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The Effect of Macroeconomic Factors and Market Share on the Sharia Banking Industry in Indonesia

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Abstract: To increase performance of Islamic Banking Finance in Indonesia, it needed assessment of its financial performance which was rated from its profitability level with ROA as an indicator. This caused economic conditions that can influence bank performance and the factors are inflation, gross domestic product (GDP), third-party funds (TPF), and market share. **Aim:** This research aims to find out the influence of inflation, gross domestic product (GDP), third-party funds (TPF) and market share on the Islamic banking industry in Indonesia from 2011-2015. **Method:** The method of this research is quantitative approach. Moreover, it uses inflation, gross domestic product (GDP), third party funds (TPF), and market share approach on the return on assets (ROA) of the sharia banking industry in Indonesia. **Results:** The results show negative correlation by 95% of inflation, gross domestic product (GDP) and third-party funds (TPF) to return on asset (ROA) of the islamic banking industry. Simultaneously, variables of this research have had a significant influence to return on asset (ROA) in the Islamic banking industry in Indonesia with the coefficient of determination of 84.4%. Particularly, the variables of third-party funds and market share have significantly influenced return on asset (ROA) to the Islamic banking industry in Indonesia. **Conclusion:** From this study, it is concluded that inflation, gross domestic product (GDP), third party funds (TPF), and market share simultaneously significantly affect the return on assets (ROA) of the sharia banking industry in Indonesia.

Key words: *Banking industry, Indonesia, macro economy.*

Introduction

Banks have an important role in the economy, as they act as a collector and distributor of people's funds. In recent years, financial institutions have experienced fairly competitive, fast, and dynamic growth. One new paradigm that is in the developing stage is Islamic Finance, which has a fundamental difference with conventional finance, in terms of financial agreement (Hasan, 2017:11). In addition, Islamic banks are not allowed to charge any interest, but with a profit-sharing system because of the agreement of Islamic scholars, *jumhur*, stating that the interest is one form of usury that is forbidden.

As an important institution in the economy, banks require good supervision of performance by the banking regulator. Ahmad (2011, p.74) said that banks give important things to many people, one of them they need for bank accounts as they have fees, expenses and cash needs. For example, in Indonesia sharia banks have many interests for people (Asnawi et al, 2019). But in some conditions, sharia banks need to improve their performance in order to attract investors and customers, and can create banking performance with the principles of sharia, as prudent and efficient enough (Eliyana and Istyarini, 2017, p.188). “One indicator to assess the financial performance of a bank is to see its profitability level” (Hasibuan, 2001, p.100). One of the indicators used to measure the level of profitability is return on assets (ROA). Regarding the role of ROA, Husnan (1992, p.215) states "the greater the ROA shows the company's performance the better, because the greater the rate of return". In addition, in a previous study conducted by Gufron (2015) entitled Pengaruh Inflasi, Suku Bunga, dan Nilai Tukar terhadap Profitabilitas Bank Umum Syariah pada Periode Januari 2010-April 2015 reveals that inflation, interest rates, and exchange rates have significant effect on ROA partially, while simultaneously, all independent variables used are significant. On another occasion, Sahara (2013) in her article entitled Analisis Pengaruh Inflasi, Suku Bunga BI, dan Produk Domestik Bruto terhadap Return on Asset (ROA) Bank Syariah di Indonesia shows that inflation, BI rate, and GDP simultaneously have a significant effect on ROA. Partially, BI rate has negative effect on ROA, while GDP has a positive one.

In Indonesia, the Islamic Financial Institution is separated into a few categories: Bank Umum Syariah (BUS), Unit Usaha Syariah (UUS), and Bank Pembiayaan Rakyat Syariah (BPRS). In the implementation of operational activities, banks are inseparable from the influence of economic activities. The economic condition is influenced and determined by macroeconomic factors, as stated by Sukirno (2006:26) that comprise of "macroeconomic factors such as balance of payments, national income including gross domestic product and gross national product, economic growth rate, inflation rate, unemployment rate, foreign exchange rate, money supply, and interest rate".

Hassan et al (2005, p.13) who did research at Islamic Banks around the world, explain that all macroeconomic variables affect the profitability of banks. In other words, interest as one of the macroeconomic variables also affects the performance of Islamic Bank although theoretically, Islamic banks are independent banks that are separate from the interest system applicable to conventional banks in general. The economic slump due to inflation and the growth of a country's GDP, will result in an increased risk and also the bank's profit from investment.

Inflation affects ROA by eroding its real value. In other words, if the value of ROA rises, then all of the increase is caused by inflation. Not only that, GDP is also an important factor related to saving in the banking industry. In addition, TPF is a factor that is no less important than inflation and GDP. In providing financing, the banking sector requires the availability of funding sources including funds that originate from the bank itself.

In addition to the factors mentioned above, there are other factors that affect the Return on Assets (ROA), namely market share. The Gale study mentioned that the impact of market share on profitability tends to be greater when the size of the company is relatively larger or when in a competitive environment characterised by high concentration or moderate growth (Gale, 1972, p.422). It cannot be denied that sharia banks, as new banks in Indonesia, still have a fair market share compared to conventional banks. Then, from that statement the aims of this study are to find out the influnce of inflation, gross domestic product (GDP), third-party funds (TPF) and market share on the islamic banking industry in Indonesia from 2011 - 2015.

Method

The approach used in this research is a quantitative approach. This study was conducted to determine the relationship between variables, based on the hypothesis that has been described previously. This study will prove the effect of inflation, gross domestic product (GDP), third party funds (TPF), and market share on the return on assets (ROA) of the sharia banking industry in Indonesia. Further to this, this study is using secondary data. These secondary data can be obtained directly from the company. According to Indriantoro and Supomo (2002, p.147) "Secondary data are generally in the form of evidence, records or historical reports that have been compiled in published and unpublished archives".

Then, this study used some variables or approaches of macro economy, which are inflation, gross domestic product (GDP), third party funds (TPF), and market share. *First*, inflation is defined as "continually rising prices and affecting all societies" (Suparmoko, 1998, p.209). An increase in the price of one or two items alone cannot be called inflation unless the increase extends (or leads to an increase in the general price level) on the other goods. The indicators used to measure the inflation rate are the consumer price index (CPI). Second, GDP is "the number of products in the form of goods and services produced by units of production in a country within a year" (Rosyidi, 2011, p.105). The goods produced include capital goods that have not been discounted for their depreciation, since the amount earned from GDP is considered to be gross. Third, Third Party Fund are funds derived from the community, which both individuals and business entities obtained by banks using various instruments (Kuncoro, 2002: 155). Third party funds are highly relied upon by banks to perform various financing in the bank. Fourth, the market share referred to here is the share of financing at the sharia bank. Financing offered by Islamic banks also consists of various kinds, such as mudaraba, murabaha, ijara, and others. Hasan (2010, p.57) said that the share of financing is the ratio between the amount of financing channeled by the sharia bank and the amount of credit disbursed by the national banking system in general. Total national financing consists of the number of Islamic banks financing and the amount of conventional bank credit. Fifth is the analysis technique.

Moreover, there are several statistical techniques that can be used to analyse data, one of which is descriptive statistics. Descriptive statistics are statistics used to analyse data by describing or delineating collected data as they are without intending to make general conclusions or generalisations (Anshori and Iswati, 2009, p.116). Descriptive statistics present the mean (average), minimum (minimum) and maximum (maximum) values of the tested variables, namely inflation, GDP, TPF and market share owned by banks and become samples during the period 2011-2015.

Results and Discussion

F-Test

An F-test is performed to determine whether all independent variables simultaneously affect the dependent variable, that is by comparing *Ftable* and *Fcount*. In this study there are two hypotheses in the F test, which are, *first,* H0 includes simultaneously, Inflation, GDP, TPF, and Market Share do not significantly affect ROA. *Second*, H0 includes Simultaneously, Inflation, GDP, TPF, and Market Share significantly affect ROA**.** The result of F-test using SPSS 21 is in Table 1.

Table 1: The result of F-test.

F_{table}	F_{count}	p-value	Interpretation	Description
20.293	3.06	0.000	$F_{count} > F_{table} = H_0$ rejected (20.293 > 3.06) p-value < 0.05 = H_0 rejected (0.000 < 0.05)	H_0 rejected, hereby all independent variables significantly affect the dependent variable

Source: Author’s

T-test

A T test is used to determine the effect of dependent variables partially, that is by examining significance and comparing between t_{table} and t_{count}. If the p- value is less than 0.05 and $t_{count} < t_{table}$ or $t_{count} > t_{table}$, it can be concluded that there is a partial significant effect on the dependent variable. In this research there are two hypotheses on t test, that is first, H0 includes Partially, Inflation, GDP, TPF, and Market Share do not significantly affect ROA. Second, H0 includes Partially, Inflation, GDP, TPF, and Market Share significantly affect ROA. Then, the result of F-test using SPSS 21 is in Table 2.

Table 2: The results of the F-test.

Independent Variable	t_{count}	t_{table}	p-value	Description
Inflation	-0.472	1.75305	0.644	H_0 accepted
GDP	-0.274	1.75305	0.788	H_0 accepted
TPF	-8.671	1.75305	0.000	H_0 rejected
Market Share	6.157	1.75305	0.000	H_0 rejected

Source: Author's

Partial Effect of Inflation on ROA in Sharia Financial Industry in Indonesia

Based on the results of partial regression testing, inflation has no significant effect on return on assets (ROA). This is indicated by the significance value of 0.644 where the significance value is greater than 0.05 so that H0 is accepted. The value of the t-test on the inflation variable is -0.472 so that in this study it was found that inflation did not have a significant and negative effect.

Influence of inflation on ROA is also confirmed by research by Rosanna (2007, p.55) which states that when inflation is high then people are more confident in sharia banking compared with conventional banking. The community's trust was also made possible by the historical experience of the economic crisis in 1997. Then, during which time the inflation rate in Indonesia was very high and eventually resulted in many conventional banks that went bankrupt due to imposing too high interest rates to offset the inflation rate as well to attract customers to keep placing their funds, so as to result in a negative spread and ultimately the bank cannot refund the public funds that have been saved and its interest.

Partial Effect of GDP on ROA in Sharia Financial Industry in Indonesia

Based on the results of partial regression testing, GDP has no significant effect on return on assets (ROA). This is indicated by the significance value of 0.788 which is greater than 0.05

so that H0 is accepted. The value of t-test on GDP variable is -0.2274 so in this study it indicates that GDP has no significant and negative effect.

No effect of GDP on ROA occurs because GDP is a factor that is difficult to predict or controlled by banks and does not directly affect the achievement of bank profitability. GDP only indicates changes in the value of income and expenditure of all people in one country. The results of this study are in accordance with research conducted by Yanuardi et al (2014) which states that GDP has no significant effect on the profitability of sharia banks.

Partial Effect of TPF on ROA in Sharia Financial Industry in Indonesia

Based on the results of partial regression testing showed TPF has a significant effect on return on assets (ROA). This is indicated by a significance value of 0.000 and this means that the significance value is greater than 0.05 so that H0 is rejected. The value of t test of TPF variable of -8.671 indicates that TPF has significant and negative effect.

The results of data processing in this study indicate that TPF has significant effect on ROA. Increased TPF can affect the level of ROA if the bank can carry out its operational activities well. This shows that Islamic banks gain trust from the community and are able to manage the funds provided well. The results of this study in accordance with research conducted by Arisanti (2010) which states that third party funds (TPF) have a significant effect on the profitability of sharia banks.

Partial Effect of Market Share on ROA in Sharia Financial Industry in Indonesia

The result of partial regression testing shows that market share has a significant effect on return on assets (ROA). This is indicated by a significance value of 0.000 indicating that the significance is greater than 0.05 so that H0 is rejected. T-test value of inflation variable of 6.157 so that in this study has a significant and positive effect.

Whalen (1987) also examined the relationship of profitability with market share of the bank and the results indicate that market share as measured by the fund market has a significant positive relationship to bank profitability. This study proved that market share also has a positive relationship to ROA. The higher the market share proportioned by the existing financing in sharia banks ROA will also be higher. The market share held by banks is different from the market share in general. If the market share in general is in terms of goods, then the banking is in terms of service. So, marketing activities focus on the customer or the customer itself. The more consumers use financing in Islamic banks, it will increase the profitability of sharia banks.

Simultaneous Effect of Inflation, GDP, TPF, and Market Share on ROA in Sharia Financial Industry in Indonesia

An F test is used to find out whether simultaneously or simultaneously all independent variables in the study have an influence on the dependent variable. The results of research on the effect of inflation, GDP, DPK and market share on ROA simultaneously show the significance value in F test that is smaller than a (0.000 <0.05). Based on the results of the F test it can be concluded that H0 is rejected so it can be concluded that inflation, GDP, DPK, and market share simultaneously have a significant effect on ROA. This is in accordance with the theory stated by Sukirno (2003, p.57) that "macroeconomic factors such as inflation and GDP will affect banking profitability". Inflation, GDP, DPK, and market share had an effect of 84.4% on ROA shown by determination coefficient (R2) 0.844. This shows that the 15.6% ROA change is influenced by other untested variables.

Conclusion

From this study it can be concluded that, *first,* inflation, gross domestic product (GDP), third party funds (TPF), and market share simultaneously significantly affect the return on assets (ROA) of sharia banking industry in Indonesia 2011-2015 period on the significance of α 5% with probability 0.000. *Second*, inflation has no significant effect on the return on assets (ROA) of sharia banking industry in Indonesia period 2011-2015 at significance α 5% with t-statistic value of -0.472 and significance value 0.644. *Third,* Gross Domestic Product (GDP) has no significant effect on return on assets (ROA) of sharia banking industry in Indonesia period 2011-2015 at significance α 5% with t-statistic value equal to -0.274 and significance value 0.788. *Fourth*, Third Party Funds (TPF) have a significant effect on the return on assets (ROA) of sharia banking industry in Indonesia period 2011-2015 at significance α 5% with t-statistics equal to -8.671 and significance value 0.000. *Fifth*, market share significantly affects the return on assets (ROA) of sharia banking industry in Indonesia 2011-2015 period on significance α 5% with t-statistics of 6.157 and significance value 0.000.

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