growth is none other than to increase GNP.

High economic growth has an impact on increasing people's overall income. The increase in the purchasing power of the population due to the improvement in the welfare level is driving the demand for goods and services, which will further increase the need for labor in various sectors of the economy (Lidiya Rima Ranti et al., 2024) . With well-planned economic growth and efforts to create opportunities and equitable distribution of development results, the results of economic growth can be felt by all levels of society (Apriliansah & Suyatno, 2024). In economic growth theory, it is said that the number of population, capital goods, natural resources, and the role of entrepreneurs greatly affect economic growth.

The Role of Sharia Banks

Islamic banking is a business entity that collects funds from the community in the form of deposits which are then distributed to the community in the form of financing and other forms with the aim of improving the people's standard of living (Hukmi, 2023). Islamic banking as a whole plays a role as a financial institution whose main business is to provide financing and other services, where its activities are carried out and adjusted based on the principles of Islamic law. Islamic banking in its intermediation function carries out several roles such as: (1) providing funds that are then channeled to the community, financing carried out by Islamic banks in the form of profit-sharing financing, rent-lease financing, buying and selling financing, and debt financing; (2) Third Party Funds (DPK), third-party funds are unsecured deposits entrusted by third-party customers, not banks to Sharia Commercial Banks (BUS) or Sharia Business Units (UUS) in the form of savings, deposits, current accounts or other forms; (3) liquidity, wealth stored in the form of financial instruments that can then be converted into cash or cash quickly but has little risk. Liquidity is the benchmark for a bank in restoring short-term liabilities with its current source of funds.

In addition Handayani et al., (2025) according to the role of Islamic banks as an intermediary institution, it consists of four parts, namely as follows: (1) As a place to collect funds from the community or the business world in the form of savings (mudharabah) and current accounts (wadiyah), and distribute them to the real sector in need; (2) As an investment place for the business world (both capital funds and investment account funds) by using investment tools that are in accordance with sharia; (3) Offering a variety of financial services based on wages in a representative contract or rental; and (4) Providing social services such as welfare loans, zakat and other social funds in accordance with Islamic teachings.

Islamic banks act as an intermediary institution bringing together two parties with different interests, both in collecting and investing funds, as well as in other banking services including payment traffic services. This role reflects the main activities of the bank. First, to collect funds from the community. Second, investing the funds it manages into various productive assets, such as financing. Third, providing payment traffic services and other banking services (Prayuda & Sakdiah, 2024). All of these activities are internal daily activities of the bank which boil down to its main goal, which is to make a profit.

Sharia Banks in Economic Growth

The role of Islamic banks in encouraging the growth rate of the Indonesian economy is very significant. Islamic banking has a strategic contribution in accelerating economic growth in Indonesia. In Indonesia, the development of Islamic banking is very good and has experienced very rapid growth from year to year. The very rapid growth of Islamic banking can be seen from the development of Sharia Commercial Banks (BUS), Sharia Business Units (UUS), and Sharia People's Financing Banks (BPRS) which have experienced very rapid growth from year to year (Syahputra & Irawan, 2019)

This role is realized through the management of third-party funds (DPK) that can improve the investment sector, as well as through the distribution of financing to the community, which functions as the main driver of the productive economic sector. Based on the report on the development of Islamic banking by the Financial Services Authority (OJK), the number of assets, Third Party Funds (DPK) and financing from Islamic banking in Indonesia from 2015 to 2019 has increased as shown by the increase in the number of assets, financing and deposits of Islamic banking in Indonesia every year. (Kurniawan et al., 2021)

This reflects significant developments in the management of public funds and increased public trust in the Islamic banking system (Hasrah et al., 2025). The financing distributed by Islamic banking to the public for each of these categories is expected to provide profitability for Islamic banking and can contribute to national economic growth. The economic and banking systems have taken a role in influencing the economic growth of a country. Financing provided by Islamic banking affects economic growth because it will increase capital sources and economic activity in the long run. The financing includes all financing disbursed (PYD) by Islamic banks (Emy Widyastuti & Nena Arinta, 2020). The success of Islamic banking is inseparable from its role in supporting real economic growth through asset-based financing and direct involvement in productive activities.

The development of Islamic banking in Indonesia is expected to increase economic growth nationally. Therefore, in the long term, the development of Islamic banks in Indonesia is expected: first, that Islamic banking has high competitiveness while remaining consistent in adhering to Islamic values, second, that Islamic banking is able to play a significant role and become a reliable banking institution in improving economic performance and community welfare, and third, that Islamic banking has the ability to compete globally with operational standards international finance (Rachman et al., 2022).. Thus, the development of Islamic banking will have a positive impact on national economic growth. This is in line with the issue of finance and growth that has been raised at least since the 19th century by Joseph A. Schumpeter who stated the urgency of the banking system and the growth of national income levels in economic development through the identification and financing of productive investment sectors.

The implications of Islamic banking are not only an alternative to an ethical financial system but also have the potential to encourage inclusive economic growth. Thus, the function of Islamic banking is not only a financial institution, but also functions as a development agent that supports the welfare of the community. Its responsibilities include strengthening the people's economy, developing a halal and productive real sector, and empowering the community through a financing mechanism that is fair, clear, and free from usury (Masdiana, Haidar, et al., 2025). This encourages further development in the sector to address the global need for a fair financial system.

CONCLUSION

This study discusses the role of Islamic banks in economic growth in Indonesia as an important part of the national financial system. Since the establishment of bank muamalat in 1992 as the first Islamic bank in Indonesia, Islamic banking has experienced very significant growth. By using sharia principles in its operations, such as the principle of justice (al 'adl), the

principle of help (ta'awun), the principle of maslahah that does not contain elements of maghrib (maysir, gharar, and riba), and various other risks, Islamic banking offers a product that does not only focus on the realm of profit, but also the interests of the benefit of the people. In addition to encouraging productive sectors such as MSMEs and the education sector, Islamic banks also carry out social functions through the management of zakat, infaq, alms, and waqf (ZISWAF).

Through a descriptive qualitative approach with a literature study, it was revealed that Islamic banking has a strategic contribution to support economic growth in Indonesia. Its development history shows adaptation to the needs of the Muslim community for an Islamic value-based financial system. Third-party funds have a positive effect on economic growth in Indonesia. The financial sector, in this case Islamic banking as a financial intermediary, functions to distribute funds from those who have excess funds to those who need funds through efficient funding sources which will then drive economic sectors and spur economic growth. The financing provided has a positive effect on the economic growth of the real sector in Indonesia. The more financing that is channeled for production activities in the real sector in the community, will have an impact on economic growth.

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