The Development of Real Sector in Indonesia: 
Significant Role of Conventional and Islamic Banking

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Abstract
This paper mainly focused in comparing the role of conventional and Islamic banking on the development of real sectors in Indonesia. This study also included the analysis for economic sector growth. The Growth Regression Cross Sectional was used as quantitative analysis to capture the significant effect of both conventional and Islamic banking credit on the development of economic sector in different provinces in Indonesia. This research captured the lending activity of Islamic banks and conventional banks in 9 provinces with the highest Islamic banking activities from 2007 until 2010.

Although overall Islamic bank financing activity did not affect output in province samples significantly, based on economic sector analysis Islamic banks had a major role in the development of agricultural, transportation, and services sectors. Lending activity from Islamic banking statistically affect the increase of output in those sectors, with the confidence level of 95%. The increase of Rp. 1 billion lending value from Islamic banks will give impact as follows: 1) an increase in agricultural sector output of Rp. 10.5 billion 2) an increase in transportation sector output of Rp. 14.15 billion 3) an increase in service sector output of Rp. 1.22 billion. The margin of financing rate from Islamic and conventional bank also played a major role in increasing output of agricultural, electricity gas and water, as well as transportation sector. The smaller the margin rate between Islamic and conventional bank would increase output in agriculture sector.

Keywords: Development of Real Sector, Banking Sector, Financing Activity, Financing Margin