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Banking Financial Performance, Inflation Level, Bank Indonesia Interest Rate, and Economic Growth in Indonesia

Mar'atus Zahro[1], Mega Arisia Dewi[2]

[1,2]Sekolah Tinggi Ilmu Ekonomi Indonesia, Indonesia

Abstract

This study aimed to test the effect of bank financial performance, inflation rates, Bank Indonesia interest rates on economic growth in Indonesia. This type of research was quantitative. The research sample consisted of 87 conventional banks and 12 Islamic banks during 2015-2017 as samples. The sampling technique used was purposive sampling method, sampling technique using certain criteria. The analytical method of this study used multiple linear regression analysis technique. The results showed that (a) financial performance which is proxied by CAR, BDR, and LDR of conventional banks has no effect on economic growth in Indonesia, (b) financial performance which is proxied by ROA has a positive effect on economic growth in Indonesia, (c) proxied financial performance with CAR, BDR, FDR, and ROA of Islamic banks have no effect on economic growth in Indonesia, (d) inflation has a positive effect on economic growth in Indonesia, (e) interest rates in Indonesia have a negative effect on economic growth in Indonesia.

Keywords Financial Performance, Inflation, Bank Indonesia Interest Rates, Economic Growth

INTRODUCTION

The development of financial institutions, which include the banking structure in Indonesia, is expected to provide positive changes for economic growth in Indonesia. Financial institutions, especially banks, have an important role in the economic wheels of Indonesia. The main function of financial institutions is as an intermediary institution that is very influential on a country's economic growth. The main task of Bank Indonesia is not only to maintain monetary stability, but also the stability of the financial system (banking and payment system). The success of Bank Indonesia in maintaining monetary stability without being followed by financial system stability, will not mean much in supporting sustainable economic growth. Bank Indonesia has five main roles in maintaining financial system stability, one of which is having a vital role in creating a healthy performance of financial institutions, especially banks.

Banks become intermediaries for financing the real sector, both in the context of improving the business and investment climate and in the context of creating jobs. Bangkona (2014) revealed that the increasing of flowing of money in the country made the banking sector to be the most strategic sector in trade and development. Banking is closely related to providing capital for business or trade, so that the wheels of the economy can continue to spin. According to him, banking has a very strategic role in creating a conducive climate, especially for improving the national economy. Bangkona (2014), added that the national banking became the driving force of the national economy, especially in job creation. This can be done if banks can not only collect but also mobilize public funds or companies to be channeled into productive businesses in various sectors that absorb a lot of labor, such as agriculture, fisheries, and industry.

Bank Indonesia as an institution that plays a role in maintaining financial system stability has several indicators used in measuring financial system stability, namely inflation and interest rates. In simple terms inflation is defined as an increase in prices in general and continuously within a certain period. Firmanzah (2015), theoretically the relationship between inflation and economic growth shows interesting things to observe, inflation that is

✉Correspondence to maratuszahro@stiesia.ac.id

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too low, even at the level of deflation, will suppress economic growth and inflation that is too high will also make people's purchasing power fall resulting in the stuck of economic wheel. Therefore, maintaining the stability of the inflation rate needs to pay attention to two factors, namely the level of inflation that makes economic growth to be optimum, while not making people's purchasing power down. In principle, not all inflation has a negative impact on the economy, especially mild inflation below 10%, mild inflation can encourage economic growth because inflation is able to encourage entrepreneurs to further increase their production (Septiatin et al., 2016).

Interest rates are one of the variables that are closely watched in the economy due to their broad impact. When interest rates are low, the funds will flow more and economic growth will increase, on the contrary the high interest rates will result in low economic growth due to the less funds flowing (Sundjaja and Barlian, 2003). An increase or decrease in Bank Indonesia interest rates (BI rate) will affect interbank interest rates and deposit interest rates which will result in changes in lending rates (Indriyani, 2016).

This study wants to see the paradigm of the influence of banking financial performance, inflation rates, and interest rates on economic growth in Indonesia. This study tries to confirm the effect of financial performance of banks (both conventional commercial banks and Islamic commercial banks) on economic growth in Indonesia because there is still little research that examines the paradigm. This study also tries to confirm varying results in several studies concerning the effect of inflation and interest rates on economic growth in Indonesia. This study aims to obtain empirical evidence of the influence caused by the financial performance of banks, inflation rates, and the stability of Bank Indonesia interest rates on economic growth in Indonesia. Banking performance is measured using six aspects of valuation, namely Capital, Assets, Management, Earning, Liquidity, and Sensitivity to Market Risk (CAMELS ratio). Four of the six aspects of valuation are assessed using financial ratios, so this study only uses four aspects of valuation, namely capital, assets, earnings, and liquidity.

Based on the consideration of all the references and descriptions above, this study wants to see the effect of the banking financial performance, inflation rate, and the interest rate of Bank Indonesia (BI rate) on economic growth in Indonesia.

LITERATURE REVIEW

Classical Growth Theory

The rationale for classical growth theory is economic development, which is based on a liberal system, in which economic growth is driven by a passion for maximum profits. If profits increase, savings will increase, and investment will increase which will have an impact on increasing the stock of existing capital. The scale of production will increase and increase demand for labor so that wage levels also increase. Then it will result in an increase in the amount of labor supply which results in a decrease in the level of productivity and profits due to the enactment of additional legal results which are increasingly reduced due to the limited amount of Natural Resources. This process resulted in production, labor demand, and wage levels falling (Tambunan, 2014).

According to classical thought, the economy experiences a saturation point or stationary state. A situation where the economy has matured and the community is prosperous, but without further development.

Harrod-Domar's Theory

Harrod-Domar's theory tries to broaden Keynes's theory of the balance of economic growth in a long-term perspective by looking at the effect of investment, both on aggregate demand and on expanding production capacity or aggregate supply, which will ultimately increase economic growth (Tambunan, 2014).

Harrod-Domar's theory concludes that economic growth is determined by high savings and investment. The low level of savings and investment, causing the country's economic growth to be low.

Bank Financial Performance

Banking performance is measured using six aspects of valuation, namely Capital, Assets, Management, Earning, Liquidity, and Sensitivity to Market Risk (CAMELS ratio). CAMELS is an aspect that has a lot of influence on the financial condition of banks, which affects the soundness of banks. Four of the six aspects of valuation are assessed using financial ratios, so this study only uses four aspects of valuation, namely capital, assets, earnings, and liquidity.

Capital valuation is used to ensure the adequacy of capital and reserves to carry the

risks that may arise. Asset valuation is used to ensure the quality of assets owned by the bank and the real value of those assets. The deterioration in the quality and value of assets is the biggest source of erosion for banks. Earning valuation is used to ensure the efficiency and quality of bank income correctly and accurately. Weaknesses to real income are an indicator of potential bank problems. Rate liquidity is used to ensure that asset and liability management is carried out in determining and providing sufficient liquidity (Riva et al., 2007).

Inflation

In implementing monetary policy, Bank Indonesia adheres to a framework called the Inflation Targeting Framework (ITF). Flexible ITF is built by remaining based on important elements of ITF, one of the main elements is the announcement of the inflation target to the public. Inflation remains the main target of monetary policy. Inflation can be interpreted as a price increase in general and continuously within a certain period. Low and stable inflation is a prerequisite for sustainable economic growth. Unstable inflation will create uncertainty for economic actors in making economic decisions. Empirical experience shows that unstable inflation will complicate people's decisions in consumption, investment and production, which will ultimately reduce economic growth (Bank Indonesia, 2018).

Interest Rate

Determination of interest rates is a direct instrument of the central bank, both for loans and deposits in the banking system. Bank Indonesia interest rates (BI rates) are policy rates that reflecting the stance or monetary policy stance established by Bank Indonesia and announced to the public. The BI rate is announced by the Board of Governors of Bank Indonesia at every monthly Board of Governors' Meeting and implemented in monetary operations conducted by Bank Indonesia through liquidity management on the money market to achieve monetary policy operational targets (Bank Indonesia, 2018).

Hypothesis Development

The Effect of Banking Financial Performance on Economic Growth in Indonesia. Lebdaoui and Wild (2016), assess and evaluate the relationship between economic growth and the contribution of Islamic banking in the financial markets of Southeast Asian countries in terms of assets and deposits. The results show there is a long-term relationship between the ratio of assets and deposits and economic growth and concludes that the size of Islamic banking is associated with high economic growth. Hachicha and Amar (2015), GDP in Malaysia is not sensitive to Islamic financing. This economic result can be explained by the Islamic banking financing structure which excludes profit and loss based instruments, and this turned out to be consistent with the economic reality in Malaysia, because Islamic banking is more involved in non-participatory activities which generally have short-term impacts.

Abuzayed and Al-Fayoumi (2016), revealed a positive and significant relationship between economic growth and each banking concentration and institutional quality. These results support the argument that banking concentration and institutional quality are important for the growth of the MENA (Middle East and North African) countries.

H1a: Conventional banking capital has a significant effect on economic growth in Indonesia

H2a: Capital of Islamic banking a significant effect on economic growth in Indonesia

H1b: Assets of conventional banking have a significant effect on economic growth in Indonesia

H2b: Assets of Islamic banking have a significant effect on economic growth in Indonesia

H1c: Earning of conventional banking has a significant effect on economic growth in Indonesia

H2c: Islamic banking earnings have a significant effect on economic growth in Indonesia

H1d: Liquidity of conventional banking has a significant effect on economic growth in Indonesia

H2d: Liquidity of Islamic banking has a significant effect on economic growth in Indonesia

The Influence of Inflation Rate on Economic Growth in Indonesia

Datta and Mukhopadhyay (2011), stated that in the short run, inflation plays an important role to negatively affect economic growth, but on the other hand, in the long run, economic growth leads to changes (positively) in inflation. Barro (2013), inflation has a negative and significant effect on economic growth and investment. Syarum (2016), stated that the level of inflation affects economic growth, with a negative regression coefficient.

H3: Inflation has a significant effect on economic growth in Indonesia

The Effect of Bank Indonesia Interest Rates on Economic Growth in Indonesia

Nurhidayah et al. (2014), stated that there is a shift in the BI rate in the Indonesian economy (as long as the decline in the BI rate contributes to affecting inflation and the increase in the BI rate contributes to affecting economic growth for the period after the global financial crisis). The BI rate does not only play a role in influencing inflation but also plays a role in encouraging economic growth in Indonesia. Semuel and Nurina (2015), stated that there is a significant and negative relationship between interest rates and Gross Domestic Product (GDP).

H4: The interest rate of Bank Indonesia significantly influences economic growth in Indonesia

METHODS

This type of research according to data analysis was included in quantitative research, namely research that analyzes data in the form of numbers and secondary data. Secondary data is a source of research data obtained indirectly through intermediary media researchers. Meanwhile, according to the characteristics of the problem, this study was included in a descriptive study that was a study of problems in the form of the current facts of a population. The purpose of descriptive research was to test hypotheses or answer questions related to the current status of the subjects studied.

The population in this study was all banking companies in Indonesia. The sample used in this study was Conventional Commercial Banks and Islamic Commercial Banks that published financial statements during the 2015-2017 period.

The sampling technique used in the study was purposive sampling. Sampling was only limited to certain types of samples that could provide the information needed in this study. Sampling was carried out based on considerations and fulfilling the following criteria: (1) The samples selected in this study were banking companies both listed and not listed on the Indonesia Stock Exchange (IDX) for the period 2015 to 2017; (2) The sample used was divided into two groups, namely conventional banking and Islamic banking; (3) The bank used as a sample in this study was not a bank branch office domiciled abroad; (4) Conventional commercial banks and Islamic commercial banks which have published quarterly financial reports for three consecutive years, namely March 2015 to December 2017. From the sample selection process, 87 conventional commercial banks and 12 Islamic commercial banks were obtained as the research sample.

This study used quarterly financial statements for the period of 2015 to 2017, so that the number of observations in the study for 87 conventional commercial banks were 1044 observations, while for 12 Islamic commercial banks were 144 observations.

Banking performance was measured using six aspects of valuation, namely Capital, Assets, Management, Earning, Liquidity, and Sensitivity to Market Risk (CAMELS ratio). Four of the six aspects of valuation were assessed using financial ratios, so this study only used four aspects of valuation, namely capital, assets, earnings, and liquidity. The independent variables in this study were used as a measure of capital, assets, earnings, and liquidity. Capital was measured using Capital Adequacy Ratio (CAR), assets were measured using Bad Debt Ratio (BDR), earnings were measured using Return on Assets (ROA), while liquidity was measured using Loan to Deposit Ratio (LDR) for conventional commercial banks and Finance to Deposit Ratio (FDR) for Islamic commercial banks. Data were taken from Indonesia Stock Exchange Gallery of STIESIA Surabaya and the website of Financial Services Authority (OJK).

The inflation and interest rate variables of Bank Indonesia in this study were taken from the data of Indonesia Stock Exchange Investment Gallery of STIESIA Surabaya.

Economic growth is basically defined as a process whereby the real Gross Domestic Product (GDP) or real income per capita increases continuously through an increase in productivity per capita (Indriyani, 2016). Data on economic growth in Indonesia from 2015 to 2017, were taken from the data of Indonesia Stock Exchange Investment Gallery of STIESIA Surabaya.

Data Analysis Technique

Data Normality Test

Data normality test aimed to test whether in the regression model, the dependent variable and the independent variable both have normal or near normal data distribution. Data normality test could use a graphical approach. The method used, was to look at the normal probability plot that compared the cumulative distribution of actual data with the cumulative distribution of the normal distribution.

Classic Assumption Test

Autocorrelation is the correlation between sample members ordered by time. To detect the existence of autocorrelation in a regression model can be done through testing of the Durbin Watson test value (DW test), with the following conditions: (1) DW <Du then there is a positive autocorrelation ; (2) DL ≤ DW ≤ Du then autocorrelation did not occur ; (3) DW> DL, then there is a negative autocorrelation.

Multicollinearity Test

Multicollinearity is the existence of a perfect linear relationship (exact) between the independent variables in the regression model. To detect the presence of multicollinearity that is by looking at the amount of VIF (Variant Inflation Factor) and Tolerance, the VIF value <10 or TOL value> 0.10.

Heteroscedasticity Test

Heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another. A good regression model is homoscedasticity, or heteroscedasticity does not occur. Heteroscedasticity test can use a graphical approach. If the location of the residual data does not form a certain pattern, then heteroscedasticity will not occur.

Multiple Regression Analysis

The main analytical tool used in this study was multiple linear regression, because in this study the dependency of a variable (i.e. dependent variable) was studied / analyzed by estimating or predicting the average value of the dependent variable in relation to the known independent variable values. To examine the effect of banking financial performance, inflation rates, and Bank Indonesia interest rates on economic growth in Indonesia, the specifications of this research model are as follows:

Model 1 - Regression Equations for Testing Hypotheses 1, 3, and 4 at Conventional Commercial Banks:

$PEit = \beta0 + \beta1CARit + \beta2BDRit + \beta3ROAit + \beta4LDRit + \beta5INFit + \beta4SBIit + \varepsilon it$

Model 2 - Regression Equations for Testing Hypotheses 2, 3, and 4 at Islamic Banks:

$PEit = \beta0 + \beta1CARit + \beta2BDRit + \beta3ROAit + \beta4FDRit + \beta5INFit + \beta4SBIit + \varepsilon it$

In this case, the notations in the equation above are explained as follows:

PEit : economic growth in Indonesia
CARit : capital adequacy ratio
BDRit : bad debt ratio
ROAit : return on asset
LDRit : loan to deposit ratio
FDRit : finance to deposit ratio
INFit : inflation rate
SBIit : Bank Indonesia interest rates

Hypothesis Test

To test the effect of the financial performance of banking, inflation, and interest rate of Bank Indonesia to economic growth in Indonesia, t test was conducted (t test or partial test). Hypothesis testing in this study used SPSS software.

The t test was used to test the significance of the partial regression coefficients of each independent variable. The partial test criteria with the level of significance α = 5%.

RESULTS AND DISCUSSION

Data Normality Test

The graph analysis results for normality test of model 1 and 2 can be seen in the following figure:

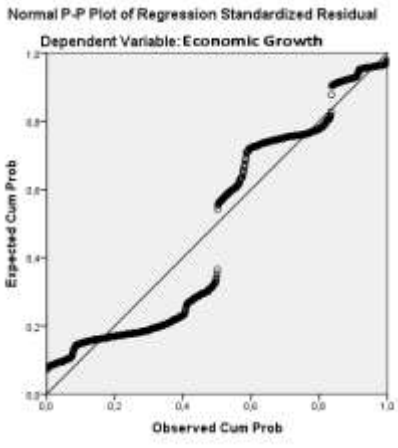

Figure 1. Normal PP Plot Model 1 Graph

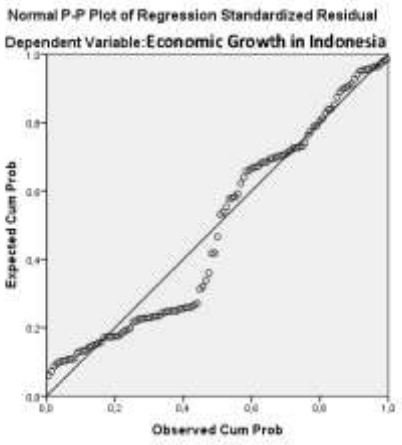

Figure 2. Normal PP Plot Model 2 graph

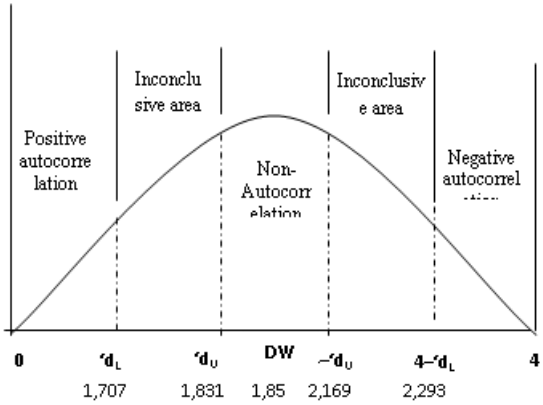

Figure 3. The Durbin Watson Value Distribution Curve Model 1

The figure above shows that the value of the test Durbin-Watson is in the region of non-autocorrelation, so that we can conclude that a model first used in the study was free from interference autocorrelation.

Tests have been carried out that obtained by the Durbin Watson model 2 value of 1,833 with N = 117 and 'k = 6, the significance level used (α) is 5% obtained 'dL = 1,550 and 'dU = 1,803 and 4–'dU = 2,197 and 4–'dL = 2,450.

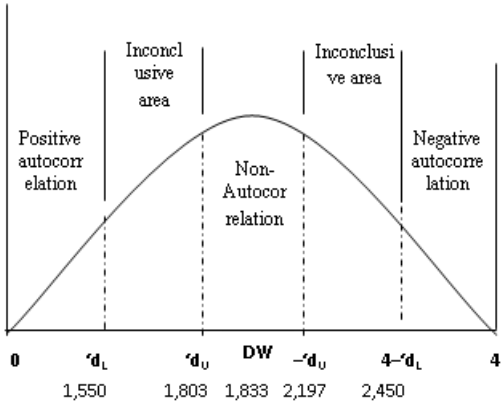

Figure 4. Watson Durbin Value Distribution Curve Model 2 4–'dU = 2,169 and 4–'dL = 2,293.

The figure above shows that the Durbin Watson test value is in the non-autocorrelation region, so that it can be concluded that model 2 used in the study is free from autocorrelation disorders.

Multicollinearity Test

The results of multicollinearity testing conducted on model 1 obtained the following results:

Table 1. Tolerance Value and Variance Inflation Factor Model 1

Variable	Tolerance Value	VIF Value	Information
CAR	0,682	1,466	Multicollinearity free
BDR	0,882	1,133	Multicollinearity free
ROA	0,910	1,099	Multicollinearity free
LDR	0,716	1,397	Multicollinearity free
INF	0,591	1,692	Multicollinearity free
SBI	0,585	1,709	Multicollinearity free

The results of multicollinearity testing conducted on model 2 obtained the following results:

Table 2. Tolerance Value and Variance Inflation Factor Model 2

Variable	Tolerance Value	VIF Value	Information
CAR	0,501	1,994	Multicollinearity free
BDR	0,563	1,778	Multicollinearity free
ROA	0,634	1,577	Multicollinearity free
FDR	*0,644*	*1,552*	*Multicollinearity free*
INF	0,602	1,661	Multicollinearity free
SBI	0,507	1,971	Multicollinearity free

Tables 1 and 2 shows that the independent variables consisting of CAR, BDR, ROA, FDR, Inflation and SBI none of which have a VIF value exceeding 10. This indicates that the six variables do not have a very strong attachment or relationship, so the model could be concluded the study does not occur multicollinearity disorder.

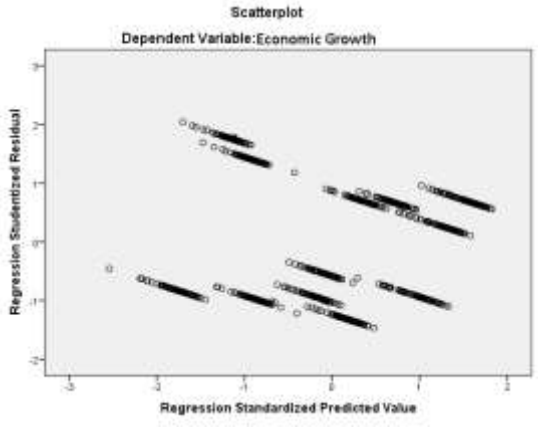

Figure 5. Scatterplot Model 1 Graph

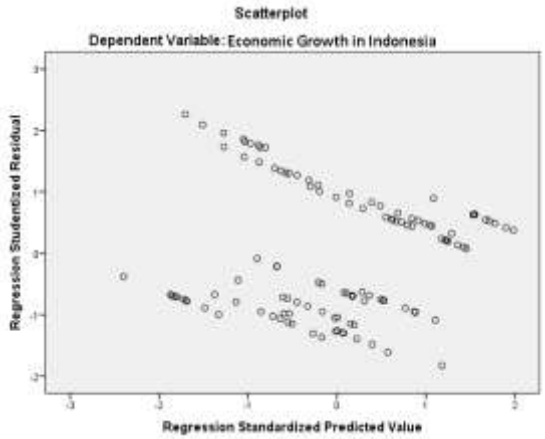

Figure 6. Scatterplot Model 2 graph

Figures 5 and 6 shows the distribution of points above and below the Y axis, it can be concluded that the analysis model does not occur heteroscedasticity disturbance.

Coefficient of Determination

Tests that have been done shows the coefficient of determination for models 1 and 2 are as follows:

Table 3. Model Determination Coefficients 1

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,436[a]	,190	,185	2,08115	1,850

a. Predictors: (Constant), SBI, LDR, ROA, BDR, CAR, INF
b. Dependent Variable: Economic Growth

Table 3 shows the value of R square (R2) obtained at 0.190. These results show the contribution of the model used by CAR, BDR, ROA, LDR, inflation, and SBI to the ups and downs of economic growth in Indonesia of 19.0%. While the remaining 81.0% is contributed by other factors.

Table 4. Model Determination Coefficients 2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,494[a]	,244	,203	2,06112	1,833

a. Predictors: (Constant), SBI, ROA, FDR, BDR, INF, CAR
b. Dependent Variable: Economic Growth

Multiple Linear Regression Analysis

Tests that have been done through multiple regression models 1 obtained the following results:

Table 5. Model 1 Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,458	1,032		1,413	,158
	CAR	,121	,197	,022	,616	,538
	BDR	,124	,087	,044	1,415	,157
	ROA	,186	,085	,067	2,179	,030
	LDR	-,119	,227	-,018	-,523	,601
	INF	4,266	,293	,556	14,577	,000
	SBI	-2,76	,384	-,276	-7,208	,000

From the table data above the regression equations obtained are:

PEit=1,458+0,121CARit+0,124BDRit+ 0,186ROAit–0,119LDRit+4,266INFit– 2,766SBIit

The value of the constant (α) is 1.458 indicating that the independent variable consisting of CAR, BDR, ROA, LDR, inflation and SBI do not change or equal to 0, then economic growth of Indonesia rate is 1.458.

The value of β1 obtained is 0.121 indicating the direction of a positive (unidirectional) relationship. This result shows that the higher level of CAR of conventional banks encourages economic growth in Indonesia.

The β2 value obtained is 0.124 indicating the direction of a positive (unidirectional) relationship. This result shows that the higher BDR level of conventional banking is driving the increase of economic growth in Indonesia.

The β3 value obtained is 0.186 indicating the direction of a positive (unidirectional) relationship. This result shows that the higher level of ROA of conventional banks have led to an increase of economic growth in Indonesia.

The β4 value obtained is 0.119 indicating the direction of the negative relationship (opposite direction). This result shows that the higher level of conventional banks' LDR drive a decline in economic growth in Indonesia.

The β5 value obtained is 4.266 indicating the direction of a positive (unidirectional) relationship. This result shows that the higher level of inflation has led to an increase of economic growth in Indonesia.

The value of β6 obtained is -2.766 indicating the direction of a negative relationship (opposite direction). This result shows that the higher level of SBI is driving the decline in economic growth in Indonesia.

Table 6. Model 2 Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-11,473	9,580		-1,198	,234
	CAR	-1,397	,798	-,205	-1,749	,083
	BDR	-,051	,348	-,016	-,145	,885
	ROA	,215	,207	,108	1,040	,301
	FDR	4,037	2,394	,174	1,686	,095
	INF	4,712	,835	,603	5,641	,000
	SBI	-4,158	1,161	-,417	-3,581	,001

From the table data above the regression equations obtained are:

PEit = -11.473–1.397CARit–0,051BDRit+ 0,215ROAit+4,037 FDRit+4,712 INFit– 4,158SBIit

The value of the constant (α) is -11,473 indicating that if the independent variables consisting of CAR, BDR, ROA, FDR, Inflation and SBI have no change or equal to 0, then economic growth in Indonesia rate is -11.473.

The value of β1 obtained is -1,397 indicating the direction of the negative relationship (opposite direction). This result shows that the higher level of CAR of Islamic banks will further reduce economic growth in Indonesia.

The value of β2 obtained is -0.051 indicating the direction of a negative relationship (opposite direction). This result shows that the higher BDR level of Islamic banks will further reduce economic growth in Indonesia.

The value of β3 obtained is 0.215 indicating the direction of a positive (unidirectional) relationship. This result shows that the higher level of ROA of Islamic banks encourages an increase in Economic growth in Indonesia.

The β4 value obtained is 4.037 indicating the direction of a positive (unidirectional) relationship. This result shows that the higher level of FDR of Islamic banks has boosted economic growth in Indonesia.

The β5 value obtained is 4,712 indicating the direction of a positive (unidirectional) relationship. This result shows that the higher level of inflation has led to an increase in economic growth in Indonesia.

The β6 value obtained is -4,158 indicating the direction of the negative relationship (opposite direction). This result shows that the higher level of SBI is driving the decline in economic growth in Indonesia.

The Effect of CAR on the Economic Growth

The test results showed that the CAR in Model 1 (conventional commercial banks) did not give significant positive effect on the growth of the Indonesian economy. While the results of CAR test in model 2 (Islamic commercial banks) showed no significant negative effect toward economic growth.

The insignificance of financial performance which is proxied by CAR in conventional banks and Islamic banks is due to the allocation of capital to generate profits that do not run effectively and the efforts of banks both conventional and Islamic banks in maintaining capital adequacy make banks not easy to issue funds, so that bank capital cannot maximally channeled.

This is in line with the results of Anita's research (2018) which stated that in the estimation model of Bank BCA, Bank Mandiri, and Bank BRI, CAR variable does not significantly influence economic growth in Indonesia. While the CAR variable in the Bank BNI estimation model significantly influences economic growth in Indonesia.

Effect of BDR on Economic Growth

The test results show BDR in Model 1 (conventional commercial banks) have not a significant positive effect on economic growth in Indonesia. This result shows that the higher the level of BDR, the higher the assets owned by banks that have problems because of something that causes cash flow from the debtor's business and makes it difficult for debtors to pay installments to the bank. In this case the conventional bank BDR range is between 0.0% to 0.0344% less than <2% which shows the condition of the bank's financial performance in terms of BDR in the very healthy category. Although there is an increase in BDR, but it does not exceed 2%, indicating that earning assets owned by banks do not experience difficulties in cash flow caused by debtors' difficulties in paying interest and even the principal debt. The smoothness of the debtor in paying installments shows that the business undertaken has not experienced any obstacles. This makes the economy can develop well.

The test results showed BDR model 2 (Islamic commercial bank) have insignificant negative effect on the growth of the Indonesian economy. This condition shows that the higher the level of BDR, the worse the soundness of the bank is because the assets owned have problems with cash flow. This condition will reduce economic growth in Indonesia.

The insignificant financial performance proxied by the BDR on the conventional commercial banks and Islamic banks because the level of BDR both conventional commercial banks and Islamic banks were <2% in very good health, so the rise and fall of BDR in the bank is not a difficulty in cash flow due to the debtor is able to pay interest and even its principal debt, so that economic growth in Indonesia continues to run well.

The Effect of ROA on Economic Growth

The test results showed ROA in Model 1 (conventional commercial banks) give significant positive effect on economic growth in Indonesia. This result shows that the higher level of ROA shows the higher profit for loans given to customers due to the greater rate of return. Kaushal and Ghosh (2018) state that there is a stable long-term relationship between economic growth and the growth of the banking and insurance sectors in India.

The test results showed ROA model 2 (Islamic commercial bank) have insignificant negative effect on the growth of the Indonesian economy. This condition shows that the higher level of ROA will further reduce economic growth in Indonesia. This condition shows that the total assets used do not provide profit or loss. This result explains that in managing its assets, Islamic banks have not been effective, so that the higher ROA will lead to the lower level of profit sharing received by customers.

This is in line with the results of Anita's research (2018) which stated that in the estimation model of Bank BCA, Bank BNI, and Bank BRI, the ROA variable significantly influences economic growth in Indonesia. While the ROA variable in the Bank Mandiri estimation model does not significantly influence economic growth in Indonesia.

The Effect of LDR or FDR on Economic Growth

The test results showed LDR in Model 1 (conventional commercial banks) have significant negative effect on economic growth in Indonesia. The higher the ratio gives an indication of the lower ability of the bank's liquidity concerned. This is due to the greater amount of funds needed to finance loans. This condition will affect depositors' trust in the bank so that the funds to be obtained by banks to be channeled through credit are reduced. The reduced credit channeled will affect Economic growth in Indonesia.

The test results showed FDR in model 2 (Islamic commercial bank) have insignificant positive effect on the economic growth in Indonesia. This result shows that the higher the value of FDR in banking companies shows that the banking sector has the potential to obtain income from the higher financing provided so that the more available funds can be used again for other customers. This will make economic growth increase.

The insignificance in this study was due to the large amount of financing disbursement that did not supported by good credit quality, poor credit quality could affect the profitability of the company. The amount of financing disbursed is unable to provide optimal income because the greater the amount of financing disbursed, the greater the problem loans will be faced by banks. These results also explain that the bank's management is still hampered by the lack of market share, namely sales percentage of a particular product or service controlled by a company, here the company looks too cautious, so it is not optimal to manage portfolios of financing disbursed. This situation ultimately has an impact on the ineffectiveness of financial performance

achievements such as FDR, which is quite good, apparently it has not been able to influence the level of profit sharing that distributed.

Farahani and Dastan (2013) revealed that there is a positive and statistically significant relationship between economic growth and Islamic bank financing in the short and long term. Farahani and Dastan (2013) also found that long term relationship between economic growth and Islamic bank financing is stronger than a short-term relationship. El Ayyubi et al. (2017) based on the results of the Forecast Error Variance Decomposition (FEVD) it appears that financing in Islamic banking has the greatest contribution in influencing economic growth.

The Influence of Inflation on Economic Growth

The test results show that inflation in Model 1 (conventional banks) has a significant positive effect on economic growth in Indonesia. Likewise, model 2 (Islamic banks) shows that inflation has a significant positive effect on economic growth in Indonesia. This condition indicates that rising inflation will drive economic growth to increase. This result occurs because the Indonesian government can maintain the inflation rate below 10% (mild category). Indonesia average inflation rate for 2015-2017 was 4.43%. The Inflation that is slow to take effect is seen as a stimulator for economic growth. The increasing price is not immediately followed by an increase in workers' wages, the profits will increase. Increased profits will encourage investment in the future, and this will bring about an acceleration in economic growth.

Mallik and Chowdhury (2001) stated that there is a positive long-term relationship between GDP growth rates and inflation in four countries namely Bangladesh, India, Pakistan and Sri Lanka. Inflation at a moderate level can help economic growth, but economic growth that is too fast will lead to inflation.

Increasing the rate of inflation makes the price of goods will increase. This encourages producers to produce more goods, demand for production factors increased. This increase in production factors means increased employment. This will affect the income per capita which then will increase the rate of economic growth. In the long term, controlled low inflation is important for increasing economic growth.

This result is in line with Samuelson and William (2004) that there is a positive relationship between output and inflation, the fastest economic growth in a country occurs when inflation is low, especially if there is mild inflation below ten percent, because inflation is able to encourage entrepreneurs, to further increase its production. Entrepreneurs are eager to expand their products, because with the price increases that occur entrepreneurs get more profit. Increased production leads to the creation of new jobs, from this it can increase people's income.

This result is in line with Indriyani's research (2016) which stated that inflation has a positive and significant effect on economic growth in Indonesia in the period 2005-2015. This result is not in line with Daniel's research (2018) which stated that inflation insignificantly influence economic growth in the city of Jambi. Meanwhile, according to Pratiwi et al. (2015) inflation has a significant and negative direct effect on economic growth.

The Effect of Bank Indonesia Interest Rates (BI Rate) on Economic Growth

The test results show that SBI in Model 1 (conventional banks) has a significant negative effect on economic growth in Indonesia. Likewise, in model 2 (Islamic banks) showing SBI has a significant negative effect on economic growth in Indonesia. The high interest rates will lead to reduced investment, which means economic growth will fall, conversely if interest rates are low it will encourage a lot of investment to increase economic growth.

Basically, interest rates are set low so that economic growth is expected to increase. SBI interest rates are set low to provide liquidity to the banking world so that it contributes to economic growth. The more available funds will be absorbed by entrepreneurs so that the source of funding for the need to increase production is greater. For producers, high interest rates cause sources of debt funding to become heavy, so the profits derived by companies decline and company growth tends not to be as aggressive as when interest rates are set low.

Nurhidayah et al. (2014) stated that there is a shift in the role of the BI rate in the Indonesian economy. The BI rate does not only play a role in influencing inflation but also has a role in driving economic growth in Indonesia.

This result is not in line with research by Indriyani (2016) and Pratiwi et al. (2015) which stated that interest rates have a positive and significant effect on economic growth.

CONCLUSIONS

Based on the results of data analysis and discussion, conclusions can be concluded that: (1) the financial performance of conventional commercial banks as measured by CAR, BDR, and LDR insignificantly influence economic growth; (2) the financial performance of conventional commercial banks as measured by ROA has a significant positive effect on economic growth; (3) the financial performance of Islamic commercial banks as measured by CAR, BDR, ROA, and FDR have no significant effect on economic growth; (4) the inflation rate has a significant positive effect on economic growth; (5) Bank Indonesia interest rates (BI rates) have a significant negative effect on economic growth.

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