

INTRODUCTION

Indonesia was survive on 2020, the economic were down and turn, that only -2.07% year over year (yoy), placing it fourth among the G20 nations at a time when the worlds economy were slowing. As 2021 began, improved pandemic management also encouraged Indonesia's economy to expand by 7.07% (yoy) in the second quarter of that year. The rate of increase were highest, it has been in 16 years. This demonstrates Indonesia's resilience in the face of adversity. Even in the second quarter of 2021, government consumption still actively contribute to strengthening economic development during the epidemic. This endeavor may therefore encourage a rise in household consumption and investment levels.

In theory, the high economic growth would have an impact on job creation and number of unemployment will decrease. If the aggregate output (Y) increases, it will cause a reduction in the unemployment rate *and* will ultimately reduce the number of poor people (poverty level). Therefore, one of the main focuses in economy are how to increases the amount of production of goods and services in an economy.

The role of government was inseparable from economic growth. Various policy instruments related to the government's economic development reflect this role. Keynes thought that the two types of economic policy-fiscal and monetary-had a strategic role to play in encouraging higher production of goods and services. One of the strategies used to keep the economy stable is fiscal policy. The Keynesian idea that the state has the economic resources to stimulate the economy through fiscal policy, one of which is state spending, is still widely accepted in almost all nations today. One of the nations that adheres to this theory is Indonesia. As a result, annual budget increases are continuously allocated by both the national and regional governments. According to the statistical data agency, state spending has increased significantly every year for the past few years. This is shown by state expenditures of Rp 2,595,481.10 billion in 2020 and Rp 2,714,155.72 billion in 2022.

According to the Keynesian school of thought, increasing government spending can help an economy's output (or income). Government spending is regarded as a factor that can promote economic expansion. On the other hand, a rise in government spending may result in a budget deficit. Empirical studies on the effect of state spending on economic growth found at least three patterns of relationship, namely; First, it is positively related. This means that state spending can increase economic growth and reduce poverty. Second, it has a negative effect, meaning that state spending actually has a negative impact on economic growth. This shows there is a waste in state spending. Third, the relationship between the two is not significant, meaning that state spending does not have a significant impact on economic growth.¹

The banking sector has an impact on economic growth in addition to state spending. The country's economic growth is significantly influenced by the financial sector. Through capital accumulation and technological advances, the financial sector is transformed into a driving force for real sector growth, more specifically, the financial sector can mobilize savings and provide borrowers with a variety of low-risk financial products². involvement of the financial sector (financial inclusion) in Indonesia, is needed to improve the welfare of the community, it will have an effect on reducing poverty, reducing income

inequality, and promoting economic growth.

The financial sector is one sector that can influence economic growth and plays an important role in triggering the country's economic growth. If the financial sector grows well, there will be more sources of funding associated with productive economic sectors. In the end it will encourage the development of economic sector capital to help economic growth.

Possible approaches that can explain the causal relationship between the banking sector and economic growth, namely; 1) banking and finance are determinants of economic growth (finance growth hypothesis) or commonly called the "supply-leading view", 2) banking and finance follow economic growth (growthled finance hypothesis) or commonly called the "demand-following view", 3) the relationship of mutual influence between banking and finance and growth or commonly called "the bidirectional causality view", and 4) banking and finance and growth are not interconnected or commonly called "the independent hypothesis."³.

Currently, there is also a sharia banking system that is different from conventional banks in several respects, namely that it is based on the principle of profit sharing, the Islamic banking system provides a banking system that benefits the community and banks, places justice in transactions, has ethics in investment, and prioritizes brotherly values and values. refrain from engaging in speculative financial transactions⁴. Islamic banks are an alternative to the banking system that can be trusted and can be used by all levels of Indonesian society because they provide a more diverse range of financial banking products and services.

Assets held in total by Islamic commercial banks and sharia business units reached IDR 661.02 trillion in January 2022. This number increased by 12.8% per year (YoY) from IDR 586.04 trillion in 2021. Meanwhile, from IDR 390,252 billion in May 2021, the total financing of Islamic commercial banks and sharia business units grew to Rp 432,004 billion in May 2022, according to sources from the Financial Services Authority (OJK).

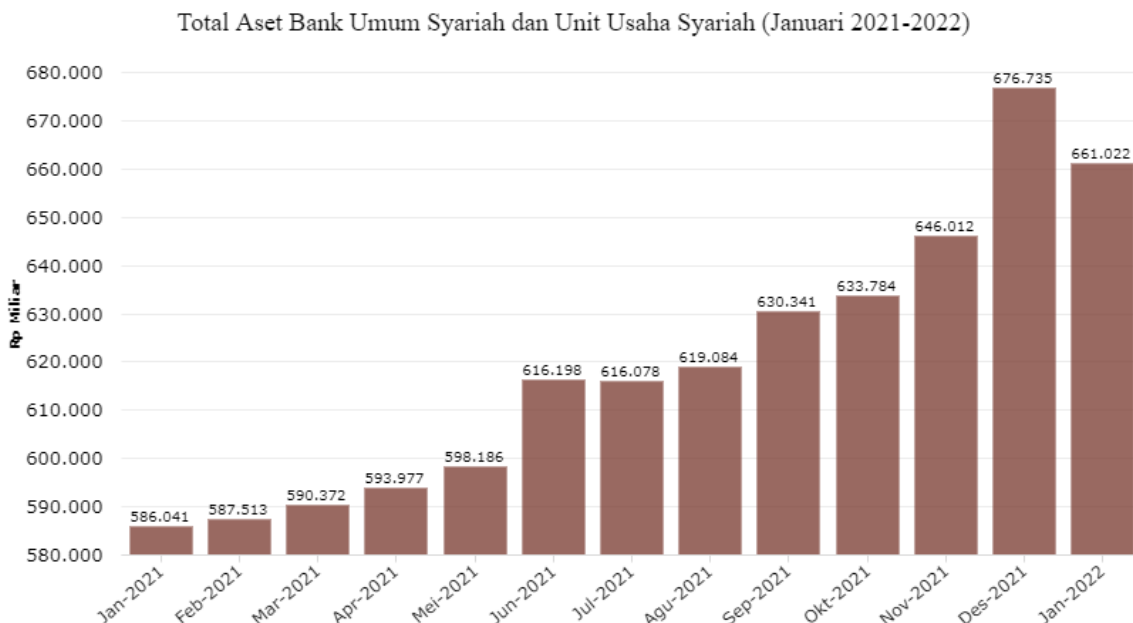


Figure 1. Aset Total BUS and UUS (January 2021-2022)

Meanwhile, in total, BUS and UUS offices decreased by 190 offices as of May 2022. Sharia banking offices became 2,255 offices from the original 2,445 offices as of May 2021. Meanwhile, the total number of BPRS offices increased to 165 as of May 2022 from 163 offices as of May 2021. Currently, most business sectors, rely heavily on bank financing for capital, especially in developing countries. As a component of the national banking system, Islamic banking plays a positive role in the economy. The majority of people in Indonesia are Muslims, making it the largest Muslim-dominated country in the world. As a result, Islamic banking plays a special role in encouraging economic growth⁵.

In addition to Islamic banking financing, a country's economic growth can also be influenced by several other factors, one of which is foreign direct investment (PMA). The government is trying to find new sources of funding for good development, both from within and outside the country, which is one of the things the government can do to encourage economic growth⁶. Basically, investment is the formation of capital that encourages the private sector in the economy. To support economic growth, new investment is needed as capital stock, such as domestic investment and foreign investment. For undeveloped countries such as Indonesia, foreign investment has advantages over commercial loans for development financing. Foreign investment is one of the sources of funding and development services in developing countries. in the form of a package of capital, technology and management skills that are selective and their use can be synchronized with the stages of development of a country⁷.

The economic growth of a country is closely related to investment, because the government is actively seeking investors from abroad. Investors are given great convenience in obtaining business permits and other guarantees, such as guarantees for the availability of energy, raw materials, and other resources⁸. This is done to improve the economic situation in Indonesia. Investing brings many benefits, including creating jobs, increasing per capita income, reducing poverty, increasing living standards, and increasing gross domestic product. (GDP). And for the relationship between state spending and economic growth, in research conducted by Yurdakul, et al (2015) in Terminanto & Rama in (2017)⁹ state expenditure has a negative effect on economic growth, meaning that an increase in state spending will cause a deficit in the country. state funds for economic activities is still not optimal. This is in line with research conducted by Islamiah (2015)¹⁰, the results of research on state spending on economic growth found that development/capital has a significant negative effect on economic growth, meaning that when capital expenditure increases, economic growth tends to decrease.

Regarding the relationship between Islamic bank financing and economic growth, research by Mohammad Nasir, Tasdik Ilhamudin, and Rasyidusman Hannamara Furqan Nur (2020) shows that financing provided by Islamic banks has a positive effect and is very useful in supporting economic growth. The results show that the research results are in harmony with one of Schumpeter's theoretical hypotheses that the Islamic banking sector encourages economic growth in the real sector in Indonesia¹¹. In another study conducted by Deni

Andrean and Imam Mukhlis (2021) on research on Islamic bank financing on economic growth, the research results obtained between Islamic financing and GDP. The VECM estimation results show a significant positive effect between Islamic banking and long-term economic growth. However, Islamic Banking Financing does not have a significant effect in the short term. So if sharia banking financing increases in the long term it will cause economic growth in Indonesia to increase in the long term¹².

As for the relationship between investment and economic growth, according to Kuncoro in Sulistiawati in (2012), economic growth also depends on the amount of investment value that is considered capable of driving the economy. This study resulted in the conclusion that investment has a significant negative effect on growth an economy¹³ what is interesting in this study is that the research results are inversely proportional to several previous studies and existing theories, one of which is Keynesian theory which states that investment is one of the factors that influence economic growth. This explains that in fact investment has not been able to increase economic growth in Indonesia. This is due to several factors inhibiting investment in Indonesia, such as low human resources and a lack of existing facilities. This is in line with research conducted by Shopia and Sullasmiyati (2018)¹⁴ using the panel data regression analysis method showing that Foreign Investment and Exports have a significant and positive effect on the economic growth of the three countries, but for Indonesia Foreign Investment has a negative relationship to growth. economy.

Based on the research above, this study wanted use independent variables, namely State Expenditure, Islamic Banking Finance and Foreign Investment (PMA), which was found in publications, which used the three comparisons together in research that to influence growth in economy. Another thing that made this research different from previous research was that the subject focuses on a country's economic growth as measured by using the GDP growth rate at constant prices at the period 2017-2021. The purpose of this study was to analyze whether there was an influence of state spending, Islamic bank finance and foreign investment on economic growth in Indonesia since 2017-2021