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Determinants of Bank Credit Distribution in Supporting Regional Economic Growth in South Sulawesi Province

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Abstract

Economic growth is influenced by various factors, including support from the banking world in channeling funds ownedthrough bank credit which will be a stimulus from economic activities as a source of economic growth. **Purpose:** Thisstudy aims to analyze the determinants of bank lending in supporting regional economic growth in South Sulawesi Province. **Research Design, Data, and Methodology**: This study uses secondary data taken from banking data and analyzed using path analysis Data analysis is carried out using the help of SPSS statistical analysis tools. **Results:** Non-Performance Loan, Three Partied Fund, Inflation, Exchange Rate directly affect economic growth. For the analysis of the indirect effect of Non-performance loans and Three Partied Funds have an indirect effect on economic growth through lending while the Loan to deposit Ratio, Inflation and exchange rate do not indirectly affect economic growththrough lending. Credit disbursement has a positive and significant effect on economic growth **Conclusion**: Economicgrowth of a region is influenced by many factors and these factors are influences from the banking world, the results ofthis study show that economic growth is strongly influenced by bank support through lending to support the economy by considering other factors such as interest rates and currency exchange rates

Keywords: NPL, Third Party Fund, LDR, Inflation, Exchange Rate, Credit Distribution, Economic Growth

JEL Classification Code: D14, D31, D33

1. Introduction

Development is a dimensional process that includes various fundamental changes in social structure, community attitudes and national institutions, while still pursuing accelerated economic growth, addressing income inequality and poverty alleviation. So, in essence development must reflect the total change of a society or the adjustment of the social system as a whole without neglecting the diversity of basic needs and desires of individuals and social groups within it to move forward towards a better living condition materially and spiritually

In economic development in the regions, the development goals themselves are not much different from the national development goals. However, the development process in the regions is much more specific. Basically, every development will have a correlation with overall development, regional development programs will affect national development programs and national development programs will affect the goals of global development (Chimhowu et al., 2019).

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Regional economic development is a process in which local governments and their communities manage existing resources and form a pattern of partnership between local governments and the private sector to create new jobs and stimulate the development of economic activities in the region (Nawir, 2020).

The success of a regional economic development can be measured by several indicators that are commonly used as measuring instruments. A commonly used indicator is gross regional domestic product (GDP) which can be an indicator of economic performance in general as a measure of a region's progress. The emergence of economic sectors including the agricultural sector, hunting, and agricultural facilities, mining sector, industrial sector, electricity, gas, and water sector, construction sector, trade, restaurant and hotel sector, transportation sector, warehousing, business service sector, social / community service sector and others in the community and regions provide share in the increase in gross regional domestic product. The improvement of these sectors must be supported by sources of financing to increase the quantity and quality of products produced. One of the sources of financing that is known and used to support the economy is the banking sector.

According to Lee (2005) cited by Antoni (2015), there are at least two possible relationships between financial variables and real variables. First, the development of the financial sector follows economic growth. This explains that economic growth will increase demand for financial sector products so that financial and credit market activity increases. With this it can be said that the financial sector as demand-following. Second, the development of the financial sector is a determinant of economic growth. Where financial development will increase prolonged economic growth.

The development of the financial sector, especially banking, has an important role in financing investment capital to encourage a country's economy in accordance with one of its functions, namely as an intermediation institution. The background of the development of the financial sector is the 1983 June Package (PAKJUN) policy on granting banks freedom to set interest rates on deposits and loans; and the October Package (PAKTO) 1988 on increasing competition in the financial sector by reducing barriers to the establishment of new banks.

The financial sector has an important role that is very vital in encouraging a country's economic growth. One indicator of successful development is the achievement of an economic growth rate reflected in a high real output growth rate. To achieve economic growth, funding sources are needed to encourage the business world. The need for funds that are not small as development capital is determined by banks. It is clear that the development of bank credit as a source of funding for these business sectors can affect economic growth and the national economy. Banking activities have an important position in the macroeconomic context. In addition to carrying out its function as an intermediary institution, banks also function as a medium of transmission of central bank monetary policy. Credit disbursement is the main focus of banking activities in carrying out their functions. Therefore, the credit aspect cannot be separated from economic growth in Indonesia.

The banking industry has an important role in the economy as an intermediary institution that channels public funds into productive asset investments that will encourage real sector productivity, capital accumulation, and aggregate output growth (Bencivenga & Smith, 1991; Hung & Cothren, 2002). Banking credit consisting of working capital credit, investment credit and consumption credit has a positive relationship with the economic growth of a region. The higher the credit disbursed by banks, it will spur economic growth, in this case the credit disbursed can increase economic growth (Damayanti, 2023).

One of the roles of credit in supporting economic growth is to allocate credit according to economic development priorities so as to expand equitable distribution of development results. The implications of bank credit based on existing data on economic development have at least two influences. First, bank credit is able to increase people's consumption and purchasing power through consumption credit used to meet personal needs. Second, bank credit plays a role in encouraging increased investment financing and business unit capital so that economic capacity and productivity become greater. From these two things, the next effect of bank credit is an increase in national income due to increased consumption and investment of the community as a whole so as to achieve economic growth.

Bank lending is one of the important factors to increase economic growth in terms of demand support for all business actors, however, lending must take into account various things, especially related to the risks that may be posed, credit is all types of loans that must be paid back along with interest by the debtor in accordance with the agreed agreement. It is undeniable that every credit has risk no matter how good the credit analysis and credit policy applied by the bank. There is always a probability or possibility that credit will experience non-current returns or also called Non-Performing Loan (NPL) at conventional banks and Non-Performing Financing (NPF) at Islamic banks.

According to Diulio (1993) Calling credit risk one of the financial risks, namely the risk of default. This risk can occur because the debtor does not meet the conditions contained in the credit agreement such as late payment of interest, delay in paying the principal, or even not paying at all due to bankruptcy so that it will cause the loan to be returned less than promised by the debtor. Credit risk faced by Islamic banks is defined as the customer's failure to fulfill obligations to Islamic banks in accordance with obligations. This risk is also called default risk or also called financing rick risk (Beutler et al., 2020).

On research by Beck and Levine (2004), shows that not only bank credit affects economic growth but is also positively affected by capital markets. Research conducted by Olowoweso et al. (2015), shows that private credit scores have a positive and significant relationship to economic growth. In this study, it is also proven that private sector credit has a positive effect on economic output which will affect economic growth. Research by Onder and Ozyıldırım (2013), shows that the disbursement of loan funds in the credit market significantly positively affects local economic growth in all provinces in Turkey. While in research by Ductor and Grechyna (2015), Showing the impact of financial development on economic growth depends on private credit growth on real output growth. This explains that bank credit will affect economic growth if credit is used.

2. Literature Review

2.1. Related Banking Credit Distribution

Credit based on Law No. 10 of 1998 concerning banking reads "credit is the provision of money or bills that can be likened to it, based on the loan agreement between the bank and other parties, the borrower is obliged to pay off his debt after a certain period of time with a predetermined amount of interest or profit sharing".

Credit distribution is the provision of money or bills that can be likened to it, based on an agreement or loan agreement between the bank and another party that requires the borrower to pay off the debt after a certain period of time with the amount of interest, compensation or profit sharing". Credit distributed to the public is a form of legal or legal bank fund distribution because it is based on an agreement or loan agreement between the bank and the borrower who requires paying off their debt in accordance with a certain period of time by providing interest, compensation or distribution of business results". (Butiuc, 2013).

Based on the above understanding, credit distribution is credit given on the basis of the agreement of both parties, where the creditor believes that the debtor will pay off the debt and the debtor believe that the creditor will collect the receivables at maturity. The role of credit distribution plays a significant role in economic growth. Credit, in the form of loans and financing, is a crucial component of modern economies, and how it is distributed can have a profound impact on economic development. Credit distribution will impact on (1) Capital Formation: Credit distribution enables individuals and businesses to access funds that can be used for investment in new projects, expansion, and innovation. This, in turn, leads to the accumulation of physical and human capital, which is a fundamental driver of economic growth. (2) Entrepreneurship and Innovation: Access to credit encourages entrepreneurship and innovation. Startups and small businesses often rely on loans to get off the ground, and innovative projects can secure financing to develop and bring new products and technologies to the market. Credit distribution must still be regulated in such a way, especially related to risk, consumption levels and income inequality which will affect the quality of credit distribution (Papadopoulos, 2019; Hung & Cothren, 2002).

2.2. Non-Performing Loan

Credit distribution is intended to support economically for the community to be able to carry out economic activities better, credit distribution is very beneficial for the development of a country because with capital funds, economic activities will be able to run smoothly and will ultimately be a trigger for economic growth. However, in practice, many loans disbursed experience problems, especially those arising from the inability of credit recipients to return loan funds. This problem will certainly be very disruptive for the operations of the credit channel (Marchela & Widodo, 2023).

When Non-Performance Loans occur significantly, it will certainly affect credit distribution, then naturally these conditions will also have an impact on economic performance which will ultimately affect economic growth, for that NPL management is very important so that the problem does not become a problem that causes a multiplier effect that will harm the economy as well as economic growth both nationally and regionally (Karamoy et al., 2019).

2.3. Loan to Deposit Ratio

Loan to Deposit Ratio (LDR) is a ratio measures the extent to which a bank uses deposits receive d from its customers to make loans. This ratio is calculated by dividing the amount of loans provided by the bank by the number of deposits it has. The effect of the Loan to Deposit Ratio on the economy can vary depending on a variety of factors, including macroeconomic conditions and monetary policy.

Some possible impacts such as Impact on Bank Liquidity, High LDR may indicate that the bank is using a large portion of deposits to provide loans, leaving little liquidity., If the LDR is too high, the bank may face liquidity risk, especially if the customer simultaneously wants to withdraw his deposit.

High LDR can increase credit risk if many loans cannot be repaid, especially in the event of an economic downturn. Governments and monetary authorities can monitor LDRs to ensure banking sector stability and prevent financial crises. If LDR supports healthy credit growth, this can have a positive impact on eco nomic growth as companies and individuals can acce ss more capital for investment.

2.4. Inflation

Inflation is measured using the Consumer Price Index (CPI) or the Producer Price Index (PPI), which records the change in the average price of a group of goods and services represented representatively. An increase in the price index indicates a positive inflation rate, while a decrease indicates deflation (the opposite condition, where the general level of prices decreases).

Inflation can be caused by a variety of factors, including high demand compared to the supply of goods and services, increased production costs, or external factors such as fluctuations in raw material prices or changes in currency exchange rates.

It is important to understand that a moderate rate of inflation is usually considered normal in the economy and can reflect healthy economic growth. However, high or unstable inflation can have negative impacts, such as harming people's purchasing power, reducing the value of money, and creating economic uncertainty. Conversely, deflation can lead to decreased production, decreased investment, and other economic problems. Therefore, monetary and fiscal policies are usually designed to keep inflation at acceptable levels to support economic stability.

The effect of inflation on regional economic growth can vary depending on a number of factors, and economic reactions to inflation can differ between regions. Here are some ways in which inflation can affect regional economic growth including: (1) People's Purchasing Power, Low inflation tends to support people's purchasing power because the prices of goods and services are relatively stable. This can encourage consumption and investment, which in turn can accelerate economic growth. (2) Income Distribution Effect: Inflation can affect income distribution. Uneven increases in the prices of goods and services can affect groups of people in different ways, which can exacerbate inequality. (3) Investment Decisions and Long-Term Planning: High or unexpected inflation can make long- term planning difficult. Businesses and governments may find it difficult to plan long-term projects if they cannot accurately estimate the future value of money. (4) Monetary Policy: The monetary policy response by central banks can play an important role in the way inflation affects regional economic growth. The right policies can help maintain price stability and economic growth.

2.5. TrustThird Party Funds

Third party funds are very important for banks in raising funds, because basically for the benefit of the bank's business in collecting funds from the bank itself (first party), funds originating from other parties (second party funds) and funds originating from the public or third parties in the form of savings, deposits, and other sources of funds. third party funds are funds in the form of deposits from the community (Buchory et al., 2022). Third-party funds" typically refer to funds that are deposited with a financial institution (like a bank) by entities or individuals who are not the primary account holders. These funds can come from a variety of sources, including government agencies, corporations, other financial institutions, and even individuals. The role of third-party funds in a bank's capability to distribute credit to society can be significant and is often intertwined with the bank's ability to lend money effectively.

Third-party funds can significantly bolster a bank's ability to distribute credit to society. They enhance a bank's capital base, liquidity, and lending capacity. However, this also comes with responsibilities related to prudent lending practices and compliance with regulatory requirements. It's essential for banks to strike a balance between leveraging these funds for credit distribution and managing the associated risks effectively.

2.6. Currency Exchange Rates

An exchange rate refers to the value of one currency in terms of another currency. It represents the rate at which one currency can be exchanged for another. Exchange rates are typically expressed in terms of how much of one currency is needed to purchase a unit of another currency. Exchange rates can be either fixed or floating, depending on the monetary system of a country or a group of countries. For example, if the exchange rate between the US Dollar (USD) and Euro (EUR) is 1.2, it means that 1 USD is equivalent to 1.2 EUR. Exchange rates fluctuate based on various economic factors, including supply and demand, interest rates, inflation, and geopolitical events.

Importance of Exchange Rates on Economic Growth (1) International Trade: Exchange rates play a crucial role in international trade. They influence the competitiveness of a country's exports and imports. A weaker currency can make a country's exports more competitive in the global market, potentially boosting economic growth by increasing export sales. (2) Inflation and Purchasing Power: Exchange rates impact the prices of imported goods. A depreciation of the national currency can lead to higher import prices, contributing to inflation. On the other hand, a stronger currency can help control inflation by reducing the cost of imports. (3) Foreign Direct Investment (FDI): Exchange rates influence the attractiveness of a country for foreign investors. A stable and favorable exchange rate can encourage foreign direct investment, contributing to economic growth by bringing in capital, technology, and expertise. (4) Tourism: Exchange rates affect the cost of travel and tourism. A weaker currency can make a country more attractive to foreign tourists, boosting the tourism industry and contributing to economic growth. (5) Debt Management: Countries with significant external debt may be affected by exchange rate movements. A depreciating currency can increase the cost of servicing foreign-denominated debt, impacting a country's fiscal health. On the other hand, a stronger currency may reduce the burden of external debt (6) Balance of Payments: Exchange rates are closely linked to a country's balance of payments. A country with a persistent trade surplus may experience an appreciation of its currency, while a trade deficit may lead to currency depreciation. Balance of payments stability is important for overall economic stability. (7) Monetary Policy Effectiveness: Exchange rates influence the effectiveness of monetary policy. Central banks may adjust interest rates to achieve specific economic goals, and exchange rate movements can impact the transmission of monetary policy to the broader economy.

2.7. Economic Growth

Hudson (2015) states that Economic Growth is defined as a quantitative measure that describes the development of an economy in a certain year when compared to the previous year). In addition, economic growth is defined as the increase in real GDP per capita, that is, the total outgoing market value of a country, which is the market value of all finished goods and final services produced over a period of time by the factors of production located within a country (Nguyen, 2022). Economic growth is a process, not an economic picture at one point. Here can be seen the dynamic aspect of an economy, which is to see the economy as something that develops or changes over time (Hudson, 2015; Beck & Levine, 2002).

Some economists argue that the trend of increasing per capita output alone is not enough to see economic growth. Economic growth is said to occur if there is a tendency to increase per capita output sourced from the internal processes of the economy. Thus, such tendencies, according to these requirements, must come from forces that come from within the economy itself, not from outside and are temporary. In other words, the process of economic growth must be self-generating, which means that the process of growth produces strength or momentum for the emergence of continued growth in subsequent periods.

The concept of economic growth began with Adam Smith. According to Adam Smith, the growth process will occur simultaneously and have a relationship with one another. The emergence of improved performance in one sector will increase attractiveness for capital fertilization, encourage technological advancement, increase specialization, and expand markets. This will encourage economic growth to be more rapid. In its development emerged well-known theories of economic growth theory among them, David Ricardo's Classical Growth Theory. Ricardo's theory was first expressed in his book entitled The Principles of Political Economy and Taxation (1917). Then theory of Schumpeter and Keynes (1933), and Keynes (1936). Harrod Domar's Growth Theory which is a synthesis of Keynes's classical thought on the meaning of capital formation in economic activity. In Harrod Domar's theory, capital formation is not seen as expenditure that will increase the ability of an economy to produce goods and services, but will also increase the effective demand of the community.

Studies related to economic growth are not only emphasized on aggregate economic growth but also analysis related to regional economic growth which is very important to support overall economic growth. Regional economic growth is influenced by various factors, one of which is in terms of capital or financial management, which is closely related to monetary policy implemented by the government. The monetary policy transmission mechanism describes how the monetary policy pursued by the central bank affects various economic and financial activities so that in the end it can achieve the final goal set (Nguyen, 2022). The transmission mechanism of monetary policy is "The process through which monetary policy decisions are transmitted into changes in real GDP and inflation". Bernanke and Gertler (1995) argue that many previous studies have shown that changes in monetary policy will be followed by changes in real sector or changes in output, but how the mechanism of monetary policy can affect the real sector is still unknown. This is why the transmission mechanism is referred to as a "black box". According to most economists, banks or financial intermediary institutions in the economy are believed to play a very important role in transmitting monetary policy. The initial approach in explaining the role of banks in the transmission of monetary policy was believed to be through the money channel or the obligations of the banking sector to the economy (money view), then developed the idea that banks influence the economy through credit lines (Bernanke & Blinder, 1988). In the line of credit, it is believed that monetary policy can affect the economy through credit offers from banks (bank lending channel), and through corporate balance sheets (balance sheet channel) where monetary policy affects the ability of companies to obtain external sources of financing from banks (Bernanke & Gertler, 1995). Bank credit offers are influenced by bank losses due to monetary policy stances that interact with pressure on bank balance sheets (balance sheet stress) (Al-abedallat, 2016). The study concludes that the impact of the monetary policy stance on bank losses becomes stronger in periods of crisis, assuming that financial sector risks are higher in crisis conditions. The role path of risk affects credit offering by bank through bank decisions in disbursing credit based on bank behavior in dealing with risk. The path of risk indirectly indicates an interaction between monetary policy and risk in banking sector transmitted to the real economy through bank offerings.

2.8. Hypothesis Development

Quality credit will greatly affect the smooth running of economic activities, through good credit management, Banking institutions will be able to continue to support economic performance with the quality of funding they have, based on these assumptions, Hypothesis 1 **(H1)** of this study suspects that underperforming loans will have a negative impact on economic growth either directly or indirectly through lending by banks. The quality of bank lending, one of which is influenced by the quality of funds received from customers and then distributed to the public, will greatly affect the level of banking support in the economic sector, based on this assumption, Hypothesis 2 **(H2)** of this study suspects that third party funds will have a positive effect on economic growth either directly or indirectly through credit distribution carried out by banks. Bank lending will be strongly influenced by the ability of banks in bank liquidity management, thus a good loan to deposit ratio will affect the level of bank support for economic growth with this assumption, Hypothesis **3 (H3)** of this study predicts that the loan to deposit ratio will affect either directly or indirectly through lending distribution to economic growth. The inflation rate will affect the level of purchasing power and investment from the public so that inflation will have a negative influence on the economy, assuming so, Hypothesis 4 **(H4)** of this study suspects that inflation will have a negative impact on economic growth either directly or indirectly through bank lending. The exchange rate can be a determining factor in creative activities, one of the effects of the exchange rate is that it will affect interest rates which will ultimately affect lending activities and have an impact on growth, so through this assumption developed Hypothesis 5 **(H5)** of this study as follows, it is suspected that the exchange rate has a positive effect on economic growth, The modern economy today cannot be separated from exchange rate problems (Exchange Rates) a well-managed exchange rate will affect economic morale. Proper and quality bank lending will have a positive impact on economic growth, based on this, Hypothesis 6 **(H6)** of this study suspects that bank lending has a positive and significant effect on economic growth.

By referring to the research hypothesis, the concept of this research can be described as follows:

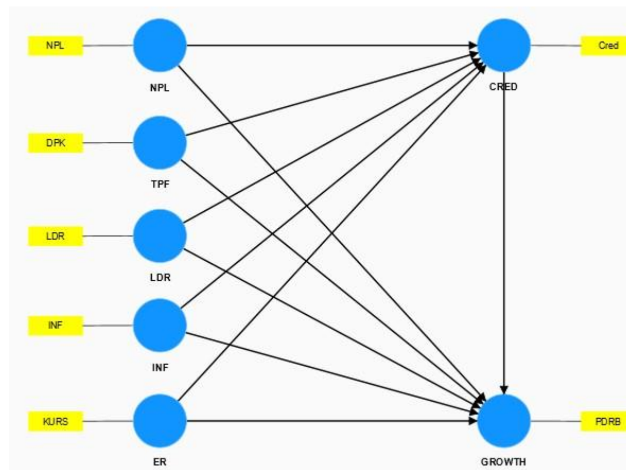

Figure 1: Research Conseptual Framework

Note:
X1 : Non Performance Loan (NPL)
X2 : Three Partied Fund (TPF)
X3 : Loan to Deposit Ratio (LDR)
X4 : Inflation (INF)
X5 : Exchange Rates (ER)
Z : Credit Distribution (CRED)
Y : Economic Growth (GROWTH)

3. Research Design and Methodology

3.1. Research Design

This study is intended to analyze the factors that affect economic growth through Bank Credit Distribution The variables used in this study are variables consisting of Non-Performing Loans, Third Party Funds, Loan to Deposit Ratio, Inflation, Exchange rates Credit Disbursement and Regional Economic Growth in South Sulawesi Province. The Research using secondary data, namely Non-Performing Loan data, Third Party Funds, Loan to Deposit Ratio, inflation, exchange rates, Credit Distribution and Regional Economic Growth in South Sulawesi Province for the period of fiscal year 2012 to fiscal year 2021.

3.2. Data Analysis Techniques

All data was analyzed using the SMART PLS 4.0 analysis tool. Data analysis is carried out to determine the influence between variables, both direct and indirect influences. Although the data used is secondary data that only has single data so that in the analysis of the algorithm is not calculated the value of construct reliability and validity values and discriminant validity, but the algorithm analysis will show the values of R Square and F Square which is very important to find out the compatibility of the model used in this study. The second analysis step in PLS Analysis is Bootstrapping analysis, bootstrapping analysis is used to determine the value of influence between variables, both direct and indirect, through this analysis will be proven Research hypotheses that have been built previously.

4. Result & Discussion

4.1. Statistics Test Results

Bootstrapping analysis produces research data as illustrated in figure 1. From the figure can be known the path coefficient of each indicator which shows the value of influence between indicators both directly and indirectly.

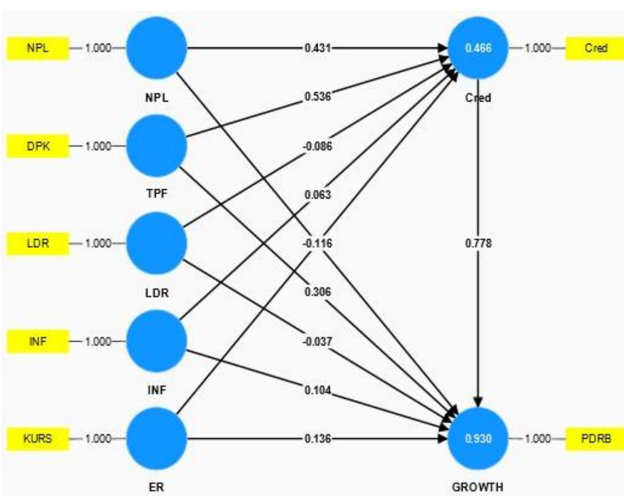

Figure 2: Algorithm Analysis

This study shows an R square value between NPL, TPF, LDR INF and EXCHANGE RATE to credit distribution of 0.466. This indicates that the influence of all independent variables on credit distribution is 46.6%, thus there are still 55.4% of other factors that affect credit distribution but are not studied in this study, while the influence of all variables on economic growth is 0.930, this indicates that all variables studied in this study are able to affect economic growth by 93%, thus still 7 percent of other factors that affect economic growth but was not studied in this study.

Tabel 1: Research R Square Value

Variable	R-square	R-square adjusted
Credit	0.466	0.392
Growth	0.930	0.918

To find out the value of R square in total, it is necessary to do a separate calculation using the Q square formula as follows:

$$Q\text{-}Square = 1\ [(1 - R^2 1)\ (1 - R^2 2)] \quad (1)$$

Where:

$R^2 1$ = R-*Square Value* for Credit Distribution

$R^2 2$ = R-*Square Value* for Economic Growth

So that the calculation value is obtained: Q-Square = 1 – [(1 – R21) x (1 – R22)]

= 1 – [(1 – 0,466) x (1 – 0,930)]

= 1 – (0,534 x 0,07)

= 1 – 0,03738

= 0,96262 = 92.26%

Based on the results of the calculation of the equation above, a Q-Square value of 0.96262 is obtained. This shows that the amount of diversity of research data described by the research model is 96.3%. The remaining 3.7% was explained by other factors that were outside of the research model. Thus, it can be said that this research model is stated to have a good goodness of fit.

The next step is to do a Bootstrapping Analysis to find out the extent to which the research variable has an effect either directly or indirectly through bootstrapping analysis produced an Analysis image as shown in figure 2 as follows:

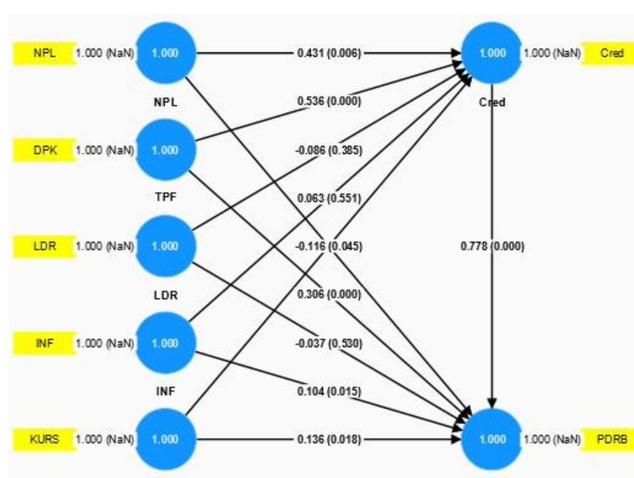

Figure 3: Bootstrapping Analysis Results

From figure 2. The above is the basis for making conclusions to determine the acceptance and rejection of hypotheses in this study which are in detail presented in the table 2. Hypothesis Testing (Direct Effect)

4.2. Direct Effect

The direct effect of dependent variables, namely: Non-performance Loan, Three Partied Fund, Loan to Deposit Ratio, Inflation and Exchange Rate on economic growth can be seen in table 2. Based on the results of PLS smart output, this study proves that Nonperformance Loan has a direct positive effect on economic growth, this is shown from the P Value of 0.045 < 0.05 thus Hypothesis 1 of this study is rejected. Third party funds proved to have a direct positive effect on economic growth with a P Value of 0.000 < 0.05 thus H2 this study was accepted, then this study also proved loan to deposit ration had no effect on economic growth this was shown by the P Value value of 0.530 > 0.05 thus Hypothesis 3 of this study was rejected. The results of this study indicate that the inflation rate has a positive and significant influence on economic growth, thus hypothesis 4 in this study is rejected. The results of this study indicate that the exchange rate has a positive and significant influence on economic growth, this is indicated by the P Value of 0.018 < 0.05, thus Hypothesis 5 of this study is accepted. This study indicates that if credit distribution affects economic growth with a P value of 0.000 < 0.05, then Hypothesis 6 of this study is accepted.

Table 2: Hypothesis Testing (Direct Effect)

	Original Sample (o)	Sample Mean (M)	St.Deviation(STDEV)	T Statistic	P-Value
Cred → Growth	0,778	0,782	0,063	12,283	0,000
ER → Cred	-0,038	-0,026	0,127	0,303	0,762
ER → Growth	0,136	0,138	0,058	2,369	0,018
INF → Cred	0,063	0,058	0,105	0,597	0,551
INF → Growth	0,104	0,106	0,043	2,444	0,015
LDR → Cred	-0,086	-0,071	0,099	0,869	0,385
LDR → Growth	-0,037	-0,045	0,059	0,628	0,530
NPL → Cred	0,431	0,449	0,158	2,730	0,006
NPL → Growth	0,116	-0,125	0,058	2,007	0,045
TPF → Cred	0,536	0,544	0,087	6,195	0,000
TPF → Growth	0,306	0,300	0,071	4,295	0,000

4.3. Indirect Effect

In this study there are 5 (five) indirect effect asdescribed in table 3. The results of data analysis that have been carried out show that if NPL has a positive andsignificant effect on economic growth through creditdistribution, this is shown through P Value values of < 0.05, thus the hypothesis of this study is rejected. This study indicates that the Three Partied Fund has a positive and significant effect on economic growth through lending, this is shown through the P value of 0.000 < 0.05 so that research hypothesis 2 (for indirect effect) is accepted. This study indicates that the loan to deposit ratio has no effect on economic growth through the credit distribution it shown by P value of 0.407 > 0.05,thus hypothesis 3 (for indirect effect) of the study is rejected. The results of this study indicate that inflation has no effect on economic growth through credit distribution, this is shown from the P value of 0.550 > 0.05, thus hypothesis 4 (for indirect effect) of the study is accepted. The results of this study indicate that the exchange rate has no effect on economic growth throughcredit distribution, this is shown from the P value of 0.764 > 0.05, thus hypothesis 5 (for indirect effect) this study is rejected.

Table 3: Hypothesis Testing (Indirect Effect)

	Original Sample	Sample Mean	St.Deviation	T Statistic	P-Value
ER → Cred → Growth	-0,030	-0,018	0,100	0,301	0,764
INF → Cred → Growth	0,049	0,044	0,082	0,598	0,550
LDR → Cred → Growth	-0,067	-0,054	0,081	0,829	0,407
NPL → Cred → Growth	0,335	0,353	0,132	2,533	0,011
TPF → Cred → Growth	0,417	0,425	0,076	5,478	0,000

5. Discussion

Non Performance Loan (NPL) theoretically will have a negative effect on economic growth, but this study indicates NPL in South Sulawesi does not negatively affect economic growth in the region, several things can be used to explain why this can happen, one of which is the performance of banks in the South Sulawesi region which shows a fairly good performance, the NPL value in the South Sulawesi region is at the level of 2.5% which is still is below the national average NPL level, with such low NPLs, NPLs that occur do not affect general economic growth in South Sulawesi.

The further results of this study show the importance of third-party funds raised by development institutions in supporting economic growth The Bank uses third party funds to provide credit to individuals and companies that need funds for business expansion, investment in infrastructure, and other projects. This injection of funds can boost economic growth by enabling new businesses, increased production, and job creation. In addition to supporting businesses and investments, third-party funds are also used for consumer financing. This means that individuals can buy consumer goods and property with the help of loans from banks. This drives the retail and property sectors, which are important components of economic growth. This is in line with the banking function which plays a role in collecting funds from various sources and distributing them to economic sectors in need. It helps in the efficient allocation of resources to various projects and ventures, which in turn can boost economic growth. Thus, third-party funds owned by banks act as intermediaries that connect those who have financial resources with those in need, creating an environment that supports economic growth. Its significant presence in banking and allocation of funds makes it have a strong impact on the economic growth of a country.

This study informs that the inflation rate actually affects economic growth, economic growth and inflation rates are two interrelated factors in an economy. A certain amount of inflation in the economy can have both good and bad effects on economic growth. One of the reasons why the inflation rate can affect economic growth is the relationship with monetary policy: The inflation rate can be influenced by monetary policy implemented by the central bank. When central banks raise interest rates to control inflation, this could hamper investment and consumption as borrowing costs become higher. However, this policy can also help control the inflation rate. Related to economic growth, when interest policy is set too high to control inflation, on the other hand, this will inhibit investment which will affect economic growth.

The results of this study show that if the currency exchange rate affect economic growth, several factors that affect this include: (1) Changes in currency exchange rates may take a long time before they have an impact on economic growth. Fluctuating currency exchange rates may affect exports and imports, but the effect may not be immediately apparent in economic growth data. Therefore, studies covering a limited period of time may not be able to capture this relationship. (2) External Effects: External factors such as fluctuations in commodity prices, global demand, and geopolitical instability can have a greater impact on economic growth than changes in currency exchange rates. In some cases, these factors may dominate the influence of currency exchange rates. (3) Government or Central Bank Intervention: Some governments or central banks may actively intervene in currency exchange rates to maintain economic stability. Such actions can limit the impact of currency exchange rate fluctuations on economic growth (4) Low Dependence on Export Sectors: Countries or regions that have a low dependence on exports may be less affected by changes in currency exchange rates. If the economy is more focused on domestic consumption or sectors that are less dependent on international trade, then currency exchange rates may have a more limited impact. It is important to remember that the relationship between currency exchange rates and economic growth can be very complex and influenced by many factors. Although the exchange rate directly affects economic growth, this research also proves that the exchange rate will not affect economic growth through credit distribution, in simple terms it can be said that if the exchange rate is associated with the distribution of credit to be distributed, this will not affect economic growth because in practice this will definitely affect the interest rate that will being a consideration of the public in making loans, moreover the highly fluctuating nature of the exchange rate will definitely be very contradictory to the expectations of the community who need credit fund support with stable interest rates.

5.1. Practical Implication

This research can provide input to the government, as well as banking institutions, if the adequacy of third party funds will have very strong implications for banking institutions in encouraging regional economic growth and a country as a financial intermediation institution, banks need to continue to strive for maximum collection of third party funds which are then channeled through quality credit distribution so that it will have positive implications for growth economics .interest rates also need to be managed in such a way considering that interest rates are one of the important determinants for banking products that have implications for customer decisions in using the products offered by bank

These findings have implications for policy makers and stakeholders in the South Sulawesi region. Strategies to manage Non-Performing Loans, enhance Third Party Funds, adjust the BI 7 Days Repo Rate, optimize the Loan to Depo sit Ratio, and stabilize the exchange rate could positively influence both bank lending and, subsequently, regional eco nomic growth.

5.2. Theoretical Implication

The results of this study provide theoretical implications related to theories about banking management, especially in banking as a financial intermediation institution that collects and distributes funds to the community, this research can also be used as an example of the implementation of supply and demand theory associated with demand from the community for banking products associated with interest rates on credit tenors and credit requirements Others that will be a consideration for customers to make decisions in the use of banking products

6. Conclusion

The analysis of path coefficients reveals intricate Based on the results and discussion, it can be concluded as follows:

This research indicates that Non-Performance Loans have a positive influence directly or indirectly through lending to economic growth. This shows that NPLs in South Sulawesi at the time of the study were still within reasonable limits which were not a factor that hindered economic growth

1. Third Party Funds are proven to have a positive influence directly or indirectly through lending to economic growth. This shows that third-party funds are a very decisive factor for banking institutions in distributing credit which will ultimately affect economic growth
2. This study did not find a significant effect either directly or indirectly through lending from the Loan to Deposit Ratio on economic growth. This indicates that bank liquidity does not affect economic growth because basically bank liquidity is the internal management of banks, what affects economic growth is the value of credit distribution that can be realized to boost the regional economy
3. The inflation rate in this study is proven to have a positive and significant influence on economic growth. However, on the other hand, inflation is not proven to have an influence on economic growth through credit distribution, this indicates that inflation which then affects credit distribution, which among other things affects interest rates, will actually hamper the realization of credit distribution which ultimately affects people's economic activities and has an impact on economic growth
4. The exchange rate has a direct positive and significant influence on economic growth. However, research shows that the exchange rate does not affect economic growth through lending, this indicates that if the exchange rate, then affects interest rates, it will reduce credit distribution which in turn will affect declining economic growth
5. Credit distribution is proven to affect economic growth, this indicates that credit distribution will affect the economic activities of the community which will ultimately affect economic growth

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