

ABSTRACT

Prosiclycality shows a phenomenon where the financial cycle tends to be faster than the economic cycle. Excessive expectations in lending cause credit to exceed what is actually needed in accordance with economic fundamentals, and because of their high risk accumulation and vulnerability in the financial system and otherwise, in the economic downturn, the financial cycle actually exacerbates the economic cycle. The purpose of this research is to find out how the influence of business cycle on lending to conventional and sharia banks. Furthermore, this research wants to find out, does the influence of banking internal factors also affect the distribution of Islamic and conventional banking loans. are represented by the Capital Adequacy Ratio and Return on Equity. This study uses data in the range of 2013Q2 to 2017Q4. By using the Hodrick-Prescott Filter method to get data from economic cycle variables, this research will use the data panel estimation. The results of the study show that the Islamic and conventional banks are counter-cyclical to the economic cycle, with the condition of Islamic banking lending smaller than conventional banks. Furthermore, the internal conditions of the banking sector did not affect the magnitude of the response of lending to conventional and Islamic banks.

Keywords: Procyclicality, Economics cycle, Hodrick-Prescott Filter, Islamic bank, conventional bank