

CHAPTER I

INTRODUCTION

A. Background

In assessing a country's economic performance, Gross Domestic Product (GDP) become the best indicator in determining system to develop economy in the country. The ability of country to produces goods and services from time to time in one year based on fulfilled production factors will increase the national income that has an impact on the welfare of the community in certain level the country. According to Mankiw (2007) GDP is the sum of the whole production of goods and services created in the economic sphere period of one year. With the increase in GDP in a country implies the increase in good, based economic growth statement from Sadono (2004), progress in GDP can create good and great economic growth.

The economic development of a country which is shown from the production of goods and services that are maximal in a certain period will create good economic growth. Neo Classical economic growth theory states that GDP is closely related and dependent on the development factors of production, namely capital, labour, and technology (Sukirno, 1994). The production is in value in the concept of value added caused by the overall economic household sectors known as GDP.

In Indonesia, the rise of GDP per year is getting better from 1980 until 2018 ago (except in mid-1997 which began the economic crisis that hit

Indonesia which caused the country's economy to collapse), until then Indonesia began to be called one of the Asian tigers starting to rise, GDP grew by 7-9% per year in 1990 to 1996 (Asian Development Bank, 2004). Economic growth is a benchmark for the success of economic development. According to (Taman *et al.*, 2013) economic growth is the process of increasing per capita output that is continuous in the long run. Economic growth is one indicator of the success of development, thus the higher the economic growth, the higher the welfare of the community even though there are other indicators.

The existence of balance in an economy is one of the targets in building the economy of a country. This can be known through the involvement of economic variables that influence the balance. The Indonesian economy in 2010-2018 showed strong resilience amid rising global economic uncertainty. Seen in an even better growth performance and macroeconomic stability that is maintained. Table 1.1 below shows the amount of data Gross Domestic Product (GDP) from 2010-2018.

Table 1.1. GDP Growth of Indonesia in 2010-2018 (%)

Year	Gross Domestic Product (GDP)
2010	6.81
2011	6.44
2012	6.19
2013	5.56
2014	5.02
2015	4.79
2016	5.02
2017	5.07
2018	5.17

Source: BPS,(2018)

Indonesia's economic growth in 2018 reached 5.17 percent. This figure, according to BPS, (2018), this result become the highest economic growth rate since 2014. Economic growth in 2014 and 2015 consecutively were 5.01 percent and 4.79 percent. In 2016 increased to the number 5.02 percent and in 2017 it was 5.07 percent. The growth of national income can be implied as the results of infrastructure development which have begun to roll (www.kompas.com, 2017).

In Islamic perspective, there are several factors influence the growth of Gross Domestic Product (GDP) of a country, one of them is the distribution of *Zakat* funds. This study will examine whether *Zakat* have an effect on GDP or not. In Islam, the distribution of *Zakat* included as a driver of economic growth. Islam obliges their believers to issue *Zakat* because *Zakat* has a function to make someone utilize his property to be always rotated productively. As though the productive assets can increase the output which lead to the economic growth by increasing the employment rate, household income and consumption, public welfare and so forth.

The excavation of Islamic values regarding the product of *Zakat* which narated in the *Quran* and *Hadith* must be carried out according to Islamic law and channelled to those entitled to receive it, namely the eight Ashnaf group can be used to increase the prosperity. *Zakat* funds are used not only to increase the consumption but it can be developed into working capital which can help increase their income (eight *Ashnaf* groups).

If the income of *Mustahik* is high, it will level up the rate of consumption and if the consumption level is high, it will increase the level of goods and services automatically the production of goods and services will also increase and directly give an impact on Indonesia's economic growth.

As one of the pillars of Islam, one of them is the responsible of Zakat. For those who do not pay zakat will be rewarded with a painful punishment in the world and hereafter. *Zakat* is a religious obligation that is included in the pillars of Islam. The results obtained by a believer and those ordered to be spent part of it, referred to in Al-Quran surah Al Baqarah: 267, are divided into two main parts, namely the results of your good work and what We spend for you from the earth namely agricultural produce, and mining.

The position of professional *Zakat* in the perspective of Islamic law and Law Number 38 of 1999 concerning Management of *Zakat* is obligatory based on the verses in the *Quran* which are general in nature which require all types of assets to be issued *Zakat* and various opinions of previous and present scholars and from the point of view of the determination of the obligation of *Zakat* on every property owned as regulated in Article 11 paragraph (2) of Law Number 38 of 1999 concerning Management of *Zakat* will be felt very clearly compared to merely stipulating the obligation of *Zakat* on certain matters.

The mechanism for paying *Zakat* has been determined in the *Quran*, while the management of *Zakat* depends on the governments of each country. In some Muslim countries, the management of *Zakat* is directly managed by the government, for example the *Zakat* management institutions formed by the

Minister of Religion in Indonesia who is responsible to the president, namely, the National *ZakatAmil* (BAZNAS). National *AmilZakat* Agency (BAZNAS) is the official and only body formed by the government based on the presidential decree No. 8 of 2001 which has the task and function of collecting and distributing *Zakat*, *Infaq*, and *Sodaqoh* (ZIS) at the national level (www.baznas.go.id, 2015).

The impetus of *Zakat* to the economy can have a short-term and long-term impact. *Zakat* have short-term impact if it is only distributed and used directly by *Zakat* recipients for consumption needs only, and it have long-term impact if *Zakat* not only to meet consumer shortages, but *Zakat* also used to empower the recipient's economy, so that income will increase in the future and hopefully can change the status of *Mustahik* become *Muzzaki*. To increase the economics needs, Islam encourage to pay *Zakat* fund that are only temporary but channelled to empower the economics of *Mustahik*. If *Zakat* funds distribution optimized and people will aware of the usefulness of *Zakat* funds then economic growth will also increase. The following is an illustration in the table of *Zakat* distribution in the period 2014-2018, in the form of rupiah (billion) and percent.

Table 1.2. Distribution of *Zakat* Fund in Indonesia 2010-2018 (Rp)

Year	<i>Zakat</i> Fund
2010	662,397,124
2011	1,728,000,000
2012	2,211,000,000
2013	2,638,000,000
2014	3,300,000,000
2015	3,649,000,000
2016	5,016,000,000
2017	6,224,000,000
2018	6,413,602,875

Source: (Badan Zakat Nasional, 2018)

The table above shows changes over the distribution of *Zakat* funds every years sourced from National *Amil Zakat* Agency (BAZNAS). From 2014-2018 the distribution of *Zakat* funds continued to increase, until 2018 the distribution of *Zakat* funds increased to 6.413.602.875 in billion.

The increasing distribution of *Zakat* funds can encourage economic growth in Indonesia, furthermore it can improve human living standards, increase demand, offer goods and services, reduce production and the level of public consumption, and thus inflation will reduce economic growth in Indonesia. Then the government policy have to prevent inflation to remain stable and support economic growth in Indonesia.

Several factors influence the achievement of GDP in a country, one of the macroeconomic indicators used to see or measure a country's economic stability is inflation. Changes in this indicator will crawl the dynamics of economic growth. In an economic perspective, inflation is a monetary

phenomenon in a country where the ups and downs of inflation tend to result in economic turmoil.

Every countries, has experience inflation in economics matters. The impact of inflation in a country's economy have a negative effect but it does not mean that inflation is bad because controlled inflation and under supervision may turn around and become a driver of the country's economic progress and increase domestic production and create large employment opportunities and reduce the rate of poverty in a country. The occurrence of economic turmoil caused by the inflation fluctuation can be classified into four parts, namely mild, severe, moderate inflation and hyperinflation.

Low inflation if the increase is below the figure of 10% a year, moderate inflation is between 10%-30%,the weigh of inflation between 30%-100% a year and hyperinflation or inflation is not controlled occurs when the price increase is above 100% a year. Low inflation encourages economic growth. This happens because low inflation gives enthusiasm for entrepreneurs to further increase their production. Entrepreneurs are eager to expand their production because with the increasing pricethat occurs the entrepreneurs to get more profits. Increased production growth has many other positive effects, such as: the occurrence of new employment andprobably will crave the prosperity of the community and will drive the pace of economic growth.

According to Sadono (2004)inflation is a process of increasing prices prevailing in an economy; this statement was stated in 2002 in his book entitled Macroeconomics on page 15. The inflation rate is the presentation of the prices

of a particular year compared to with the previous year. In simple terms inflation is interpreted as increasing prices in general and continuously. The price increase if only one or two items cannot be called inflation unless the increase extends or results in an increase in prices for other goods. The opposite of inflation is deflation (www.bi.go.id).

Table 1.3. Rate of Inflation in Indonesia 2010-2018 (%)

Year	Inflation
2010	6,96
2011	3,79
2012	4,30
2013	8,36
2014	8,36
2015	3,35
2016	3,02
2017	3,61
2018	3,13

Source: BPS

The table above shows the ups and downs of inflation from 2014-2018. The inflation rate in Indonesia is indeed quite high. From the last nine years, 2013-2014 inflation was quite high to 8.36, in 2015-2016 inflation fell and in 2017 inflation rose but not as severe as in 2014 and the last 2018 inflation began to fall again.

Stagflation is describing the conditions in which economic activity decreases, unemployment gets higher and at the same time the process of increasing prices increases rapidly (Sadono, 2004). Stagflation is closely related to inflation caused by rising prices of imported goods especially, world oil which is the axis of various fields of human work. It is not surprising that

the promotion of the use of domestic resources and the economic independence that has been echoed since the era of President Soekarno has become a big benefit when applied. The urgency of the country's economic costs in the developing country can also cause inflation. Cost push inflation occurs in times of rapid economic growth when the unemployment rate is very low (Sadono, 2004).

From the experience of inflation occurring in Indonesia, the government through Central Bank (BI) directs monetary policy as part of macroeconomic policies to maintain economic stability. Central Bank aims to achieve and maintain the stability of the rupiah. This goal as stated in UU No. 23 1999 about Central Bank, where it change from UU No. 3 2004 and UU No. 6 2009 verse 7. The stability of the rupiah in question has two dimensions. The first dimension of stability in the value of the rupiah is the stability of the prices of goods and services reflected in the development of the inflation rate. Meanwhile, the second dimension is related to the development of the rupiah exchange rate against the currencies of other countries.

In the context of the development of the value of the rupiah against other currencies, Indonesia adheres to a free floating system. The role of exchange rate stability is very important in achieving price stability and the financial system. Therefore, Central Bank also carries out a policy to maintain exchange rate stability to suit its fundamental values while maintaining the operation of the market mechanism.

To achieve this goal, Bank Indonesia since July 1, 2005 has implemented the Inflation Target Framework (ITF). The policy framework is seen by the mandate and institutional aspects mandated by the Constitution. Within this framework, inflation is an overriding objective. Bank Indonesia has consistently carried out various improvements to the monetary policy framework, following changes in economic dynamics and challenges that occur, to strengthen its effectiveness (www.bi.go.id).

Besides inflation and *Zakat* fund, exports and imports also affect GDP in Indonesia. The relationship between exports and economic growth is very inseparable in recent times has become a concern of various groups.

International trade, especially exports, is convinced as the main driver in economic growth and increased foreign exchange reserves. Exports are a dominant output aggregate in international trade. According to (Chang and Ying, 2006) a country if there is no ties or cooperation with other countries it will be difficult to fulfil their needs.

Exports are one of the important factors in development, export itself is not only a tool of foreign exchange income sources but also to improve the balance of payments, and can motivate and develop domestic economic activities. Exports in Indonesia have two types, namely the first exports of oil and gas, and the next is the export of non-oil commodities (handicrafts, animal husbandry, plantations, agriculture, fisheries and others).

Exports play an important role in the economic activities of a country. Exports will generate foreign exchange which will be used to finance

the import of raw materials and capital goods needed in the production process which will form added value. The aggregation of added value produced by all units of production in the economy is the value of Gross Domestic Product. Oil and gas exports and non-oil exports are some of the economic variables that determine the level of economic growth achieved.

Lahai, George, & Ekanayake, (1999) examined the relationship between exports to economic growth in developing Asian countries using a co integration model and error correction model (ECM). The results show that in the short term there is a strong relationship between exports and economic growth, except in Sri Lanka. In the long term, there is a strong relationship between exports and economic growth in all countries.

Exports are efforts to sell commodities that we have to other countries or foreign nations following government regulations by expecting payment in foreign currencies, as well as communicating with foreign languages. Exports greatly influence the economic growth of a country, as explained in the theory of Hecksher-Ohlin that a country will export its products whose production uses intensive and cheap production factors intensively. This activity will benefit the country, because it will increase national income and accelerate the process of development and economic growth.

Meanwhile, imports are purchases or imports of goods from abroad into a domestic economy(Rahayu, 2006). Imports are very influential on a country's economic growth, as explained in the theory of Hecksher-Ohlin

stating that a country will import products / goods that use production factors that are not or rarely owned by the country. This activity will be beneficial for the country rather than making its production but not efficiently.

Indonesia as a developing country always tries to print an international trade surplus or better known as net exports. Net exports are a situation where the value of exports is greater than the value of imports. If positive net exports reflect the high demand for domestic goods and services, of course this will increase productivity which can lead to increased economic growth in the country. Conversely, if the net export is negative, it reflects a decline in demand for goods and services that will cause a decline in productivity, and will disrupt the rate of economic growth.

This international trade (exports and imports) will cause differences in the currency used between the countries concerned. As a result of the difference in currency between exporters and importers, a difference in currency exchange rates or commonly known as exchange rate. Exchange rates or exchange rates are the amount of domestic money needed, namely the amount of rupiah needed to obtain 1 unit of foreign currency(Poncin and Caix, 2008).

According to Hiau, Nicita, & Olarreaga (2008) imports can be interpreted as activities to import goods from one country (abroad) into other countries' territories. This understanding means that import activities mean involving two countries. In this case it can be represented by the interests of

two companies between the two countries, which are different, and certainly also regulations and act as suppliers and one act as the recipient country.

Looking at the importance of economic growth in Indonesia, the government continues to strive and to maintain the stability of economic growth in Indonesia, and the government continues to monitor what are the factors that cause economic growth. And researchers are interested in conducting further studies with research entitled “ANALYSIS INFLUENCE OF ZAKAT FUND, INFLATION, EXPORT AND IMPORT ON ECONOMIC GROWTH IN INDONESIA PERIOD 2010-2018”.

B. Research Limitations

1. The variables studied are limited to the variables of *Zakat* funds, inflation, exports and imports in 2010-2018.
2. The material used in this study is limited to factors that affect Indonesia's economic growth in 2010-2018 which include the distribution of *Zakat* funds, inflation, exports and imports.

C. Research Questions

Based on the explanation from the background above, the focus of this research is as follows:

1. Does the distribution of *Zakat* funds effect on economic growth in Indonesia in period 2010-2018?
2. Does inflation effect on economic growth in Indonesia in the period 2010-2018?

3. Does the export effect on economic growth in Indonesia in the period 2010-2018?
4. Does import effect on economic growth in Indonesia in the 2010-2018 periods?

D. Research Objectives

This study aims to describe and provide empirical evidence regarding:

1. Provide empirical evidence whether *Zakat* distribution has an effect on Gross Domestic Product (GDP) in Indonesia 2010-2018 period.
2. Provide empirical evidence whether inflation has an effect on Gross Domestic Product (GDP) in Indonesia 2010-2018 period.
3. Provide empirical evidence of whether export has an effect on Gross Domestic Product (GDP) in Indonesia 2010-2018 period.
4. Provide empirical evidence whether import has an effect on Gross Domestic Product (GDP) in Indonesia 2010-2018 period.

E. The benefit of the Research

The benefits expected to be obtained through this research are:

1. Theoretical benefit

The results of this study are expected to solve the problem of whether the distribution of *Zakat*, inflation, export and import affect economic growth in Indonesia during the period 2010-2018.

2. Practical benefit

- a. For the government

Contribute to the decision-makers of the institutions involved in determining policies relating to the distribution of *Zakat* funds, inflation, export and import.

b. For scientific development

As a reference material so that it can expand knowledge related to Islamic economics. Especially in the economic field of Islamic development.

c. For further researchers

Reference material in the creation of new research writing ideas, especially those relating to the distribution of *Zakat* funds, inflation, export and import on economic growth in Indonesia.

