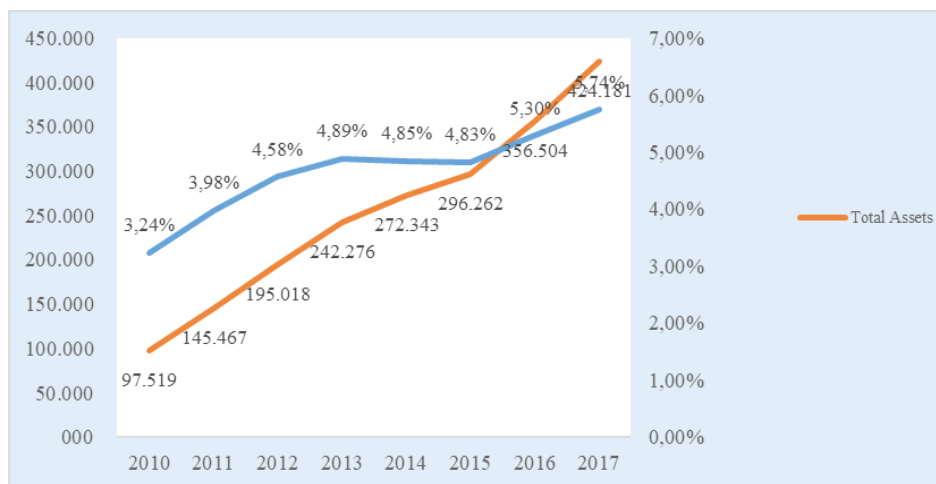


CHAPTER I

INTRODUCTION

1. BACKGROUND OF STUDY

The development of Islamic banking can be seen from the growth of total assets. Total asset is one of the indicators that can measure the growth level of a bank. Nowadays, Islamic banking assets contribute around 95 percent of Islamic financial total assets in Indonesia.¹ In this regard, Islamic banking is growing year by year in their assets. From 2010 until 2017, the total assets of Islamic banking have average growth around 20%. In addition, the market share of Islamic banking on December 2017 reached 5.74 percent, in which total assets of Islamic banking is 424.181 billion rupiah and total assets of conventional banks is 7.357.144 billion rupiah.² However, the market share of Islamic banking is still classified as smaller than market share of conventional banking. Although the market share of Islamic bank assets are smaller than conventional bank asset, it is seen that the growth of the market share of the Indonesian banking from 2010 until 2017 continued to experience in positive trend.



Source: Bank Indonesia

¹ <http://www.indonesia-investment.com>, accessed in Wednesday 8 November 2017, 10:36

² Statistik Perbankan Indonesia, Vol. 16, No. 1, December 2017, p. 14.

Note : Total asset in billion rupiah (left) and market share in percent (right)

Figure 1. The Expansion Total Assets and Market Share of Islamic Banking

Additionally, Islamic banking growth faces some problems to improve their assets. Those problems are such as less quantity and less quality of human resources, the society less understand and less aware about sharia concept, and Islamic banking is not optimal yet.³ Those problems have not been resolved yet. Moreover, the Islamic bankings have some challenges to fixed those problems, such as limitation of capital and poor information and communication technology.⁴ Generally, both challenges come to Indonesia as the effect of the globalization era, which is the influence of the ASEAN economic community (AEC) too.

To rise and face that challenge, Islamic banking must have several strategies to build the growth. One of that strategic is, Islamic banks must have an international standard operation, supported by adequate capital, competitive and competencies on global phases. Islamic banking is far left behind from other countries that have adopted the operation of the international standard of sharia banking in the country. Because of that, Indonesia as developing country prefers to accept FDI enter financial sector including Islamic banking to support the growth of their capital and their assets.

FDI is part of the overall globalization of markets. In economic perspective, foreign direct investment (FDI) can be rescuer for supporting the development of country. Globally, FDI brings prosperity great funds technology in banking and leads to improve the banking sector.⁵ On the

³ Hani Werdi Apritanti, Perkembangan Industri Perbankan Syariah di Indonesia: Analisis Peluang dan Tantangan, *Maximum*, Vol. 1, No.1, September 2017, p.20

⁴ *Ibid*, p. 16

⁵ Gholamreza Tajardoan, Khosro NoorMohamadi and Mehdi Beh name, Foreign Direct Investment: Granger Causality Test, *Economics and Finance Review*, Vol.2, No.5, 8-13 July 2012, p.9

other hand, FDI brought some concerns which is a negative impact about cash outflow. Eventually, that will cause a worry about FDI with a strong influence from foreign investors will control the strength of the economy of a nation.

However, beside those challenge, Islamic banks also have some opportunities. That can be arranged by macroeconomic activity. Macroeconomics are related to the overall economy, because macroeconomic can analyze the state of the overall economic activities.⁶ The macroeconomic environment will affect the company. In this case, the decision of the policy is related to the performance of the banks. Macroeconomic indicators used in this research are economic growth, inflation, and money supply.

The three macroeconomic indicators above has a relationship to each other. Most of the research have discussed about the relationship between the influences of macroeconomic variables with the growth of the total assets of Islamic banking in Indonesia, although the result is still different. As in the research written by Aisy (2016), the influence of the money supply (M2), and inflation have a significant impact while economic growth is not affected significantly.⁷ Instead, in research written by Lubis (2016) economic growth has significant positive influence.⁸ Similarly, Artha (2015) shows that economic growth has significant effect against the growth of Islamic banking assets, while inflation has no significant effect.⁹ Meanwhile, research done by Faturrahman (2013) shows that economic

⁶ Sadono Sukirno, *Makroekonomi Teori Pengantar* (Jakarta: PT RajaGrafindo, 2008), p. 162

⁷ ⁷ Diamantin Rohadatul Aisy, "Faktor-Faktor yang Mempengaruhi Pertumbuhan Aset Bank di Indonesia Tahun 2006-2015", *Islamic Economics Journal*, Vol.3, No.3, March 2016.

⁸ Ahmad Fadlan Lubis, "Analisis Pertumbuhan Total Asset Perbankan Syariah di Indonesia." *Social Science Journal*, Vol. 1, December 2016.

⁹ Yudha Prama Artha, dalam Skripsi Berjudul "Faktor-Faktor yang Mempengaruhi Pertumbuhan Total Aset Bank Syariah di Indonesia Tahun 2010-2014." Faculty of Business and Management University of Widyatama Bandung, 2015.

growth and inflation have the same significant results.¹⁰

Therefore, based on the explanation above, the author need to know the extent of influence of foreign direct investment and macroeconomic variables toward the total assets of Islamic banking in Indonesia. Thus, the author raised the research title: **“ANALYSIS OF IMPACT OF MACROECONOMIC VARIABLES AND FOREIGN DIRECT INVESTMENT (FDI) TOWARDS THE GROWTH OF TOTAL ASSETS OF ISLAMIC BANKING IN INDONESIA (2010-2017)”**

2. PROBLEM FORMULATION

Based on the background of the study as the writer describes previously, then it can be inferred that the research problem formulation is:

1. How fast is the stability of total assets of Islamic banking (TAIB) towards the shock of the volatility of macroeconomic variables and foreign direct investment (FDI)?
2. How much is the contribution of macroeconomic variables and FDI towards the growth of TAIB?
3. Are TAIB, macroeconomic variables (M2, CPI, and IPI) and FDI have a causality relationship?

3. PURPOSE OF STUDY

Some of the goals of this research are as follows:

1. To analyze empirically the stability of the growth of Total Assets of Islamic Banking (TAIB) towards the shock of the volatility of macroeconomic variables and foreign direct investment.
2. To see the contribution of macroeconomic variables and FDI towards the growth of TAIB.
3. To see the causality relationship of TAIB, macroeconomic variables (M2, CPI, and IPI) and FDI.

¹⁰ Deden Faturrahman, dalam Skripsi Berjudul “Analisis Faktor-Faktor yang Mempengaruhi Pertumbuhan Total Aset Bank Syariah di Indonesia Periode Penelitian 2008-2012.” Faculty of Business and Management University of Widyatama Bandung, 2013.

4. SIGNIFICANCE OF STUDY

Significance of study shows the benefits or the importance of research contained the usefulness of research in the science and society development or in implementation of the development broad sense. The researcher hopes that the results of this research can be useful not only for the researcher personally, but also can produce the benefits for other. The benefits of this research are divided into theoretical and practical:

1. Theoretical Significance

As for theoretical significance, the researcher hopes that this research can: first, as a practice media for the researchers in science practice and knowledge about Islamic banking mainly on the analysis of the growth of the total asset influenced by the macroeconomic activities and foreign direct investment (FDI), that have been studied in the scholar and coursework to the real conditions of society.

Second, provide an explanation of the Islamic banking and its determinant to all academics, then can be the reference and research material by students of Islamic Economic studies program at the University of Darussalam Gontor and other universities in Indonesia.

2. Practical Significance

From the results of this research, the researcher hopes for: first, the local authorities in order to understand and know the most support the determinant of the growth of Islamic banking assets, so that the implementation is right on target and it can develop the economics of nation.

Second, the local government in order to have a more effective strategy in the resolve the determinant of the growth of Islamic banking assets for economic development based on of sharia concept.

Third, The financial sector directory especially Islamic banking sector to more understand the practical knowledge and ability about Islamic banking challenge or opportunity and the determinant of the growth of Islamic banking so that economic development goes well and can develop economic growth.

5. THE RESEARCH SYSTEMATIC

This research is divided into five chapters. The first chapter contains an introduction to the research by the outline of background of study, problem formulation, purpose of study, significance of study and system of study.

The second chapter contains a Literature Review which concerns on the discussion about previously researches and theoretical framework which consists of the basic theory related to this research about three main theories. Those are the theory of Islamic banking, macroeconomic and Foreign Direct Investment (FDI).

The third chapter contains about the research procedures which explains about the research methodology includes: time and location of research, design of research, type of data, data sources, definitions and variables, method and analysis data.

The fourth chapter contains of result and interpretation. It explains about data profile (TAIB, IPI, CPI, M2, FDI), all of testing in VAR/VECM method (unit root test, lag optimal test, VAR stability test, co-integration test, correlation test, and VECM estimation test), then continued with the analysis of IRF, FEVD and Granger causality test.

The fifth chapter contains the conclusion from this research and suggestion so that the research meets its purpose and significance.