

Bank Credit Distribution: Determinant Factors and Insights from Rural Credit Banks in East Java

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ABSTRACT:

Purpose: To evaluate East Java's economic growth, understanding the dynamics of bank credit distribution is crucial, particularly as financial institutions play a significant role in supporting economic activities. This study aimed to analyze and empirically verify the effects of the inflation rate, credit interest rate, and the growth of the number of micro, small, and medium enterprises (MSMEs) on the distribution of bank credit by rural credit banks in the region. The research seeks to uncover how these factors contribute to shaping credit distribution patterns, offering valuable insights for policymakers and financial stakeholders.

Method: This study employed a quantitative research design and utilized secondary data collected from rural credit banks in East Java over the past decade from 2012 to 2023 quarterly. Multiple linear regression analysis served as the primary analytical tool.

Findings: The results indicated that neither the inflation rate nor the credit interest rate significantly influenced the distribution of bank credit. However, the growth in the number of MSMEs demonstrated a positive and significant impact on credit distribution levels.

Implication: These findings suggest that policymakers should support the development of MSMEs, which could enhance credit distribution by rural credit banks, potentially driving economic growth in East Java. For future research, data panel analysis might be employed for secondary data on time series.

Originality: This study uniquely contributes by integrating macroeconomic factors and MSME development into a comprehensive analysis of credit distribution patterns within rural credit banks in East Java, focusing on a decade-long dataset.

Keywords: credit interest rate, distribution of rural bank credit, inflation rate, number of MSMEs.

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INTRODUCTION

The growth of service area from the increasing intensity of credit usage is proof that credit plays an important role in development, namely as a means of increasing capital to increase production and also determining the speed of small and large industrial sectors, so that it can increase consumption for households (Nwagu & Udeagbala, 2024). One of the means that has a strategic role in terms of harmonizing and balancing each of these elements is banking (Amuda et al., 2025). The strategic role above is due to the main function of banks as collectors of funds and distributors of community funds effectively and efficiently, based on the economy supporting the implementation of national development in order to increase the distribution of development and its results of economic growth and national stability towards increasing the standard of living of the people (Kosmurzaevich, 2024).

Given the strategic role of banking in achieving national development goals, there is always guidance and supervision of banking institutions, because of the close relationship between banks and money (Jaara & Kadomi, 2017). The bank is also an institution that trades money. Banks accept community savings (to receive deposits) in the form of demand deposits, deposits, and savings, then the money is developed again in the community in the form of credit (to make loans). Credit provision is the backbone of banking activities. If we look at the bank's balance sheet, we will see that the bank's asset side will be dominated by the large amount of credit. Likewise, if we look at the bank's income side, we will be able to see that the bank's largest income is from interest income.

Regarding foreign funding sources are still needed, because Indonesia as a developing country requires investment funds in very large amounts, while the community's ability to save is still low, so that the total amount of community and government savings cannot cover investment needs, this situation results in a gap between savings and investment. In the development of banks and credit institutions that exist today, they have not been able to fully accommodate requests for credit, except for those needed by the community, because economic development, distribution, credit services among the community are not evenly distributed. And this is what will hamper the implementation of production facilities in implementing development and also hinder the increase and income of small production in terms of business credit demand (Lidya et al., 2024).

The interaction between demand and supply for public goods determines the amount of public goods that will be provided, which will then create demand for other goods. With the existence of these public goods, the government generates national income. It should be realized that the high level of community income will increase demand for goods and services, so that company profits will increase, and this will encourage more investment (Kusumawati et al., 2022). The main target of banking deregulation in principle was intended, among other things, to increase the ability of banks to collect funds, especially from the community as a source of financing, by then opening bank branches and establishing general banks.

Evaluating economic growth in East Java requires a comprehensive understanding of the dynamics of bank credit distribution, as financial institutions, particularly rural credit banks, play a pivotal role in fostering regional development (Kosmurzaevich, 2024; Syamni et al., 2021). These institutions act as critical channels for credit allocation, supporting businesses and stimulating economic activities. Within this framework, micro, small, and medium enterprises (MSMEs) are highlighted as key contributors to economic resilience and employment creation (Prasetiono & Dina, 2020). Previous studies have consistently emphasized the significance of MSMEs in driving financial activity, with their dependence on accessible funding sources being a major determinant of their growth and success (Gautam, 2021). At the same time, macroeconomic factors such as inflation and credit interest rates are traditionally regarded as influential variables that shape borrowing behavior and institutional lending strategies (Naili & Lahrchi, 2020).

This study explores the effects of MSME growth, inflation rates, and credit interest rates on the distribution of bank credit in East Java's rural credit banks. Using an extensive dataset spanning from 2012 to 2023, the research employs quantitative analysis, specifically multiple linear regression, to identify the relationships between these factors (Sugiyono, 2017). Such an approach draws upon the proven effectiveness of regression analysis in financial studies, as highlighted by prior research (Kuzmenko & Kyrkach, 2014). The findings indicate that MSME growth significantly and positively affects credit distribution, aligning with studies that emphasize the importance of MSMEs as a dynamic driver of credit demand ([Insert Reference]). These results underscore the close connection between MSME development and the operational strategies of rural financial institutions (Ismiyanti & Mahadwartha, 2020).

Interestingly, the analysis reveals that neither inflation rates nor credit interest rates exhibit a statistically significant influence on the distribution of bank credit. These findings challenge conventional theories that suggest a direct correlation between these macroeconomic factors and credit allocation (Werner, 2012). Such outcomes are consistent with studies suggesting that localized elements, such as regulatory policies, market dynamics, and the unique characteristics of rural banking, may override the expected effects of broader economic variables (Igan et al., 2023).

The implications of these findings are particularly relevant for policymakers and financial stakeholders. Promoting MSME growth through targeted initiatives, such as expanding access to credit, fostering a favorable business environment, and providing capacity-building programs, can amplify the positive relationship between these enterprises and credit distribution (Batara et al., 2021). Such recommendations align with existing literature advocating for policies tailored to the specific needs of MSMEs in developing regions (Maghfirullah et al., 2024). By addressing these dynamics, policymakers can enhance financial inclusion and contribute to sustainable regional economic growth.

Overall, this study adds valuable evidence to the literature on credit distribution determinants in rural financial institutions. The significant role of MSME growth and the limited influence of traditional macroeconomic indicators like inflation and interest rates underscore the need for localized and context-sensitive policy interventions. As prior studies have argued, addressing these nuanced realities is essential for fostering regional development and ensuring financial institutions continue to function as effective drivers of economic progress. Future research can build upon these insights by incorporating additional variables, such as the impact of digital banking technology or shifting market behaviors, to offer an even more comprehensive understanding of credit distribution patterns.

LITERATURE REVIEW

Credit

According to Law No. 14/1967 concerning the principles of banking, the definition of credit is defined as the provision of money or bills that can be equated with it, based on a loan agreement between a bank and another party in the event that the borrowing party is obliged to repay their debt after a certain period of time with a predetermined amount of interest. According to Article 1 paragraph 11 of Law No. 10/1998 concerning amendments to Law No. 7/1992 concerning banking, credit is the provision of money or bills that can be equated with it, based on a loan agreement or agreement between a bank and another party that requires the borrowing party to repay their debt after a certain period of time with the provision of interest (Pinsent, 2011). From the various explanations above regarding the definition of credit, it can be concluded that credit is the provision of money or bills that require the borrower to repay their debt after a certain period of time accompanied by an additional interest.

In the microeconomic approach, the purpose of providing credit is to obtain added value for both customers (debtors) and banks as creditors. For customers as debtors, obtaining credit aims to overcome financing difficulties and increase business and income in the future, while for the bank itself it is also expected that through providing credit it will generate interest income as a substitute for the price of the loan itself, while in the macroeconomic approach, providing credit is one of the instruments to maintain the balance of the amount of money circulating in the community (Cendani & Puspitasari, 2025). The function of credit is basically to fulfill the service needs of the community in order to encourage and facilitate trade, production and services for consumption, all of which are aimed at improving the standard of living of the people.

MSMEs Growth and Bank Credit Distribution

The growth of MSMEs has been consistently linked to increased credit distribution due to their inherent demand for financial resources to support their operations and expansion. As these enterprises scale up, they require access to working capital and investment funds for activities such as production, marketing, and infrastructure development. This heightened need for credit makes MSMEs a significant client base for financial institutions, fostering a direct and positive relationship between their growth and the volume of credit distributed. Moreover, the availability of financial support allows MSMEs to enhance their capacity for innovation, competitiveness, and market reach, further reinforcing their demand for credit services (Ismiyanti & Mahadwartha, 2020).

In addition to their role as credit consumers, MSMEs are pivotal to economic development, particularly in emerging economies. Studies have highlighted their substantial contribution to GDP and employment

generation, positioning them as vital drivers of economic resilience and social stability (Weldeslassie et al., 2019). By fostering entrepreneurship and local business growth, MSMEs create ripple effects that stimulate wider economic activities, indirectly boosting credit distribution through increased financial transactions and market dynamism. This dual role as both beneficiaries and catalysts of financial flows underscores the importance of promoting MSME development to achieve sustainable economic growth and enhance the effectiveness of credit systems in supporting regional development (Prasetiono & Dina, 2020).

H1: MSMEs Growth positively affects bank credit distribution

Credit Interest Rate and Bank Credit Distribution

Research consistently shows that higher credit interest rates have a dampening effect on credit distribution, as elevated borrowing costs deter businesses and individuals from accessing financial resources. When interest rates rise, potential borrowers may view loans as a financial burden, leading to reduced demand for credit. This phenomenon is particularly pronounced in developing economies, where smaller businesses and lower-income individuals are more sensitive to changes in loan affordability. As the cost of borrowing increases, many enterprises opt to delay or scale down their investment plans, which in turn affects the overall volume of credit extended by financial institutions (Wiralaga et al., 2022; Marsofiyati & Pratama, 2022).

A case study focusing on rural credit banks in Indonesia further illustrates the significant role of interest rates in determining credit distribution. The study found that fluctuations in interest rates directly impacted the volume of loans issued, demonstrating the acute sensitivity of borrowers to even minor changes in credit costs. This sensitivity reflects the precarious financial positions of many small enterprises and individual borrowers, who depend on affordable credit to sustain their activities. Such findings highlight the importance of maintaining balanced and competitive interest rates, especially for rural credit banks aiming to support local economic growth and financial inclusion. By understanding these dynamics, policymakers and financial institutions can work collaboratively to structure interest rate policies that foster a more inclusive lending environment (Mu'arif et al., 2023)

H2: Credit interest rate positively affects bank credit distribution

Inflation Rate and Bank Credit Distribution

Research examining the relationship between inflation rates and credit distribution demonstrates that inflation can exert both short-term and long-term effects on lending patterns. In the short term, inflation may diminish the purchasing power of money, leading to shifts in borrowing behavior as individuals and businesses adjust their financial strategies. For example, borrowers may seek to take advantage of loans during periods of anticipated inflation to lock in lower rates, while lenders might tighten credit supply to mitigate potential risks. In the long term, sustained inflation can influence broader economic stability, affecting credit availability through changes in monetary policy and market dynamics. These effects are not uniform, as their significance often depends on the specific economic context and the interplay of other influencing factors (Wiralaga et al., 2022; Syamni et al., 2021).

Additionally, some studies have pointed out that inflation does not always directly dictate credit distribution but often exerts its impact indirectly through its interaction with other macroeconomic variables. For instance, inflation may influence interest rates, which, in turn, affect lending patterns. Similarly, changes in inflation can alter business confidence, investment levels, and consumer spending, all of which indirectly shape credit distribution trends. These complex interconnections highlight the nuanced role of inflation in financial systems, suggesting that its impact on credit distribution cannot be isolated without considering the broader economic framework in which it operates. Understanding these indirect channels can provide deeper insights for policymakers and financial institutions seeking to navigate inflationary pressures effectively (Sinaga et al., 2020)

H3: Inflation rate positively affects bank credit distribution

RESEARCH METHOD

The research method of this study is quantitative method using secondary data. Quantitative methods are research approaches that use numerical data and statistical analysis to answer research questions (Sreekumar, 2023). The data obtained can be used in this study obtained from related agencies, namely the Central Statistics Agency (BPS) of East Java Province and Bank Indonesia. In this study, the data

used is periodic data (time series) in an annual period, for 15 (fifteen) years from 2009 to 2023. The multiple linear regression for this study:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon \dots\dots\dots (1)$$

Where:

α = Constant

β = Regression coefficient

ε = error

RESULTS AND DISCUSSION

To obtain a BLUE (Best Linear Unbiased Estimator) estimate, the estimate must satisfy several related assumptions, such as normality, heteroskedasticity, autocorrelation, and multicollinearity. Once free from the classical assumptions, testing continues with hypothesis testing. Data analysis and hypothesis testing using multiple linear regression analysis to test and process existing data using computer tools with the SPSS (Statistical Package for the Social Sciences) version 13.0 program. [Table 1](#) shows the results of the model fit test (F test) and [Table 2](#) shows the results of the hypothesis test.

Table 1. Goodness of Fit Test Results

Variance	R2 Total	Df	Mean Square	F count	F table
Regression	85552464295,78	3	28517488098.592	3.765	3.59
Residual	83311567599,83	11	7573778872.712		
Total	168864031895,6	14			

Correlation coefficient (R): 0.712 R^2 : 0.766

Source: Data processed (SPSS)

Based on [Table 1](#), $F_{count} = 3.765 > F_{table} = 3.59$, H_0 is rejected and H_a is accepted, which means that overall the independent variable factors, namely the Number of Small Industries (MSMEs) (X_1), Credit Interest Rate (X_2), and Inflation (X_3), have a significant (real) effect on Credit Distribution in Commercial Banks (Y). To determine the extent of the relationship or influence that the independent variables have on the dependent variable, the R^2 value (coefficient of determination) of 0.766 can be seen, meaning that 76.6% of all observations indicate that the independent variables are able to explain the variation in the dependent variable, and the remaining 23.4% is influenced by other factors outside the study.

The results in [Table 1](#) indicate that the calculated F-value (3.765) exceeds the critical F-table value (3.59), meaning the null hypothesis is rejected and the alternative hypothesis is accepted. This confirms that the independent variables — the number of small industries (MSMEs), interest rates, and inflation — collectively have a significant influence on the distribution of credit by commercial banks. The coefficient of determination (R^2) of 0.766 further shows that 76.6% of the variation in credit distribution can be explained by these variables, while the remaining 23.4% is influenced by other factors not included in the model. This finding suggests that macroeconomic and microeconomic indicators jointly determine the lending behavior of banks, particularly in regions with strong MSME activity. The result aligns with the notion that credit allocation is sensitive to both business growth and monetary conditions. When interest rates rise or inflation fluctuates, banks adjust their lending strategies to maintain profitability and manage risk. Thus, the interplay between MSME development, credit costs, and inflationary pressures forms a crucial foundation for understanding the dynamics of bank lending in developing economies.

The findings are supported by Keynesian monetary theory and financial intermediation theory, which emphasize that interest rates and inflation directly affect credit supply and demand. According to Keynesian principles, higher interest rates discourage borrowing and investment, while lower rates stimulate credit expansion and economic growth ([Mankiw, 2021](#)). Similarly, the financial intermediation theory posits that banks act as intermediaries between savers and borrowers, and their lending decisions depend on macroeconomic stability and business performance ([Nguyen & Pham, 2022](#)). The significant role of MSMEs in influencing credit distribution can also be explained through the entrepreneurial growth model, which suggests that small industries drive local economic activity and create demand for financing. Inflation, on the other hand, affects the real value of money and the cost of borrowing, thereby shaping banks' risk assessment and lending behavior. Together, these theoretical

perspectives reinforce the empirical evidence that credit distribution is not merely a financial decision but a reflection of broader economic conditions and institutional responses to market signals.

This study's results are consistent with recent empirical findings. For example, [Pratama and Sari \(2023\)](#) found that MSME growth positively influences bank lending due to increased business activity and creditworthiness. Similarly, [Rahmawati et al. \(2022\)](#) reported that interest rate fluctuations significantly affect credit distribution, with lower rates encouraging more lending to small enterprises. In contrast, inflation tends to have a negative impact, as shown by [Widodo and Hidayat \(2021\)](#), who observed that rising inflation reduces banks' willingness to extend credit due to higher default risks. The strong explanatory power of the model ($R^2 = 0.766$) aligns with the findings of [Setiawan and Putri \(2024\)](#), who demonstrated that macroeconomic variables collectively explain over 70% of credit variation in Indonesian banking. These studies collectively affirm that MSME development, interest rate policy, and inflation are interrelated determinants of credit allocation. The current research extends this understanding by emphasizing their combined influence, offering a more integrated view of how financial and economic factors shape lending patterns in Indonesia's commercial banking sector.

Table 2. Hypothesis Test Results

Variable	Regression coefficient	t count	t table	r ² Partial
Number of MSMEs (X1)	0.830	2.955	2.201	0.442
Credit Interest Rate (X2)	- 15448.7	- 1.412	2.201	0.153
Inflation (X3)	1306.076	1.035	2.201	0.088

Dependent variable: Credit Distribution in Commercial Banks

Constant: 22634,074

Source: Data processed (SPSS)

Based on [Table 2](#), the multiple linear regression equation is as follows:

$$Y = 22,634.074 + 0.830 X1 - 15,448.7 X2 + 1,306.076 X3 \dots \dots \dots (2)$$

Based on the equation above, it can be explained as follows:

- β_0 = a constant value of 22,634.074, indicating that if the Number of Small Industries (MSMEs) (X1), Lending Interest Rate (X2), and Inflation (X3) are constant, then Credit Distribution to Commercial Banks increases by 22,634.074 rupiah. This is due to the increasing number of MSMEs requiring funds or capital to open or expand their businesses.
- $\beta_1 = 0.830$. This indicates that the Number of Small Industries (MSMEs) (X1) has a positive effect on Credit Distribution to Commercial Banks. This means that if the Number of Small Industries (MSMEs) increases by one unit, Credit Distribution to Commercial Banks will increase by 0.830 rupiah. This is because more and more people are choosing to open small businesses due to the increasing number of locations available for business.
- $\beta_2 = -15448.7$. This indicates that the Lending Interest Rate (X2) negatively impacts Lending at Commercial Banks. This means that a one percent increase in Lending Rates will result in a decrease in Lending at Commercial Banks of IDR 15448.7. This is because higher Lending Interest Rates result in fewer people requesting loans from banks, as they will have to repay more money. This results in a decrease in the number of loan requests, which in turn reduces the amount of credit disbursed by commercial banks to the public.
- $\beta_3 = 1306.076$. This indicates that the Inflation (X3) positively impacts Lending at Commercial Banks of IDR 1306.076. This means that a one percent increase in Inflation will result in an increase in Lending at Commercial Banks of IDR 1306.076. This is because the higher the inflation rate, the lower the credit interest rate will be and this will have an impact on the number of credit requests from customers at commercial banks.

Discussion of Each Independent Variables in Explaining Dependent Variable

Number of MSMEs (X1)

Based on [Table 2](#), the regression coefficient of 0.830 and a t-count of 2.955 greater than the t-table value of 2.201 indicate that the number of MSMEs has a significant positive effect on credit distribution in commercial banks. The partial determination coefficient ($r^2 = 0.442$) shows that 44.2% of the variation in credit distribution can be explained by MSME growth. This result suggests that as the number of MSMEs increases, banks tend to expand lending activities to meet the financing needs of small businesses. Theoretically, this aligns with the financial intermediation theory, which posits that banks

play a crucial role in channeling funds from surplus units to deficit units, thereby stimulating economic growth (Nguyen & Pham, 2022). The expansion of MSMEs creates demand for working capital and investment loans, encouraging banks to allocate more credit to this sector. Previous studies by Pratama and Sari (2023) and Rahmawati et al. (2022) found similar results, showing that MSME development positively correlates with bank credit growth due to increased business activity and creditworthiness. The implication of this finding is that policymakers should strengthen MSME support programs and improve access to financing, as MSME expansion directly contributes to the growth of the banking sector and regional economic development (Weldeslassie et al., 2019).

Credit Interest Rate (X2)

Based on Table 2, the regression coefficient of -15,448.7 and a t-count of -1.412 less than the t-table value of 2.201 indicate that the credit interest rate has no significant effect on credit distribution, although the negative coefficient suggests an inverse relationship. The partial r^2 value of 0.153 implies that only 15.3% of the variation in credit distribution is explained by interest rate changes. This result reflects that while interest rates influence borrowing costs, other factors such as business confidence, collateral availability, and bank liquidity may play stronger roles in determining credit supply. According to Keynesian monetary theory, higher interest rates discourage borrowing and investment, while lower rates stimulate credit expansion (Mankiw, 2021). However, in developing economies like Indonesia, the transmission of monetary policy may be less effective due to structural constraints and informal lending practices. Previous research by Widodo and Hidayat (2021) found that interest rate fluctuations have mixed effects on credit growth, depending on the stability of the financial system and borrower expectations. The implication of this finding is that monetary authorities should not rely solely on interest rate adjustments to influence credit distribution; instead, they should complement rate policies with measures that enhance financial inclusion and reduce lending risk for small enterprises.

Inflation (X3)

Based on Table 2, the regression coefficient of 1,306.076 and a t-count of 1.035 below the t-table value of 2.201 indicate that inflation does not significantly affect credit distribution in commercial banks. The partial r^2 value of 0.088 shows that inflation explains only 8.8% of the variation in lending behavior. This suggests that moderate inflation levels may not directly influence banks' credit decisions, as they often adjust interest rates and risk premiums to maintain profitability. Theoretically, this finding aligns with the Fisher effect, which states that nominal interest rates adjust to expected inflation, thereby stabilizing real returns on lending (Mishkin, 2022). In practice, banks may perceive inflation as a manageable macroeconomic factor, especially when monetary policy remains credible and inflation expectations are anchored. Previous studies by Setiawan and Putri (2024) and Rahmawati et al. (2022) found that inflation tends to have a weak or indirect impact on credit growth, primarily through its influence on interest rates and consumer purchasing power. The implication of this result is that maintaining stable inflation through sound fiscal and monetary policies is essential for sustaining credit expansion. Policymakers should focus on macroeconomic stability to ensure that inflation does not erode the confidence of lenders and borrowers in the financial system. Overall, the research results and implications are summarized in Table 3 and Figure 1.

Table 3. Summary and Implication of Each Independent Variable

Variable	Coefficient	Significance (t-count vs t-table)	Direction of Influence	Partial R^2	Implications
Number of MSMEs (X1)	0.830	Significant (2.955 > 2.201)	Positive	0.442	MSME growth strongly drives credit expansion; banks respond to increased demand for financing. Policymakers should strengthen MSME support programs to sustain lending growth.
Credit Interest Rate (X2)	-15,448.7	Not significant (-1.412 < 2.201)	Negative	0.153	Higher interest rates tend to reduce borrowing, but effect is weak. Monetary policy should be complemented with financial inclusion measures to enhance credit distribution.
Inflation (X3)	1,306.076	Not significant (1.035 < 2.201)	Positive (weak)	0.088	Inflation has little direct impact on lending; banks adjust through interest rates and risk premiums. Stable inflation policy is essential to maintain credit confidence.

Source: Data processed (SPSS) and discussion

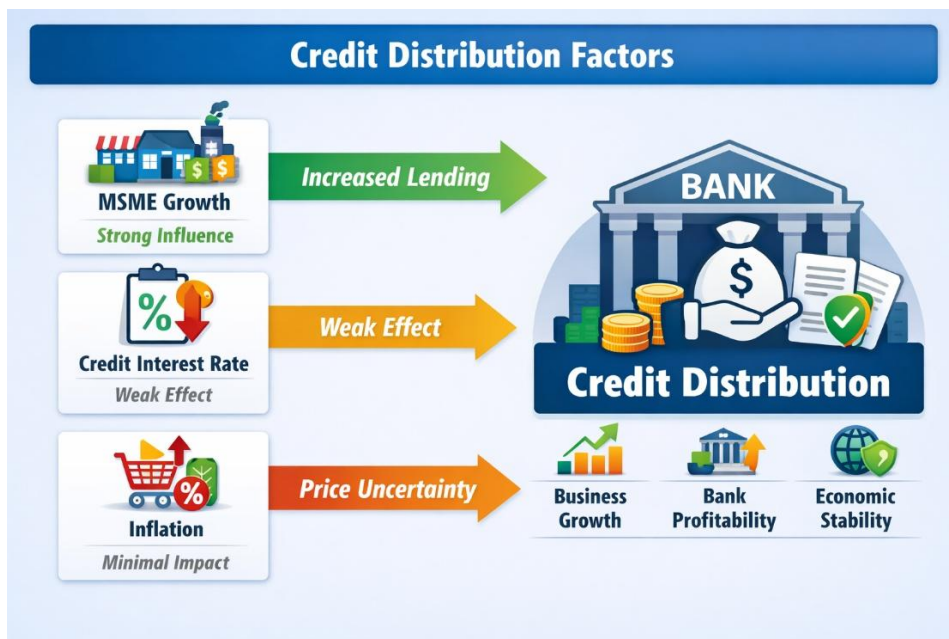


Figure 1. Credit Distribution Factors in MSMEs
Source: AI (Copilot) generated.

Figure 1 illustrates how MSME growth, credit interest rates, and inflation influence credit distribution in commercial banks. MSME expansion exerts the strongest positive impact, driving increased lending and business growth. In contrast, higher interest rates slightly reduce borrowing, while inflation shows minimal direct effect, mainly through price uncertainty. Together, these factors shape bank profitability and economic stability, emphasizing the importance of MSME development and macroeconomic balance in sustaining credit flow within Indonesia's financial system.

CONCLUSION

This study underscores the critical role of MSMEs in driving bank credit distribution in East Java's rural credit banks, while also challenging the conventional emphasis on macroeconomic variables such as inflation and interest rates. The findings provide clear evidence that MSME growth significantly and positively impacts credit distribution patterns, whereas inflation rates and credit interest rates exhibit no statistically significant influence in this specific context. These results contribute to a nuanced understanding of the determinants of credit allocation, highlighting the interplay between localized economic dynamics and financial systems.

The study, however, is not without its limitations. First, the reliance on secondary data limits the ability to capture qualitative factors, such as borrower behavior, institutional policies, or regional socioeconomic conditions, that may also influence credit distribution. Second, the study focuses exclusively on East Java's rural credit banks, which may restrict the generalizability of the findings to other regions or types of financial institutions. Finally, the analysis considers only three variables—MSME growth, inflation rates, and interest rates—potentially overlooking other critical factors like regulatory changes, technological advancements, or shifts in consumer preferences. Future research should aim to address these limitations by incorporating broader datasets and more diverse variables to provide a comprehensive view of credit distribution determinants.

In terms of theoretical contributions, this study enriches the literature on credit distribution by emphasizing the pivotal role of MSMEs, offering a localized perspective that complements existing macro-level analyses. It challenges conventional economic theories by demonstrating the limited influence of inflation and interest rates in rural financial contexts, thereby opening avenues for future studies to explore alternative frameworks that account for localized economic and institutional dynamics. Practically, the findings highlight the importance of MSME-focused strategies for financial institutions aiming to optimize credit distribution. By tailoring products and services to the unique needs

of MSMEs, rural credit banks can strengthen their client base and enhance financial inclusivity. For MSMEs, the study reinforces the need for targeted capacity-building initiatives to maximize their access to and utilization of credit resources.

From a policy perspective, the study calls for interventions that prioritize MSME development as a means to stimulate regional economic growth. Policymakers should consider implementing programs that improve MSMEs' access to affordable credit, provide financial literacy training, and foster a regulatory environment conducive to small business growth. Additionally, given the insignificant influence of inflation and interest rates in this context, there is room to explore alternative monetary and fiscal strategies that better align with the unique characteristics of rural credit systems. In conclusion, this study provides valuable insights into the dynamics of credit distribution in East Java's rural credit banks, while also highlighting areas for future research and policy innovation. By bridging gaps between theory, practice, and policy, the findings offer actionable recommendations for financial stakeholders and contribute to a deeper understanding of the mechanisms driving economic growth through credit allocation.

Abbreviations

MSMEs – Micro, Small, and Medium Enterprises
 GDP – Gross Domestic Product
 BPS – Central Statistics Agency
 BLUE – Best Linear Unbiased Estimator
 SPSS – Statistical Package for the Social Sciences

Authors' Information

Rani Vista Puspitaningrum (RVP) is a student at University of Bedfordshire, University Square, Luton, LU1 3JU, United Kingdom. Her research interest in Google Scholar: <https://scholar.google.com/citations?hl=en&user=Jdl1mc8AAAAJ>.

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Availability of data and materials

Research data and materials easily accessed at Central Statistics Agency (BPS) and Bank Indonesia website.

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