ABSTRACT

The expansion of financial inclusion in Indonesia over the 2021–2025 period, which reached its peak index of 88.7% in 2023, did not correspondingly align with the profitability performance of conventional banking, which instead exhibited a declining trend, thereby raising a fundamental question regarding the causal relationship between these two variables. This study aims to analyze the effect of financial inclusion alongside other determining factors on the profitability of conventional commercial banks in Indonesia. The research employs a quantitative approach using a balanced panel dataset comprising 34 conventional commercial banks classified under KBMI 1–4 over the 2021–2025 period. Estimation was conducted through the Fixed Effect Model (FEM) with Driscoll-Kraay Standard Errors adjustment to correct for heteroskedasticity and autocorrelation. The results indicate that financial inclusion exerts a positive and significant effect on Return on Assets (ROA), whereas the NPL dummy variable exert a negative and significant effect, while spot transactions yield and interest rate spread no significant influence. Overall, these findings confirm that the expansion of inclusive financial services is capable of enhancing bank profitability; however, it must be accompanied by prudent credit risk management and competitive interest rate pricing policies to sustain the intermediation performance of the national banking sector.

Keywords: *Financial Inclusion, Bank Profitability, Return on Assets, Fixed Effect Model, Non-Performing Loan*

SEMARANG

FEB UNDIP