CHAPTER I

INTRODUCTION

1.1 Background

To assess the welfare and prosperity of a country, particularly Indonesia, one indicator that can be used is economic growth. This is because the success of a nation's development is often measured by its economic growth performance. Stable economic growth, or even growth that is on the rise, will have a positive impact on the prosperity and welfare of the people. Such economic growth can create opportunities for new jobs, which in turn can reduce unemployment and increase people's incomes.

In an official report published by the Central Statistics Agency (BPS), Indonesia's economy in the fourth quarter of 2024 showed growth of 5.02 percent compared to the fourth quarter of 2023. From a production perspective, the "Other Services" category showed the highest increase at 11.36 percent. Meanwhile, from an expenditure perspective, the goods and services export sector recorded significant growth of 7.63 percent.

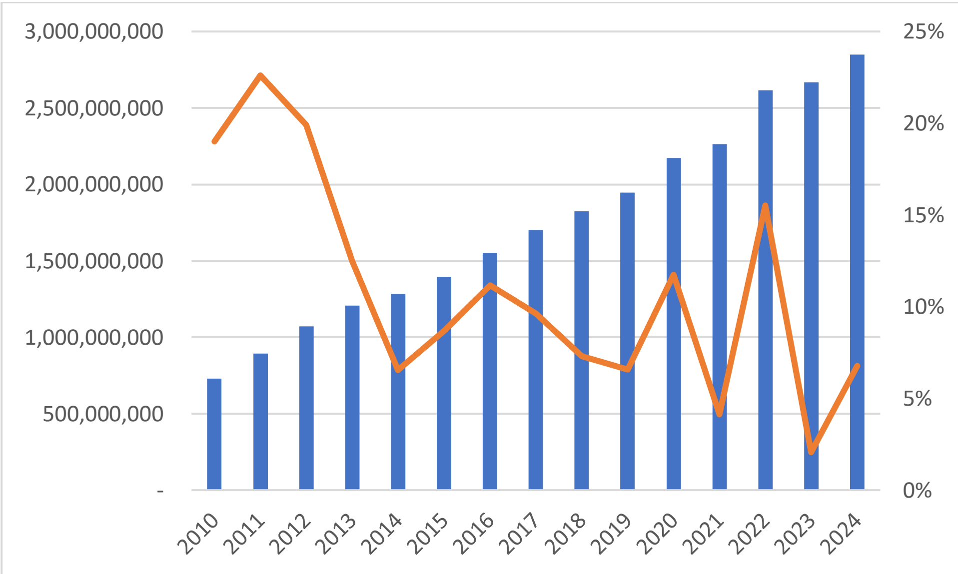
The presence of banks in a country's economy plays a crucial role. According to (Mundir & Hayati, 2021) , a bank is a financial institution whose primary activity is to mobilize funds from the public, which are then channeled back to the public through the provision of various other banking services. Banks collect funds from the public through deposits, which are typically categorized into savings accounts, checking accounts, and time deposits. These funds are then returned to the public in the form of loans. A bank's business activities including accepting deposits, disbursing loans, and offering various services can serve as a benchmark for evaluating a country's economic condition and determining whether the country is in good shape or not.

In terms of service offerings, innovation in the Indonesian banking sector can be said to be developing quite rapidly, given that the presence of many competitors in the banking industry has compelled banks to provide more innovative services, offerings, and products. In 2024, the Indonesian banking industry demonstrated fairly strong performance despite facing challenges from global economic uncertainty. According to the Indonesian Banking Surveillance Report for the Fourth Quarter of 2024 published by the OJK, the capital adequacy of the Indonesian banking sector remains at a sufficiently strong level, with a Capital Adequacy Ratio (CAR) of 26.69 percent. Although there was a slight decline compared to the previous year, this figure still indicates that the banking sector has sufficient capital to manage existing risks. In terms of liquidity, the banking sector is also in a secure position, with an AL/NCD ratio of 112.87 percent and an AL/DPK ratio of 25.59 percent both far exceeding regulatory standards indicating that banks can meet their short-term obligations quite well. Regarding credit quality, the gross Non-Performing Loan (NPL) ratio stood at 2.08 percent , which is lower than the previous period, reflecting an improvement in credit risk management. Additionally, the Loan at Risk ratio decreased to 9.28 percent, indicating a reduction in overall credit risk levels.

One of the bank services showing significant growth is savings deposits, a type of deposit in the form of a savings account. According to Law No. 10 of 1998 on

Banking, Article 1 states that savings deposits are a category of deposits that can only be withdrawn by fulfilling certain agreed-upon conditions and cannot be withdrawn using checks, money orders, or other comparable forms of payment. The growth of savings deposits in conventional commercial banks in Indonesia, based on information from the official website of the Central Statistics Agency, shows a consistent upward trend each year.

Figure 1 .1 Total Deposits at Conventional Commercial Banks in Indonesia, 2010–2024



Source: BPS (Data processed)

Data from BPS shows that savings in banks continued to experience annual increases from 2010 to 2024. In 2010, deposits at conventional commercial banks rose by 19.3%, while in 2011, savings increased by 22.6%. The year 2012 saw an increase of 19.9%, followed by 2013, which saw an increase of 12.5%. In 2014, the increase was 6.5%, and in 2015, savings grew by 8.7%. In 2016, savings increased by 11.2%, in 2017 by 9.6%, and in 2018 by 7.3%, in 2019 savings increased by 6.6%, in 2020 savings increased by 11.7%, in 2021 savings increased by 4.1%, in

2022 savings increased by 15.5%, in 2023 savings increased by 2.1%, and in 2024 the amount of savings increased by 6.8%

One of the factors influencing the amount of savings is the interest rate. According to classical theory, saving habits are influenced by interest rates, meaning that any change in interest rates within the economy impacts total savings. According to (S. Sari, 2020) , interest rates influence the extent to which people are willing to save in banks. In other words, when interest rates rise, individuals typically save more money and reduce their spending, allowing them to allocate more funds toward savings.

Bank Indonesia presents interest rate data for a three-year period, specifically for 2022–2024, with rates of 5.5% in 2022, 6% in 2023, and remaining at 6% in 2024. After previously declining to 3.75% in 2020 and 3.5% in 2021, interest rates rose again in 2022 and 2023. It is hoped that this rise in interest rates will encourage the public to save more, particularly in banks, in line with the prediction in classical theory that higher interest rates will increase the public's interest in saving, as they will receive greater returns from those savings. Savings deposits at conventional commercial banks in Indonesia continue to show a significant upward trend, indicating dynamics that do not fully align with classical theory.

Inflation in Indonesia is projected to decline between 2022 and 2024, as stated in a publication by the Coordinating Ministry for Economic Affairs of the Republic ofstating that in 2022, inflation reached 4.36%, a significant increase compared to 1.87% in 2021; in 2023, inflation decreased to 3.27%; and in 2024, it fell to 2.26%. According to (Andi Hakim, 2023), in the context of Indonesia's post-pandemic economy, with economic recovery underway and inflation trending downward, the public appears increasingly motivated to save money in banks, especially given the relatively high and stable interest rates. Global economic uncertainty, including commodity price fluctuations and geopolitical tensions, also influences the public's decision to save as a protective measure against potential risks. This indicates that, in addition to interest rates, other external factors also influence the public's behavior in depositing their money in banks. With inflation remaining fairly stable, the amount of savings in commercial banks in Indonesia continues to increase year over year.

Indonesia's per capita income, as published in the annual economic report by the Central Bureau of Statistics (BPS) from 2010 to 2024, has consistently increased. This serves as a positive signal in boosting the interest of the Indonesian public in saving, as with higher income, people can allocate a portion of their income for savings. During Indonesia's economic recovery period from 2022 to 2024, income growth showed a positive trend with annual increases: in 2022 byRp71,000,000, in 2023 amounting to Rp75,000,000, and then continuing to rise in 2024 to Rp78,600,000. This growth aligns with the stable growth of banks' Third-Party Funds (DPK) ranging between 5 and 8% per year.

According to The positive growth in per capita income is in line with the growth in the amount of savings in conventional commercial banks in Indonesia, which is also positive, consistent with Keynesian theory, which states that the interest rateis a monetary phenomenon, so the interest rate does not determine the amount of savings; rather, this is caused by income. The higher the income, the higher the amount of savings will be as well.

In previous studies (Yulia Fitri, Dr. Ansofino, Citra Ramayani, 2020) and (Andreas Kristanto D.S., 2019), both concluded that interest rates influenceon savings deposits at commercial banks, whereas in the studies by (Nadya Lani Lengkong, Vekie A. Rumate, Daisy S.M. Engka, 2018) and (Dientje Rumerung, Jani Effendy, & Sherly F. Ferdinandus, 2023), both concluded that interest rates do not have a significant effect on bank savings. Furthermore, in the studies by (Ni Kadek Rita Yanti, A.A. KetutJayawarsa, and I.Gde Agung Wira Pertama, 2020) concluded that interest rates have a positive and significant effect on bank savings, whereas in the study conducted (Kristina Klasjok, Tri Oldy Rotinsulu, Mauna Th. B. Maramis, 2018), (Jesicca T. Lossu, Tri Oldy Rotinsulu, Mauna Th. B. Maramis, 2023) and (Fikranto Ahmad, Niswatin, Usman, 2024), they concluded that interest rates have a significant but negative effect on savings at banks.

Regarding the inflation variable, according to studies conducted by (Andreas Kristanto D.S., 2019) and (Dientje Rumerung, Jani Effendy, & Sherly F. Ferdinandus, 2023), both concluded that inflation has an effect on bank savings, whereas in the study (Nadya Lani Lengkong, Vekie A. Rumate, Daisy S.M. Engka, 2018), (Yulia Fitri, Dr. Ansofino, Citra Ramayani, 2020), and (Jesicca T. Lossu, Tri OldyRotinsulu, Mauna Th. B. Maramis, 2023) concluded that inflation has no effect on bank savings. Furthermore, in the study (Kristina Klasjok, Tri Oldy Rotinsulu, Mauna Th. B. Maramis, 2018), (Ni Kadek Rita Yanti, A. A. Ketut Jayawarsa, and I. Gde Agung Wira.Pertama, 2020), and (Fikranto Ahmad, Niswatin, Usman, 2024) , the researchers concluded that inflation has a significant and positive effect on bank savings.

Furthermore, in studies conducted by (Nadya, Lani, Lengkong, Vekie A. Rumate, and Daisy S.M. Engka, 2018), (Yulia Fitri, Dr. Ansofino, Citra Ramayani, 2020), and (Dientje Rumerung, Jani Effendy, & Sherly F. Ferdinandus, 2023), they concluded that per capita income has a significant effect on bank savings. Furthermore, in the study by (Kristina Klasjok, Tri OldyRotinsulu, Mauna Th. B. Maramis, 2018), (Ni Kadek Rita Yanti, A. A. Ketut Jayawarsa, and I Gde Agung Wira Pertama, 2020), and (Jesicca T. Lossu, Tri Oldy Rotinsulu, Mauna Th. B. Maramis, 2023), they concluded that the income variable hasa positive relationship and a significant influence.

In this study, when compared to other studies that have been conducted, there are differencesRegarding the use of independent variables, most existing researchers have studied public savings, but in specific regions or areas; however, in this study, the independent variable selected is deposits in commercial banks in Indonesia.In addition, this study uses a newer time period, extending up to the year 2024

1.2 Research Question

Based on the background explanation outlined above, the research question can be stated as follows:

1. Does the interest rate affect savings deposits at conventional commercial banks in Indonesia?
2. Does inflation affect savings deposits at conventional commercial banks in Indonesia?

3. Does per capita income affect savings deposits at conventional commercial banks in Indonesia?

1.3 Research Objectives

Based on the background and problem formulation outlined in the previous section, the objectives of this study are as follows:

1. To determine the effect of interest rates on savings deposits at conventional commercial banks in Indonesia
2. To determine the effect of inflation on savings deposits at conventional commercial banks in Indonesia
3. To determine the effect of per capita income on savings deposits at conventional commercial banks in Indonesia

1.4 Scope of Research

This study examines four variables, consisting of three dependent variables interest rates, inflation, and per capita income—and one independent variable: savings deposits at conventional commercial banks in Indonesia. The primary focus of this study is to analyze the effects of interest rates, inflation, and per capita income on savings deposits at conventional commercial banks in Indonesia. The scope of this study includes discussions on banks, savings, interest rates, inflation, and per capita income. The data used in this study consists of secondary data obtained from official sources such as the Central Statistics Agency (BPS) and Bank Indonesia (BI)

1.5 Research Benefits

Based on the background, research questions, and objectives of this study as previously explained, this research is expected to contribute to the development of economic science, particularly in the fields of macroeconomics and finance/banking. The results of this research can deepen the understanding of how economic variables such as interest rates, inflation, and per capita income affect savings in conventional commercial banks in Indonesia. Therefore, this research can serve as a reference for other researchers interested in analyzing the economic factors that influence the public's saving decisions in Indonesia, as well as provide a clearer picture of the relationship between the banking sector and macroeconomic conditions in Indonesia.

In practical terms, this study is also expected to benefit policymakers, financial market participants, and the general public. For the government and Bank Indonesia, the results of this research can serve as a basis for formulating more effective monetary policies, including in determining interest rate and inflation policies that can influence saving decisions. For commercial banks, the findings from this research can be used to design savings products that are more attractive and aligned with current economic conditions . Furthermore, for the public, this research is expected to enhance understanding of the factors that influence savings decisions, so that they can make wiser choices regarding savings products that suit their needs