The Influence of Macro Economic on Banking Credit Demand in South Sulawesi

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Abstract:- The purpose of this study was to determine the effect of macroeconomics on the demand for bank credit in South Sulawesi. The types of data used in this study are qualitative data and quantitative data. The data source used is secondary data. The analytical method used is multiple regression analysis. The results showed that partially the interest rate had a negative and significant effect on the demand for bank loans in South Sulawesi, while the inflation rate had a negative and insignificant effect on the demand for bank loans in South Sulawesi. Simultaneously interest rates and inflation rates have a significant effect on the demand for bank credit in South Sulawesi.

Keywords:- interest rate, inflation, credit.

I. INTRODUCTION

Bank is a business entity that collects funds and distributes funds to the public. The distribution of these funds is in the form of credit. Bank credit is one of the drivers of economic growth and plays an important role in the national economy. The existence of credit allows households to make better consumption. The activity of distributing credit to the public is not only the bank's main income, this activity also contains a very high risk, namely bad credit or unpaid credit. Where risk is directly proportional to profit, so that if there is bad credit, it will reduce profits earned by banks and affect bank performance.

The spread of Covid-19 has reached many countries, including Indonesia. The global economy was pressured by the pandemic which did not subside. The domestic economy was sluggish in line with reduced activity in various sectors. Current conditions are still putting pressure on the economy and people's purchasing power. Currently, based on data from Bank Indonesia, inflation is still maintained at a low level, the average interest rate has decreased and the rupiah has recorded a depreciation. In the current pandemic, credit demand tends to slop or decline. Interest rates and inflation are two important factors influencing lending activities.

South Sulawesi Province is the center of economy and trade in Eastern Indonesia. Because of these factors, South Sulawesi is dubbed the gateway to the Eastern Region of Indonesia (KTI). South Sulawesi is one of the provinces in Indonesia that has been affected by the spread of Covid-19 itself. South Sulawesi's economic growth is expected to grow in line with the reopening of community activities.

Raimond Tandris, et al (2014) found that interest rates had a negative and significant effect on credit demand, while inflation had no effect on credit demand. The results of this study are also in line with research by Janet Aprilia Siwi, et al. (2019) which states that interest rates have a negative and significant effect on credit demand.

In addition, research conducted by Riski Nur Arianti and Muhammad Faisal Abdullah (2021) states that inflation has a negative and insignificant effect on credit demand.

Based on this condition, the researcher responds to the conditions that occur regarding changes in interest rates and inflation that will affect the amount of credit extended to the people in South Sulawesi. This research was conducted in South Sulawesi by taking data from the Central Statistics Agency (BPS) of South Sulawesi and Bank Indonesia. Based on the explanation, the problems in this research are:

- Does the interest rate affect the demand for bank credit in South Sulawesi?
- Does inflation affect the demand for bank credit in South Sulawesi?
- Do interest rates and inflation affect bank credit in South Sulawesi?

The purpose of this study was to examine and determine the effect of macroeconomic conditions on the demand for bank credit in South Sulawesi.

II. LITERATURE REVIEW AND FORMULATION OF HYPOTHESES

A. Interest rate

According to Kasmir (2014:114) bank interest can be interpreted as remuneration by banks based on conventional principles to people who buy or sell their products. That is, interest is the price that must be paid to customers (who have deposits) and which must be paid to the bank (customers who obtain loans).

The interest rate according to Boediono (2016: 76) is the price of the use of investment funds (loanable funds). The interest rate is one indicator in determining whether a person will invest or save.

In addition, according to Sunariyah (2013: 80) the interest rate is the price of the loan. The interest rate is expressed as a percentage of principal per unit of time. Interest is a measure of the price of resources used by debtors that must be paid to creditors.

The amount of the interest rate varies depending on the ability of the debtor to provide a rate of return to the creditor. The interest rate can be used as one of the important factors regarding the investment decisions of investors.

According to Abhimanyu (2004:35), interest rates are financial assets that are generally divided into nominal interest rates and real interest rates.

- Nominal Interest Rate, is the obligation to pay or the right to earn interest at a certain level regardless of the inflation rate. The nominal interest rate consists of the nominal interest rate on loans and the nominal interest rate on savings.

The nominal interest rate on the loan is the interest rate agreed by the owner and the borrower of funds at the time of signing the loan contract. While the nominal interest rate on savings is the interest rate offered to savers at the time the savings are made.

Interest rates can be low or high, depending on economic conditions and monetary policy. Fund management institutions (financial institutions) must set a nominal interest rate on loans that are higher than the savings interest rate in order to make a profit.

- Real Interest Rate, is the nominal interest rate minus the inflation rate. In fact, borrowers and savers are more likely to pay attention to real interest rates than nominal interest rates.

B. Inflation

Inflation is known to be an increase in the price of goods in general and continuously. If only one item or several items can not be said to be inflation. In addition, even seasonal price increases cannot be considered as inflation.

Mankiw (2003) states that inflation is the entire increase in output prices in the economy. If the price of goods increases for only one item, it cannot be said to be inflation unless the price of goods increases as a whole. When inflation occurs, the value of an item will decrease and will also reduce people's purchasing power.

According to Fahmi (2018:79), inflation is a condition that describes changes in the price level in an economy, while according to Samuelson and Nordhaus (2004:381-382), inflation occurs when the general price level rises. The inflation rate is the percentage change in the price level.

On the other hand, Rudiger, Stanley, and Richard (2008:93) explain that inflation is the rate of change in prices, and the price level is the accumulation of these inflations. The inflation rate is determined by Bank Indonesia in accordance with Law no. 23 of 1999 concerning Bank Indonesia.

The inflation target or target is the inflation rate that must be achieved by Bank Indonesia, in coordination with the government. The inflation target is expected to be a reference for business actors and the public in their future economic activities so that the inflation rate can be lowered to a low and stable level.

According to Sukirno (2004:333-335), the causes of inflation are as follows:

- Demand Pull Inflation. This inflation occurs at a time when the economy is growing rapidly. High job opportunities create a high level of income and subsequently lead to spending that exceeds the ability of the economy to issue goods and services, causing inflation.
- Cost Push Inflation. This inflation occurs at a time when the economy is growing rapidly when the unemployment rate is very low.
- Imported Inflation. This inflation is an increase in prices which is strongly influenced by the level of prices that occur in imported goods, so that the increase in the price of these goods will greatly affect the increase in the price of goods in the country.

C. Credit

According to the Banking Law no. 10 of 1998, credit is the provision of money or claims, based on an agreement or loan agreement between a bank and another party which requires the borrower to repay the debt after a certain period of time with interest.

According to Kasmir (2014: 72), credit comes from the Greek crede which means trust or in Latin creditum means belief in the truth.

According to Kasmir (2014: 89), the main functions of providing credit are as follows:

- To increase the usability of money.
- To increase circulation and traffic of money.
- To increase the usability of goods.
- Increase circulation of goods.
- As a tool of economic stability.
- To increase the excitement of trying.
- To increase income distribution.
- To improve international relations.

D. Interest Rate Relationship and Credit Demand

Keynes' theory in Nopirin (2012:95) states that the interest rate is determined by the demand and supply of money. Keynes's theory emphasizes that there is a direct relationship between people's willingness to pay the price of the money (the interest rate) and the element of demand for money for speculative purposes, in this case, large demand when interest rates are low and small demand when interest is high.

The loan demand curve has a negative slope, moving down from the top left to the bottom right. If the interest rate is low, the demand for loans will increase because there will be more investment, working capital and consumption assuming cateris paribus, and vice versa (Mankiw, 2003: 96).

E. Relationship of Inflation and Credit Demand

Mankiw (2003) states that inflation is caused by the value of money, an increase in the price level will cause a decrease in the value of money. When prices rise, people have to pay more for goods and services. When the price increases, the same nominal amount of money is no longer the same value, the nominal amount cannot be used to buy the same amount of goods and services (Mishkin, 2008). To

purchase the same production needs, the company will apply for a loan to a banking institution.

Thus, it can be concluded that when inflation increases, the public and companies need additional funds and will increase the demand for credit.

F. Research Hypothesis
The hypotheses in this study are:
- H1 : Interest rates have an effect on credit demand in South Sulawesi.
- H2 : Inflation affects credit demand in South Sulawesi.
- H3 : Interest rates and inflation affect credit demand in South Sulawesi.

III. RESEARCH METHOD

A. Types of research
This research uses descriptive research and explanatory research which are categorized as associative research types. Sugiyono (2013:11) explains that associative research is research that aims at the relationship between two or more variables. In connection with this research to determine the relationship between interest rates and inflation on credit demand. Researchers used SPSS version 23 software tools.

B. Data Types and Sources
The type of data used in this study is quantitative data, where quantitative data is data presented in the form of figures in the form of interest rates, inflation and loans disbursed in South Sulawesi.

The source of data in this study is secondary data. data obtained from company documents in the form of written reports that are made periodically.

C. Method of collecting data
The data collection methods used in this study are:
- Literature research is a data collection method that is carried out through reviewing the theory that has been studied and looking for other sources based on available information.
- Field research, namely visiting Bank Indonesia to obtain information on matters relating to the problem under study.

D. Multiple Linear Regression Analysis Method
To see the effect of interest rates and inflation on credit demand in South Sulawesi, this study uses multiple linear regression analysis. Sunyoto (2007:89) explains that regression analysis is an analysis that measures the effect of the independent variables on the dependent variable. The equation model in this study is:

$Y = a + b_1X_1 + b_2X_2 + e$
Where, Y = the amount of credit disbursed
X_1 = interest rate
X_2 = inflation

E. Determination Test (r2)
The coefficient of determination (r2) is used to measure how much independent variation used in the model explains the variation in the dependent variable.

F. Correlation Coefficient (r)
Correlation coefficient is a value that indicates the strength or absence of a linear relationship between two variables. The correlation coefficient is usually denoted by the letter r where the value of r can vary from -1 to +1. If the value is – (negative) it means that the correlation between the two variables is opposite.

G. T Uji test
The t-test aims to determine the significance of the effect of the independent variable on the dependent variable individually and considers the other dependents constant. In this study, the t-test was conducted to examine the effect of interest rates (X1) and inflation (X2) on loans disbursed (Y).

H. F Uji test
This test is conducted to determine whether all independent variables have the same effect on the dependent variable. To prove the truth of the hypothesis, the F distribution test was used by comparing the calculated F value with the F table.

IV. RESULTS AND DISCUSSION

A. Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	156710.888	15588.444		10.053	.000
	Interest rate	-3659.650	1415.830	-.404	-2.585	.015
	Inflation	-6032.422	3137.465	-.301	-1.923	.064

Table 1: Regression Analysis Coefficients[a]

a.Dependent Variable: Credit

The value (constant) shows a value of 156710.888, meaning that if the value of the independent variable (free) is zero, the value of the dependent variable (credit) is 156.710.888.

The value of the interest rate variable shows a negative sign, which means that every 1 unit increase in the interest rate will decrease the value of the total credit by 3,659,650.

The value of the inflation variable shows a negative sign, which means that every 1 unit increase in inflation will reduce the amount of credit by 6,032.422.

Independen Variable	Tcount	Ttabel	Significance	$\alpha = 5\%$	Description
Interesr Rate	-2.585	2,042	0.015	0.05	H1 accepted

Table 2: T-Test Variable X1

Source: processed data

From the table above, it can be seen that Tcount<Ttable (-2.585 < 2.353). The interest rate has a significance value of 0.015 with a value of = 5% meaning 0.015 < 0.05, thus there is a significant influence between interest rates and credit demand in South Sulawesi. The results of this study are in line with research by RaimondTandris, et al (2016) which states that interest rates have a negative and significant effect on credit demand.

Independend Variable	T Count	Ttabel	Significance	$\alpha = 5\%$	Description
Inflation rate	-1,923	2,353	0,064	0,05	H2 rejected

Table 3: T Test Variable X2

Source: processed data

From the table above, it can be seen that Tcount<Ttable (-1,923 < 2,353). The inflation rate has a significance value of 0.064 with a value of = 5% meaning 0.064 > 0.05, thus there is a non-significant effect between inflation and credit demand in South Sulawesi. The results of this study are in line with the research of RiskiNurArianti and Muhammad Faisal Abdullah (2020) which states that

B. Interest Rate

The first hypothesis states that there is a significant effect of interest rates on the amount of credit. Based on the statistical test (t-test) conducted, the following results were obtained:

C. Inflation Rate

The second hypothesis states that there is a significant effect of the inflation rate on the amount of credit. Based on the statistical test (t-test) conducted, the following results were obtained:

inflation has a negative and insignificant effect on credit demand.

D. Simultaneous Variable Testing

F test results regression of all independent variables (interest rates and inflation)

ANOVAᵃ

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4897151585.052	2	2448575792.526	7.050	.003ᵇ
	Residual	10419480318.948	30	347316010.632		
	Total	15316631904.000	32			

Table 4: F-Test

a. Dependent Variable: Credit
b. Predictors: (Constant), Inflation, interest rate

From the above model, Fcount for all independent variables (interest rates and inflation) is 7.050 while Ftable is 2.5307. So it can be concluded that Fcount>Ftable or Pvalue< so that the third hypothesis is accepted. That is, there is a significant influence between interest rates and inflation on credit demand in South Sulawesi.

E. Coefficient of Determination (R2)

The value of R2 is a measure of how well a model is applied in explaining the independent variables. The results of the coefficient of determination can be seen in the following table:

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.565ᵃ	.320	.274	18636.41625

Table 5: Coefficient of Determination and Correlation
Model Summary

a. Predictors: (Constant), inflation, interesry rate

From the results of the regression analysis calculations that can be seen in the table above, it is known that the R2 of

this research model is 0.320 (32%). Thus, the interest rate and inflation variables can explain the variable demand for

credit by 32% while (100%-32%) = 68% is explained by other variables not examined in this study.

V. CONCLUSION

The results showed that not all of the proposed independent variables (interest rates and inflation) had an effect on credit demand. The results of testing the first hypothesis state that interest rates have a significant effect on acceptable profitability as indicated by a significance value < 0.05 of 0.015 The second hypothesis which states that inflation has a significant effect on credit levels is rejected as indicated by a significance value > 0.05 of 0.064. The fourth hypothesis proves that all independent variables, namely interest rates and inflation simultaneously or jointly affect credit demand, this is indicated by Significance < 0.05 of 0.003

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