The Analysis of Third-Party Funds, State Sukuk, and Corporate Sukuk Towards Financial Deepening in Indonesia

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Abstract. Sharia-based financial institutions are being developed in Indonesia, especially in Islamic banking and Islamic capital market institutions. The role of financial institutions in economic growth in Indonesia is defined as financial deepening. This study tries to examine the variables of third-party funds, state sukuk, and corporate sukuk towards financial deepening. The used research method in this research was the causality method with quantitative approach. The population in this study is Islamic banking and Islamic capital markets, which are registered at the Financial Services Authority (FSA). The sampling technique was saturation sampling. The used method in this research was descriptive-explanatory method with multiple linear regression analysis. The dependent variable in this study is financial deepening. While, the independent variable in this study are the third-party funds, corporate sukuk, and state sukuk. The results show that third-party funds affect financial deepening, state sukuk affects financial deepening, and corporate sukuk does not have any effect on financial deepening.

Keywords. Financial Deepening, Third-Party Funds, State Sukuk, Corporate Sukuk.

INTRODUCTION

The financial sector has a very important role for economic development in Indonesia. It could be visible from the role of financial as source of financing for the community. It means for investing in different financial instruments. Financial sector also roles as intermediation function. The overall activities of the financial sector which includes roles as intermediary and the mediator of investment could produce various reliable economic activities. Therefore, job vacancy, additional value of economy, economical public income, and assets of economy institution, which are really important for economical industry in Indonesia may be increased (Latifah, 2016).

The role and various kind of activities regarding financial services sector for economy is often referred to the Financial Deepening (the depth of financial sector in particular country). Financial deepening defines as a term in indicating the increase of the role and activities of financial sector towards economy (Latifah, 2016). The main purpose of financial deepening is for the increase of domestic saving ratio towards income. It is due to the increase (deepen) the size of the monetary system in generating opportunities for investors to gain profit, and strengthen the process of mobilization and allocation of savings. The process allows better allocation of savings to expand and diversify the financial markets and opportunities in competing the capital market investment for the flow of savings (Sembiring & Sukamulja, 2015). The establishment of financial services in a country shows factual condition where financial services could suffer from deepening or financial deepening and the condition of experiencing shallow or shallow finance (Sembiring & Sukamulja, 2015).

The measurement of the financial services sector could be measured with some basic quantitative indicators; ratio of monetization and intermediation. The ratio could be distinguished by the notion of condition if the ratio of monetization includes liquid liabilities, as an example of the sum money supply to GDP. While the intermediation ratio or the ratio of intermediaries includes several measurements based on financial institutions such as banks, which implement on credit or bank financing to stock market capitalization (Panjawa & Widyaningrum, 2018).

According to the Director of Financial Services of the State Enterprises Ministry of Planning/Bappenas, Muhammad Cholifihani, states that the condition of financial sector in Indonesia is still low. The condition could be shown from several indicators M2 per GDP, third-party funds per GDP,
private sector of domestic credit per GDP, and the assets of pension funds per GDP. Those conditions make Indonesia less than the neighbouring countries of Southeast Asia, such as Singapore, Malaysia, Thailand, and the Philippines. According to Muhammad Cholifihani, the real M2 per potential GDP is 62.60%, but apparently the realization was only 38%. Thus, the financial deepening in Indonesia is still low (Alaydrus, 2019).

According to Shaw, the theory of financial deepening is indicated by the growing ratio between the sum of money supply (M2) to GDP, whereas smaller ratio of the money supply (M2) to GDP, it shows the low financial sector of a country (Ruslan, 2011). The higher value of financial deepening, wider practice of financial institutions, capital market, and money market in particular country could be happened.

There is a big necessity of strategic efforts in improving financial deepening. Some strategies to improve the financial deepening in Indonesia are conducting plans for improvement by increasing the access to the financial sector, with openness and efficiency and increasing the rate of effective return (Ruslan, 2011).

Islamic banking functions as financial intermediaries with some strategies that could be more focused on allocating funds that have been collected (DPK) to provide better financing for investment or other necessity. The funds raised from the investment raises among customers. Therefore, they could add to the total assets of Islamic banks, and could also improve public access to the banking sector itself, namely by performing a variety of services to the public such as the addition of a bank unit. It may function for the banking sector itself can be enjoyed by the whole society (Latifah, 2016).

This research is intended to complement previous researches, as previous researches that addresses financial deepening with the variables of Islamic banking and Islamic capital market as X variable are still very limited. The difference of this study places to add the study period of 2018, and uses as multiple linear regression method. The equation at this research that uses the Islamic finance sector variables as variables X and financial deepening as variable Y.

Based on the explanation of problems above, this research is intended in examining financial deepening in Indonesia with the title of The Analysis of Third-Party Funds, State Sukuk, and Corporate Sukuk towards Financial Deepening in Indonesia year of 2014 to 2018.

LITERATURE REVIEW

Financial Deepening

Financial deepening could become reference to encourage overall economic growth. The faster of increase regarding financial markets, it will accelerate economic growth in Indonesia. On the other hand, if the financial markets are still low, then it will lead to delays in the pace of economy development in Indonesia (Harisuddin & Hartono, 2019).

Schumpeter's theory mentions several hypotheses about the relationship of the financial sector to economic growth, namely:

1) Supply-leading view (finance is a decisive factor of economic growth).
2) Demand-following view (financial follows economic growth).
3) The bidirectional causality view (there is interplay role between finance and growth).
4) The independent hypothesis (financial and growth are not interconnected).

The level of financial deepening reflects the soundness of financial deepening, which is related with the ability of credit with interest rates on loans and deposits. Financial deepening theory defines the positive role of the financial system in economic growth in the size of practice sector. It means that the activity of high economic sector as an intermediary is assumed to be able to produce an efficient allocation. In development studies, financial deepening is very often referring to the increase in provision of financial services with wider selection of services geared to the development of every layer in community (Panjawa & Widyaningrum, 2018).

The main objective of financial deepening is to increase domestic savings to income ratio in improving (deepen) the size of monetary system to generate profit opportunities for investors. Mackinnon and Shaw introduced the financial deepening.
Third-Party Funds

Third-Party Funds (TPF) of Islamic banks are public funds deposited in the bank of conventional and Islamic banks, which will be used as savings or investment or any other form that is used in Islamic banks (Arifin, 2006). Third-party funds are the main source of bank funds as bank functions as the collection and storage of public funds for society (Siamat, 2001).

According to Muhammad (2005), third-party funds of Islamic banks has three forms, namely:

a. Courier deposits (wadi’ah), which are guaranteed safety and returns but no reward or profit.

b. Participation share capital and risk share for general investment (mudaraba mutlaqah) in which the bank will pay the profits in proportion to the portfolio funded with capital.

c. Special investments (mudaraba muqayyadah), which bank acts as investment manager to acquire fee. Thus, the banks do not participate to the fully invested while investors took the risk on investment

State Sukuk

According to Rival (2012), State Sukuk defines as obligation with sharia-based, which is determined by government. State sukuk roles as a potential source of funds for the state development. Indonesia established the state sukuk with the name of Surat Berharga Syariah Negara (SBSN), which functions to publish and manage the sharia-based investment with the concept of profit sharing (mudharabah). Therefore, it requires an underlying asset as the basis of issuance and issued with a contract. Underlying assets defines as assets that serve as the object or transaction basis related with the issuance of sukuk. If the underlying asset is not being conducted, it would be equal as a debt. In accordance with the law on SBSN, underlying asset at SBSN defines as funding objects or properties of the state, which have economic value (Anik & Pratiwi, 2017).

Sukuk is issued by legal institutions, which established under the provisions of the legislation to issue sukuk. The assets includes state properties, which have economic value for serving the basis of state sukuk issuance.

Based on the Law No.19 of 2008, the objectives of sukuk issuance by the government is financing the state projects that have been approved by the state. Here are the objectives for the issuance of SBSN or state sukuk (Anam, 2010):

1. Broadening the base of state budget financing
2. Encouraging the growth and the development of Islamic financial market in the country.
3. Creating benchmark of Islamic financial market both in the country and abroad.
4. Expanding and diversifying the investor base
5. Developing alternatives of investment instrument
6. Optimizing the utilization of State Property
7. Utilizing public funds that have not been netted by the conventional banking system

Corporate Sukuk

According to the Act of National Sharia Board year 2004, Sukuk or Sharia Bonds defines as long term securities based on issued sharia principles by the issuer to the holders of Sukuk, which requires the issuer to pay the income for the holders of Sukuk in the form of profit-sharing or margin or fee. It also repays the securities fund at the due date (Endri, 2009).

Some of the benefits of sukuk issuance for Indonesia, aside from financing the construction, but also useful for other aspects, as follows (Salsabila & Mauluddi, 2017):

a. Infrastructure projects that absorb huge costs during this time could not be financed. Yet, it could be realized with the inclusion of foreign investors, especially the middle east countries.

b. Corporations could leverage sukuk to expand the business, especially in participating for the development.

c. Capital market and Islamic financial markets would evolve with the presence of products that are increasingly varied. The diversity of products is one of the attraction of investors, which could boost demand. The presence of sukuk may increase the number of Islamic financial assets, and the subsequent impact on the dynamics of the Islamic capital market.
d. The diversification of the investor base, especially the investor base who want to invest for Sharia-based. Thus, it may optimize public funds to be achieved.

PREVIOUS RESEARCH

Firstly, to paraphrase Himmawan (2017) has depicted that several independent variables such as third party fund, sharia bonds of government, corporate bonds and with the third party. Furthermore, both of sharia bonds of government and corporate bonds have effected significantly to the financial deepening.

Secondly, the study of Sari (2018) has described that among the asset total, third party fund and financing have influence increasingly to financial deepening. This study has similar with the study of Sari (2018) because this uses the similar variables however, in this study has utilized several variables such sharia bonds of government and corporate bonds.

Ultimately, the research of Lukis and Ira (2018) has similar identified because this want to illustrate the financial deepening. Meanwhile, the distinction of subject in this study is that there is no variables of sharia bank in the research of Lukis and Ira (2018) such as third party fund and financing of sharia bank.

RESEARCH METHODOLOGY

Overview of Research Variables

Financial Deepening

Financial deepening has been identified as one of the strategies that if it is being implemented could accelerate the pace of development. However, the effect of this strategy needs to be determined and checked continuously, especially for developing countries. Indonesia as a developing country has the character, which is not much different from other developing countries. The objective of high economic growth rate in the process of development within the limitations is faced with the problems of funding limitation to finance the infestation of development (Panjawa & Widyaningrum, 2018).

The differences in the depth level of financial sector may lead to different monetary policy transmission. Monetary policy serves as the utilization of transmission policies that run within the financial sector. Thus, the experienced shocks of financial sector would affect the effectiveness of monetary policy.

Figure 3.1 below shows the development of financial deepening in Indonesia:

![Development of Financial Deepening](image)

**Figure 3.1 Financial Deepening Development in Indonesia**

Source: World Bank 2019

The development of financial deepening in Indonesia since the last 10 years could be seen in Figure 3.1. Figure 3.1 shows financial deepening in Indonesia experienced a significant decline in 2010 by 2%. In 2011 to 2016 financial deepening in Indonesia has increased gradually. Yet, in 2017 and 2018 financial deepening in Indonesia decreased again. The ratio of financial deepening is the result from the ratio of M2 / GDP or total money supply / Domestic Product.
**Third-Party Funds**

Third-Party Funds (TPF) is one of the macroeconomic indicators. Third-party funds are used as the basis for determining the Statutory. Statutory Reserves is the minimum required deposit to be maintained by banks in the form of current account balances at the Bank Indonesia as stipulated by Bank Indonesia amounting to a certain percentage of DPK. GWM is monetary or macro-prudential instruments to manage money circulating in the community that directly affect the inflation index (Hashim, 2016).

Third-party funds of Islamic banks increase continuously along with the rapidly growing market share of Islamic banking in Indonesia. Figure 3.2 below shows the development of third-party funds of Islamic banks:

![Development of Third Party Funds](image)

Figure 3.2 shows the development of third-party funds of Islamic banks in the last 10 years. In 2009, third-party funds of Islamic banks reached 52,271. In 2010, third-party funds increased to 76,036. It reached 115,415 in 2011. The value increased to 147,512 in 2012. In 2013 continued to increase at 183,534. In 2014, it increased to 217,858. In 2015 third-party funds experienced a significant decline to 174,895. In 2016, the value increased again to 206,407. The third-party value increased again to 238,398 in 2017. Finally, third-party funds increased to 257,606 in 2018. In the last 10 years, third-party funds of Islamic banks experienced fluctuations. Third-party funds decreased significantly in 2015 due to the significant decrease of Islamic banking performance from previous year, which reached 20%, which were previously able to grow to 47, 6 percent.

**State Sukuk**

The Sukuk was issued in 2008 after the release of Law Number 19 of 2008 which regulates by the Shariah Securities (SBSN). According to the Act of DSN-MUI Number 32 / DSN-MUI / IX / 2002. Nowadays, there are six sukuk with valid contracts in Indonesia: Mudharabah, Musyarakah, Murabahah, Salam, Istishna and Ijarah. The purpose of the government to issue the sukuk focuses in financing the state budget, including finance construction projects. As mentioned in Article Number 4 of Law SBSN that published SBSN purpose is to finance the State Budget, including finance development projects. Projects, which could be funded by the sukuk is the energy sector, telecommunications, transportation, agriculture, manufacturing, and housing (Pratiwi, Mainata, & Ramadayanti, 2017).
Following figure depicts the development of the sukuk from the year 2009 to 2018:

![Development of State Sukuk](image)

**Figure 3.3 The development of State Sukuk**
Source: Bank Indonesia (2019)

Figure 3.3 shows the development of sukuk in Indonesia in the last 10 years has increased very rapidly. The increasing value of sukuk from year to year indicates role strengthening of sukuk in the state budget financing of which can be seen from the increasing number of sukuk issuances state from 2009 to 2018.

The condition means the government’s strategy in the issuance of the sukuk to build the country’s infrastructure is going well. In accordance with the purpose of helping the issuance of sukuk, which financing the State Budget, the issuance of sukuk is used more to finance infrastructure projects compared with the financing of the budget deficit in general.

**Corporate Bonds**

Sukuk is a fixed-income instruments, which is issued based on Islamic principles. Corporate sukuk revenue-based contract. The contract as stipulated in the provisions of the FSA. The contract with the basis of Islamic securities as istishna contract and contract of musyarakah (Financial Services Authority, 2018).

The first appeared Sukuk on the market were corporate sukuk issued by PT Indosat Tbk, namely *OS Indosat Mudharabah*. This Sukuk issued on October 30, 2002 with the issuance value of Rp 175 billion and has a tenor for approximately five years (Beik, 2011). Following that, PT. Berlian Laju Tenker also issued Islamic sukuk with emissions amounting to Rp 175 billion on May 28, 2003. PT Bank Bukopin mudharabah issued Islamic sukuk on July 10, 2003 with the issuance value of Rp. 45 billion. PT Bank Muamalat Indonesia (BMI) on July 15th, 2003 with value of emissions. 200 billion. Other company also issued the Islamic Sukuk, such as Cilandra Perkasa PT on Sept. 26, 2003 with the issuance value of Rp 60 billion, PT Bank Syariah Mandiri (BSM) on October 31, 2003 with the issuance value of Rp 200 billion, and many others (Khatimah, 2017).

The more Islamic bonds influence in helping the finance development in Indonesia shows the public is increasingly interested in Shariah-based financing system and supported by the development of a prospective economic situation. As interest increases consequently, the government should have a list of the needs for the national development program of varied investment to be offered for public. Confidence in the government is also needed to be improved for people to feel safe in investing in the public sector. Significant increase in sukuk from year to year shows that the opportunities of to grow further as one investment product in Indonesia (Khatimah, 2017).
Based on the Figure 3.4, the trend of corporate sukuk was fair enough as every year results the development of increased corporate sukuk. The growth of sukuk is depicted from the highest level, which is found in 2018, while the lowest level in the last 10 years depicted in 2009. Although the issuance of corporate sukuk was earlier than the state sukuk, it could be said corporate sukuk experience slower growth.

DISCUSSION OF RESEARCH RESULTS

Research Result

Multiple Linear Regression Analysis

Third-Party Funds (X_1), the Financing of Islamic Bank, Sukuk (X_2) and Sukuk Corporation (X_3) on financial deepening (Y) was analyzed using regression analysis with multiple regression to see their influence. The analysis of regression was employed to see the influence of more than one the independent variables on the dependent variable.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std.Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>2.554376</td>
<td>0.683942</td>
<td>3.734787</td>
<td>0.0004</td>
</tr>
<tr>
<td>DPK</td>
<td>0.007433</td>
<td>0.01678</td>
<td>4.390917</td>
<td>0.0001</td>
</tr>
<tr>
<td>SN</td>
<td>0.151202</td>
<td>0.06495</td>
<td>2.328985</td>
<td>0.0236</td>
</tr>
<tr>
<td>SK</td>
<td>-0.00197</td>
<td>0.01288</td>
<td>-1.55408</td>
<td>0.1258</td>
</tr>
</tbody>
</table>

Source: Data Research (2019)

Based on the data above, the processing results then was obtained from regression equation as follows:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon \]

Financial Deepening = 2.554376 + 0.007433 DPK + 0.151202 SN - 0.00197 SK

The regression equation above have the following definitions:
1. \( \beta_0 \) = constant = 2.554376 means that if the dependent variable of financial deepening is not influenced by any independent variable or variables DPK, Financing, State Sukuk and Sukuk Corporation as those independent variables equal to zero. Thus, the value of financial deepening in the amount of 2.554376 rupiah.
2. \( \beta_1 \) = coefficient of Third-Party Funds = 0.007433 means that when a third-party funds increased by 1%, the financial deepening rupiah increased by 0.007433.
3. \( \beta_2 \) = coefficient of State Sukuk = 0.151202 means that when the state sukuk increases by 1%, the financial deepening increases by 0.151202.
4. \( \beta_3 \) = coefficient of Corporate Sukuk = - 0.00197 means that when sukuk increases by 1%, the financial deepening is reduced by 0.00197 rupiah.
Hypothesis Testing

The t-test Statistics

Ghozali (2016) states that t-test statistics basically shows how far the influence of each independent variable on the dependent variable. The value in T table was obtained from t distribution table towards $\alpha$ and the degree of freedom (df), where df = n - k = 60 - 4 = 56, then with 56 df, $\alpha = 5\%$ (0.05), it was obtained the value in t table of 2.00324. If the value of t > t table then $H_0$ is rejected, which means that these variables influence the dependent variable.

a. Effect of Third-Party Funds to Financial Deepening

<table>
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<td>0.1258</td>
</tr>
</tbody>
</table>

Source: Data Research (2019)

Table 3.2 shows that the t-statistic (4.390917) is greater than t-table (2.00324), then $H_0$ is rejected or $H_a$ is accepted. The probability shows the value of 0.0001, less than 0.05 or 5%. It means that it is significant as the error zero percent under the provisions of 5%. It can be concluded that the variable of third-party fund have significant influence on financial deepening. The condition shows any increase in third-party funds of 1%, it will affect financial deepening for the increase to reach the value of 0.007433.

b. The Influence of State Sukuk on Financial Deepening

<table>
<thead>
<tr>
<th>Variable</th>
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<td>0.01288</td>
<td>-1.55408</td>
<td>0.1258</td>
</tr>
</tbody>
</table>

Source: Data Research (2019)

Table 3.3 shows that the t-statistic (2.328985) is greater than t-table (2.00424), then $H_0$ is rejected or $H_a$ is received. It is known by probability of 0.0236, which is less than 0.05 or 5%. It means that significance is shows as the error under the provisions of 5%. It could be concluded that the state sukuk variable has significant influence on financial deepening. This condition shows any increase in state sukuk of 1%, it will affect the increase of financial deepening to 0.151202.

c. Influence on Financial Deepening Corporate Bonds

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
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<th>Prob.</th>
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<tbody>
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</tr>
</tbody>
</table>

Source: Data Research (2019)

Table 3.4 shows that the t-statistic value, which is -1.55408 tends to be smaller than t-table of 2.00424. It, then, rejects or accepts $H_a$. The probability of 0.1258 is greater than 0.05, or 5%. It means that the result is not significance. It could be concluded that the variable of corporate sukuk does not affect the financial deepening. The condition shows that any increase in corporate sukuk amounting to 1%, then there is no influence on the increase or decrease in financial deepening.
1. **Simultaneous test**

   F test statistic aims to determine whether all the independent variables included in the research have influence simultaneously to the dependent variable. In defining an independent variable affect simultaneously for the dependent variable, it is necessary to know the F table then compared to F test statistic. If statistical F value > from F table and Prob F statistic < 0.05, it means independent variables has simultaneous and significant effect on the dependent variable.

   The value from F table value was obtained with the provisions of N2 = n - k, N1 = k - 1. Where n is the number of observations, and k is the number of independent variables plus a constant. Thus, the used value of F table in this study was N2 = 60-4 = 56, N1 = 4-1 = 3, and α= 0.05 or 5%. The obtained value of F table was 2.77.

   The results of F Test were obtained as follows:

   ![Table 3.5 The Results of Test F](image)

   Table 3.5 shows that the value of the F statistic (108.7358) was greater than F table (2.77), which means an effect, and the F-statistic Prob less than 0.05, which means significant. It could be concluded that simultaneous variables of third-party funds, State Sukuk, Corporate Sukuk to Financial Deepening.

2. **Coefficient of determination (R2)**

   Ghozali (2016) states the coefficient of determination test aims to measure how far the ability of model in explaining the variation of determination coefficient. The value of determination coefficient is between zero and one. The value of R2 shows that the ability of independent variables in explaining the dependent variable is very limited. Determination Coefficient aims to measure the extent to which the ability of the model explaining the relationship between variables.

   ![Table 3.6 The Result of R-Squared](image)

   Table 3.6 shows that the value of Adjusted R-squared is 0.853483. It shows that the influence of independent variables, namely X1 (third-party funds), X2 (Corporate Sukuk), X3 (Sukuk) towards Y (Financial Deepening) amounted to 84.57%. While, the remaining 15.43% influenced by other variables outside the model that is not included into the study.
Discussion

The Effect on Third-Party Funds to Financial deepening

Based on the test results, the influence between the third-party funds to financial deepening was happened. It shows that an increase or decrease in third-party funds may have an impact on financial deepening in Indonesia.

Third-party funds are customer funds deposited or entrusted by customers to the Islamic banks or Islamic business unit with a specific contract in accordance with Islamic principles with the aim of saving or investing either in the form of savings, current accounts, etc. Third party-funds are relatively influential in determining the financing, which will be channeled by the bank to the people who need money, as bank financing is still dominated by the third party funds raised from public. The more funds raised from the public, the more the funds will be allocated to productive financing by banks. It will help in increasing economic growth, and the higher third-party funds, the economy growth in rill sector will also increase.

The condition is in accordance with the Schumpeter's theory, which states that finance-led growth or supply-leading hypothesis that explains the relationship between the financial sector deals with economic growth. This theory states that the financial sector will promote economic growth. It means that the financial sector, one of which is the Islamic banking becomes intermediaries in collecting and distributing the chance to those who are in need through the efficient sources of funding, which will drive to the real economic sectors and has helped to promote economic growth (Hashim, 2016).

The results of this study confirmed the results of previous studies by Himmawan Arif (2017), Amy Latifah (2016), Muhammad As'ad Asysyfa (2017), which states that the third-party fund has positive effect on financial deepening. The more funds raised from the public, the more funds will be allocated as a loan fund that can be used for investments or loans that are productive. Thus, it will lead to greater economic growth.

It can be concluded that the third party funding have significant positive impact on financial deepening in Indonesia based on the findings in this study, which were associated with theoretical concepts and empirical facts from the support of previous studies.

The Influence of State Sukuk on Financial Deepening

The test results indicate that there are influence between state sukuk to financial deepening. It shows that an increase or decrease in the state sukuk could affect the financial deepening in Indonesia. In this case, the state sukuk has a very important role in the financial the state budget and infrastructure. The government should continue to work on issuing efficient state in accordance with the target to be achieved. The role of sukuk as described in the Act of SBSN will be sensed increasingly when the government implementing the expansion of budget policy to stimulate economic growth. The policy from government to increase spend is not only supported by tax and non-tax receipts, but also other financing instrument including state sukuk (Latifah, 2016).

In this case, state sukuk has an impact on financial deepening in accordance with Schumpeter's theory that finance-led growth or supply-leading hypothesis shows the relationship between the financial sector and economic growth. The theory states that the financial sector encourages economic growth. The financial sector in this regard, the Islamic capital market as a financial intermediary acts to improve the financing of country's infrastructure in supporting the development and the growth of economy growth through the state development.

The results of this study are supported by previous research studies with the same results by Latifah (2016), Himmawan (2017). The results on previous studies states that if state sukuk has a positive impact on financial deepening. The government's policy to increase state budget expenditure and infrastructure development, would not only be supported by tax revenues and non-tax, but also should be supported by the instruments of Islamic finance, in this case the state sukuk will perform its function as an instrument to support the government to promote infrastructure development in Indonesia.

Based on the findings, this study was associated with theoretical concepts and empirical facts, which were supported by previous studies. It could be concluded that the state sukuk has a significant positive effect on financial deepening in Indonesia.
The Influence of Corporate Sukuk on Financial Deepening

The test results indicate that there is no influence between corporate sukuk to financial deepening. Corporate sukuk has no effect on financial deepening. The condition probably due to the value of corporate sukuk, which were still low, even though corporate sukuk appeared earlier than the state sukuk, but the growth is slower compared to the state sukuk. The research result is consistent with the results of research from Ridwan (2017). It states that the sukuk in the short term has no influence on financial deepening. However, these results contrast with research results from Latifah (2016), Himmawan (2017), which states that corporate sukuk has negative effect on financial deepening, which means, when the sukuk increased by 1%, then the financial deepening will be in downhill or shallowing.

There are factors that are not directly related to the market of liquidity sukuk secondary (Ridwan, 2017):

a. There are still limitation in issuing the sukuk in Indonesia, both from the number, variety and type of contract tenor.

b. There is still lack of understanding towards corporate sukuk investors to trade in the secondary market.

c. Issuance of corporate sukuk is still offered in retail to the general public but limited to institutional investors or individuals with a relatively large nominal value, although some regulations have been established to serve as the basis facilitation for the issuance of corporate sukuk in retail.

d. The majority of corporate sukuk investor’s character is a local institutional investors such as insurance companies, pension funds, and mutual funds, that have the tendency to buy structured in holding the maturity.

In this case, corporate sukuk has no influence on the financial deepening relations in accordance with the theory of independent hypothesis by Scumpeter that states the financial means and growth are not interconnected. The financial is included in corporate sukuk capital market instruments, which is not effecting if it is only increased by 1%.

Corporate sukuk has no significant effect on the financial deepening in Indonesia, which is based on the findings in this research with the association with theoretical concepts and empirical facts from previous studies.

CLOSING

Conclusion

1. The development of financial deepening in Indonesia until now has not reached the potential expectation. While, the development of third-party fund experienced volatile. State sukuk increases from year to year. Equally with the state sukuk, corporate sukuk also increases every year. Yet, although the issuance of corporate that state sukuk, the development is slower.

2. Third-Party Funds has significant influence on the financial deepening. When the third party-funding has increased, the financial deepening in Indonesia will gain more meaningful role on financial institutions in Indonesia for greater economic growth in Indonesia. If public raised more funds, the more funds will be allocated as a loan fund, which could be used for investments or loans that are productive, so it will lead to greater economic growth.

3. State sukuk has significant effect on the financial deepening. Then, it means if the state sukuk increased, the financial deepening will be deepened, as the sukuk is an instrument to be used in financing the state budget and state infrastructure development. The state sukuk is an asset to develop country that can be the pillar for the operation of economic growth in Indonesia.

4. Corporate sukuk has no effect on the Financial Deepening. It means if corporate sukuk experience increase or decline, it has no effect to the financial deepening, since the growth of corporate sukuk is slower compared to the state sukuk. Corporate sukuk is more targeted for company profit or business expansion.

Suggestion

First of all, the sharia banking must increase the third party fund for this can incline the financial deepening likewise this case require several the endeavouring should be conducted such as the bank
should execute a innovation on products, to enlarge the promotion strategic with pick up method, thus the customers do not need anymore to visit the bank for saving their funds

Secondly, the government must enhance their strategic for rising bonds market to realise the impact to the growth of economic and financial deepening such as with to protect the information transparation of bond managing. The developing of product innovation, the creating of primary dealers system (PDS) of bonds, and the constructing bond helpdesk.

Eventually, the next research regarding this is that the study can more reveal the variable taken and can add the other variables both of macro and micro. Moreover, the next study can extend the period time of research hence this can accomplish the maximal result.

REFERENCE


