



The Influence Of Working Capital Financing And Consumptive Financing Of Islamic Commercial Banks On Economic Growth

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ABSTRACT

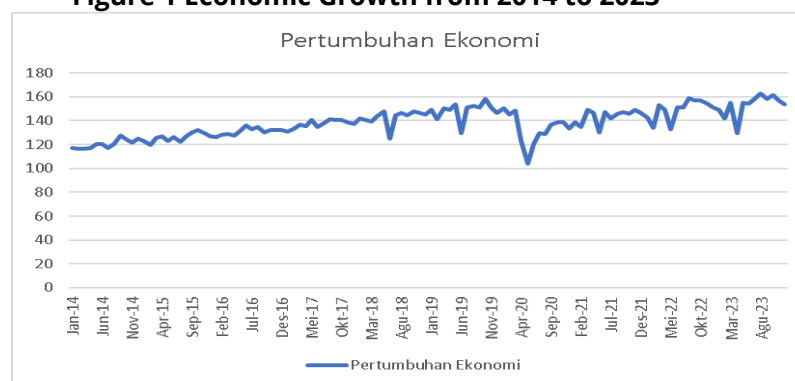
Economic growth is a main indicator in assessing the development of a country, which is influenced by various factors, including financing distributed by Islamic banking. This research aimed to analyze the influence of working capital financing and consumptive financing by Islamic commercial banks on economic growth in Indonesia. The method used a quantitative approach with the Vector Error Correction Model (VECM) model to analyze the short-term and long-term relationship between the variables of working capital financing, consumptive financing, and economic growth. The data used monthly time series data from the official reports of the Financial Services Authority and the Indonesian Central Statistics Agency for the 2014–2023 period which is processed using Eviews 13. The results showed that consumptive financing had a significant influence on economic growth in the short term. However, the impact is not long-lasting and tends to subside in the long term. In contrast, working capital financing has no direct influence on economic growth in the short term, but in the long term it showed that a stronger linkage to economic growth through increased productivity and investment. This research showed that although consumptive financing can drive economic growth in the short term through increased consumption, the impact is less sustainable compared to working capital financing which contributes more to long-term economic growth. Therefore, the optimization of working capital financing in Islamic banking needed to be increased to support more stable and sustainable economic growth.

INTRODUCTION

Economic growth can be defined as an increase in the production capacity of goods and services within an economy over a certain period (Pemerintah Kab Dogiyai, 2023). The main indicator used to measure economic growth is the change in Gross Domestic Product (GDP), both at current and constant prices (Wijaya, 2021). Economic growth reflects the development conditions of a country, focusing on increasing economic output and achieving a more equitable income distribution (Kementerian Keuangan RI, 2023).

Indonesia's economic growth remains strong despite a global economic slowdown. Data from Statistics Indonesia (BPS) recorded that the country's economic growth in the fourth quarter of 2023 reached 5.04% (YoY), increasing from the previous quarter's 4.94% (YoY), with an annual growth rate of 5.05% (YoY) in 2023 (BPS, 2024). In 2024, economic growth is projected to be in the range of 4.7–5.5%, driven by domestic demand, including increased consumption due to the general elections and higher investments, particularly in construction related to National Strategic Projects (PSN) and the New Capital City (IKN) (Suroyo, 2025). However, export performance is expected to remain weak due to the global economic slowdown and declining commodity prices. Bank Indonesia continues to strengthen fiscal synergy and macroprudential stimulus to boost domestic economic growth (Haryono, n.d.).

Figure 1 Economic Growth from 2014 to 2023



Source: Statistics Indonesia (BPS), 2014-2023

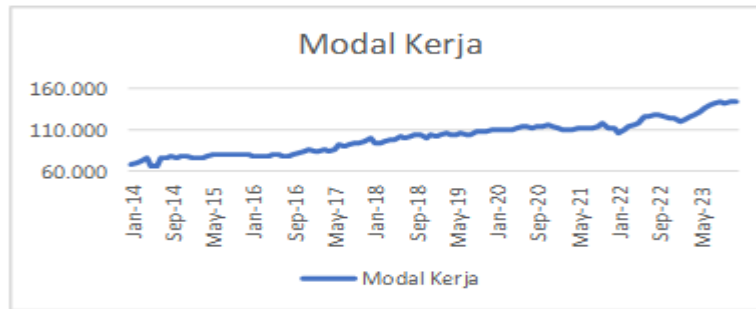
Economic growth from January 2014 to August 2023 generally showed an increasing trend, despite some fluctuations. From January 2014 to early 2020, there was a consistent rise, with minor declines at certain points. During the period from March to April 2020, there was a sharp decline, most likely related to the impact of the COVID-19 pandemic on the global economy. Following this, the graph indicates a gradual recovery with slight fluctuations in the subsequent periods.

Economic growth from 2021 to 2023 showed a more stable trend with an upward tendency, although there were minor declines in certain months. This recovery followed a sharp decline in 2020 due to the COVID-19 pandemic, which was subsequently addressed through economic recovery policies and the reopening of business activities. Overall, the value of the graph at the end of the period shows a higher level compared to the beginning, indicating positive economic growth in the long term.

Working capital financing is one type of financing provided by Islamic banks to support daily business and operational activities (Afkar, 2014). Working capital financing by Islamic banks tends to have a positive impact on economic growth as it enhances production capacity and strengthens the competitiveness of MSMEs, which serve as the backbone of Indonesia's economy (Alghifary, Kadji, & Kornitasari, 2021). MSMEs contribute more than 60% to Indonesia's Gross Domestic Product (GDP) and absorb more than 97% of the workforce (Kementerian Koordinator Bidang Perekonomian RI, 2023).

The growth of financing by islamic banks, particularly in working capital financing, is expected to continue increasing in line with improving investment climate and economic stability (Fajarihza, 2025). Bank Indonesia recorded an increase in islamic banking financing during the post-pandemic period (Izzaturrahman, 2022) Research by (Ritonga, 2021) also indicates that this growth is driven by the rising interest of business actors in Sharia-based financing. During the 2020-2023 period, islamic banks' working capital financing demonstrated significant growth, in line with the economic recovery following the COVID-19 pandemic (Izzaturrahman, 2022). This financing helps enhance business resilience and increase national economic output.

Figure 1 Working Capital Financing from 2014 to 2023

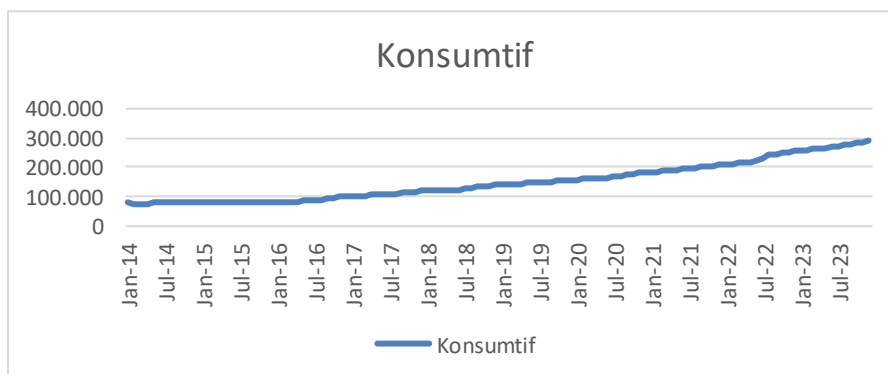


Source: Islamic Banking Statistics 2014–2023, OJK

Working capital financing from January 2014 to August 2023 exhibited a positive growth trend. From 2014 to 2016, financing gradually increased from around 60,000 to nearly 80,000, reflecting stable business growth. From 2016 to early 2020, the upward trend became stronger, with financing exceeding 120,000, indicating an increasing demand for working capital in line with economic growth. The COVID-19 pandemic in early 2020 caused stagnation due to economic uncertainty. However, from 2021 to 2023, financing recovered significantly, with a sharp increase especially after 2022, reaching approximately 140,000 by August 2023. This reflects the post-pandemic revival of the business sector, driven by economic recovery, increased production, and growing business optimism, further emphasizing the crucial role of working capital financing in supporting business operations and economic growth.

Consumptive financing is a type of financing used to meet individual or household consumption needs, such as purchasing durable goods, property, or vehicles (Pribadi, 2017). In the islamic banking system, consumptive financing is based on sharia principles, utilizing contracts such as murabahah (sale and purchase), ijarah (leasing), or istishna (manufacture order), ensuring that the process is free from elements of riba and complies with religious guidelines (Afkar & Purwanto, 2021).

Figure 3 Consumptive Financing from 2014 to 2023



Source: Islamic Banking Statistics 2014–2023, OJK

Consumptive financing from January 2014 to August 2023 exhibited a significant upward trend over nearly a decade. From 2014 to early 2016, financing remained stable at around 80,000–90,000, with slow growth. Since mid-2016, there has been a steady increase, reflecting the growing demand for consumptive financing for needs such as housing and vehicles. This trend continued until 2020, although it briefly slowed due to the impact of the COVID-19 pandemic. In 2021–2023, a significant surge occurred, reaching over 300,000 by mid-2023, indicating economic recovery, increased purchasing power, and supportive Islamic banking policies. August 2023 showed an anomaly with a sharp decline to below 50,000, likely due to technical factors, before rebounding above 300,000. Overall, consumptive financing plays an important role in supporting household purchasing power and economic growth.

LITERATURE REVIEW

Research on the relationship between Islamic finance and economic growth has revealed several key findings. A study by (Noman Arshed, Sadia Yasmin, 2020) found that most Islamic financing instruments, except *istishna*, have a positive impact on economic growth, with *Salam* financing demonstrating the highest potential. The study by (Boukhatem & Ben Moussa, 2018) indicated that the development of the Islamic financial system drives economic growth in MENA countries, although it is hindered by underdeveloped institutional frameworks.

According to a study by (Komal & Abbas, 2015) on the relationship between finance, growth, and energy consumption in Pakistan, finding that financial development increases energy consumption through economic growth. Furthermore, research by (Imam & Kpodar, 2016) found that although Islamic banking is relatively small in size, its contribution to economic growth remains significant. The study by (Ledhem & Mekidiche, 2020) indicates that among the CAMELS indicators, only Return on Equity (ROE) has a positive effect on economic growth.

A study by (Mohd Sofie & Muneeza, 2023) emphasizes that Islamic finance can enhance economic growth, but it is still hindered by institutional infrastructure constraints. Meanwhile, a study by (Idrees, 2022) found a significant long-term relationship between Islamic banking and economic growth in Pakistan. On the other hand, a study by (Setiawan, 2019) shows that Islamic banking financing positively contributes to job creation in Indonesia.

According to a study by (Atici, 2018) examining the causal relationship between Islamic banking and economic growth in Turkey, found that the relationship is supply-leading. The study by (Mensi et al, 2020) found that the impact of Islamic banking on economic growth is non-linear. Meanwhile, (Khattak et al, 2021) found that the development of Islamic finance contributes to global economic stability and economic growth particularly in Muslim-majority countries.

The study (Ibrahim & Law, 2020) analyzed intermediation costs in Malaysia's dual banking system and found that Islamic banking margins are higher than those of conventional banks. Furthermore, the findings by (Muhammad Firdaus, 2013) examined the efficiency of Islamic banking in Indonesia and discovered that its efficiency level is still not optimal. Meanwhile, the study by (Aslam et al, 2021) found that corporate governance, particularly board independence and audit committee effectiveness, has a positive impact on the asset quality of Islamic banks.

The findings by (Setiawan, 2022) found that MSME financing by Islamic banks can enhance the banks' financial performance while also maintaining macroeconomic stability through inflation control. Meanwhile, (Noviantoro, 2016) showed that profit-sharing ratios and conventional interest rates have a significant effect on the amount of financing, indicating the importance of both internal and external factors in supporting the role of Islamic financing in macroeconomic growth.

METHODS

This study employs a quantitative research method using monthly time series data from 2014 to 2023, sourced from the official reports of the Financial Services Authority (OJK). The variables used in the study include working capital financing (X1), consumer financing (X2), and economic growth (Y). The research applies the Vector Error Correction Model (VECM). The analysis stages begin with data processing, including data transformation if necessary and descriptive statistical analysis to understand data patterns. Next, a stationarity test is conducted using the Augmented Dickey-Fuller (ADF) test or the Phillips-Perron (PP) test. The next step is the selection of the optimal lag using information criteria such as the Akaike Information Criterion (AIC) or the Schwarz Bayesian Criterion (SBC). After that, the model is estimated according to the characteristics of the data.

The VECM model is used to analyze long-term relationships and short-term dynamics if cointegration exists. Next, diagnostic tests such as autocorrelation tests, normality tests, and heteroskedasticity tests are conducted to ensure reliability of the model. To understand the influence of the variables, impulse response analysis and variance decomposition are conducted to observe the impact of changes in one variable on the other variables within the system. The VECM model includes an additional error correction component to capture long-term imbalances that are adjusted in the short term. From this analysis, it is expected that a comprehensive understanding of the short-term and long-term relationships between Islamic financing and economic growth can be obtained, as well as the influence patterns of each variable that may support strategic policy-making.

VECM MODEL

$$\begin{aligned}\Delta Y_t &= \alpha_1 + \gamma_1 ECT_{t-1} + \sum_{i=1}^{p-1} \phi_{11i} \Delta X_{t-i} + \sum_{i=1}^{p-1} \phi_{12i} \Delta X_{1,t-i} + \sum_{i=1}^{p-1} \phi_{13i} \Delta X_{2,t-i} + \epsilon_{1t} \\ \Delta X_{1,t} &= \alpha_2 + \gamma_2 ECT_{t-1} + \sum_{i=1}^{p-1} \phi_{21i} \Delta Y_{t-i} + \sum_{i=1}^{p-1} \phi_{22i} \Delta X_{1,t-i} + \sum_{i=1}^{p-1} \phi_{23i} \Delta X_{2,t-i} + \epsilon_{2t} \\ \Delta X_{2,t} &= \alpha_3 + \gamma_3 ECT_{t-1} + \sum_{i=1}^{p-1} \phi_{31i} \Delta Y_{t-i} + \sum_{i=1}^{p-1} \phi_{32i} \Delta X_{1,t-i} + \sum_{i=1}^{p-1} \phi_{33i} \Delta X_{2,t-i} + \epsilon_{3t}\end{aligned}$$

Additional Notes:

Δ : First difference operator ($\Delta Y_t = Y_t - Y_{t-1}$)

ECT_t : error correction term (adjustment component of the long term relationship)

$\gamma_1, \gamma_2, \gamma_3$: adjustment coefficient

ϕ_{ijk} : Regression coefficients for variables with the first difference

RESULTS

Stationarity test

The stationarity test is the initial stage in time series data analysis to ensure that the data used does not exhibit trends or seasonal fluctuations that could affect the model estimation results. Data is considered stationary if it has a constant mean and variance over time.

Table 1. Stationarity Test Results

Variable	Level		1 st Difference	
	t-Statistic	Prob.	t-Statistic	Prob.
WCF	1.614568	0.9995	-5.463112	0.0000
CF	6.086480	1.0000	-7.810518	0.0000
EG	-8.623976	0.0000		

Source: Data processed with EViews 13, 2025

Based on the Augmented Dickey-Fuller (ADF) test, all variables Working Capital Financing, Consumptive Financing, and Economic Growth are found to be stationary at the first difference level, as the ADF test probability values are less than 0.05. This indicates that the data does not contain a unit root and meets the requirements for VECM analysis.

Lag Order Selection Test

The optimal lag test is conducted to determine the most appropriate number of lags in autoregressive models such as VAR (Vector Autoregression) or VECM (Vector Error Correction Model). Selecting the correct number of lags is crucial to ensure that the model accurately captures the dynamic relationships among variables without causing autocorrelation issues or loss of degrees of freedom. Lag testing was conducted using the Akaike Information Criterion (AIC), Schwarz Criterion (SC), and Hannan-Quinn Criterion (HQ), where the optimal number of lags in this study was determined based on the lowest AIC value.

Table 2. Optimum Lag Test Result

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-1619.056	NA	3.40E+08	28.36620	28.36620*	28.48000*
1	-1600.000	38.112*	3.20E+08*	28.10000*	28.10000	28.40000
2	-1595.500	9.000	3.50E+08	28.30000	28.30000	28.80000
3	-1590.000	11.000	3.80E+08	28.50000	28.50000	29.20000
4	-1585.000	10.000	4.00E+08	28.70000	30.60000	29.60000

Source: Data processed with EViews 13, 2025

The highest significant LR value was found at lag 1 (38.112), indicating that the model with lag 1 has a significant improvement compared to the model without lag (lag 0). The smallest FPE value was also found at lag 1 (3.20E+08), suggesting that the model with lag 1 has the lowest prediction error compared to other lag lengths. The lowest AIC value was recorded at lag 1 (28.10000), showing that the model with lag 1 provides the best balance between model complexity and data fit. On the other hand, the SC and HQ criteria selected lag 0, as they recorded the lowest values at lag 0 (28.36620 and 28.48000, respectively). However, the SC and HQ criteria tend to be more conservative, as they apply a larger penalty for models with more parameters.

VAR Stability Test

The VAR stability test is conducted to ensure that the constructed VAR model is stable and valid for analysis. A VAR model is considered stable if all the roots of the characteristic polynomial lie within the unit circle, or in other words, have a modulus of less than one.

Table 3. VAR Model Stability Test Results

Variable	Root	Modulus
CF	0.333793	0.333793
WCF	0.206913	0.206913
EG	-0.118516	0.118516

Source: Data processed with EViews 13, 2025

Based on the table 3 above, it can be seen that the modulus values of all roots for the tested variables are less than 1 (or lie within the unit circle). Therefore, the results of the VAR stability test indicate that the VAR model used can be considered stable.

Granger Causality Test

Granger causality test is used to determine whether one variable can statistically be used to predict another variable within the framework of time series data. Granger causality does not imply a theoretical cause-and-effect relationship, but rather assesses whether past values of one variable provide significant information in predicting the values of another variable.

Table 4. Granger Causality Test Results

Null Hypothesis	F-Statistic	Probability
WORKINGCAPITAL does not Granger Cause CONSUMPTIVE	1.95061	0.1652
CONSUMPTIVE does not Granger Cause WORKINGCAPITAL	8.82638	0.0036
ECONOMICGROWTH does not Granger Cause CONSUMPTIVE	0.02075	0.8857
CONSUMPTIVE does not Granger Cause ECONOMICGROWTH	5.18070	0.0247
ECONOMICGROWTH does not Granger Cause WORKINGCAPITAL	1.42856	0.2344
WORKINGCAPITAL does not Granger Cause ECONOMICGROWTH	5.93245	0.0164

Source: Data processed with EViews 13, 2025

Based on the results of the Granger causality test above, it can be concluded that the Consumptive variable has an effect on Working Capital, with a probability value of 0.0036 (< 0.05), indicating a causal relationship from the Consumptive variable to Working Capital. The Consumptive variable also affects Economic Growth, as the probability value is 0.0247 (< 0.05), indicating a causal relationship from the Consumptive variable to Economic Growth.

On the other hand, the Working Capital variable does not affect Consumptive, as the probability value is 0.1652 (> 0.05), indicating no causal relationship between the Working Capital and Consumptive variables. The Economic Growth variable does not affect Working Capital, with a probability value of 0.2344 (> 0.05), showing no causal relationship between Economic Growth and Working Capital.

Based on these results, it can be concluded that the Consumptive variable has a causal effect on Working Capital and Economic Growth, while the Working Capital and Economic Growth variables do not affect the other variables.

Cointegration Test

The cointegration test is conducted to determine whether there is a significant long-term relationship among the variables used in the model. In this study, the cointegration test is performed using the Johansen Cointegration Test method, which includes two approaches: the Trace Statistic and the Maximum Eigenvalue Statistic.

Table 5. Cointegration Test Results

Hypotesis	Eigenvalue	Trace Statistic	Critical Value (5%)	Prob.
None*	0.431550	134.4327	29.79707	0.0000
At most 1*	0.322515	70.04059	15.49471	0.0000
At most 2*	0.201502	25.65258	3.841465	0.0000

Source: Data processed with EViews 13, 2025

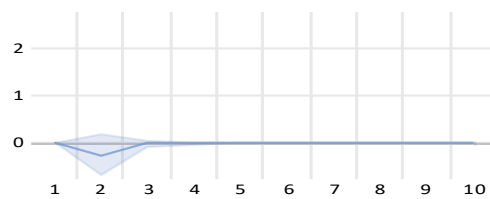
Based on Table 5, it can be seen that the Trace Statistic values are greater than the Critical Value, indicating a long-term relationship or cointegration among the variables in the system. The asterisk (*) denotes the presence of cointegration at the 5% significance level. Since all Trace Statistic values are greater than the Critical Value, it can be concluded that there are 3 cointegration relationships among the variables in the system. With cointegration present, the appropriate model to use is the VECM (Vector Error Correction Model) to capture the long-term relationships among the variables.

Impulse Response Function (IRF) Analysis

The Impulse Response Function (IRF) is used to measure how one endogenous variable responds to a shock applied to another variable within the system. This analysis helps illustrate the direction, magnitude, and duration of the shock's impact on other variables over time.

Figure 1 Impulse Response Function (IRF) Analysis

Response of D(MODAIKERJA) to PERTUMBUHANEKONOMI Innovation

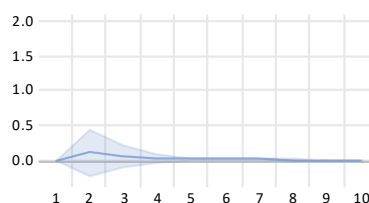


Source: Data processed with EViews 13, 2025

This graph illustrates how a variable in a dynamic system responds to a shock, which is commonly analyzed using models such as Vector Autoregression (VAR). The horizontal axis represents the time periods following the occurrence of the shock, while the vertical axis shows the magnitude of the variable's response to the given shock. Initially, there is a sharp response, where the variable experiences a significant decline immediately after the shock. This indicates that the system undergoes a substantial immediate impact. After reaching its lowest point, the response begins to fluctuate and then gradually diminishes toward zero. This pattern suggests an adjustment process within the system, eventually returning the variable to its equilibrium position.

Figure 2 Figure 1 Impulse Response Function (IRF) Analysis

Response of D(KONSUMTIF) to PERTUMBUHANEKONOMI Innovation



Source: Data processed with EViews 13, 2025

This graph illustrates how a variable in a dynamic system responds to a shock over a specific time period. The horizontal axis represents the time following the occurrence of the shock, while the vertical axis indicates the magnitude of the variable's response. Initially, the response shows a significant spike, indicating an immediate effect of the shock on the system. However, over time, the response begins to fluctuate before gradually returning to the equilibrium point (zero). This pattern suggests that the impact of the shock is temporary, and the system has an adjustment mechanism that leads back to stability.

Forecast Error Variance Decomposition (FEVD) Analysis

Forecast Error Variance Decomposition (FEVD) is used to determine the proportion of variation (fluctuation) in an endogenous variable that can be explained by shocks from other variables in the system over a specified time horizon.

Table 6. Variance Decomposition Results of the Consumptive Variable

Period	Consumptive	Working Capital	Ekonomic Growth
1	100.0000	0.000000	0.000000
20	92.01677	7.871525	0.111709
50	91.64420	8.244855	0.110943
100	91.51551	8.373814	0.110679
120	91.49383	8.395535	0.110634

Source: Data processed with EViews 13, 2025

The analysis results in the table 6 show that in the initial period, the consumptive variable is entirely influenced by itself, with a value of 100%. Over time, the influence of working capital on consumptive increases, reaching up to 8.40% in the 120th period. Meanwhile, economic growth has a very minimal impact, contributing less than 0.12%.

Table 7. Variance Decomposition Results of Working Capital Variable

Period	Consumptive	Working Capital	Economic Growth
1	2.359902	97.64010	0.000000
20	34.66255	61.60737	3.730082
50	53.59771	41.73684	4.665450
100	65.36500	29.38827	5.246735
120	67.83911	26.79194	5.368953

Source: Data processed with EViews 13, 2025

The analysis results in the table 7 indicate that in the initial period, working capital is largely influenced by itself (97.64%). However, in the long term, the influence of the consumptive variable increases significantly, reaching 67.83% in the 120th period, while economic growth contributes approximately 5.37%.

Table 8. Variance Decomposition Results of Economic Growth Variable

Period	Consumptive	Working Capital	Economic Growth
1	1.239986	0.294585	98.46543
20	0.958749	2.769447	96.27180
50	0.940558	2.904888	96.15455

Period	Consumptive	Working Capital	Economic Growth
100	0.934276	2.951665	96.11406
120	0.933218	2.959543	96.10724

Source: Data processed with EViews 13, 2025

The analysis results show that economic growth is primarily influenced by itself, with a contribution of 98.47% in the initial period. In the long term, the influence of working capital slightly increases to around 2.96% in the 120th period, while the consumptive variable has only a minimal impact, contributing about 0.93%.

DISCUSSION

The Influence of Working Capital Financing by Islamic Commercial Banks on Economic Growth

Working Capital Financing (WCF) provided by Islamic Commercial Banks plays a significant role in the economic system; however, its impact on economic growth is not direct. Based on the results of the Granger causality test, no direct causal relationship was found between WCF and economic growth. This means that an increase in working capital financing does not immediately spur economic growth in the short term.

Further analysis shows that Working Capital Financing (WCF) influences the consumptive variable, which in turn has an impact on economic growth. This suggests that working capital financing can stimulate increased consumption, which may then contribute to economic growth indirectly. In the long term, the results of the cointegration test indicate a strong relationship among the variables in the system. Although the impact of WCF on economic growth is not directly observable in the short term, there exists a long-term connection that could influence the overall economic dynamics.

The results of the Impulse Response Function (IRF) analysis indicate that when a shock occurs in working capital financing, economic growth does not experience a significant immediate change. The graph shows that after experiencing slight fluctuations, the economic growth variable returns to equilibrium. This further strengthens the finding that Working Capital Financing (WCF) is not the primary factor directly driving economic growth.

Based on the Variance Decomposition (FEVD) analysis, it is found that economic growth is predominantly influenced by itself, with a stable contribution of approximately 96%. Meanwhile, the role of Working Capital Financing (WCF) in economic growth is minimal, contributing only about 2.96% in the long term. Conversely, working capital is more influenced by the consumptive variable, indicating that working capital provided by Islamic banks contributes more to increasing consumption rather than directly impacting economic growth.

Theoretically, Working Capital Financing (WCF) provided by Islamic Commercial Banks can influence economic growth through several mechanisms. WCF provides funds to business actors to meet their daily operational needs, such as purchasing raw materials, paying wages, and covering other operational costs. With this capital support, companies can increase their production capacity and operational efficiency, which in turn can boost output and contribute to Gross Domestic Product (GDP).

The increase in production activities resulting from Working Capital Financing (WCF) can create new job opportunities, reduce the unemployment rate, and increase household income. Higher income will drive household consumption, which in turn boosts aggregate demand in the economy. However, these effects may not be immediately visible in the short term, as the increase in production takes time to significantly contribute to economic growth.

These results are in line with the study conducted by (Kurniasari & Amaliyah, 2023), which found that Islamic banking financing and labor force simultaneously have a positive and

significant effect on sectoral economic growth in Indonesia during the 2014-2021 period. Partially, Islamic banking financing also has a positive and significant impact on sectoral economic growth. This indicates that although the effect may not be direct, Working Capital Financing (WCF) plays an important role in promoting economic growth through increased production capacity and labor absorption. A study by (Syaaqilah Tullah, 2024) also shows that Islamic financing, including WCF, has a positive influence on economic growth as proxied by GDP.

There are studies that show that Working Capital Financing (WCF) does not have a significant effect on economic growth. Research by (Risalatus Zain, 2021) shows that the distribution of working capital financing by Islamic commercial banks does not significantly affect the regional economic growth rate in Indonesia. This finding suggests that the effectiveness of WCF may vary across regions, depending on local economic structures and the ability of business actors to utilize the financing productively.

The Influence of Consumptive Financing by Islamic Commercial Banks on Economic Growth

Consumptive financing provided by Islamic Commercial Banks has an impact on economic growth, but with a temporary pattern. Based on the results of the Granger causality test, it was found that consumptive financing has a causal relationship with economic growth. This means that an increase in consumptive financing can stimulate economic activity by enhancing the purchasing power of the public and aggregate demand.

This finding indicates that the reverse relationship is not proven. Economic growth does not directly affect consumer financing, suggesting that economic improvement does not necessarily lead to an increase in demand for consumer credit. In the long term, the cointegration test results show a linkage between consumer financing and economic growth. This indicates that, although the impact may not always be directly visible in the short term, consumption remains one of the key factors in supporting economic growth.

The Impulse Response Function (IRF) analysis confirms that when there is a sudden increase in consumptive financing, economic growth responds with an initial significant surge. However, this response does not last long. After some time, the effect of increased consumption begins to fade, and economic growth returns to its initial equilibrium. This indicates that consumption can act as a driver of economic growth, but its effects are temporary and not a primary factor in sustaining long term growth.

The results of the Variance Decomposition (FEVD) analysis further clarify this finding. In the long term, economic growth is largely influenced by itself, with a contribution of over 96%. Meanwhile, the influence of consumptive financing on economic growth is relatively small, only about 0.93%. On the other hand, consumptive financing is predominantly influenced by itself, with a contribution of more than 91%, while working capital has little influence on consumption in the long term.

Theoretically, consumptive financing provided by Islamic commercial banks can influence economic growth through several mechanisms. First, an increase in consumptive financing boosts people's purchasing power, which in turn drives aggregate demand. Higher household consumption can drive the production of goods and services, thereby increasing overall economic output. Second, the increased demand may encourage the business sector to expand production capacity, which could lead to higher investment and job creation. However, this effect tends to be temporary, as consumption driven by financing without being accompanied by increased productivity can lead to economic imbalances in the long term.

A study by (Dwiastuti, 2020) found that consumptive credit has a positive and significant effect on economic growth in the regencies and cities of West Kalimantan Province. This is in line with the finding that consumer financing can drive economic activity by increased household consumption. Consumer credit, which is commonly used to meet household needs such as the purchase of homes, vehicles, and furniture, has been proven to increase aggregate demand at

the regional level. This increase in demand subsequently drives the growth of goods and services production, as well as opens up new job opportunities that can accelerate economic growth.

CONCLUSION

This study shows that working capital financing and consumptive financing by Islamic commercial banks have different effects on economic growth. Working capital financing contributes indirectly by enhancing production capacity and business competitiveness, while consumptive financing has a direct impact by stimulating economic activity through increased purchasing power. However, the impact of consumptive financing on economic growth is temporary, whereas working capital financing is more sustainable in the long run. Therefore, the optimization of working capital financing in Islamic banking needs to be improved to support more stable and sustainable economic growth.

SUGGESTION

Based on research findings, it is recommended that Islamic banking institutions place greater focus on enhancing working capital financing to support long-term economic stability. However, this study has limitations as it only employs a quantitative approach using secondary data and does not include qualitative insights or region-based analysis, which could provide a deeper understanding of the financing mechanisms. Future research is expected to address these limitations by incorporating more diverse data sources and adopting a more comprehensive methodological approach.

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