SUMARRY

BAYU WIDOKARTIKO Effect of Internal Performance and Macro Economic to Banking Industry. Supervised by NOER AZAM ACHSANI and IRFAN SYAUQI BEIK.

Profitability is an important factor in assessing the health of banking industry. Profitability is measured by using a variety of methods of approach. One of these values can be show by Return on Assets (ROA). The system used in conventional bank would follow the BI Rate level in Indonesia. That's different with Islamic banks using the system Profit Loss Sharing (PLS).

Banking to the achievement of profitability can not be separated from the activities area of operations. In the operations area has a variety of conditions described as macroeconomic variables. The assumed that the internal performance variables and the macroeconomic conditions that have an influence on the profitability to banking industry.

Using granger causality and Vector Auto regressif (VAR)/Vector Error Correction Model (VECM), to examine the effects of short-term and long-term to the variables that have relevance. Proceed to use the analysis of Impulse Response Function (IRF) to determine shocks macroeconomic variables which affect the profitability and Forecast Error Variance Decomposition (FEVD) to determine the variable pressure / influence on bank profitability.

Results granger causality explained that the macro-economic conditions only affect the profitability of conventional banking. Macro-economic conditions make influence by BI rate and world oil prices (OIL) variables. Internal performance banking influential sector by Non Performing Loan (NPL). Islamic bank there is no influence by macroeconomic conditions and internal performance. This proves that the system of Islamic banks can avoid the effects of macroeconomic conditions and internal performance.

Impulse Response Function (IRF) explain differences in conventional and Islamic banks on the profitability obtained on condition of macro economic shocks. BI rate shocks occurring negative impact on conventional and Islamic banking. Islamic bank has a negative value greater than conventional banks. Exchange rate shocks result in the profitability of conventional banks are in the positive area and Islamic banking in the negative area. This prove that Islamic banking the substitution of conventional banking.

Inflation shocks resulting profitability of conventional and Islamic banking are in the positive area. The difference was that sharia more faster stable inflation condition. The oil price shocks resulted in both of conventional and Islamic banks have the profitability in the positive area. Stability profitability more rapidly achieved by Islamic banks than conventional. In the conditions of crisis conventional bank profitability is in the positive area and sharia are in the
Differences in position of profitability shows that until today the existence of Islamic banks as substitution of conventional banking. Forecast Error Variance Decomposition (FEVD) shows that the determinant factors profitability of conventional banking is crisis, inflation, LDR and NPL. For Islamic banking profitability determinant by exchange rate, BI Rate, NPF and FDR. Determinant of profitability banking industry indicate the strengths and weaknesses of dual banking system. From the profitability perspective that system of conventional banking more better than Islamic banking. The system of Islamic banking that is not affected by macro-economic conditions and inflation crisis. A decrease in profitability in Islamic banking is only caused due to the effects of the crisis and inflation to industries that impact on Non Performing Financing (NPF). Implications for Bank Indonesia as the central bank intervention to conventional and Islamic banks business plan. Provide information and education the two banking systems, so that people can know and understand the differences of the two banking systems. Conventional banks should reduce their portfolio in the financial markets. Islamic banking have aggressively promotion of products service. Islamic banking should provide attractive returns for depositors (attention to the risk depositors). Implications for conventional and Islamic banks as substitution of conventional banking. From the profitability perspective that system of conventional banking is more better than Islamic banking. The system of Islamic banking that is not affected by macro-economic conditions and inflation crisis. A decrease in profitability in Islamic banking is only caused due to the effects of the crisis and inflation to industries that impact on Non Performing Financing (NPF). Implications for Bank Indonesia as the central bank intervention to conventional and Islamic banks business plan. Provide information and education the two banking systems, so that people can know and understand the differences of the two banking systems. Conventional banks should reduce their portfolio in the financial markets. Islamic banking have aggressively promotion of products service. Islamic banking should provide attractive returns for depositors (attention to the risk depositors). **Keywords:** Granger Causality, Impulse Response, Profitability of banking, Forecast Error Variance Decomposition, Vector Autoregression, Vector Error Correction Model.