ABSTRACT

The financial sector is one of the sectors that plays an important role in encouraging the development and growth of the economy in a country. Islamic banks are one of the institutions that can play a role in economic growth. This research will focus on the significance of Islamic banks on Indonesia's economic growth. This study aims to analyze the influence of Islamic banks on economic growth in Indonesia. Islamic banks have an increasingly significant role in the financial system, and the question is how large the influence of Islamic banks is on economic growth in Indonesia.

This research was conducted by collecting data obtained from the official websites of the Financial Services Authority (OJK) and the Central Statistics Agency (BPS). The data range used is monthly data for the period 2016–2023. The data will be analyzed using the Error Correction Model (ECM) method.

Based on the results of the Error Correction Model (ECM) analysis, all variables have a long-run equilibrium relationship with Gross Domestic Product (GDP), as evidenced by the cointegration test and the negative and statistically significant Error Correction Term (ECT). In the long run, only Conventional Bank lending has a positive effect on GDP, while the labor force of Conventional Banks has a negative and statistically significant effect on GDP. Meanwhile, Islamic Bank lending and the labor force of Islamic Banks do not have a significant effect on GDP. In the short run, changes in the labor force of Islamic Banks have a positive and statistically significant effect on GDP, while changes in Conventional Bank lending show a positive effect but are only marginally significant. The remaining variables do not have a significant effect on GDP.

Keywords: *Islamic Banks, Economic Growth, GDP, Total Credit, Islamic Bank Financing, Labor*

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