Rangkiang: Journal of Islamic Economics and Business, 3(2) - December 2025 75-84

Rangkiang: Journal of Islamic Economics and Business
E - ISSN 3047-1516
P - ISSN 3047-6402

The Influence of Islamic Banks on Growth in Sumatra

Adinda Rianson Putri[1] , Dicky Rustam[2]
[1-2]Nahdlatul Ulama University of West Sumatra, Indonesia

Corresponding Author: Name, Adinda Rianson Putri E-mail; adindarianson3@gmail.com

Article Information:
Received September 18, 2025
Revised October 21, 2025
Accepted October 27, 2025

ABSTRACT

Islamic banking plays a vital role in promoting inclusive and sustainable economic growth, particularly in regions with significant Muslim populations such as Sumatra. However, empirical evidence on how Islamic banking contributes to regional economic development remains limited. This study investigates the impact of Islamic banking on economic growth in ten provinces across Sumatra from 2019 to 2024. Using a panel data regression approach, the analysis focuses on three key variables of Islamic banking performance - assets, financing, and Third-Party Funds (TPF) - with economic growth represented by Gross Domestic Product (GDP). The results reveal that financing and TPF significantly and positively influence economic growth, while total assets have no significant effect. These findings highlight the importance of channeling Islamic banking funds effectively through financing activities to strengthen regional economic performance. The study contributes to the understanding of Islamic finance as a driver of economic development and provides insights for policymakers to enhance the role of Islamic banks in supporting regional growth.

Keywords:, *Economic growth, Financing, Third Party Funds, Total assets*.

Journal Homepage http://journal.denisyasmartconsulting.co.id/index.php/rangkiang/

How to cite: Adinda, R. P., Rustam, D (2025). Anxiety The Influence of Islamic Banks on Growth in Sumatra. *Rangkiang: Journal of Islamic Economics and Business*, 3(2). https://doi.org/10.70072/rangkiang.v3i2
Published by: CV. Denisya Smart Consulting

BACKGROUND

Indonesia, as the country with the largest Muslim population in the world - around 237 million people or 86.7% of its 271 million citizens (Ministry of Finance, 2023) - possesses strong potential for the development of Islamic economics and finance. From the perspective of Islamic economic theory, the financial system should serve as a means of achieving *maslahah* (social welfare) and equitable growth through interest-free, risk-sharing, and asset-based transactions. However, despite this ideal, the empirical reality shows a gap between the theoretical promise and the actual performance of Islamic banking in Indonesia.

Although Islamic banks have shown institutional and asset growth over time, their market share remains stagnant at around 5%. This stagnation suggests that the potential role of Islamic banking as a driver of inclusive economic growth has not been fully realized. Studies such as Kasri and Kassim (2009) indicate that many consumers prioritize returns, service quality, and product competitiveness over the ethical or religious dimensions of Islamic finance. This behavioral pattern raises theoretical and practical questions about how well Islamic banking principles- such as *profit and loss sharing* and *social justice* - are being implemented to influence real economic activity.

From a development economics perspective, a well-functioning financial system should channel funds efficiently toward productive sectors, stimulating investment, employment, and overall economic growth. However, reports from the Financial Services Authority (OJK, 2019) and the Central Statistics Agency (BPS, 2020) reveal that the intermediation function of Islamic banks has not consistently translated into improved regional economic outcomes. This mismatch indicates the presence of structural or operational barriers that limit the real economic impact of Islamic finance (Khasanah et al., 2021).

In the context of Sumatra, where the Muslim population is dominant, Islamic banking theoretically holds great potential to support regional development through financing activities aligned with sharia principles. Yet, the persistence of low financial literacy and limited public understanding of Islamic banking mechanisms (Prihasta, 2015) weakens this potential. Therefore, exploring the extent to which Islamic banking variables - such as assets, financing, and third-party funds - contribute to economic growth in Sumatra is crucial. This research not only addresses the empirical gap between Islamic banking performance and economic development but also provides theoretical insights into how Islamic financial intermediation can serve as an instrument for achieving equitable and sustainable economic growth.

In the classical economic growth theory proposed by Adam Smith, capital accumulation is a key element that drives economic development. Funds collected from public savings instruments, such as current accounts, savings accounts, and deposits, have the potential to be channeled in the form of financing to activities in the real sector. In this context, Islamic banks play a crucial role in providing financing that is free of usury and in accordance with Islamic principles

Table 1: Percentage of Islamic bank assets, Islamic bank financing, Islamic bank deposits, and economic growth between provinces on the island of Sumatra from 2019 to 2023

Provinsi	Total Aset Bank Syariah				Pembiayaan Bank Syariah				DPK Bank Syariah				Pertumbuhan Ekonomi			
	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
Nanggroe Aceh Darussalam	13,9	31,9	59,2	17,5	17	27,7	58,7	23,5	6,9	22,7	61,5	11,3	(0.37)	2.81	4.21	4.23
Sumatera Utara	10,9	(3,8)	17,5	16,7	12,6	(3,8)	14,5	26,4	11,6	0,1	17	6,1	(1.07)	2.61	4.73	5.01
Sumatera Barat	7,8	20,9	29,3	33,7	6,3	16,2	29,1	35,1	3	21,4	29,6	27,4	(1.61)	3.29	4.36	4.62
Sumatera Selatan	9,6	0,8	2,2	6	1,7	(1,4)	(30,5)	64,3	(36)	0,4	15,6	13,1	(0.11)	3.58	5.23	5.08
Bangka Belitung	(20,3)	(0,2)	(2,1)	(13,3)	(10,8)	(22)	(10,6)	(2,1)	15,2	(0,6)	(0,4)	(19,1)	(2.29)	5.05	4.4	4.38
Jambi																
Bengkulu	16,2	30,3	21,5	1	8,8	12	17,1	20	15,3	17,5	19	12	(0.02)	3.27	4.31	4.26
Riau	22,8	33,3	52,7	27,8	12,2	32	56	48,5	20,1	29,4	30,4	27	(1.13)	3.36	4.55	4.21
Kepulauan Riau	(6,4)	11,4	20,2	33,2	(74,6)	393,8	(70,8)	34,3	(7,1)	20,1	26,6	21,9	(3.80)	3.43	5.09	5.2
Lampung	13,7	9,7	302,7	11,6	12	7,2	10,7	13	18,2	16,2	12,4	12,7	(1.66)	2.77	4.28	4.55

Source: Central Statistics Agency (BPS) and Financial Services Authority (OJK) 2019– 2023

However, based on data from 2019–2023 (Table 1.1), there is a discrepancy between the growth of Islamic banking variables (assets, financing, and DPK) and economic growth in various provinces on the island of Sumatra. For example, the highest Islamic banking assets were in Lampung (2022) at 302.7%, while economic growth in the same year was only 4.28%. In fact, in Bangka Belitung, when financing declined by -22% (2021), economic growth increased by 5.05%.

In the study " , it is stated that there is a positive correlation between the existence of Islamic banks and the rate of economic growth in terms of assets, financing, and DPK. However, in the data in Table 1.1, Islamic banks have a negative relationship with economic growth. The inconsistency in the findings of this study indicates that further exploration is needed regarding the factors that influence the effectiveness of Islamic banks in boosting economic growth.

In the study (Rafsanjani & Sukmana, 2014) , it is stated that total assets contribute to economic growth. However, in Table 1.1 data for 2020, the total assets of Islamic banks in the province of Nanggroe Aceh Darussalam increased by 13.9%, but economic growth declined by -0.37%. This situation was triggered by the outbreak of the Covid-19 pandemic. The pandemic caused a decline in performance in various business fields, such as social restrictions that led to a decrease in transportation activities, disrupted access to goods and services, limited purchasing power, and layoffs.

This study is expected to provide in-depth insights into the contribution of Islamic banks to national economic development, as well as recommendations for policymakers to increase the contribution of Islamic banks to regional development. This study also seeks to analyze the challenges and opportunities faced by Islamic banks in strengthening their role in the regional economy. The output of this research is expected to be useful as a guideline for designing policies that support inclusive growth through the Islamic banking system.

RESEARCH METHODOLOGY

The researcher applied quantitative methods in conducting this study, in which the data used was numerical and analyzed using statistical techniques to identify the relationships between the variables studied. This study utilizes secondary information analyzed through a panel data approach, which is a method that combines the *time series* dimension and *cross-sectional* dimension simultaneously. The time series data used monthly data from 2019 to 2024, while the cross-sectional data covered 10 provinces in the Sumatra region, namely Aceh, North Sumatra, West Sumatra, Riau, Riau Islands, Jambi, Bengkulu, South Sumatra, Bangka Belitung, and Lampung. Overall, the number of observations in this study reached 720. In the data processing process, researchers used statistical software, such as Eviews, as a tool to analyze and interpret the results in accordance with relevant statistical theories.

1. Panel Data Regression Analysis

The evaluation of the quality of the regression line can be seen through the R-squared value, which represents the level of contribution of independent factors that play a role in influencing the fluctuations of the dependent variable. A model feasibility test was conducted to ensure that the model applied was appropriate and could be used in the analysis, had a significant level, and was suitable for use as an analysis tool. On the other hand, testing the significance of each independent variable aims to assess the level of influence of each independent variable on the focus variable of the study. The optimal model is determined by comparing the Z1 and Z2 values with the α value to determine whether linear or log-linear model is more appropriate to use.

This study applies the *Ordinary Least Squares* (OLS) approach in the data analysis process. Economic growth is projected as a consequence of the interaction between the variables of Assets, Financing, and Third Party Funds (DPK). Therefore, regression used in this study is formulated as follows:

$$Yit = \beta_1 \; X_{1it} \; \beta_2 \; X_{2it} \; \beta_3 \; X_{3it} + eit \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Explanation:

Y = Economic growth

β_0= Intercept coefficient

β_1= Asset effect

coefficient

β_2= Financing influence coefficient

β_3 = DPK influence coefficient

i= 10 provinces

t= time (2019-2024)

e_t = disturbance variable

2. Estimation Model Selection

Estimation process of regression models on panel data is carried out by applying a number of methods based on three main approaches, namely:

a. *Common Effect Model or Pooled Least Square* (PLS)

This approach ignores individual variables and time because it assumes that the characteristics of the data between companies remain the same

throughout the observed time period.

$$Yit = a + \beta Xit + uit \quad \ldots\ldots (2)$$

b. *Fixed Effect Models* (FEM)
In this model, differences between companies are reflected in the intercept value, while the slope coefficient is considered uniform across all observation units.

$$Yit = \alpha i + \beta Xit + uit$$

c. *Random Effect Models* (REM)
Model estimates panel data assuming the existence of relationships between disturbances both over time and between individuals, where the error component is considered random with a mean of zero, and the intercept is formulated as $\alpha_1 = \alpha_i + e_i$, with e_i as the unobserved error representing the hidden variable.

3. Determination of the Best Model

a. Chow Test
This tool plays a role in determining the difference between the Common Effect model and the Fixed Effect model in panel data analysis.

H_0: The correct model is Common Effect

H_1: The correct model is Fixed Effect

criteria for testing decision are as follows: if the calculated valueis greater than the table F value, then H_0 is rejected and the Fixed Effect Model (FEM) is selected. Conversely, if the calculated is less than or equal to the F-table value, then H_0 is accepted and the Common Effect Model (CEM) is used.

b. Hausman Test

Serves as a method for assessing the suitability of using between Fixed Effect model and Random Effect model.

H_0: The appropriate model is Random Effect

H_1: The appropriate model is the Fixed Effect model

The basis for determining the model is done by comparing the probability values. If probability value exceeds the significance level of 5%, then the null hypothesis is accepted and the Random Effect model is feasible to use. However, if the probability value is below the significance threshold of .05, then the null hypothesis is rejected and the Fixed Effect approach is chosen.

RESULTS AND DISCUSSION

a. Chow Test

At this stage, Chow test is used to select the best model between *Common Effect* and *Fixed Effect*. The model is determined by looking probability value (p-value) of the Cross-Section F statistic. If exceeds 0.05, then the *Common Effect* model is considered more suitable. However if the is below 0.05, then the Fixed Effect model becomes the more appropriate option for further analysis.

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	12.645529	(9,635)	0.0000
Cross-section Chi-square	106.829252	9	0.0000

Source: eviews, 2025

The regression results obtained using EViews software produced a chi-square probability value of 0.0000. Because this number is smaller than significance level of 0.05, *the Fixed Effect* Model (FEM) is declared as the most appropriate model to use in this study.

b. Hausman Test

The purpose of this test is to compare the suitability of REM and FEM. The basis for decision making is based on the probability value: if p > 0.05, then the Random Effect model is chosen; however if p < 0.05, then the Fixed Effect model is considered more suitable for use in the analysis.

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	102.777157	3	0.0000

Source: EViews, 2025

Based the regression output generated by EViews in the table, chi-square probability value is recorded as 0.0000. Since number is below the significance threshold of 0.05, the *Fixed Effect* Model (FEM) is determined to most appropriate model to use in further analysis.

c. Individual Parameter Significance Test (t-test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-38.67209	4.252073	-9.094880	0.0000
LOG(X1)	-1.452837	2.009235	-0.723080	0.4699
LOG(X2)	-3.501704	1.386248	-2.526030	0.0118
LOG(X3)	8.599809	1.660577	5.178806	0.0000

Source: eviews, 2025

Based the *fixed effect model* test that has been conducted it can be concluded that:

1) X1 (Assets)

The t-test conducted on the variable of total Islamic bank assets (X1) produced a value of 0.723080, which is lower than the table t-value of 1.963273465. In addition, the significance value of 0.4699 exceeds the limit of 0.05. Therefore, the null hypothesis (H0) is not rejected, while alternative hypothesis (Ha) is rejected, indicating that the total assets of Islamic banks do not have a significant effect on economic growth in the Sumatra region.

2) X2 (Financing)

The t-test for the Islamic bank financing variable (X2) produced a statistical value of 2.526030, which is above the critical limit of the t-table of 1.963273465. The significance value obtained (is 0.0118, below (the threshold of 0.05. Therefore the null hypothesis (H0) is rejected and the alternative hypothesis (Ha) is accepted, indicating (that Islamic bank financing significantly affects economic growth in Sumatra) .

3) X3 (DPK)

The t-test results for the Islamic bank Third Party Funds (DPK) X3) show t- value of 5.178806, which exceeds the critical t-value of 1.963273465. The significance value obtained is 0.0000 which is below the 0.05 limit. Therefore, null hypothesis (H0) is rejected and the alternative hypothesis (Ha) is accepted, indicating that Islamic bank TPF has a significant effect on economic growth in Sumatra.

d. Simultaneous Significance Test (F-test)

The results of the respondent analysis can also be seen as the simultaneous values as follows :

R-squared	0.158681
Adjusted R-squared	0.142783
Standard Error of Regression	2.504045
Sum of squared residuals	3981.604
Log likelihood	-1507.710
F-statistic	9.980637
Probability of F-statistic	0.00000

Source: eviews, 2025

The F test produced a statistical value of 9.980637, which exceeded the critical value of F table of 1.2775. In addition, significance level was recorded

0.000, was lower than limit 0.05. Therefore, null hypothesis (H0) is rejected and alternative hypothesis (Ha) is accepted, which indicates that the variables of total assets, financing, and DPK of Islamic banks collectively have a significant effect on economic growth in the Sumatra region.

DISCUSSION

1. Islamic Bank Assets

From the results of data management, it is known that the total asset variable does not affect economic growth in Sumatra. This is because fund distribution is inefficient. If Islamic bank assets are stored in the form of non-productive assets (e.g., Islamic money market instruments or reserves in central banks) rather than being channeled to the real sector through financing, the impact on economic growth will be small. This finding is in line with the results of research from Nurcholis et al. (2024) in a study entitled "Analysis of the Effect of Corporate Sukuk, Total Islamic Banking Assets, Mutual Funds and Inflation on Economic Growth in Indonesia in 2022". The study concluded that (total assets in Islamic banking do not contribute significantly to accelerating economic growth. Specifically, total Islamic bank assets do not show a meaningful relationship with Regional Domestic Product (RDP) at the regional level.

a. Islamic Bank Financing

Data analysis shows that financing has a positive and meaningful contribution in accelerating economic growth in the Sumatra region. This is because financing funds from Islamic banks serve as financial assistance for people who experience capital shortages, thereby increasing overall economic activity. This result is the same as the research conducted by conducted by (Kurniasari & Amaliyah, 2023) in their article entitled "The Effect of Islamic Banking Financing and Labor on Sectoral Economic Growth in Indonesia (2014-2021)" which states that an increase in financing contributes significantly to driving economic growth.

b. Third Party Funds (DPK)

From the data processing, it was revealed that Third Party Funds (DPK) significantly supported the increase economic the Sumatra region. This shows that DPK is the main source of funding for Islamic banking in channeling financing to various sectors, especially MSMEs, which contribute greatly to economic growth. TPF plays a strategic role in the Islamic banking system, including in mobilizing funds, empowering MSMEs, increasing economic activity, improving people's living standards, and offering attractive profit-sharing schemes for customers.

These results in line with research by , in their article entitled "The Effect of Total Assets and Financing and Third Party Funds of Islamic Banking on Economic Growth in East Kalimantan Province," which states that an increase in third party funds contributes significantly to driving economic growth. Thus, the findings in this study reinforce the results of previous studies and show the consistency of the influence of third- party funds in various regions in East Kalimantan province.

c. Simultaneously

Based on the F-test results, collectively, Islamic bank assets, financing, and third- party funds have a meaningful and positive effect on economic growth in the Sumatra region. These findings underscore that the progress of Islamic banks not only has a financial impact but also plays an important role in supporting regional economic development.

The findings in this study are related to the results of research by Himmati and Arwendi (2023), which explored the contribution of Islamic banking to national economic growth rate. The study concluded that the total assets and financing distributed by Islamic banks collectively made a significant contribution to the increase in Gross Domestic Product (GDP). Similar findings were also reported by Hidayat and Irwansyah (2020), which showed a significant simultaneous relationship between Islamic banking variables and economic growth as measured by GDP.

CONCLUSION

This study aims to analyze the influence of Islamic banking indicators—namely assets, financing, and third-party funds (DPK)—on economic growth in the Sumatra region. The purpose is to determine the extent to which these variables contribute significantly to regional economic performance. The study utilizes 720 observations covering the period 2019–2024, derived from the Islamic Banking Statistics published by the Financial Services Authority (OJK) and economic growth data from the Central Statistics Agency (BPS).

The results reveal that Islamic bank assets have no significant effect on economic growth in Sumatra. This may occur because a large portion of assets is held in non-productive or less efficient forms, such as fixed assets or reserves, which do not directly stimulate real economic activities. Conversely, financing shows a positive and significant impact, indicating that funds channeled to productive sectors—such as trade, agriculture, and manufacturing—can drive business activities and employment, ultimately contributing to regional GDP growth. Similarly, third-party funds (DPK) have a positive and significant influence, suggesting that greater public participation in Islamic banking increases liquidity, enabling banks to expand financing to the real sector.

Overall, these findings highlight that the effectiveness of Islamic banking in promoting economic growth depends more on how funds are mobilized and allocated through financing rather than on the mere accumulation of assets.

REFERENCES

Abduh, M., & Azmi Omar, M. (2012). *Islamic banking and economic growth: the Indonesian experience*. *International Journal of Islamic and Middle Eastern Finance and Management*, *5*(1), 35–47. https://doi.org/10.1108/17538391211216811

Khasanah, U., Tibrizi, A., & Wicaksono, S. (2021). *Intermediary performance of Islamic banks in the disruption era: Does it contribute to economic growth?*

Banks and Bank Systems, *16*(1), 103–115. https://doi.org/10.21511/bbs.16(1).2021.10

Wardani, S. S. P., & Putra, P. (2022). The influence of Islamic banks on economic growth in West Java Province. *Maslahah: Journal of Islamic Law and Islamic Banking*, *13*(2), 181–200. https://doi.org/10.20956/xxxx/xxxx

Rafsanjani, H., & Sukmana, R. (2014). The Influence of Banking on Economic

Growth: A Case Study of Conventional Banks and Islamic Banks in Indonesia.

Journal of Management Applications (JAM), *12*(September), 492–502.

Nurcholis, M., Hasmarini, M. I., & Athief, F. H. N. (2024). Analysis of the Influence of Corporate Sukuk, Total Islamic Banking Assets, Mutual Funds, and Inflation on Economic Growth in Indonesia in 2022. *Economics and Digital Business Review,* 5*(*1), 439–447. https://ojs.stieamkop.ac.id/index.php/ecotal/article/view/1082

Kurniasari, W., & Amaliyah, F. S. (2023). The Effect of Islamic Banking Financing and Labor on Sectoral Economic Growth in Indonesia (2014-2021). *Development Economics Bulletin*, *4*(1), 37–56. https://doi.org/10.21107/bep.v4i1.20037

Rifai, A., Wijaya, A., & Suharto, R. B. (2021). The Effect of Total Assets and Financing as well as Third Party Funds of Islamic Banking on Economic Growth in East Kalimantan Province. *Mulawarman Journal of Economics (JIEM)*, *6*(2), 11– 20.

Hidayat, S., & Irwansyah, R. (2020). The Effect of Third Party Funds and Islamic Banking Financing on Indonesia's Economic Growth. *Journal of Islamic Economics and Banking*, *5*(1), 1–21. http://journal.um-surabaya.ac.id/index.php/Maqasid

Himmati, R., & Arwendi, D. F. (2023). The Influence of Islamic Banking on Indonesia's Economic Growth. *El-Mal: Journal of Islamic Economics & Business Studies*, *5*(3), 1734–1751. https://doi.org/10.47467/elmal.v5i3.5839

Wardani, S. S. P., & Putra, P. (2022). The Influence of Islamic Banks on Economic Growth in West Java Province. *Maslahah: Journal of Islamic Law and Islamic Banking*, *13*(2), 181–200. https://doi.org/10.20956/xxxx/xxxx

Rafsanjani, H., & Sukmana, R. (2014). The Influence of Banking on Economic Growth: A Case Study of Conventional Banks and Islamic Banks in Indonesia. *Journal of Management Applications (JAM)*, *12*(September), 492–502.

Rafsanjani, H., & Sukmana, R. (2014). The Influence of Banking on Economic Growth: A Case Study of Conventional Banks and Islamic Banks in Indonesia. *Journal of Management Applications (JAM)*, *12*(September), 492–502.