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Banking Support in Economic Sector Affected by Covid-19 To Support Acceleration of Economic Growth and Overcome the Long-Term Impact

Renta Yustie [a], *Novi Theresia Kiak* [b]

[a] *Development Economics, FEB UWK Surabaya, Indonesia*
[a] *Development Economics University of Nusa Cendana Kupang, Indonesia*

email: [a] *novi.kiak@staf.undana.ac.id*,

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ABSTRACT

Indonesia's economic growth contracted 0.7% because it was influenced by the Covid-19 pandemic, this study examines the potential and contribution of banks in improving Indonesia's economic conditions during the pandemic. The banking sector is one sector that greatly influences the rate of economic growth of a country and banking has great potential to develop more rapidly in Indonesia. This study uses quantitative methods and uses panel data with a sample of 18 business sectors in Indonesia with a time span of 2018 to 2021. The variables in this study are GDP, Loan Interest Rates and Commercial Bank Loans with this calculation using the EViews 9 analysis tool by testing hypothesis and classical assumption test, it is hoped that the variables used in the study support banking in the economic sector affected by COVID-19 and have an insignificant effect and have a positive relationship in supporting the acceleration of economic growth and overcoming the prolonged impact.

1. Introduction

The financial sector is one of the sectors that greatly influences the rate of economic growth of a country. Economic growth is the most important part of economic policy in the country as well as in the Indonesian economic system itself. One of the financial sectors that is much ogled and has a contribution to the economy is the banking sector. The main activity of banking institutions is to collect funds and distribute the funds in the form of credit or financing to the public in order to improve the standard of living of the people. Indonesia is currently experiencing a weak economic system due to the Covid-19 pandemic.

Based on data from the Indonesian Ministry of Finance that Indonesia's economic growth in 2021 will contract 0.7% due to the impact of the increase in Covid-19 after the Nataru period, Q3-2021 growth slowed again to 3.5% due to a surge in cases of the Delta variant. Realization of state revenues reached Rp2,003,1 trillion from the 2021 APBN which was set from the beginning, which was Rp1,743.6 trillion, meaning that this exceeded the target set in the 2021 APBN (over 114.9% of the target or grew 21.6% compared to the previous year). realization in 2020). The government must be able to cover the 2021 APBN deficit which is targeted at 5.7%. The government must try hard to cover the existing deficit through various financing and investment. The government recorded this debt financing through the issuance of net SBN which reached Rp 348.0 trillion and loans (net) which was recorded at Rp 17.9 trillion. If the state deficit continues to increase like this, it will further slow down the pace of economic growth.

Indonesia, which is one of the developing countries, always carries out various kinds of economic activities in supporting the growth of national development in a sustainable manner. One of the elements in development that has a strategic role is banking. The integrity of the weakened economic performance has an impact on the current banking condition in Indonesia. Based on its function, banking is expected to be a sustainable economic generator. Of writing this journal is to find out that the implementation of banking support in the economic sector against COVID-19 is to support the acceleration of economic growth and overcome the prolonged impact.

2. Literature Review

2.1. Gross Domestic Product (GDP) Theory Gross

The Gross Domestic Product (GDP) is the total value of final goods and services produced by all sectors within a country's borders during a specific period. It differs from Gross National Product (GNP) as GDP includes the production of both domestic and foreign citizens within the country's territory, while GNP includes the production of national citizens regardless of their location. Multinational companies operating in multiple countries contribute to the GDP of each respective country. GDP serves as an indicator of a country's economic performance and can be measured using current prices or constant prices to analyze economic growth and structural shifts. The GDP growth rate reflects the increase in real income and economic activity within a country over time. It is considered a reliable measure of economic performance as it provides a comprehensive summary of economic activity in a specific currency value during a given period.

2.2 Theory of Credit Interest Rates

Interest rates are the annual percentage of loan payments or the cost of borrowing funds, representing the price of using money over a specific period. In Keynesian economics, interest rates are determined by the supply and demand for money. Higher interest rates lead to reduced credit disbursement due to increased costs, while lower interest rates stimulate demand for credit. Banks provide interest as compensation for buying or selling products and as a price customers pay to the bank. According to classical theory, savings and investment are influenced by interest rates, with higher rates encouraging more savings but discouraging investment. The nominal interest rate is the sum of the real interest rate and the inflation rate. There are two types of interest rates: loan interest rates charged to borrowers and deposit interest rates given to customers who save their funds in a bank. The relationship between interest rates, savings, and investment is a central aspect of economic theory. The equilibrium point of interest rates occurs when the public's desire to save is equal to the investor's desire for investment which is shown in the dots and in Figure 1. Meanwhile, Keynes, with *preference liquidity* explains the demand for money for speculative purposes that link the demand for money with the interest rate. In this theory, the public, especially investors, are faced with two choices, namely holding cash or holding bonds.

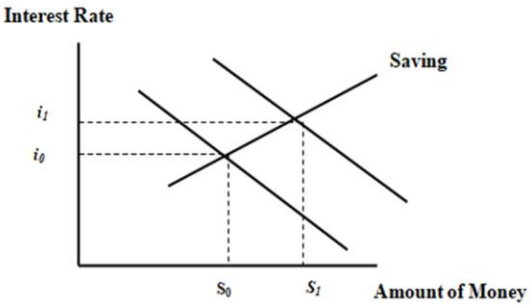


Figure 1. Interest Rate Equilibrium (Classic)
Source: Nopirin (2000)

The higher the interest rate, the greater the cost of holding money, causing the desire to hold money to decrease and people will prefer to hold bonds, but when interest rates are low, people's desire to hold money increases (Nopirin, 2000). The money supply is controlled by the central bank so that the money supply curve is vertical when the money supply is increased, it will encourage changes in the equilibrium interest rate from Figure 2.

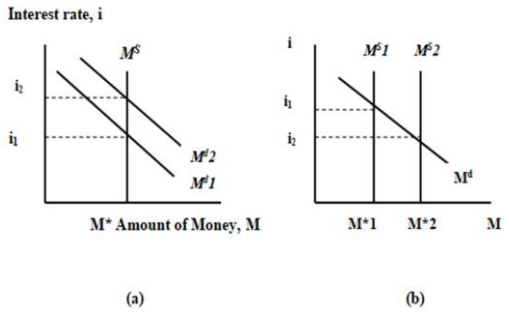


Figure 2. Changes in the Equilibrium Interest Rate
Source: Mishkin (2008:153)

a) Response to changes in income and price level
b) Response to Changes in the Money Supply

2.3. Distribution of Commercial Bank Credit or Financing to Business Fields and MSMEs

In their business activities, commercial banks may cooperate with non-bank financial institutions in the context of lending/financing by commercial banks to MSMEs, as stipulated in Bank Indonesia Regulation Number: 14/22/PBI /2012 concerning the provision of credit or financing by Commercial Banks and Technical Assistance for the Development ofMicro, Small and Medium Enterprises (PBI No. 14/22/PBI/2012) aims to:

a. PBI No. 14/22/PBI/2012 was issued in order to encourage increased distribution of credit/financing by commercial banks to MSMEs and to encourage MSME access to financial institutions by strengthening their capabilities.
b. PBI No. 14/22/PBI/2012 is also intended to include provisions related to the regulation of MSMEs which are currently scattered in various Bank Indonesia regulations, which are codified in 1 (one) regulation.

In Article 3 of PBI No. 14/22/PBI/2012 stipulates that the provision of credit and financing for MSMEs can be carried out by:

a. Directly to Micro, Small and Medium Enterprises: and/or
b. Indirectly through cooperation with *executing* patterns *channeling*, and/or joint financing (syndication).

14/22/PBI/2012, an implementing regulation was issued with Circular Letter Number 15/35/DPAU/2013 concerning the Provision of Credit or Financing by Commercial Banks and Technical Assistance for the Development of Micro, Small and Medium Enterprises (hereinafter referred to as SE No. 15/ 35/DPAU/2013) which states in Roman numerals IV that the Pattern of Cooperation in Providing Credit or Financing for SMEs.

3. Data and Methodology

This information is used to achieve the objectives of observation through secondary data obtained from *website* OJK (Financial Services Authority). Then the data is compiled, processed according to the interests and objectives of the research. Secondary data is defined as data obtained from researchers from the object of study in documents and information obtained from other parties for collection. The data used in the figures, Loan Interest Rates, Commercial Bank Loans, and Gross Domestic Product (GDP) according to 18 business sectors in this research are data sourced from *website* OJK (Financial Services Authority)And it is annual data consisting of *times series* from 2018-2021.

This research is a quantitative research using secondary data. The data source was obtained through *website* Indonesian OJK (Financial Services Authority)The data taken are the GDP of 18 business sectors in Indonesia as the *dependent* (bound), Credit Interest Rates and Commercial Bank Loans where all the data are *independent* (free).research data was processed with an analytical tool in the form of EViews 9. This study used a panel data regression equation model with the *Random Effect Model* (REM) approach. As a *cross section* of this research, there are 18 business sectors in Indonesia and as a *time series* this research is from 2018 to 2021. So the form of panel data regression for this study is as follows:

$$GDP_{it} = {}_0 + {}_1 SBK_{it} + {}_2 KBU_{it} + \varepsilon_{it}$$

GDP = Gross Domestic Product
SBK = Interest Rate
KBU = Commercial Bank Loans
i = 18 Business Sector in Indonesia (*cross section*)
t = 2018-2021 *(time series*
Error = *term*
$0_)$ = Constant/*intercept*
$1_{2,slope}$ = Parameter coefficient//slope from X1, X2

Stages of estimation of the calculation of the *Random Effect Model* (REM) approach using statistical tests, namely t-test, F-test and *adjusted*. The next step is to test the classical assumption, namely the multicollinearity test, heteroscedasticity test, autocorrelation test, normality test and linearity test.

4. The Analysis Results

Panel data regression equation estimation model for this study uses the *Random Effect Model* (REM) approach with the regression results in Table 1 below:

Table 1. Estimated Results of Panel Data Regression Equation *Random Effect Model* (REM)

Criteria	Coefficient	T-Calculate	T-Table	Probability	*Alpha*	Information
SBK	-709.5429	-0.279212	1.66691	0.7809	0.05	Not Significant
KBU	0.292109	1.701562	1.66691	0.0933	0.05	Not Significant

Source: Results of Data Processing with EViews 9 processed by the author, 2022

The variable interest rates for loans and commercial bank loans each have an insignificant probability with an alpha of 5% or 0.05. The coefficient of credit interest rates is negative, meaning that it has an inverse or unidirectional relationship between the commercial bank credit variable and the dependent variable, namely GDP. Commercial bank credit has a positive value, meaning that it has a direct and unidirectional relationship between the loan interest rate variable and the dependent variable, namely GDP. The results of the Adjusted panel data regression equation model in this study are in Table 2 below:

Table 2. *Adjusted R-squared*

Criteria	Value
R-squared	0.044882
Adjusted R-squared	0.017198

Source: Results of Data Processing with EViews 9 processed by the author , 2022

Value *Adjusted R-squared* of 0.017198 means that the independent variable (*independent*) credit interest rates and commercial bank loans simultaneously (simultaneously) is able to explain the dependent variable (*dependent*) GDP and the remaining 0.044882 is explained by other factors outside variables in the panel data regression equation model used. The *Adjusted R-squared* is in the range of 0 (zero) to 1, if the value is closer to 1, the better and vice versa. The results of the F-statistics test of the panel data regression equation model in this study are in Table 3.

Table 3. F-Statistics Test Results

Criteria	Value
F-statistic	1.621204
F-tabel	3.13
Prob. F-statistic	0.205098
a 5%	0.05

Source: Results of Data Processing with EViews 9 processed by the author, 2022

F-Statistic test results have a probability value of F-Statistic of 0.205098 whose value is greater than the alpha value of 5% or 0.05. This explains that simultaneously all independent variables, namely credit interest rates and commercial bank loans, have no significant effect on the dependent variable of GDP. This is reinforced by the F-Count value which is greater than the F-Table value. The results of the T-statistical test of the panel data regression equation model in this study are in Table 4.

Table 4. T-Statistical Test Results

Criteria	Coefficient	T-count	T-table
SBK	-7.095.429	-0.279212	166.691
KBU	0.292109	1.701.562	166.691

Source: Results Data Processing with EViews 9 processed by the author, 2022

The T-Statistic test results for the independent variable credit interest rates are not significant because the T-Count value is more than 5% alpha or 0.05 and the T-Count value is smaller than T-Table. The independent variable of credit interest rates partially has no effect on the independent variable or each independent variable (*independent*), namely the credit interest rate has no effect on the dependent variable,namely GDP. The independent variable of commercial bank credit is significant because the T-Count value is greater than 5% alpha or 0.05 and the T-Count value is greater than T-Table. The independent variable of commercial bank credit partially affects the independent variable or each independent variable,*namely*commercial bank credit, affects the dependent variable,namely GDP. The results of the classical assumption test on the panel data regression equation model in this study are:

Table 5: Multicollinearity Test Results

	PDB	SBK	KBU
PDB	1	0.39773916...	0.26709103...
SBK	0.39773916...	1	-0.2062763...
KBU	0.26709103...	-0.2062763...	1

Source: Results of Data Processing with EViews 9 processed by the author, 2022

Table 5 above shows that there are no symptoms of Multicollinearity because all independent variables (Loan Interest Rates and Commercial Bank Credit) and dependent variable (GDP) have values below 0.8 so they are independent of the symptoms of multicollinearity. The results of the autocorrelation test of the panel data regression equation model in this study are in Table 6.

Table 6: Autocorrelation Test Results

Criteria	**Value**
Durbin-Watson	1.686922
d_L	1.5611
d_u	1.6751

Source: Data Processing Results with EViews 9 processed by the author, 2022

Table 6 above shows no autocorrelation symptoms because the Durbin-Watson value is greater than value of du, so that it is free from autocorrelation symptoms. The results of the heteroscedasticity test of the panel data regression equation model in this study are in Table 7.

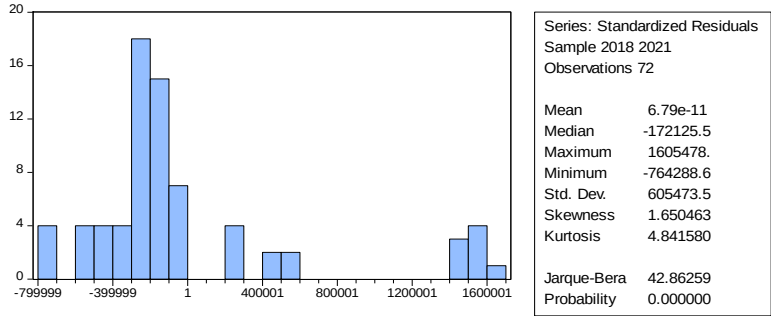
Table 7: Heteroscedasticity Test Results

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-341911.341	98434.326		-3.473	.001
	SBK	46849.979	8972.845	.333	5.221	.000
	KBU	1.101	.082	.859	13.456	.000

Source: Data Processing Results with SPSS processed by the author, 2022

Table 7 above shows that the SBK and KBU variables have insignificant values below alpha (5 % = 0.05) so that heteroscedasticity symptoms occur. The results of the normality test of the panel data regression equation model in this study are in Table 8.

Table 8: Normality Test Results



Source: Results of Data Processing with EViews 9 processed by the author, 2022

Table 8 above shows the results of the normality test with a probability value of less than alpha (5% = 0.05), so it is not normally distributed in this panel data regression equation model. The results of the linearity test of the panel data regression equation model in this study are in Table 9.

Tabel 9: Linearity Test Results

ANOVA Table							
			Sum of Squares	df	Mean Square	F	Sig.
PDB * SBK	Between Groups	(Combined)	27276610274823.473	68	401126621688.581	7.750	.057
		Linearity	433962681452.224	1	4339626281452.224	83.845	.003
		Deviation from Linearity	2293698993371.250	67	342343044677.183	6.614	.071
	Within Groups		15527264769.650	3	51757558256.550		
	Total		2743188949593.120	71			

Source: Results of Data Processing with SPSS processed by the author, 2022

Table 9 above shows that the SBK variable has a significant value above alpha (5% = 0.05) so there is no symptom of heteroscedasticity. While the KBU variable has no value so there is no linearity test value.

5. Discussion

The multiple linear regression analysis using Eviews 9 indicates the relationship between loan interest rates (X1) and commercial bank credit (X2) with GDP in Indonesia. The regression coefficient for loan interest rates is -709.5429, suggesting that an increase in credit interest rates leads to a decrease in GDP by 709.5429 percent. However, the t-count value for loan interest rates is -0.279212, indicating non-significance. Similarly, the regression coefficient for commercial bank credit is 0.292109, indicating that a 1 percent increase in commercial bank credit leads to a 0.292109 percent increase in GDP. The t-count for commercial bank credit is 1.701562, which is greater than the critical t-table value. However, the probability for commercial bank credit is 0.0933, indicating non-significance. In conclusion, while both loan interest rates and commercial bank credit have negative effects on GDP in Indonesia, they are individually insignificant. However, when considered together, they have a significant impact on GDP.

6. Conclusion

Gross Domestic Product (GDP) is the amount of a production of goods and services that the country is able to produce in a certain period of time. The function of the Gross Domestic Product is to measure the economic development of a country. Economic growth indicates the prosperity and progress of a country, in developing countries it seeks to achieve an increasing and stable economic growth rate. The research results obtained are credit interest rates have a negative and significant effect on GDP. Commercial Bank Credit has a negative and significant effect on GDP.

7. Policy Recommendations

7.1. Optimizing Stimulation Policies, Accelerating Economic Recovery

The Ministry of Finance, the Financial Services Authority, and Bank Indonesia have agreed to optimize stimulus policies to support economic recovery in Indonesia. Positive economic indicators, such as motor vehicle sales, purchasing managers index (PMI), retail sales, consumer confidence index, cement sales, and public spending activities, suggest progress in the national economic recovery. Efforts to enhance communication and collaboration with parliament, local governments, the business sector, and the financial services industry aim to streamline the National Economic Recovery program and benefit those affected by the pandemic.

The government has implemented stimulus policies through the National Economic Recovery Program, focusing on health interventions, survival and recovery kits for business continuity, and structural reforms. The 2021 State Budget includes a PEN budget, increased by 22 percent to IDR 699.43 trillion, targeting health, social support, MSME and corporate support, and business incentives. The government is also supporting the tourism sector through grants and spending, as well as providing credit guarantees for the hotel, restaurant, and tourism industries. Bank Indonesia has implemented measures to support economic growth, including reducing policy interest rates, injecting liquidity, easing down payment provisions for credit/motor vehicle financing, and encouraging transparency in banking loan interest rates. Digitalization of the payment system and support for MSMEs, including those in the tourism sector, are also part of Bank Indonesia's initiatives.

Indonesia's economy is predicted to grow between 4.3 and 5.3 percent in 2021, with controlled inflation, stable current account deficit, and improved credit and deposits. OJK has issued a letter providing explanations and confirmations to the banking sector regarding the implementation of stimulus policies, including credit restructuring for COVID-19-affected debtors. OJK will continue to implement policies to reduce volatility in the capital market, support credit and financing restructuring, and expand financing access for MSMEs through digitalization. They also propose a temporary credit program for medium-sized enterprises with interest subsidies and government guarantees, aiming to further support economic recovery efforts.

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