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Analysis of Financial Intermediation of Rural Banks in Driving Economic Growth in East Java

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Abstract

Rural Banks are financial institutions that function as intermediaries in mobilizing and channeling funds. This study aims to analyze the role of financial intermediation performed by Rural Banks in fostering the growth of Micro, Small, and Medium Enterprises (MSMEs) in East Java, particularly in the Gerbangkertosusila region, which includes Gresik, Bangkalan, Mojokerto, Surabaya, Sidoarjo, and Lamongan. MSMEs are a strategic sector that contributes significantly to the regional economy. Descriptive analysis and panel data regression were applied to data from 19 banks with core capital between IDR 22 billion and IDR 94 billion during 2020–2023. Economic growth, proxied by Gross Regional Domestic Product (GRDP), serves as the dependent variable (Y) in this study, The independent variables are MSMEs Credit Portion (X1), MSMEs Credit Growth (X2), BI Rate (X3), Non-Performing Loans/NPL (X4), and Third-Party Funds (X5). The study's results indicate that the MSMEs credit portion (X1) and MSMEs credit growth (X2) have a negative but insignificant effect on economic growth in East Java. The BI Rate (X3) has a significant negative effect on economic growth in East Java. NPL (X4) and Third-Party Funds (X5) have a positive but insignificant effect on economic growth in East Java.

Keywords: Financial Intermediation, Rural Banks, PDRB
JEL Classification: G21, O47, R11

INTRODUCTION

Economic growth is considered the most important indicator in evaluating the success of a country's development. Micro, Small, and Medium Enterprises

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(MSMEs) play a crucial role as the driving force of East Java's economy. In addition to employing a large portion of the workforce, MSMEs also contribute significantly to the GRDP. Restrictions on access to financing for the MSMEs sector are key to a region's economic growth. Commercial banks and Rural Banks are the primary sources of financing for MSMEs. The amount of credit provided to MSMEs and their growth rate demonstrate the financial system's commitment to the real sector. Increased MSMEs credit increases the potential for increased output, business expansion, and job creation. However, this credit distribution is not affected by various internal banking variables, including bank interest rates, Non-Performing Loans (NPL), and the availability of Third-Party Funds (TPF). When providing credit to the public, interest rates are a crucial consideration. High interest rates can hinder small and medium enterprises (SMEs) from obtaining financing, thus hampering business growth and their contribution to economic growth. On the other hand, high bank credit risk (NPL) can reduce banks' ability to extend new credit, especially to the MSMEs sector, which is considered at risk. Third-Party Funds (TPF), on the other hand, serve as the primary source of funds for banks to perform their financial intermediation function. Adequate TPF availability is a crucial component in ensuring smooth credit distribution.

The role of the MSMEs sector and banking variables is crucial in driving economic growth, making this research relevant. By analyzing the influence of the MSMEs credit portion, MSMEs credit growth, bank interest rates, NPL, and third-party funds, it is hoped that this study will provide a broader picture of the dynamics of financial intermediation in Indonesia, particularly in East Java. Furthermore, it can demonstrate how the financial sector can contribute more effectively to overall economic development. The MSMEs credit portion is the percentage of financing disbursed by banks to the MSMEs sector compared to total credit. The larger the MSMEs' credit portion, the greater the access of small businesses to working capital and investment. MSMEs are the driving force of the local economy, desperately needing credit to stimulate production, consumption, and employment.

MSMEs' credit growth reflects an increase in financing to the MSMEs sector compared to the previous period. Credit growth indicates real sector economic expansion and encourages increased output, distribution of goods and services, and increased investment in the productive sector. Economic growth will align with increased domestic consumption and small business investment. Ahmadi et al., (2024) suggest that bank credit can drive economic growth. However, this credit provision needs to be complemented by a policy of providing affordable interest rates for borrowers.

The bank interest rate is the interest rate charged to borrowers/credit provided by banks. The benchmark interest rate, derived from Bank Indonesia for determining interest rates on loans or deposits, is called the BI Rate. High interest rates can increase borrowing costs, thereby reducing investment and public consumption. If interest rates increase due to rising inflation, this will impact growth and thus contribute to economic expansion.

Non-Performing Loans (NPL) represent the proportion of problem loans relative to the total amount of credit disbursed by banks. Higher NPL levels indicate poorer asset quality, elevated credit risk, and a reduction in interest revenue and profitability (Assegaf et al., 2026). NPL should be more cautious in disbursing

credit, which can lead to a decline in liquidity and investment in the real sector. An increase in NPL also indicates a disrupted economic health, for example, during a recession or pandemic. A healthy NPL is crucial for maintaining intermediation stability. It can be concluded that NPL will negatively impact economic growth.

Third-Party Funds (TPF) refer to public deposits placed in Rural Banks in the form of savings and time deposits, serving as a main source of funds for the bank. High Third-Party Funds increases liquidity, thereby increasing lending capacity. Higher credit disbursements lead to increased investment and economic activity, thus boosting economic growth. Conversely, excessively high Third Party Funds also causes banks to incur increased interest costs, resulting in a gap between assets and liabilities (Fiordelisi & Scardozzi, 2022).

METHOD

The secondary data used in this study comes from the quarterly financial reports of Rural Banks for 2020 to 2023, which can be accessed on the Financial Services Authority (OJK) website. All Rural Banks in East Java constitute the population. The research sample was selected using a purposive sampling technique based on certain criteria (Saat & Mania, 2019) namely:

1) Rural Banks in Gresik, Bangkalan, Mojokerto, Surabaya, Sidoarjo, and Lamongan.
2) Rural Banks with core capital of IDR 22 billion to IDR 94 billion.
3) Rural Banks providing credit to MSMEs.

Based on these criteria, the research sample consisted of 19 banks.

Table 1. Research Sample Data

Number	Bank	Regency/City
1	PT Bank Perekonomian Rakyat Delta Artha Perseroda	Sidoarjo Regency
2	PT. Bank Perekonomian Rakyat Karyaperdana Sejahtera	Surabaya City
3	Perumda RURAL BANKS Bank Gresik	Gresik Regency
4	PT. Bank Perekonomian Rakyat Prima Kredit Utama	Surabaya City
5	PT. Bank Perekonomian Rakyat Surya Arthaguna Abadi	Surabaya City
6	PT. Bank Perek. Rakyat Mitra Cemawis Mandiri	Gresik Regency
7	PT. Bank Perekonomian Rakyat Puriseger Sentosa	Mojokerto Regency
8	PT. Bank Perekonomian Rakyat Sili Corp Bank	Surabaya City
9	PT Bank Perekonomian Rakyat Bank Benta Tesa	Sidoarjo Regency
10	PT. Bank Perekonomian Rakyat Intan Kita	Gresik Regency
11	PT. Bank Perekonomian Rakyat Bumi Jaya	Mojokerto Regency

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Number	Bank	Regency/City
12	PT. Bank Prekonomian Rakyat Intan Nasional	Gresik Regency
13	PT. Bank Perekonomian Rakyat Arta Swasembada	Mojokerto Regency
14	PT. Bank Perekonomian Rakyat Guna Yatra	Surabaya City
15	PT. Bank Perekonomian Rakyat Bina Kharisma Insani	Surabaya City
16	PT. Bank Perekonomian Rakyat Delta Lamongan	Lamongan Regency
17	Kop. Simpan Pinjam Bank Perek. Rakyat Sendang Harta Sejahterah	Mojokerto Regency
18	PT. Bank Perekonomian Rakyat Lestari Nusantara Indonesia.	Gresik Regency
19	PT. Bank Perekonomian Rakyat Kebomas	Gresik Regency

Source : Proceed Data (2025)

There are two variables in this study: the dependent variable and the independent variable. The dependent variable is economic growth (Y), measured by Gross Regional Domestic Product (GRDP) data taken from the Central Statistics Agency (BPS) website. The independent variables consist of five variables:

1) The MSMEs Credit Portion (X1) is the percentage of MSMEs credit provided by Rural Banks, measured using the following formula:

$$\text{MSMEs Credit Portion} = \frac{\text{Total MSMEs Credit}}{\text{Total Credit}}\ x\ 100\%$$

2) MSMEs Credit Growth (X2) is the percentage increase/decrease in MSMEs credit provided by RURAL BANKS in a particular year compared to the previous year, which is measured using the following formula:

$$\text{MSMEs Credit Growth} = \frac{\sum \text{MSMEs credit in the year and} - \sum \text{MSMEs credit in the previous year}}{\text{Total Credit}}\ x\ 100\%$$

3) The BI Rate (X3) is the benchmark interest rate from Bank Indonesia, taken from the BI Rate data on the Bank Indonesia website.
4) Non-Performing Loans/NPL (X4) are the amount of Non-Performing Loans held by the bank.

$$\text{NPL} = \frac{\text{The amount of Non} - \text{Performing loans}}{\text{Total Credit}}\ x\ 100\%$$

5) Third-Party Funds (X5) consist of the amount of savings deposits and time deposits

This study applied descriptive analysis to present an overview of the variables involved. In addition, panel data regression methods were utilized, with data processed through the Eviews software. Three types of regression models were considered: the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM) (Basuki, 2021:55). The CEM model is the

simplest model. The FEM model assumes that differences between individuals can be compensated for by differences in intercepts, The REM model analyzes panel data by assuming that the error terms are correlated both across individuals and over time. The Chow Test and the Hausman Test were used to select the best model.

1) The Chow test is used to select between the CEM and FEM models. The hypotheses used are as follows (Basuki, 2021:61).
   H0: Common Effect Model
   H1: Fixed Effect Model
   If the cross-section F statistic is less than 0.05, the FEM model is selected. If the cross-section F statistic exceeds 0.05, the CEM model is selected.
2) The Hausman Test is used to select between the FEM and REM models. The hypotheses used are (Basuki, 2021:61).
   H0: Random Effect Model
   H1: Fixed Effect Model
   If the Chi-Sq. Statistic probability value is less than 0.05, the FEM model is selected. If the Chi-Sq. Statistic probability value is greater than 0.05, the REM model is selected.
3) The Lagrange Multiplier (LM) Test

The selection of the CEM and REM models uses the LM test. The hypotheses used are (Basuki, 2021:61).

H0: Common Effects Model
H1: Random Effects Model
If the Breusch-Pagan Prob. (BP) value is less than 0.05, the REM model is selected. If the Breusch-Pagan Prob. (BP) value exceeds 0.05, the CEM model is selected.
Classical assumption testing involves checking for normality, the presence of autocorrelation, multicollinearity, and heteroscedasticity.
The panel data regression equation is:

$$Y = \alpha + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X4 + Z + ei$$

Where:
Y = Economic growth
α = constant
β = regression coefficient
X1 = MSMEs credit portion
X2 = MSMEs credit growth
X3 = BI rate
X4 = NPL
X5 = Third-Party Funds
ei = error

Hypothesis testing can be carried out as follows:

a. If the p-value is greater than 0.05, H0 is accepted, indicating that variable X does not have a significant effect on Y.

If the p-value is below 0.05, H0 is rejected, indicating that variable X has a significant effect on Y.

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RESULTS AND DISCUSSION

Results

Descriptif Analysiss

Table 2. Descriptif Analysis Result

	X1	X2	X3	X4	X5	Y
Mean	98.52046	1.804539	4.395625	9.996086	17.00997	0.756250
Median	98.75000	0.020000	3.915000	8.035000	16.82000	0.850000
Maximum	100.0000	177.3500	6.000000	47.90000	20.29000	6.080000
Minimum	91.02000	-30.68000	3.500000	0.000000	13.79000	-5.240000
Observations	304	304	304	304	304	304

Source: Proceed Data (2025)

Variable X1 (MSMEs Portion) has an average value of 98.52046%, the smallest value is 91.02000%, and the largest value is 100%. This shows that the value of the range between the maximum and minimum values is not too high, so that Rural Banks in the East Java Region distribute loans to related parties (MSMEs). Rural Banks focus on providing loans to MSMEs to meet working capital needs and business development. Rural Banks do not provide credit to Commercial Banks because the scope of their business is smaller than that of Commercial Banks. Variable X2 (MSMEs credit growth) has an average of 1.80%, with the smallest value of -30.68%, which means that Rural Banks have a decrease in credit distribution to the public. The largest value of 177.35% indicates that Rural Bank experienced a very high increase in credit distribution compared to the previous period. Variable X3 (BI Rate) has an average value of 4.39% and, the smallest value of 3.5%, and the largest value of 6%. During the study period, the BI Rate fluctuated relatively steadily. Variable X4 (NPL) had an average value of 9.996086%, indicating that the average Rural Bank had a relatively high level of non-performing loans, necessitating sound credit management and accurate credit analysis. The lowest value, 0%, indicates that some Rural Banks were able to manage their loans effectively, thus preventing non-performing loans. However, some Rural Banks still had Non-Performing Loans as high as 47.9%. This indicates poor credit management in Rural Banks, impacting banking performance. Variable X5 (lnTPF) had an average value of 17.00997, with the lowest value being 13.79000 and the highest being 20.29000.

The Chow Test

Table 3. The Chow Test Result

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.331537	(18,280)	0.9959
Cross-section Chi-square	6.411093	18	0.9942

Source: Proceed Data (2025)

The cross-section chi-square value is 0.9942, which exceeds 0.05; the Chow test results show that the model used, the Common Effect Model (CEM), is the best.

The Hausman Test

Table 4. The Hausman Test Result

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	5	1.0000

Source: Proceed Data (2025)

The Lagrange Multiplier (LM) Test

The Breusch Pagan probability value is smaller than 0.05, indicating that the REM model is more suitable for the study.

Table 5. Lagrange Multiplier Result

Null (no rand. effect)	**Cross-section**	**Period**	**Both**
Alternative	One-sided	One-sided	
Breusch-Pagan	9.232135	2709.878	2719.110
	(0.0024)	(0.0000)	(0.0000)
Honda	-3.038443	52.05649	34.66099
	(0.9988)	(0.0000)	(0.0000)
King-Wu	-3.038443	52.05649	36.39775
	(0.9988)	(0.0000)	(0.0000)
GHM	--	--	2709.878
	--	--	(0.0000)

Source: Proceed Data (2025)

Normality Test

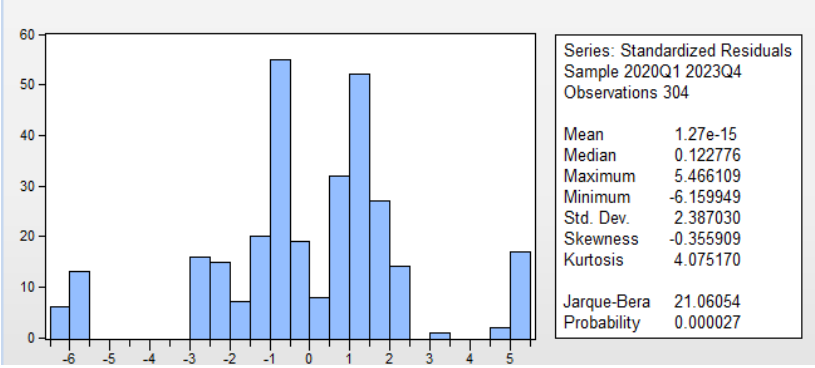

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Figure 1. Normality Test Result
Source: Proceed Data (2025)

The normality test table in this study shows that the probability value in the normality test is 0.000027, less than 0.05. This is reflected in the non-normal distribution of the data, as the Rural Banks data contains a wide variety of bank financial data. The wide range of values is particularly evident in data X2 (MSMEs credit growth) and X4 (NPL).

Multicollinearity Test

Table 6. Multicollinearity Test Result

	X1	X2	X3	X4	X5
X1	1.000000	0.037046	0.071252	0.194152	0.057646
X2	0.037046	1.000000	0.113048	-0.10776	-0.0449
X3	0.071252	0.113048	1.000000	0.055428	0.069441
X4	0.194152	-0.10776	0.055428	1.000000	-0.23894
X5	0.057646	-0.0449	0.069441	-0.23894	1.000000

Source : Proceed Data (2025)

Heteroscedasticity Test

Table 7. Heteroscedasticity Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.822582	6.027012	0.468322	0.6399
X1	-0.005032	0.061518	-0.081800	0.9349
X2	0.012543	0.006421	1.953512	0.0517
X3	0.013298	0.098793	0.134604	0.8930
X4	-0.003510	0.010919	-0.321489	0.7481
X5	-0.034077	0.075461	-0.451589	0.6519

Source : Proceed Data (2025)

The probability values for variables X1, X2, X3, X4, and X5 are above 0.05, so that heteroscedasticity does not occur.

Autocorrelation Test

The probability values for variables X1, X2, X3, X4, and X5 are above 0.05, so that heteroscedasticity does not occur.

Regression Test Result

Table 8. Regression Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.345605	9.233061	0.362351	0.7173
X1 (MSMEs Credit Portion)	-0.023381	0.094243	-0.248095	0.8042
X2 (MSMEs Credit Growth)	-0.006557	0.009837	-0.666554	0.5056
X3 (*BI Rate*)	-0.327664	0.151346	-2.165007	0.0312
X4 (NPL)	0.012703	0.016728	0.759397	0.4482

X5 (Third Party Funds)	0.061100	0.115602	0.528532	0.5975
	Effects Specification			
	Weighted Statistics			
R-squared	0.021278	Mean dependent var		0.756250
Adjusted R-squared	0.004857	S.D. dependent var		2.412838
S.E. of regression	2.406972	Sum squared resid		1726.467
F-statistic	1.295742	Durbin-Watson stat		2.411835
Prob(F-statistic)	0.265603			

Source: Proceed Data (2025)

The following is the regression equation:
Y = 3.345605 - 0.023381*X1 - 0.006557*X2 - 0.327664*X3 + 0.012703*X4 + 0.061100*X5 + [CX=R]

The constant value of 3.345605 means that if the independent variable remains constant, the dependent variable will have a value of 3.345605. The coefficient value for the MSMEs credit portion (X1) is -0.023381 with a probability of 0.8042, which is above 0.05. Therefore, H1 is rejected, indicating that the MSMEs credit portion at Rural Banks in East Java has a negative but insignificant effect on economic growth in East Java. The coefficient value for MSMEs credit growth (X2) is -0.006557 with a probability of 0.5056, exceeding 0.05. H2 is rejected, indicating that MSMEs credit growth at Rural Banks in East Java has a negative but insignificant effect on economic growth in East Java. The coefficient value for the BI Rate (X3) is -0.327664 with a probability of 0.0312, less than 0.05. H3 is accepted, indicating that the BI Rate has a significant negative effect on economic growth in East Java. Increasing 1% of interest rates will result in a decrease in East Java's economic growth of approximately 0.0312%.

The coefficient value for NPL (X4) is 0.012703, with a probability of 0.4482, exceeding 0.05. H4 is rejected, thus concluding that NPL at Rural Banks in East Java has a positive but insignificant effect on economic growth in East Java. The coefficient value of Third Party Funds (X5) is 0.061100, and its probability is 0.5975 above 0.05, and H5 is rejected, so that third-party funds of Rural Banks in East Java have a positive but insignificant effect on economic growth in East Java. The adjusted square value of 0.004857 means that the ability of the independent variable to explain the influence on the dependent variable is 0.4857%, and 99.51% is influenced by other variables outside this study. This small influence indicates that the role of Rural Banks in fund raising and fund distribution activities as a function of banking intermediation is not a determining factor in economic growth in East Java, but the most influential factors are from outside the bank, such as the interest rate from BI.

Discussion

The research findings demonstrate that the portion of MSMEs' credit has a negative but insignificant effect on economic growth in East Java. The results of this study are in line with research Ka (2025). Increasing the portion of credit disbursed to MSMEs has not been able to boost economic growth in East Java. For MSMEs, credit provision that is not balanced with the management team's ability

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to manage the business and access markets does not impact economic growth. In this regard, the quality of human resources in MSMEs needs to be improved to increase MSMEs' productivity. Furthermore, the credit received by MSMEs needs to be managed properly so that credit utilization is more targeted to improve debtors' businesses. These research findings differ from those found by Goni et al., (2022), Laratmase et al (2024) which found that working capital credit had a significant negative effect on economic growth. Similarly, Pham & Nguyen (2020), Panjaitan et al (2025) provided evidence that bank credit had a positive but insignificant effect on economic growth. Similarly, Oktavializa et al (2021) found similar results, but with Islamic bank financing variables. Mahaputra & Mahaputra (2023), Jeke et al (2025) and Ahmadi et.al.,(2024) proved that credit has a significant positive effect on economic growth.

The study found that MSMEs' credit growth had a negative but insignificant effect on economic growth in East Java. The direction of this negative effect indicates that higher credit growth leads to a decline in economic growth. This insignificant result indicates that the effect of credit growth on economic growth is not particularly strong. Banks with higher credit growth in the previous three years experienced significant credit losses (Kim & Sohn, 2024). Increased credit growth did not significantly impact economic growth in East Java. This insignificance indicates low MSMEs productivity, a lack of strong competitiveness, suboptimal use of credit funds, and a lack of optimal business management. MSMEs' operational activities in East Java are also still limited to sectors that can directly boost economic growth. To help MSMEs utilize credit funds, expand their business scale, increase competitiveness, and stimulate regional economic growth, mentoring is necessary. This study yields different results from Arwendi & Himmati (2024), who found that Islamic bank financing has a significant positive effect on economic growth. Similarly, Ozili et al. (2023) and Jeke & Abel (2024) found that credit growth had a significant positive effect on economic growth.

Studies have shown that interest rates have a significant negative effect on economic growth in East Java. High interest rates can suppress economic activity (Sia et al., 2025). Bank Indonesia uses interest rates to achieve price stability and sustainable economic growth (Pangaribuan et al., 2024). An increase in the BI Rate leads to higher interest rates on bank loans, leading to a decrease in public consumption and investment, and thus lower economic growth. MSMEs will reconsider using bank loans to meet their working capital needs because rising interest rates will increase MSMEs' costs in the form of interest payments. Unmet working capital needs by business actors will lead to reduced production capacity, decreased sales turnover, and decreased profits. This will impact public purchasing power, thus decreasing East Java's economic growth. These research findings are supported by Luhfiana et al (2022) and Purnomo & Wibowo (2024), which found a significant negative effect between interest rates and economic growth. These results differ from Pratiwi (2024) research, which found that interest rates had no effect on economic growth. Ulum & Syaputri (2023)found that interest rates had an insignificant negative effect on economic growth.

The results show that Non-Performing Loans (NPL) have a positive but insignificant effect on economic growth in East Java, supporting the findings of (Arwendi & Himmati, 2024). High NPL in Rural Banks indicates that banks are

experiencing an increase in non-performing loans. These Non-Performing Loans represent a risk to banks in carrying out their intermediation function. This is due to the lack of proper credit management in Rural Banks. Despite high NPL, Rural Banks are still able to increase their credit growth quite rapidly. Several Rural Banks have credit growth above 100%, allowing economic activity in East Java to continue to run smoothly, although the impact on economic growth is not significant. This insignificance occurs because economic growth in East Java is supported not only by the MSMEs sector but also by other business sectors such as processing, trade, food and beverages, agriculture, and others. For Rural Banks, the increasing NPL remains a concern, even though it does not impact economic growth, as a continuous increase in NPL indicates poor financial performance. Furthermore, poorly managed NPL are feared to have a long-term systemic impact. This finding is not in line with Hamrullah et al (2024) that problematic financing/problem credit has a negative but insignificant effect on economic growth. The research results also do not support the research of Zhang et al (2022)which proves a significant negative influence between NPL and economic growth.

The results show that Third-Party Funds have a positive but insignificant effect on economic growth in East Java. Theoretically, increasing third-party funds at banks would increase the amount of credit disbursed, thereby boosting economic growth in East Java. This insignificance indicates that Rural Banks offer a smaller range of services and coverage than commercial banks, thus reducing the amount of public funds collected to drive economic growth in East Java. Furthermore, this increase in Third-Party Funds is not matched by effective, productive credit distribution across various real sectors. Most Rural Banks customers, who operate within the micro, small, and medium-sized enterprises (MSMEs) sector in the Gerbangkertasusila area, the study sample, do not contribute to economic growth because GRDP, as an indicator of economic growth, represents the overall (macro) picture of East Java. This finding differ from Arwendi & Himmati (2024) who found that third-party funds in conventional banks have a negative but insignificant effect on economic growth. Sari & Suparno (2024) explain that Third-Party Funds from Islamic banks have a significant positive effect on economic growth in Indonesia because Islamic banks have a larger business scope than Rural Banks, so that Third-Party Funds are able to drive economic growth broadly.

CONCLUSION

The findings of this study indicate that Rural Banks play a crucial role in supporting the growth of MSMEs in East Java through their financial intermediation function. Credit disbursement by Rural Banks depends on their extensive regional coverage and the challenge of Non-Performing Loans (NPL). To optimally increase Rural Banks' contribution, internal strengthening efforts are necessary, such as improving the quality of credit distribution, improving business feasibility assessment systems, and digitizing services. Furthermore, policy support from local governments, such as entrepreneurship training and credit guarantee facilities, is also a contributing factor to the success of synergies between Rural Banks and MSMEs. Therefore, strengthening the role of Rural Banks as local intermediary institutions is crucial not only for the growth of the MSMEs sector but

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also for equitable economic development in East Java as a whole. Future research is expected to expand the regional coverage or use a qualitative approach to delve deeper into the social and institutional factors influencing the relationship between Rural Banks and MSMEs. The results of the study indicate that internal bank factors (portion of MSMEs credit, MSMEs credit growth, NPL, and Third-Party Funds) do not have a significant impact on determining economic growth in East Java, external factors, such as the BI Rate interest rate, greatly determine the level of economic growth. BPR also still needs to maintain bank liquidity in order to provide loans to the public by considering the impact of credit risk. Suggestions for future research are the scope of Rural Banks areas that are the objects of research, and subsequent research can be conducted in Commercial Banks with a broader business scope, so that the role of bank intermediation will provide a broader picture of regional or national economic growth.

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