

# CHAPTER ONE

## INTRODUCTION

### A. Background of Study

Bank is an important institution of the financial industry in a country. It cause bank is used as a barometer to measure the progress of a country.<sup>1</sup> The advancing of the country is seen from its banking condition.<sup>2</sup> According to Act no. 10 of 1998, bank is a business which made a purse from society and routed to society again in the form of credits or in other forms, in order to increase the standard of living. Therefore, the existence of bank is being a part in order to improve the standard of living in mediation of fund distribution between surpluses to the deficit.<sup>3</sup>

The condition of bank in Indonesia including sharia bank is increased. In this case, Indonesian Council of Religious Scholars (MUI) has making team work in order to establish the first Islamic bank in Indonesia at 1990.<sup>4</sup> Henceforth, the presence of Muamalat bank as the pioneer of Islamic banks in Indonesia is supported and appreciated by government or society. Furthermore,

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<sup>1</sup> Irman Firmansyah, "Determinant of Non Performing Loan: The Case of Islamic Bank In Indonesia," *Buletin Ekonomi Moneter dan Perbankan*, (Vol 17, No 2, October 2014), p. 242

<sup>2</sup> Saba Musthaq and Danish Ahmed Siddiqui, "Effect of Interest Rate on Bank Deposits: Evidences from Islamic and Non-Islamic Economies," *Future Business Journal Elsevier*, (No. 3, 2017), p. 1

<sup>3</sup> Act No. 10/11/PBI/2008, Bank Indonesia regulation

<sup>4</sup> Muhammad Syafi'i Antonio, *Bank Syariah Dari Teori ke Praktik*, Jakarta, (Gema Insani: 2001), p. 25

in Act no. 10 of 1998 as the amendment of Act no. 7 of 1992 is stated the presence of Islamic bank is admitted and conventional bank is allowed to establish sharia branch offices.<sup>5</sup>

The expansion of the Sharia commercial bank Company followed by the new bank company. But, the increasing of sharia commercial bank is followed by agreement of risk.<sup>6</sup> It cause bank is a form of business units which be dealing with risk and return.<sup>7</sup> Bank is one of the business units with very high risk. It caused banks make credit as the main of business by ratio 70%-90%.<sup>8</sup> Basically, sharia bank is run fairly large credit risk problem, because in every part of activates in Islamic bank has many products that has risk. If we see the position of the bank as creditor, it does not cover the possibility of the increasing of credit risk. In future the increasing of the credit risk will influence the capital of bank and threats liquidity and profitability of the bank.

The indicator of the risk level due to the troubled of financing is using the ratio of Non-Performing Financing (NPF) in the sharia commercial bank and Non Performing Loan (NPL) in conventional bank. Generally, Credit risk or financial risk which occurs in sharia commercial bank caused by internal

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<sup>5</sup> Act No. 10/11/PBI/2008, Bank Indonesia Regulation

<sup>6</sup> Chandra Setiawan and Bhirawa Praditya. "Non Performing Financing (NPF) and Cost Efficiency of Islamic Banks in Indonesia Period 2012Q1 to 2015Q2, JEIEFB International Research Journal. (Vol. 5. 2016), p.3

<sup>7</sup> Bambang Rianto Rustam, *Manajemen Risiko Perbankan Syariah di Indonesia*, (Jakarta, Salemba Empat, 2013), p. 55

<sup>8</sup> Kade Purnama Dewi and I Wayan, "Pengaruh Loan Deposit Ratio, Suku Bunga SBI dan Bank Size Terhadap Non Performing Loan," E-Jurnal Akuntansi UDAYANA, Vol 11.3 2015, p. 909

and external factors.<sup>9</sup> Such as bank management, customer capability, disaster, political condition and economics. Then credit referred to risk when they are included in the third group (incoherent) fourth group (questionable) and fifth (stagnant).<sup>10</sup> Excelsior NPF ratio could threaten liquidity and profitability of the bank.

Based on the previous research, there are some dissimilarity influences for each research result. According to Firmansari and Suprayogi GDP is causing the NPF rising on Islamic bank. This rising is caused by bank mismanagement which bank expects the biggest return when GDP rising, until being executed weak analysis toward credit receiver and so it will cause the back credit. This research differs from Ahmad and Bashir research in Pakistan, thus the result is the increasing of GDP in a country was shown the robust economic activities, which will impulse society for paying off their credit.

Inflation showed a positive effect for increasing the NPF ratio in Rahmawulan research. It caused that inflation diminishes the societal purchasing power and would decrease company profit and ill affected company able to pay their obligation to the bank. Differ from Lin, Farhani and Koo research, the result showed inflation was negative effect of NPF ratio.

The depreciation of the exchange rate will increase NPF ratio. It occurs when a currency depreciate it is boosted foreign goods or import and makes

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<sup>9</sup>Faturrahman Djamil, *Penyelesaian Pembiayaan Bermasalah di Bank Syariah*, (Jakarta: Sinar Grafika, 2014), p. 73

<sup>10</sup> A. Wangsawidjaja, *Pembiayaan Bank Syari'ah*, (Jakarta: Kompas Gramedia, 2012), p. 90

importer had been around great loss arising out gap exchange rate. This result mutual accord Soebagia that exchange rate has an influential impact for NPF ratio. Other research forms Nursechafia and Abduh which conclude that Exchange rate unaffected to NPF ratio.

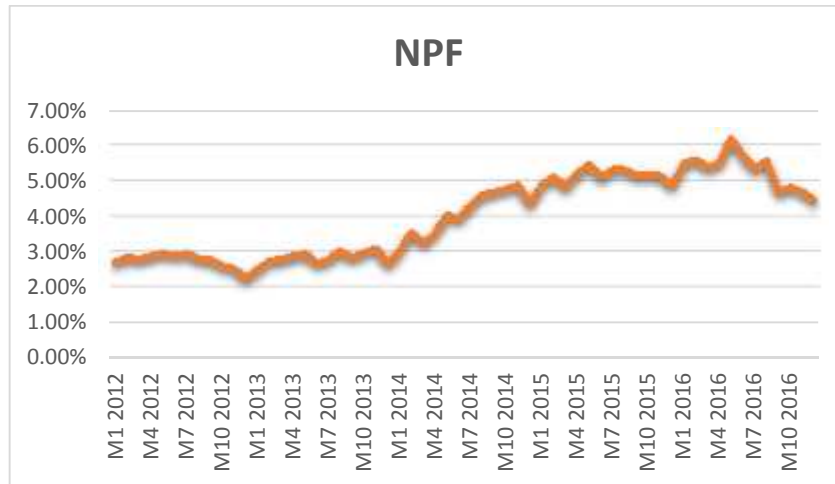
When Central Bank of Indonesia boost up SBIS rate, banking company be opting to save their liquidity in SBIS Ju'alah, then channel the financing. It will obstruct the funding flow in the real sector and decline society ability to pay the obligation. Different with Poetry and Sanrego research that explained the rising of SBIS rate unaffected to society, it caused SBIS characteristic based on goal agreement not interest.

The increasing of NPF ratio, which develop during the research period as the consequence of economic pressures.<sup>11</sup> Economic pressures in Indonesia is a wing to the weakening macroeconomic condition, which influence the various sectors of the economy. Furthermore the impact from the increasing of NPF ratio makes insignificant effect toward sharia commercial bank sectors and finally did make some banks close their offices.<sup>12</sup> Here the NPF ratio data during period 2012-2016 as follows:

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<sup>11</sup>Ichsan Emrald Alamsyah, NPF Tinggi Akibat Kondisi Ekonomi, In Site <http://www.republika.co.id/> (Accessed on 16 October 2016, 10.42 pm)

<sup>12</sup>Fuji Pratiwi, Bank Syariah Benahi Jaringan Kantor, In Site <http://www.bsm.co.id> (Accessed on 16 October 2016, 10.52 pm)

**GRAPHIC 1. 1****NON-PERFORMING FINANCING GROWTH**

Sources: *Islamic Banking Data Statistic, Otoritas Jasa Keuangan (OJK)*

Factually, what has happened of the increasing NPF ratio, the researcher wants to make the advance studies uses selected macroeconomic variables towards the influence of non performing financing of sharia commercial bank, by the title. **“The Influence of Macroeconomic Variables towards Non Performing Financing of Sharia Commercial Bank in Indonesia (Case Study 2012-2016)”**

## **B. Problem Formulation**

Based on the background study above, the problems which will researched is:

How is the influence of Gross Domestic Product (GDP), inflation, exchange rate and Bank Indonesia Sharia Certificate (SBIS) towards NPF ratio of sharia commercial bank in Indonesia on period 2012-2016?

### **C. Purpose of Study**

Based on the problem above the purposes of this study is:

To know the influence of Gross Domestic Product (GDP), inflation, exchange rate and Bank Indonesia Sharia Certificate (SBIS) towards NPF of sharia commercial bank in Indonesia on period 2012-2016.

### **D. Significance of Study**

#### 1. For Banking Practitioner

This research is expected to contribute an idea and input related to the management and decision of policies on sharia commercial bank related to credit risk.

#### 2. For Academics

Hope this research would become references for next researches which research the influence of macroeconomic variables towards non performing financially.

#### 3. For Researcher

This research gives the researcher benefit and experience as knowledge of the influence of macroeconomic variables that are researched towards NPF in sharia commercial bank in Indonesia, and will improve by another researcher in the future.

## **E. System of Study**

This research is divided into five chapters to make more effective, they are:

Chapter One, is introduction contains of background study, problem formulation, purpose of study, significance of study, literature review, research method and system of study.

Chapter two, is a literature review of this research. By outlining results of the previous research, basic theory, the framework of thought and hypothesis.

Chapter three, is a research method contains design of research, description and operational definitions of variable, determination of the population and sample and data analysis.

Chapter four, is the describing about analysis of data classical assumption test, multiple regression test and hypothesis test.

Chapter five, is the conclusion. By outlining the result of research and suggestion of the future researchers.