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Article

Effect of Sharia Banking RGEC toward Indonesian GDP

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ABSTRACT

This investigation aims to analyze the effect of sharia banking financial performance using the RGEC method (Risk Profile, Good Corporate Governance, Earnings, Capital) on the Gross Domestic Product (GDP). The independent variables in this study were measured the Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), Operating Costs to Operating Income (BOPO), Good Corporate Governance (GCG), and Return On Equity (ROE), while the dependent variables measured by the percentage of Gross Domestic Product (GDP). The type of research is quantitative with six samples of Sharia banks consisting of Bank Muamalat Indonesia, BRI Syariah, BNI Syariah, Bank Mandiri Syariah, Bank Mega Syariah, and BCA Syariah with data for the quarter of 2016 to 2020. The analysis technique data were analyzed using panel regression with a fixed effect model method processed with Eviews 12 software. The results showed that the FDR, BOPO, and ROE variables had a positive influence and were significant on Indonesia's gross domestic product. Furthermore, the CAR and GCG variables cannot influence Indonesia's economic growth. Meanwhile, the results of Test F show the RGEC ratio of sharia banks had a significant influence on the Gross Domestic Product (GDP) at the same time.

Keywords: Sharia Banking, RGEC, Gross Domestic Product (GDP).
JEL Classification: G1, G21, G32, D04

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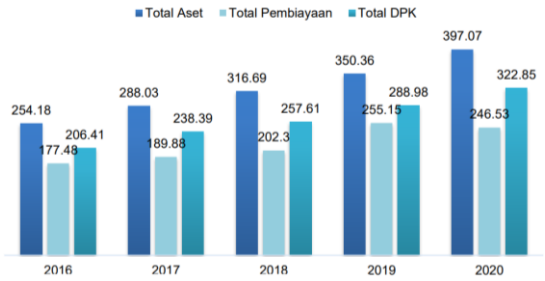
INTRODUCTION

Banking is a financial institution that functions as an intermediator because it receives funds from the public that are excess funds and distributes them to people who need them. Indonesia's bank has a dual system, namely sharia and conventional bank. Sharia banking also contributed to economic growth in the long-term role, such as financing distribution. The correlation between Sharia bank financing and economic growth contributes to stimulating economic growth and encouraging the development of sharia banking in Indonesia (Abduh & Omar, 2012). In December 2020, the market share in Indonesia's Sharia banking was 6.51%, and until December 2021 the market share was increase to 6.55% (recorded by Otoritas Jasa Keuangan). The increase in market share of 0.04% took one year

(December 2020-December 2020). It indicates that the growth of the market share of Sharia banking in Indonesia still has obstacles, so there is a need for efforts to increase market share, especially considering that Indonesia's population is majority Muslim.

The financial performance of Sharia banking can be viewed from three indicators, namely total assets, total financing disbursements, and collection of third-party funds (DPK). Based on data from the Otoritas Jasa Keuangan (OJK), Sharia banking in Indonesia had total assets in 2016 of 254.18 trillion to 397.07 trillion increasing in 2020. In addition, Sharia banks disbursed financing in 2016 reached 177.48 trillion to 246.53 trillion in 2020. On the other hand, Islamic banking had a total of third-party funds in 2016 of 206.41 trillion to 322.85 trillion in 2020.

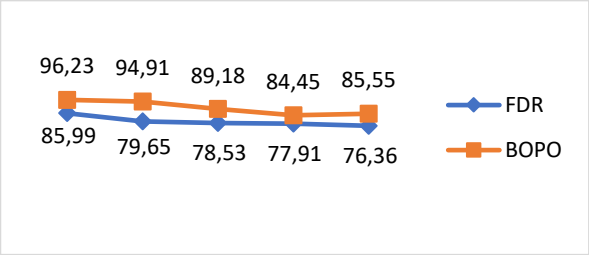
Figure 1
Main Indicators of Sharia Banking



Source: Otoritas Jasa Keuangan (OJK)

In general, the financial performance of Sharia banking views from financial ratios such as CAR (Capital Adequacy Ratio), ROE (Return On Equity), BOPO (Operating Expenses to Operating Income), and FDR (Financing to Deposit Ratio) and GCG (Good Corporate Governance). Viewed from the CAR ratio, Islamic banking performance has increased over the past five years, but in 2019 it experienced a slight decrease from 20.39% to 19.56%. Meanwhile, the ROE ratio decreased in 2017 by -4.58% and increased by 8.85% from 2018 to 2019.

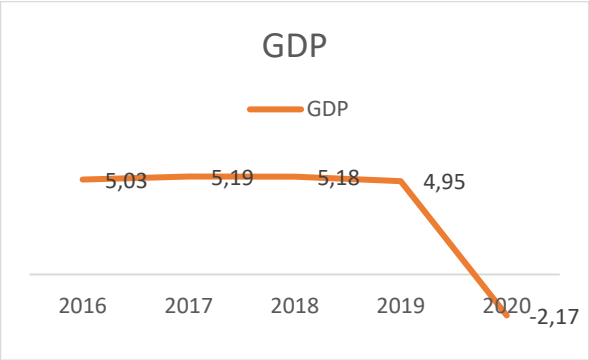
Figure 1
FDR and BOPO Ratio Sharia Banking



Source: Otoritas Jasa Keuangan (OJK)

Figure 2 above shows that FDR's ratio in 2017 has decreased significantly. It shows that the distribution of third-party funds through financing is not optimal. Meanwhile, the BOPO ratio over the past five years has improved because it has decreased. The decline shows that Sharia banks in generating profits are increasingly efficient. The performance of banks can collect savings from surplus units and disburse loans to deficit units, which can affect economic growth (Abusharbeh, 2018).

Figure 2
Gross Domestic Bruto (GDP)



Source: Badan Pusat Statistik (BPS)

Economic growth increased from 2016 until 2018. But it decreased in 2019. In 2020 economic growth slumped to -2.17%. In Figure 1.2, financial performance in the FDR ratio has decreased in 2017, but Indonesia's economic growth increased. The BOPO ratio in Figure 1.2 shows that the ratio is improved where there has been a decline in the last five years. It means that the bank efficiency has increased while economic growth, especially GDP in 2020, has decreased drastically. So, to see the

effect of Sharia banking financial performance on GDP in Indonesia in that period needs to be studied further.

Research conducted in Indonesia by (El Ayyubi et al., 2018) shows an influence of the contribution of Islamic banking financing distribution to economic growth. Another study by (Ledhem & Mekidiche, 2020) shows that bank performance as measured by the ROE ratio has a positive influence and is significant in economic growth. Meanwhile, bank performance as measured by ROA does not affect economic growth. Research Tabash, (2019) on the relationship between Islamic bank performance and economic growth in the UAE shows a positive and significant relationship between the performance of proxied Islamic banks with ROA and ROE to economic growth in the UAE. In addition, Lebdaoui & Wild, (2016) and Wahab, (2016) also conducted research showing no significant relationship between Sharia banking and economic growth in ASEAN countries and Pakistan.

Ledhem & Mekidiche, (2020) examines the performance of Sharia banking proxied by camels ratio. Unlike the previous study used the CAMELS ratio, this research uses the RGEC ratio. The difference in the assessment of bank financial performance between the CAMELS and RGEC ratio lies in the governance or bank management, measured by Good Corporate Governance. This RGEC method assesses the financial performance of banks from quantitative and qualitative aspects. This study examines the risk profile as quantified by liquidity risk (financing to deposit Ratio) and operational risk (Operating Costs to Operating Income). This study examines good corporate governance as measured by the composite value of GCG. This study examines the earnings as measured by the return on equity. And the capital is measured by the capital adequacy ratio. Research (Hadinata, 2018) shows that Islamic Social Reporting (ISR) of Islamic banks affects the profit sharing ratio, meaning that the more social items the bank does, the smaller the funds obtained as shahibul or mudharib.

Based on the description above, researchers are encouraged to analyze how the ratio of Sharia banking RGEC affects the GDP in Indonesia. Although many similar studies have examined Sharia banking and GDP, case studies abroad are still limited to studies in Indonesia. So, the author is interested in researching the influence of the RGEC ratio of Sharia banks on GDP in Indonesia. According to the author's opinion, this study examines the effect of the RGEC ratio on GDP. Thus, it can be seen the financial performance of Sharia banking with the assessment of the RGEC method is good enough to encourage an increase in GDP in Indonesia.

LITERATURE REVIEW

Sharia Banking Financial Performance

According to (Fajrin & Laily, 2016), results show that elements of the company's financial performance are directly related to the measurement of company performance presented in the income statement. Net income is often used as a performance measure or as part of the basis for other measured. On June 11, 2011, the Otoritas Jasa Keuangan issued Regulation No. 8/POJK.03/2014 concerning financial performance assessment specifically for Sharia Commercial Banks and Sharia Business Units using a risk approach (Risk Based Bank Rating) or the RGEC approach. The RGEC approach itself contains four measurement factors, namely; (1) Risk Profile, (2) Good Corporate Governance, (3) Earnings, and (4) Capital. The focus of this research is on the ratio of Return On Equity (ROE), Capital Adequacy Ratio (CAR), Operating Costs to Operating Income (BOPO), FDR (Financing on Deposit Ratio), and GCG (Good Corporate Governance).

ROE measures a bank's ability to generate income from each unit of equity it owns (Santoso, 1996). ROE assessment aims to measure the performance of bank management in managing available capital to generate after-tax profits. The greater the ROE value, the greater the level of bank profits achieved by the bank, so that the possibility of a bank being in an unhealthy condition is getting smaller. CAR ratio serves to adjust the losses borne by the bank. The higher the CAR reflects the bank's ability to manage the risk of potential losses (Daryanto, 2020). Liquidity risk is proxied by the Financing to Deposit Ratio (FDR). Operational risk is proxied by Operating Costs to Operating Income (BOPO). The FDR ratio shows how much third-party funds are for the financing distribution. The higher the FDR ratio bank's ability to optimize its intermediation function. The BOPO ratio is an efficiency ratio used to measure the ability of bank management to control operating costs on operating income. The declining BOPO ratio indicates that bank efficiency is getting higher. The Good Corporate Governance is measured by the management or governance of Islamic banking based on the principle of GCG. The smaller the GCG composite value of a bank, the higher the quality of the bank's GCG, and vice versa. Research Nurdany, (2016) shows that financing, assets, and FDR can be factors that affect the welfare of people in Indonesia.

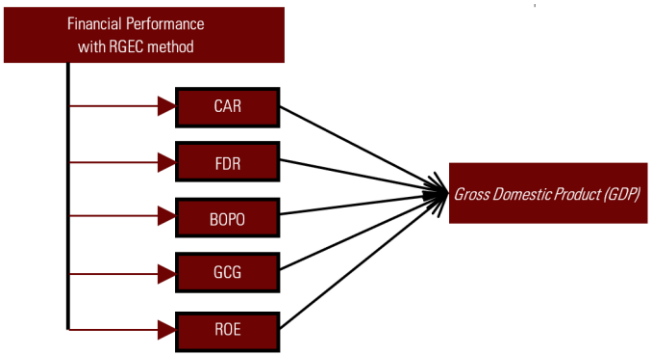
Gross Domestic Product (GDP)

Economic growth describes the development of an economy in a given year if compared to the previous year. In addition, economic growth is defined as an increase in Gross Domestic Product (GDP) regardless of whether the increase is more or less than the population growth rate and whether there is a change in the structure of the economy or an improvement in the institutional system or not (Arsyad, 2015). According to Mankiw, (2003), GDP aims to summarize economic activity in a single value of money or only one currency value over a certain period, where GDP is the best measure in an economy that looks at the market value of all final goods and services in the economy over a certain period. GDP is an indicator of measuring economic growth that can infer all economic information and show results in numbers, so it is easier to measure. In addition, GDP can also show the level of welfare of the people of a country (Haggart, 2000). The research conducted (Adityara, 2020) explained that the Indonesian economy is still vulnerable to global economic turmoil because economic growth is more affected by external variables (exports) than internal variables (capital accumulation).

Research Framework

Based on the explanation of the theoretical foundation above, this research framework explains that Islamic banks as financial institutions must have good performance. In this study financial performance was seen through the RGEC method approach. The good financial performance of Sharia banks can perform their intermediation functions well, such as providing financing to customers who need capital to increase the output produced so that it will accelerate economic growth.

Figure 4
Research Framework



Hypothesis

A hypothesis is a prediction made by the researcher about the relationship between the variables under study. This hypothesis is only temporary because it is based on relevant theories

and previous research and does not necessarily correspond to the facts obtained through data collection and processing. Thus, the research hypothesis is as follows:

1. Ha1: Capital Adequacy Ratio (CAR) negatively affects Indonesia's Gross Domestic Product (GDP)
2. Ha2: Financing to Deposit Ratio (FDR) positively affects Indonesia's Gross Domestic Product (GDP)
3. Ha3: Operating Costs to Operating Income (BOPO) positively affect Indonesia's Gross Domestic Product (GDP)
4. Ha4: Good Corporate Governance (GCG) negatively affects Indonesia's Gross Domestic Product (GDP)
5. Ha5: Return On Equity (ROE) positively affects Indonesia's Gross Domestic Product (GDP)

METHODOLOGY

This study is quantitative descriptive research, that describes and explains independent variables, namely the RGEC ratio consisting of the ratio of CAR, FDR, BOPO, GCG, and ROE to dependent variables, namely economic growth proxied with GDP. The population in this study is Sharia Commercial Banks in Indonesia. The sampling technique is a way of sampling that is population representative. The sampling technique in the study used the purposive sampling technique, namely with the following criteria: 1) Sharia Commercial Banks registered with the Financial Services Authority (OJK) from Q1:2016 to Q4:2020. 2) Sharia Commercial Banks have financial statements published from Q1:2016 to Q4:2020. Based on the criteria above, the researcher took six Sharia Commercial Banks to be used as samples, namely, Bank Muamalat Indonesia, BRI Syariah, BNI Syariah, Bank Mandiri Syariah, Bank Mega Syariah, and BCA Syariah. The data was collected from the quarterly Islamic banking financial statements published by the OJK and the official website of the Islamic Bank. Meanwhile, related economic growth data has been obtained from the official website of the Central Statistics Agency.

Data Analysis Techniques

Panel Data Regression Analysis

The data analysis technique used in this study is regression panel data. Panel data are a combination of time-series and cross-section data (Basuki & Yuliadi, 2015). In this study, the regression analysis of panel data processing used the help of the Econometric Views application (Eviews 12) with the following analysis equations:

$$Y = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + e \qquad (3.1)$$

Where Y: Dependent Variables; β0: Constants; β: Regression Coefficient of Each Independent Variable; X: Independent Variables; i: i-th entity; t: t-th period; e: Error term (Residual).

The model is by the data used in the study and then the following formula:

$$GDP = \beta_0 + \beta_1 CAR_{it} + \beta_2 FDR_{it} + \beta_3 BOPO_{it} + \beta_4 GCG_{it} + \beta_5 ROE_{it} + e \qquad (3.2)$$

Where,

GDP : Gross Domestic Product
CAR : Capital Adequacy Ratio
FDR : Financing to Deposit Ratio
BOPO : Operating Expenses to Operating Income
GCG : Good Corporate Governance
ROE : Return On Equity

RESULT AND DISCUSSION

Descriptive Analysis

Table 1
Descriptive Statistics

	CAR	FDR	BOPO	GCG	ROE	GDP
Mean	20.25900	83.68142	90.75008	0.425667	6.626583	3.930000
Median	19.28500	83.08500	90.40000	0.396953	5.455000	5.035000
Maximum	45.26000	99.60000	99.90000	0.789063	23.23000	5.170000
Minimum	2.220000	63.94000	76.53000	0.198047	0.250000	-2.700000
Std. Dev	8.157640	8.713490	5.141548	0.157316	4.724496	2.459121
Skewness	0.900048	0.032900	-0.202392	0.870658	0.862421	-1.855523
Kurbis	3.901200	2.014029	2.451831	2.939925	3.186058	4.603282
Jarque-Bera	20.26254	4.882340	2.321695	15.17895	15.04849	81.71192
Probability	0.000040	0.087059	0.313221	0.000506	0.000540	0.000000
Sum	2431.080	10041.77	10890.01	51.08000	795.1900	471.6000
Sum Sq. Dev	7919.104	9035.063	3145.826	2.945069	2656.182	719.6256
Observation	120	120	120	120	120	120

Source: processed data (2022)

Based on the table 1, the observation figures show the amount of data used in this study is 120. The data is a panel data consisting of 6 samples of Sharia Commercial Banks (Bank Muamalat Indonesia, BRI Syariah, BNI Syariah, Bank Syariah Mandiri, Bank Mega Syariah, and BCA Syariah) and a research period of 5 years from the first quarter of 2016 to the fourth quarter of 2020.

Regression Model Selection

At this stage, several tests to determine the most suitable model to use in this study. The results of the tests carried out are as follows:

a) Chow Test

The Chow test aims to determine the most appropriate model among the common effect model (CEM) and the fixed effect model (FEM).

Table 2
Output of Chow Test

Redundant Fixed Effects Test Quation: Untitled Tst cross-section fixed effects			
Effect Test	Statistic	d.f.	Prob.
Cross-section F	2.629839	(5.109)	0.0276
Cross-section Chi-square	13.667438	5	0.0179

Source: processed data (2022)

Based on Table 4.2 and by taking a significance level (α) of 0.05, the Chow Test results show that the Chi-square probability value is 0.0179, which means that the score is smaller than the significance level of 0.05. Then the best and most appropriate model for this study is the fixed effect model. Based on this, the test continued with the Hausman test.

b) Hausman Test

This test aims to determine the best and most appropriate model between the fixed effect model (FEM) and the random effect model (REM).

Table 3
Output of Hausman Test

Correlated Random Effects Test: Hausman Test Quation: Untitled Tst cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi.Sq. d.f.	Prob.
Cross-section random	13.149194	5	0.0220

Source: processed data (2022)

The results of the Hausman test in Table 4.3 show a random cross-section probability value of 0.0220, which means it is smaller than the significance level of 0.05, and the best model for

this study is the fixed effect model. Based on the Chow test and Hausman test result, it concluded that the panel data regression model in this study is a fixed effect model (FEM).

Panel Data Regression

After testing the selection model, the model result is the fixed effect model.

Table 4
Output of Panel Data Regression

DEPENDENT VARIABLE	: GDP			
METHOD	: FIXED EFFECT MODEL			
TOTAL PANEL OBSERVATION	: 120			
VARIABLE	COEFFICIENT	STD. ERROR	T-STATISTIK	PROB.
C	-43.85046	13.18560	-3.325633	0.0012
CAR	-0.054284	0.052621	-1.031594	0.3045
FDR	0.091205	0.035006	2.605403	0.0105
BOPO	0.436347	0.129862	3.360092	0.0011
GCG	-0.593907	3.806791	-0.156012	0.8763
ROE	0.287079	0.139833	2.053019	0.0425
R-square				0.272667
F-statistic				4.086258
Prob (F-Statistic)				0.000087

Source: processed data (2022)

Based on the table 4.4, which is can be interpreted with formula below:

$$GDP = \beta_0 + \beta_1 CAR_{it} + \beta_2 FDR_{it} + \beta_3 BOPO_{it} + \beta_4 GCG_{it} + \beta_5 ROE_{it} + e \quad (4.1)$$

$$GDP = -43.85046 - 0.054284(CAR)_{it} + 0.091205(FDR)_{it} + 0.436347(BOPO)_{it} - 0.593907\,(GCG)_{it} + 0.287079(ROE)_{it} + e \quad (4.2)$$

OLS Assumption Test

a) Multicholinearity

Multicholinearity aims to see whether or not there is a perfect linear relationship between several independent variables. Based on the partial correlation test criteria between independent variables, if the correlation coefficient between variables is above 0.85, there is multicollinearity.

Table 5
Output of Multicholinearity Test

	CAR	FDR	BOPO	GCG	ROE
CAR	1.000000	0.263099	-0.166838	-0.517417	-0.270714
FDR	0.263099	1.000000	0.130878	-0.344314	-0.152750
BOPO	-0.166838	0.130878	1.000000	0.346519	-0.835233
GCG	-0.517417	-0.344314	0.346519	1.000000	-0.167357
ROE	-0.270714	-0.152750	-0.835233	-0.167357	1.000000

Source: processed data (2022)

Based on table 4.5 shows the value of the correlation coefficient between the variables CAR and FDR (0.263), CAR and BOPO (0.167), CAR and GCG (0.517), CAR and ROE (0.271), FDR and BOPO (0.131), FDR and GCG (0.344), FDR and ROE (0.153), BOPO and GCG (0.347), BOPO and ROE (0.835), GCG and ROE (0.167) 392 means that the value is smaller than 0.85. So, there is no multicollinearity between independent variables.

b) Heteroskedasticity

The heteroskedasticity test aimed to see if or not there are disorders that have non-constant variance. This study used the Glejser test method to test the presence of heteroskedasticity.

Table 6
Output of Glejser Test

Heteroskedasticity Test: Glejser Null hypothesis: Homoskedaasticity			
F-statistic	0.608180	Prob. F(5,114)	0.6938
Obs*R-squared	3.117783	Prob. Chi-Square(5)	0.6818
Scaled explained	4.203212	Prob. Chi-Square(5)	0.5205

Source: processed data (2022)

Based on Table 4.6, the result of Glejser Test shows the Prob value. Chi-Square Obs*R-Squared is 0.6818, where the value is greater than the significance level (α) of 5%, so it is concluded that it does not contain elements of heteroskedasticity.

c) Autocorrelation

The autocorrelation test aims to see whether or not there is a correlation between the variables of one observation disorder and another. The method used is Bruesch-Godfrey, with the criteria for concluding if the probability value of obs*R-squared is greater than the significant level (α) of 5% then the model does not contain autocorrelations.

Table 1
Output of Autocorrelation Test

Breusch-Godrey Serial Correlation LM Test: Null hypothesis: No serial correlation at p to 2 lags			
F-statistic	0.791910	Prob. F(2.82)	0.4564
Obs*R-squared	1.705400	Prob. Chi-Square(2)	0.4263

Source: processed data (2022)

The results of the autocorrelation test with the Bruesch-Godfrey method in Table 4.7, show the obs*R-squared probability value of 0.4263 means that the value is greater than the significant level (α) of 5%. So, the model does not contain autocorrelation.

Hypothesis Testing

1. T Statistical Test (T-Test)

The T-test aims to determine the significance of the influence of each independent variable on the dependent variable, assuming that the other variables are constant. The results of the statistical test t are as follows:

Table 2
T-Test Output

VARIABLE	COEFFICIENT	T-STATISTIK	PROB.	HASIL
C	-43.85046	-3.325633	0.0012	
CAR	-0.054284	-1.031594	0.3045	H1 Ditolak
FDR	0.091205	2.605403	0.0105	H2 Diterima
BOPO	0.436347	3.360092	0.0011	H3 Diterima
GCG	-0.593907	-0.156012	0.8763	H4 Ditolak
ROE	0.287079	2.053019	0.0425	H5 Diterima

Source: processed data (2022)

Based on Table 4.8, the results of hypothesis testing aims to determine the effect of the RGEC ratio of Sharia banking to Indonesia's GDP for the 2016 to 2020 period can be explained that the CAR variable is 0.3045. The GCG variable is 0.8763, which means that the probability value is greater than the significance level (α) of 5%, then the CAR and GCG variables do not affect Indonesia's GDP. The variables FDR, BOPO, and ROE each have probability values of 0.0105, 0.0011, and 0.0425, which means that these values are smaller than the significance level (α) of 5%, and the direction of influence of the three variables is positive can be seen in table 4.8 of the coefficient column. So, the variables FDR, BOPO, and ROE have a positive and significant influence on GDP in Indonesia.

2. Statistical Test F (F-Test). The F test aims to explain how all independent variables affect the dependent variables. The results of the F statistical test are as follows:

Table 3
F-Test and R-squared Output

R-square	0.272667
F-statistic	4.086258
Prob (F-Statistic)	0.000087

Source: processed data (2022)

Based on the F-test results, the value is 4.086258 with a probability of 0.000087 concluding simultaneously that the performance of Sharia banking together has a significant effect on Indonesia's economic growth.

Coefficient of Determination Analysis (R^2)

The value of R^2 aims to determine how much the independent variable contributes to the dependent variable. Based on table 4.9, the value of R^2 is 0.272667. This value shows that Indonesia's economic growth as measured by GDP can be explained by independent variables as measured by the performance of Sharia banking using the RGEC method (ratio of CAR, FDR, BOPO, GCG, and CAR) of 27.27%. Meanwhile, the remaining 72.73% are explained by other variables not discussed in this study.

DISCUSSION

1. Capital Adequacy Ratio (CAR) has a negative and significant effect on GDP in Indonesia

The results showed that the CAR ratio has a probability value of 0.3045 with a coefficient value of -0.054284. That value shows the CAR variable does not affect GDP. The CAR ratio serves to maintain the ability to bear risks. Bank Indonesia regulations indicate that banks must meet a minimum of 8% of the CAR ratio, thus impacting banks that must be selective in disbursing financing to avoid high risk. Therefore, the CAR ratio is not significant for economic growth as measured by GDP. The results of this study are not in line with previous studies that CAR has a significant negative influence on economic growth (Anita, 2018).

2. Financing to Deposit Ratio has a positive and significant effect on GDP in Indonesia

The results showed that the Financing to Deposit Ratio (FDR) variable has a probability value of 0.0105 with a positive coefficient value of 0.091205. This value is smaller than the significant level of 5%. It means that the Financing to Deposit Ratio (FDR) variable has a significant positive effect on Indonesia's GDP. The better the FDR ratio, the more it can increase economic growth. The results are in line with research conducted by Josephine et al., (2016) and Zahro & Dewi, (2019) which that FDR had a positive effect on economic growth. According to Bank Indonesia Regulations, the tolerance standard for healthy FDR values ranges from 80% to 100%.

3. Operating Costs on Operating Income have a positive and significant effect on GDP in Indonesia

The results showed that the variable Operating Costs to Operating Income (BOPO) has a probability value of 0.0011 with a positive coefficient of 0.436347. This value is smaller than the significant level of 5%. This value means that the variable Operating Costs to Operating Income (BOPO) has a positive and significant effect on GDP in Indonesia. If the BOPO ratio is getting better, it can increase economic growth. This result is in line with the results of previous studies conducted by (Astuti, 2015) and (Azhari et al., 2020) that the

BOPO ratio has a positive and significant effect on economic growth.

4. Good Corporate Governance has a negative and significant effect on GDP in Indonesia

The results showed that the Good Corporate Governance (GCG) variable has a probability value of 0.8763 with a negative coefficient value of -0.593907. This value is greater than the significant level of 5%. This value means that the good corporate governance (GCG) variable does not affect GDP in Indonesia. The average GCG value of Sharia Commercial Banks in Indonesia is below 1.5%, which is 0.48%. Based on Bank Indonesia regulation No. 12/13/DPbS was classified as rank 1, which is very good. The lower the composite value of GCG means that the higher the implementation of GCG in the banking industry and the financial performance of the banking industry is also better. Better financial performance in the banking world can contribute to better economic growth. However, the results of this study show that the GCG ratio of Islamic banking does not affect economic growth as measured by the percentage of GDP.

5. Return On Equity (ROE) has a positive and significant effect on GDP in Indonesia

The results showed that the Variable Return On Equity (ROE) has a probability value of 0.0425 with a positive coefficient value of 0.287079. It means the probability value is smaller than the significant level of 5%. This value shows that the variable Return On Equity (ROE) has a positive and significant effect on GDP in Indonesia. It explains when the ROE ratio increases, economic growth will also increase. This result is supported by research Ledhem & Mekidiche, (2020) which shows that the only significant factor of Islamic financial performance that affects endogenous economic growth is profitability through return on equity (ROE).

CONCLUSION AND RECOMMENDATION

This study aims to determine the effect of the RGEC ratio of Sharia banking to GDP as a measurement of Indonesia's economic growth. The data collected was 120 from the banking financial statements for the first quarter of 2016 to the fourth quarter of 2020 and processed using a regression analysis panel data of the fixed effect model approach with the help of E-views 12 software. The results showed that simultaneously the RGEC ratio of Sharia banking had a significant effect on GDP in Indonesia. However, it partially shows that the ratio of Return On Equity (ROE), Operating Costs to Operating Income (BOPO), and Financing of Deposit Ratio (FDR) has a positive and significant effect on Indonesia's economic growth. Meanwhile, the Good Corporate Governance (GCG) and Capital Adequacy Ratio (CAR) ratios do not affect Indonesia's economic growth.

For sharia banking, it is advisible to take of the ROE, BOPO, and FDR ratio to measure financial performance aims to increase economic growth, especially Gross Domestic Product (GDP), as well as to disseminate information to the public regarding Sharia banking to increase the market share of Sharia banking.

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