

ABSTRACT

Non Performing Loan is the most crucial for banks as NPL is one of the major causes of the banking crises. Worsening NPL (Non Performing Loan) ratio indicates deterioration in quality of the loan portfolio. It can be caused by systemic risk arising from various macroeconomic factors. This study aimed to analyze the effect of macroeconomic factors on the NPL ratio of commercial banks in Indonesia.

It considers the GDP growth, BI rate, exchange rate, export growth and growth of total loan as independent variables, and Non Performing Loan Ratio as dependent variable. Multiple linear regression was used to test the explanatory power of macroeconomic variables as determinants of NPL. This study used time series data of NPL ratio and five macroeconomic variables over the period from January 2008 to December 2012.

The results proved significant positive association of BI rate with NPL and exchange rate with NPL, whereas growth of total loan is significantly negatively associated with NPL. The results of regression estimation show the ability of model prediction is 69.9% while the remaining 30.1% influenced by other factors outside the model that has not been included in the study.

Keywords: GDP growth, BI rate, exchange rate, export growth, growth of total loan, NPL