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Economic Growth Of Post-Pandemic Sharia Financial Institutions in A Macro-Economic Perspective

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Abstract. *Economic growth is one of the indicators in macroeconomics. And financial institutions are closely related to economic activity. With this increasingly open economic system, every business actor is free to market his products anywhere. Seeing this, of course, will be a great opportunity for business actors to increase and enlarge their business. In this case economic growth and Islamic financial institutions are important, because Islamic finance is believed to be one of the instruments that plays an important role in supporting economic recovery programs and reducing poverty through empowering businesses or the community's economy. Especially after the Covid-19 pandemic. Many research results state that during the pandemic hit Indonesia, one of them, economic growth experienced a decline. For this reason, it is hoped that the increasing growth of Islamic financial institutions will become a solution that can help the economic recovery of a country, especially Indonesia. For this reason, this article discusses economic growth and Islamic financial institutions after the 2019 Covid pandemic (Covid-19).*

Keyword : Economic Growth, Islamic Financial Institutions, Macroeconomics

1. Introduction

The birth of the sharia financial system was based on the study of economic experts, policy makers and the government regarding the economic system that has been running for a long time (Awaluddin; Asyari; Nuruddin, Amiur; Siregar 2021). The capitalist economic system and the communist or socialist economic system are considered incapable of increasing economic growth significantly, and instead give rise to poverty and downturn for the majority of society, as well as frequent large-scale economic crises (Harjito 2020). Sharia economics and finance have experienced rapid development in the last two decades, both globally and nationally. As the country with the largest Muslim population in the world, Indonesia has not played an optimal role in meeting this demand. In The Global Islamic Economy Index 2018/2019, Indonesia was recorded in 10th position as a producer of halal products in the world. However, based on The State of Global Islamic Economy (SGIE) Report 2020/2021, Indonesia managed to rise to 4th place from 5th in 2019 and 10th from the previous year. Although Indonesia's sharia financial market share has increased, it is still relatively small compared to conventional finance, namely only 5.3 percent of the national banking industry in 2016, 8.7 percent in 2019, and 9.03 percent in 2020. These achievements is far below other countries such as Saudi Arabia which reached 51.1 percent, Malaysia 23.8 percent, and the United Arab Emirates 19.6 percent. Therefore, sharia economic and financial development is needed to strengthen the economic structure and financial markets to support sustainable economic growth. This is based on the potential for sharia economic and financial development which still has the potential to continue to develop in this country (Jaih Mubarok, Khotibul Umam , Destri Budi Nugraheni and Primandasetio, Kesumawati Syafei 2021).

The success of a country's development is seen from several indicators. One important indicator of the success of a country's development is economic growth (Manzoor, F., Wei, L., Asif, M., Haq, M.Z. and Rehman 2019)(Kassim 2016)(Lebdaoui and Wild 2016). Economic growth is a country's income that experiences an aggregate national increase or an increase in output in a certain period. Economic growth also acts as an indicator of a region's prosperity, which can be measured by GDP growth on the basis of constant prices (Dr. Guspika, MBA, Wignyo Adiyoso, S.Sos., MA, Ph.D., Ali Muharram, S.IP., M.SE, MA., Rita Miranda, S.Sos., M.PA., Wiky Witarni, S.Sos., M.A., Epik Finilih, Sofa Nurdiyanti 2019). Another meaning of economic growth is economic growth which shows an increase in production capacity in physical goods and services over a certain period of time. This growth can be seen through increasing production of industrial goods, the number of schools, developing infrastructure, increasing the service sector, and increasing production of capital goods (Indayani and Hartono 2020). Each country will strive to improve and provide the best to support the country's economic growth optimally. Including Indonesia, which is one of the developing countries that is trying to increase its economic growth for the welfare of society and a better life (Hidayat 2023).

A financial institution is a business whose every activity is related to money, such as collecting funds or money, then distributing and/or other financial services(Solarin, Hammoudeh, and Shahbaz 2018). According to the National Sharia Council (DSN) itself (Basyirah, Hapsara, and Hamidah 2023; Rosihana et al. 2024), a Sharia Financial Institution is a financial institution that has obtained permission to carry out its operational activities as a financial institution to issue products from sharia finance (Alvi Khikmatin and Putri Setianingsih 2021).

Nowadays, Sharia Financial Institutions are growing rapidly(Tameme and Asutay 2012). This is proven by the increasing number of sharia financial service institutions, services and products and the increasing infrastructure in sharia financial institutions (Widianita, Hidayat, and Hidayatullah 2024). One of the opportunities that can make Indonesian Sharia Financial Institutions increase is because the Indonesian people (Sherif and Ahmed 2017), the majority of whom are Muslim, are starting to grow in awareness of using sharia financial services that are in accordance with Islamic principles. So that Sharia Financial Institutions become better known in society and can develop further, it is necessary to make maximum use of other existing opportunities (Agit et al. 2024).

A long-term relationship is clearly visible between economic growth and the presence of Islamic banking and financial institutions (Lebdaoui and Wild 2016). In addition, the share of the Muslim population in a country plays a positive and statistically significant role in driving the economic growth contribution of the Islamic banking sector to economic growth (Hidayat et al. 2023).

Islamic economic institutions continue to strive to contribute to economic growth and development (Abdullah, Percy, and Stewart 2015) (Puteri and Parsaulian 2023), especially in modern industrial society (Judge, 2021). Large-scale production with investment requirements that require large capital is impossible to fulfill without the help of financial institutions. Sharia financial institutions are a foundation for entrepreneurs to obtain additional capital through sharia credit or financing mechanisms, as well as expediting economic transactions, as well as being a foundation for investment through savings or deposit mechanisms (Jamaludin, Miftahurrahmah, and Muizzudin 2023; Shonia Az Zahra et al. 2023).

Judging from the condition of economic growth at the beginning of 2020, world economic growth experienced a decline, including Indonesia. This was caused by the epidemic that hit all of Indonesia, namely the Coronavirus Disease. Coronaviruses are a large family of viruses that cause illnesses ranging from mild to severe symptoms. With this coronavirus hitting all countries in the world, around 200 more countries are affected by this outbreak. So, on January 30 2020 the World Healthy Organization declared it a public health emergency that was worrying the world. On March 11 2020, the World Health Organization (WHO) officially declared the Coronavirus outbreak a global pandemic. Coronavirus (COVID-19) has an impact on economic growth in the form of a decline in the level of the world economy, especially Indonesia (Indayani and Hartono 2020).

Based on quotes from national.kontan.co.id, some of the impacts resulting from the Corona Virus include, Indonesia's import figures decreased by 3.7% year to date (ytd) in the period from January to March 2020. Other matters, more than 12,703 flights at 15 airports were cancelled. The cancellations are from January to February. Flight details are 11,680 domestic flights and 1,023 international flights. Quoted from cnnindonesia.com, the Minister of Finance, Sri Mulyani Indrawati, in a video conference in Jakarta on Wednesday, April 1 2020, said that Indonesia's economic growth is expected to decline by 2.3% and could even reach -0.4% as a result of the Coronavirus. .

Based on the data above, problems related to the decline in economic growth rates during the pandemic are something that must be addressed immediately. So,In an effort to encourage economic growth, the role of sharia financial institutions is very necessary.

THEORITICAL REVIEW

Economic growth

Economic growth is the process of increasing the amount of production in an economy (Lebdaoui and Wild 2016) or changes in the economic conditions of a country on an ongoing basis and is realized in the form of an increase in national income in a certain period (Indayani and Hartono 2020). Economic growth is an increase in output (national income) caused by natural increases in the population growth rate and savings rate. Meanwhile, according to several development economic experts, economic growth is a term for developed countries to refer to the success of their development, while for developing countries the term economic development is used.

Economic growth can also be interpreted as economic growth. This means that when we talk about development, it cannot be separated from increasing the economic capacity of the people who are the perpetrators of development themselves (Hasan and Muhammad 2018). Development was initially defined as economic growth, so this perception gave rise to an understanding of the need for high levels of economic growth. Therefore, a country is said to be successful in implementing development if the economic growth of the community is high enough. To measure the level of economic growth, what is measured is the country's productivity level each year. Economically, this productivity measure uses Gross National Product (GNP) and Gross Domestic Product (GDP).

The growth process is cumulative. If prosperity arises as a result of progress in the fields of agriculture, manufacturing industry and commerce, this prosperity will attract capital accumulation, technical progress, increasing population, market expansion, division of labor and continuous increases in profits. This progressive situation will please the people. In this advanced state, while society achieves better results, the condition of poor workers, who constitute the largest part of society, seems to be the happiest and most comfortable group.

Sharia Financial Institutions

Sharia financial institutions are institutions with the aim of developing the application of Islamic principles and promoting them in financial and banking transactions and other businesses (Solarin, Hammoudeh, and Shahbaz 2018)(Andri Soemitra 2017).Sharia Financial Institutions are financial institutions that have operating principles based on Islamic Sharia principles. Operations must avoid elements of usury, gharar and maisir (Alvi Khikmatin and Putri Setianingsih 2021). Because this is strictly forbidden and has been explained in the Al-Quran and Hadith.

The main objective of establishing sharia financial institutions is to fulfill Allah SWT's commands in the economic sector, muamalah as well as freeing Islamic communities from activities prohibited by Islam. To implement this, it is not solely carried out by sharia financial institutions, but is the task of the entire community. Sharia financial institutions, both banks and non-banks, in carrying out their operational activities are always supervised by an institution called the Sharia Supervisory Board (Judge, 2021). From this understanding it can be explained that a sharia financial institution is an institution that covers all financial aspects, whether regarding banking issues or financing cooperation, company security and insurance, and so on which take place outside the banking context.

Operational Principles Existing in Sharia Financial Institutions

1. Justice, is the principle of sharing sales profits that are actually based on the contribution and risks of each party.
2. Partnership, is the principle of equality between each party involved in the collaboration. The position of the investor customer (saving funds), as well as the use of funds, and the financial institution, are equal as business partners and synergize with each other in order to obtain a profit.
3. Transparency, is a Sharia Financial Institution which must provide a continuous financial report to investor customers or every party involved in it so that they can know the real condition of the funds and this must be done openly.
4. Universal, is a mandatory principle for Sharia Financial Institutions to provide religion, race, ethnicity and community groups in providing services that must be in accordance with Islamic principles.

Types of Sharia Financial Institutions in Indonesia

1. Baitulmal Wat Tamwil (BMT)
   BMT is a sharia financial institution which has the task of collecting and distributing funds to members. This BMT does not demand to make a profit. Examples of the implementation of this financial institution include the collection and distribution of infaq, zakat and alms.(Alvi Khikmatin and Putri Setianingsih 2021; Hakim 2021).
2. Sharia Insurance

Sharia insurance is an effort to help and protect each other between participants by implementing operations that use the principles of Islamic sharia law.

3. Sharia Capital Market

   The capital market is a place used to issue company securities, either in the form of shares or in the form of bonds to obtain funds from investors (investors).
4. Sharia Mutual Funds

   Sharia mutual funds are securities companies whose operational activities only facilitate investors in investing their funds. Because there is a prohibition on Sharia Banks from purchasing shares directly on the Capital Market, Sharia Banks are not related to Mutual Funds in terms of purchasing shares.
5. Sharia Pawnshop (Ar-Rahnu)

   *Ar-Rahnu*is a pawnshop whose operational system is carried out in accordance with the principles and rules of Islamic Sharia. In Indonesia itself, the establishment of Sharia Pawnshops was initiated by BMI (Bank Muamalat Indonesia).
6. LAZ (Amil Zakat Institution) and BAZ (Amil Zakat Agency)

In its activity function, sharia banks can also operate in the social sector, namely by establishing baitulmal institutions which have the aim of receiving funding sources originating from zakat, infaq, grants, alms and other social funds.

7. Sharia Cooperative

   Sharia cooperatives are cooperatives whose all activities and businesses are engaged in the field of principal savings, financing in accordance with profit sharing and investment patterns.
8. Sharia Money Market

   The sharia money market is a market in which sharia securities trade with a short period (less than 1 year).
9. Sharia Pension Fund

   The aim of establishing this sharia pension fund is to maintain continuity of income in old age, namely when the person concerned is no longer able to work.
10. Sharia Leasing

    Sharia Leasing is an institution that really supports the community in the field of rental transactions, especially rental transactions that have the principles and concept of ijarah (leasing using the sharia system).
11. Sharia Venture Capital

    Sharia Venture Capital is a financial institution that operates in the capital sector which involves various parties who equally contribute to building businesses that become more advanced and bigger.
12. Sharia Factoring

    Sharia Factoring is an institution that has the function of taking over credit payments for a company, especially companies dealing with problem loans.

RESULTS AND DISCUSSION

The Role of Sharia Financial Institutions in Economic Growth

The main characteristic of Islamic financial institutions that enables them to contribute to the process of economic growth is the principle of profit sharing, which encourages equality in income distribution leading to social justice and long-term economic growth (Kassim 2016). In addition, Islamic financial institutions can also encourage investment because investment depositors receive a share of the bank's profits. Overall, due to less emphasis on debt financing, the Islamic financial institution system is considered more stable than the conventional financial system, therefore, the loss of capital and wealth due to frequent financial crises and their negative impact on the growth process can be avoided. towards more sustainable economic growth.

From a theoretical study conducted by Nagaoka (2011) which explored the potential of financial institutions to contribute to modern economic growth and in the Islamic world. By theoretically examining the features of sharia financial institution products compared to conventional financial products, it was found that sharia finance strengthens the monetary sector into the real sector (embedded financial system), which is described as a universal financial system characterized by great potential for sustainable development. From this it can be interpreted that the close relationship between Islamic financial institutions and the real economy will enable them to make a more effective contribution to economic development than conventional financial institutions.

Research result (Lebdaoui and Wild 2016)shows that Islamic banks are successful in mobilizing additional resources for the financial sector, which can increase the stability of the banking system and the efficiency of the banking sector as a whole. The authors believe that the inclusion of Islamic banking products in the Islamic financial institution system together increases financial stability in a country.

Economic Growth and Sharia Financial Institutions Post Covid-19

Apart from the role of Islamic financial institutions in economic growth above, sIn theory, every increase in Indonesia's economic growth is expected to absorb labor, thereby reducing the number of unemployed. Economic growth in Indonesia can be measured through the increase or decrease in gross domestic product (GDP/GDP) produced by a country, because the indicator related to the number of unemployed is GDP.

Indonesia's economic growth amid the coronavirus outbreak has decreased. This is due to the policies implemented by the government to prevent the spread of the corona virus. Large-Scale Social Restrictions (PSBB) and lockdown policies are one of the policies implemented by the government. Thus, this means that a number of economic activities cannot run smoothly.

From the research results (Indayani and Hartono 2020). It was found that Indonesia's economic growth was experiencing a slowdown as a result of the COVID-19 pandemic. The Central Statistics Agency (BPS) informed that Indonesia's economic growth slowed down by 2.97% (year on year) which occurred in the first quarter of 2020. When compared with the fourth quarter of 2019, Indonesia's economic growth decreased by 2.41%. Economic growth slowed down as people's purchasing power weakened. People's purchasing power is a component that is used as a measuring tool for economic growth expenditure. Household consumption growth weakened. In this pandemic condition, household consumption growth reached 2.84%, this slowed down compared to the fourth quarter of 2019 which reached 5.02%. Consumption performance has a significant influence on economic growth, because household consumption can support more than 50% of gross domestic product.

However, after the Covid-19 pandemic, the sharia economy and finance in Indonesia, both sharia banking, sharia capital markets and the sharia non-bank financial industry (IKNB) have shown resilience which supports recovery momentum. Data shows that during

2021, sharia financial industry assets have reached IDR 2,050.44 trillion or grew 13.82% year on year (yoy). Sharia Banking Industry asset growth grew 13.94% (yoy) in 2021. OJK continues to encourage strengthening the position of the sharia banking industry amidst banking competition through the issuance of various provisions for accelerating digital transformation accompanied by banking synergy.

CONCLUSION

The existence of sharia financial institutions that make it possible can contribute to the process of economic growth. Where most researchers conclude that there is a positive relationship between Islamic financial institutions and economic development due to increased stability, efficiency and profitability guaranteed by profit and loss sharing (PLS) based finance. And based on the discussion in this article, the Covid-19 pandemic could result in a weakening of the level of economic growth, one of which is in Indonesia. Indonesia's economic growth decreased by 2.41% as a result of the coronavirus outbreak. For this reason, it is necessary to overcome the impact of declining economic growth after the pandemic through the role of sharia financial institutions which must be increased. And judging from developments after the Covid-19 pandemic of the Islamic economy and finance in Indonesia, both sharia banking, sharia capital markets and the Sharia Non-Bank Financial Industry (IKNB) have shown resilience which supports the recovery momentum.

For this reason, the resilience and positive performance of the sharia financial industry must continue to be maintained, including by accelerating programs in the form of developing sharia social finance activities through synergy, innovation and collaboration which are realized in the development of a halal value chain ecosystem

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