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The Analysis of Foreign Bank Presence Factor on the Factor of Economic growth Indonesia using Confirmatory Factor Analysis (CFA)

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Abstract

Indonesia is an emerging country which will be develop to industrial country. This paper examines the main implications about foreign bank presence on the Indonesia's economy. We find that the Foreign Bank Presence has negative effect on Indonesia's Economy. The determinant factor of foreign bank presence is Foreign Number and Capital Adequacy Ratio (CAR) can be used to confirm determinant factors of Foreign Bank Presence but Foreign Shares cannot be used to confirm determinant factors of Foreign Bank Presence. While, Gross Domestic Product (GDP) and Inflation Rate can be used to confirm determinant factors of Indonesia's Economy. But direct effect of foreign number on Gross Domestic Product (GDP) is positive effect, and direct effect of capital adequacy ratio on inflation rate is negative effect.

Keywords : Foreign Number, Foreign Shares; Capital Adequacy Ratio; GDP; Inflation

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INTRODUCTION

The dynamics of Indonesia's economic growth currently indicate a gradual sustainable economic recovery, so that macroeconomic stability contributes positively to the structure of Indonesia's economic recovery. Indonesia is a developing country that is will change towards a new industrial nation, capital and population growth are factors that have a significant influence on economic growth in Indonesia. In terms of capital increase, investment is an important factor that contributes to Indonesia's economic growth. Along with the opening of the international trade market in Indonesia, that has become great opportunities for foreign investors to invest in Indonesia. One of all, investing in the banking industry in Indonesia is a promising investment for foreign bank. The high profit gained from the banking market in Indonesia is one of the factors triggering the number of foreign banks making acquisitions in Indonesia.

The Asian financial crisis that occurred in the late 1990s had a negative impact on the Indonesian economy, causing the Gross Domestic Product (GDP) in 1998 to decrease by -13.6%. The economic crisis in Indonesia that a long time ago was affected the climate of the banking industry which resulted in the closure of 16 private banks, and triggered massive withdrawals of funds to domestic banks in Indonesia. At the beginning of the new order period, the Ampera Cabinet Presidium instructed the Minister of Finance and the Governor of the Central Bank to grant business licenses to several foreign banks to operate in Indonesia. So that makes foreign ownership in the Banking Industry increasingly endemic. Then in the era of Joko Widodo's government creating the 16th economic policy package to stimulate the national economy wherein the policy package provided relaxation in releasing the negative investment list (DNI), so that the entry of foreign capital in Indonesia became greater.

The presence of foreign bank has a role in completing domestic investment needs as well as being a major driver of the entry a new technology, capital, and managerial capabilities that were not previously possessed by banking management in host country. The presence of foreign banks in a country will have an impact on the country's economy (Detragiache E. T., 2008). The presence of foreign banks in Indonesia as long time has contributed to funding public and private development projects, while at the same time having an impact on the competitive behaviour of banks, so that affecting economic activity in Indonesia.

Ownership of foreign banks in Indonesia is grouped into 3: (1) Foreign banks operating as branch offices, (2) Foreign banks that make acquisitions with domestic banks, (3) Foreign banks that open their representative offices in Indonesia. According to Undang-undang No.14/1967 concerning Banking, and Government Regulation No.3 of 1968 concerning foreign banks, that the foreign banks where they operate in the public sector can be established in the form of branch offices of banks that already exist in abroad or the foreign banks that have joined with the national banks incorporated in Indonesia.

Based on the data of the world bank, Indonesia's GDP growth in a long time has occurring increased but a few years ago has occurring decreased in 2010 amounted 6.2% has become 4.9% in 2015. This phenomenon is affecting by global economic growth, rising prices, BI rates, the political system in Indonesia, and weak household consumption. According to Ananda Friska Meidrawardani (Meidrawardani, 2013) The stage of prosperity nation has a significant effect on the level of credit extended by banks, the risk of bank loan portfolios is influenced by the level of loan portfolio risk (loan-to-asset ratio), capitalization, and the level of profitability. While, Maria Chelo V Manlagnit (Manlagñit, 2011) argue that the determinant factors of the effect of economic of the foreign bank presence are Foreign Number, Foreign Share, equity/total asset, customer funding, overhead cost, market share, loan loss provision, dan market concentration.

In this study, the researcher to find out whether foreign bank presence has an effect on Indonesia's economy, whether the determinant factors of foreign banks presence can be confirming the variable of foreign banks presence, whether the determinant factors of Indonesia's economy can be confirming the variable of Indonesia's economy. The determinant factors of foreign bank presence used

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in the research are foreign number, foreign share, and capital adequacy ratio. And the determinant factors of Indonesia’s economy are GDP and Inflation.

RESEARCH METHOD

The research using secondary data in the form of recapitulation of financial statements of commercial banks and foreign banks sourced from the data of Financial Services Authority (OJK) for the period 2010 - 2019, and secondary data in the form of Indonesia's economic growth reports from the Statistics of Indonesia (BPS). This type of research used in this research is exploratory research, where researchers try to explore new concepts from the variables studied. The data analysis technique used in this study is the Confirmatory Factor Analysis (CFA) using the Structural Equation Modeling (SEM) analysis tools Amos 23.0.

The variable on the research is Foreign Bank Presence (X) and Indonesia’s Economy (Y). The determinant factors of foreign bank presence are foreign number (X1), foreign share (X2), and capital adequacy ratio (X3). And the determinant factors of Indonesia’s economy are GDP (Y1), Inflation (Y2).

The hypothesis on the research is the following :

- H1 : Foreign Number has effect on Foreign Bank Presence
- H2 : Foreign Shares has effect on Foreign Bank Presence
- H3 : Capital Adequacy Ratio has effect on Foreign Bank Presence
- H4 : Gross Domestic Product has effect on Indonesia’s Economy
- H5 : Inflation has effect on Indonesia’s Economy
- H6 : Foreign Bank Presence has effect on Indonesia’s Economy
- H7 : Foreign Number has effect on Gross Domestic Product
- H8 : Capital Adequacy Ratio has effect on Inflation

RESULT AND DISCUSSION

Foreign Number, Foreign Shares, and Capital Adequacy Ratio can be confirmed as a determinant factor of Foreign Bank Presence.

Based on the result of processing data by SEM AMOS, the finding data shows that a regression weight of estimate of foreign number on foreign bank presence has positive effects with the number of 0,68 or 68%. That is appropriate if the researcher using a Foreign Number as a determinant factor of the Foreign Bank Presence variable. The result is in accordance with the research by Maria Chelo V Manlagnit (Manlagñit, 2011) that a large number of foreign banks in a country indicates the large presence of foreign banks in that country.

While, Foreign share cannot be confirmed as determinant factor of foreign bank presence because the result shows that a foreign share has negative effect on the foreign bank presence with the number of -0,91 or -91%. So the indicator of foreign share is not appropriate to use as a determinant factor of the foreign bank's presence. That contradicts with the argument by Ananda Friska Meidrawardani (Meidrawardani, 2013) which said that foreign shares can be used to calculate the amount of foreign bank presence.

Furthermore, when the indicator of Capital Adequacy ratio (CAR) to be connected with the variable of Foreign bank presence, the result shows that a Capital Adequacy ratio has a positive effect on Foreign bank presence amounted 45% (0,45). So that the indicator of capital adequacy ratio appropriate to use as a determinant factor of the foreign bank presence. That is in accordance with the argument by Firdaus Jufrida et.al (Jufrida, 2016) which said that a capital adequacy ratio reflects the performance of Foreign Bank Presence.

Gross Domestic Product (GDP) and Inflation can be confirmed as a determinant factor of Indonesia’s economy.

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The finding data shows that a Gross Domestic Product (GDP) can be confirmed as a determinant factor of Indonesia's economy variable because the estimate of regression weight is a number of 0,90 or 90%. So that the researcher using indicator GDP for determining a correlation between GDP and Indonesia's economy. That is in accordance with the argument by Arifin & Hadi (Arifin, 2009) which said that the indicator used to determine a country's economic growth is to assess the level of Gross Domestic Product (GDP).

Moreover, the indicator of inflation can be use confirmed as a determinant factor of Indonesia's economy variable because the finding data shows that the estimate of regression weight is 0,11 or 11%. So, it is appropriate for researchers to use inflation indicators to reflect Indonesian economic variables. That is in accordance with the argument by Arifin and Hadi (Arifin, 2009) which said that inflation is a phenomenon of economic that has an effect on the economy of country.

Foreign Bank Presence has effect on Indonesia's Economy.

When a variable of foreign bank presence to be connected with the variable of Indonesia's economy, the finding data shows that a Foreign Bank Presence has a negative effect on Indonesia's economy because the value of estimate amounted -0,69. So it can be concluded that the presence of foreign banks in Indonesia does not affect on the Indonesian economy, although the presence of foreign banks in Indonesia is considerable, that matter does not considerable affect on the Indonesian economy. This possibility is caused by other factors that influence it besides the presence of foreign banks in Indonesia.

However, researchers try to correlate foreign number indicators (X1) with GDP indicators (Y1), the result shows that foreign number has positive effect on GDP with the value of 0,40 (40%). Then, try to correlate capital adequacy ratio (X3) with Inflation (Y2), but the result shows that the value of estimate is negative effect (-0,07).

CONCLUSION

The researcher can conclude that the foreign number indicator and the Capital Adequacy Ratio (CAR) indicator can be used as a determinant factors of Foreign Bank Presence variable, while Foreign Share indicator it should be replaced with the other indicators that more accurately reflect of bank presence in a country. Then the GDP and Inflation indicator can be used as determinant factors of Indonesia's economy variable but if it is associated with the foreign bank presence, it does not have a positive correlation. Resulting in the effect of the foreign bank presence on the Indonesia's economy is negatively correlated.

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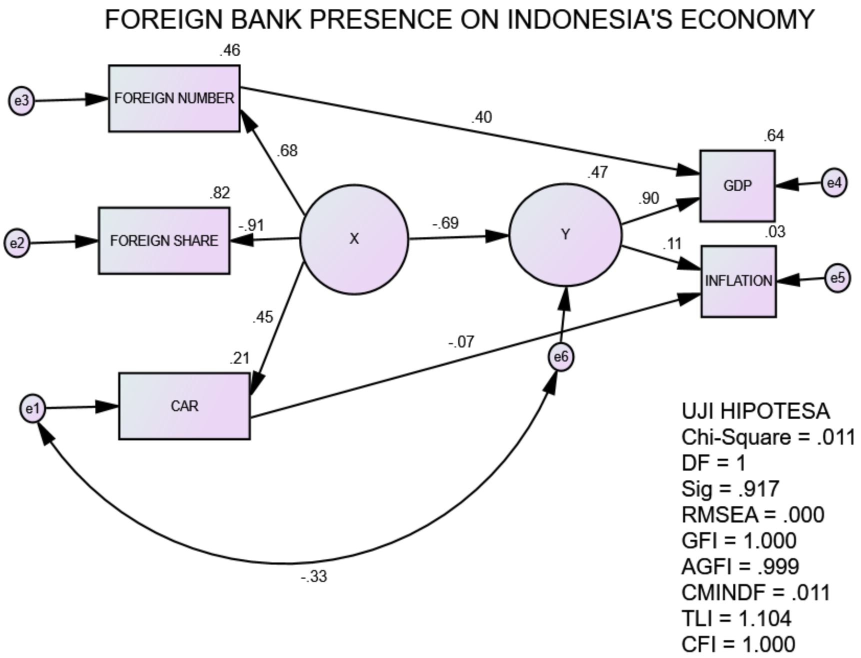
APPENDIX

PATH DIAGRAM
Standardized



Goodness-of-fit Indices

Goodness of fit Index	Cutt-off Value	Hasil Model	Keterangan
Chi-Square	Chi-Square table 3.84	0,011	Fit
Derajat Bebas (DF)		1	
Significance Probability	≥0,05	0,917	Significance
RMSEA	≤0,08	0,000	Fit
GFI	≥0,90	1,000	Fit
AGFI	≥0,90	0,999	Fit
CMIN/DF	≤2,00	0,011	Fit
TLI	≥0,95	1,104	Fit
CFI	≥0,95	1,000	Fit

Estimates (Group number 1 - Default model)
Regression Weights: (Group number 1 - Default model)

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			Estimate	S.E.	C.R.	P	Label
X3	<---	X	1.00				
X1	<---	X	.79	.18	4.29	***	par_2
Y	<---	X	-.64	.21	-3.11	.00	par_4
X2	<---	X	-.19	.05	-3.57	***	par_1
Y1	<---	Y	1.00				
Y2	<---	Y	.01	.02	.52	.60	par_3
Y2	<---	X3	.00	.01	-.52	.61	par_6
Y1	<---	X1	.36	.16	2.22	.03	par_7

Standardized Regression Weights: (Group number 1 - Default model)

			Estimate
X3	<---	X	.45
X1	<---	X	.68
Y	<---	X	-.69
X2	<---	X	-.91
Y1	<---	Y	.90
Y2	<---	Y	.11
Y2	<---	X3	-.07
Y1	<---	X1	.40