



SUMMARY

ADITIA SOELAKSONO. Dynamic Behaviour of Conventional and Islamic Banking Loans and Its Relation to Macroeconomic Conditions in Indonesia. Supervised by NOER AZAM ACHSANI and IDQAN FAHMI

Banking has a fairly important role in the national economy and equitable development such as allocating resources and facilitating the exchange of goods and service (Levine, 1997). The development of the banking sector will certainly face challenges that must be addressed appropriately especially islamic banking. One of the challenges there is a change in macroeconomic conditions and the shock of the crisis also contributed to the banks lending in Indonesia. The impact of the global financial crisis that hit the US in 2008 is felt in Indonesia. The crisis led to a national credit growth rate has decreased significantly. As of June 2008, the growth of Islamic banking financing reached 5.6 percent, while the conventional reached 4.75 percent.

The impact of changes in macroeconomic conditions not only affect the conventional but also affect the performance of Islamic banking because the policies applied to the transmission through the Islamic. This study aims to: 1) analyze the causality between changes in macroeconomic conditions on credit of the conventional and Islamic banking, 2) Comparing the response of credit on the both of the banking system, 3) Analyze the effects of the credit to the real sector growth, 4) Formulate the alternative strategy of the banking in response to changes in macroeconomic conditions.

This study uses an econometric approach and Vector Error Correction models. The results shows that only interest rates and capital market conditions that have an impact on lending in both of the banking system, while inflation only affects the conventional model on two-way relationship. Shocks that occur from the side of the macroeconomic responded equally by the both types of banks with different proportions except shocks come from exchange rate and interest rates. Islamic banking respond negatively to exchange rate shocks due to the financing structure of Islamic banking is dominated by Murabahah scheme which more than fifty percent and the other side, depreciation will cause an increase in the number of loans disbursed by the conventional banking.

Conventional banking in the long-term has a negative response that caused by changes in interest rate, while the islamic show the opposite response. This condition explains that Islamic banking is the substitution of the conventional banking because when the interest rates are in a phase of increase, borrowers will switch to source financing substitution of Islamic banking and vice versa (displaced commercial risk). Islamic banks financing is more stable in response to the turmoil that comes from the macro condition presumably because the profit and loss sharing system that implemented. Islamic banking is still not focus on PLS yet because Murabahah has a big proportion on its structure of financing. Because of that, Islamic banking has a greater multiplier effect than the it substitutes to the real sector in the short term.

The structure of economy based on consumption is weak in driving the real sector actually. Related on islamic banking financing that more stable, it need to be proofed later if the islamic has an ideal or a real PLS system, multiplier effect become more decreasing and actually the islamic banking financing will be

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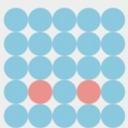
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more stable than now. On the other side, in the long term the conventional lending began to show a greater effect because the proportion of the lending is more on productive side. Domination of market share in a bank loans is a key for conventional banking to driving the real sector in a national scope.

Overall, the implications that can be formulated are: increase the intensity of socialization as well as improve communication related product and service development such as hold an expo/workshop especially at school, formulate imaging program such as giving an entrepreneurial training and capital support, improve the quality of human resources such as increasing the islamic finance expert, promoting the superior loan products to attract the attention of the debtor, bring in of the products and services of Islamic banking that have succeed abroad to increase the variety of products, providing competitive interest rate and other convenience that can be obtained by the debtor, improving of services and ease of access to the loan application, granting relief to debtors who default such as restructuring, reconditioning, and rescheduling. The last implication is giving "credit voucher" as a form of quality assurance that customers can provide guidance to banks in providing credit decisions.

Keywords : Bank Loans, Vector Error Correction, Impulse Responses, Variance Decomposition

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