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DOI : 10.32734/lwsa.v9i1.2775
Electronic ISSN : 2654-7066
Print ISSN : 2654-7058

Volume 9 Issue 1 – 2026 TALENTA Conference Series: Local Wisdom, Social, and Arts (LWSA)

LWSA Conference Series 09 (2026)
TALENTA Conference Series
Available online at https://talentaconfseries.usu.ac.id

Analysis Of Factors Affecting Bank Lending Policy

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Abstract

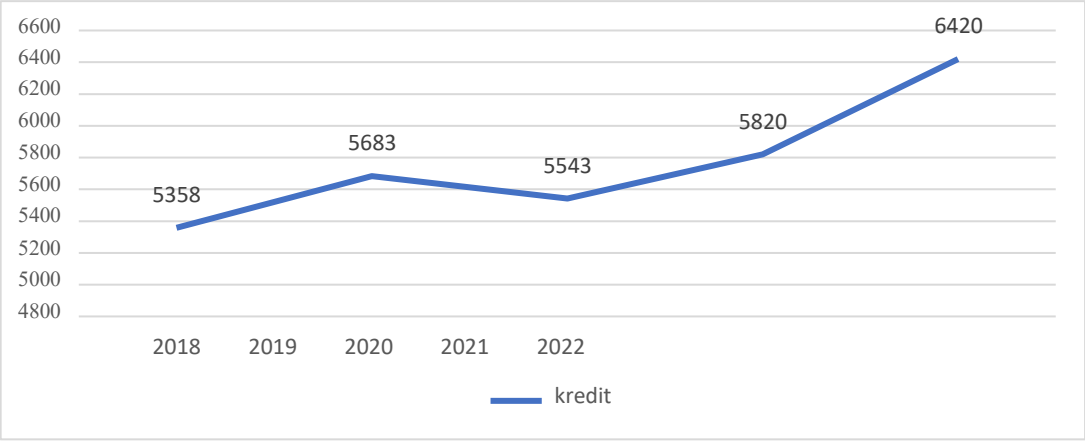
This study aims to determine the effect of Third Party Funds, Capital Adequacy Ratio, Non Performing Loan, and BI Rate on Banking Credit Distribution. This study uses secondary data. The Research Objects in this study are 10 commercial banks in Indonesia with research years ranging from 2018-2022 and the research method used is the panel data analysis method with a total of 10 commercial banks in Indonesia. The research method used is the panel data analysis method with a total of 50 data. Hypothesis testing is done using the coefficient of determination (R2) test, Simultaneous Significance Test (F test), and Partial Test (t test). The results of this study indicate that simultaneously, Third Party Funds, Capital Adequacy Ratio, Non Performing Loan, BI Rate have a significant effect on bank lending. Partially, Third Party Funds has a positive and significant effect on bank lending, Capital Adequacy Ratio (CAR) has a negative and significant effect on Banking Lending. Non Performing Loan (NPL) has a negative and significant effect to Banking Lending, BI Rate has a positive and significant effect on Banking Lending. The value of the Coefficient of Determination (R2) in This study amounted to 92.52%, and the remaining 7.48% was the influence of other factors not examined in this study.

Keywords: *Third Party Funds; Capital Adequacy Ratio; Non Performing Loan; BI Rate; credit distribution*

1. Introduction

Lending is still one of the main source of income for the bank even though there is a possibility of experiencing a non-performing loan that can harm the bank, threaten the health of the bank, and or can even lead to an economic crisis. Seeing this condition then the quality of bank credit must be very concerned so that there are not many non-performing loans that can harm the bank, threaten the health of the bank, and or can even lead to an economic crisis. bank, and or can even lead to an economic crisis [1].

Figure 1. Commercial Bank Lending 2018-2022



Source: Otoritas Jasa Keuangan, data processed (2024)

Selection and peer-review under responsibility of Event of Young Researcher and Economics Students (EVEREST) IX
p-ISSN: 2654-7058, e-ISSN: 2654-7066, DOI: 10.32734/lwsa.v9i1.2775

2. Literature Review

2.1 Credit

Credit is the provision of money or bills that can be equated with it, based on an agreement or loan and borrowing agreement between the bank and another party that requires the borrower to repay the debt after a certain period of time with interest [2]. Credit is defined as trust. Credit comes from Latin, namely credere which means trust. The lender (creditor) and the credit recipient (debtor) that the credit channeled will definitely be returned in accordance with the agreement.

2.2 Third Party Funds

Third Party Funds are the most important source of funds for banks. Credit given by the Bank depends on the ability of the bank to channeling it [3]. If Third Party Funds which are the largest source of funds for banks has decreased, it will affect the distribution of credit to the public. And vice versa, when there is an increase in third party funds will have a good impact on the bank's ability to provide credit, because if third party funds increase, there will also be an increase in lending to the public.

2.3 Capital Adequacy Ratio

Capital Adequacy Ratio (CAR) aims to ensure that the bank can absorb losses due to its activities. The minimum capital ratio for the banking industry is set at 8%. CAR requirement indirectly affects the volume of money and credit circulating in the community. The Capital Adequacy Ratio (CAR) shows the extent to which the the bank contains risks that are financed by public funds [4]. The higher CAR, the better the bank's ability to bear the risk of each risky credit / productive asset. If the Capital Adequacy Ratio (CAR) in a bank experiences a shortage in fulfilling its capital, it will hinder the bank in channeling loans will hinder the bank in lending to the community society. The higher the CAR value indicates that the bank can fulfill its capital adequacy so that it can extend credit.

2.4 Non Performing Loan

Non performing loan (NPL) is one of the indicators of the health level of a commercial bank. Because the high NPL shows the inability of commercial banks in the assessment process up to the disbursement of credit to debtors [5]. On the other hand, NPL will also lead to high capital costs which are reflected in the operating costs of the commercial bank concerned operational. With the high cost of capital costs will affect the net profit of the bank. If Non Performing Loan (NPL) increases, the bank is more selective or careful in providing credit. Meanwhile, if the NPL decreases, the credit risk decreases, so that it can also increase lending.

2.5 BI Rate

BI Rate are the price paid for the use of credit. Until recently, if a bank was short of funds (in the sense of funds public funds collected), the first thing to be reviewed was the interest rate [6]. Actually, interest rates are only one side of the attraction of investing funds in banks in addition to other considerations. The interest rate on loans will affect the intermediation function (lending), because if the lending rate falls, it will be more attractive to the bank interest rates fall, it will be more attractive to investors, thus the demand for credit will increase. If the demand for credit increases, it will greatly affect lending. This phenomenon reflects that the current high level of interest rates is one of the considerations for businesses in making credit applications. one of the considerations for the business world in making credit applications to the bank.

3. Research Method

The type of data used is secondary data, namely data or information obtained from other parties, in the form of data that supports this research. The secondary data used is panel data (a combination of time series from 2018-2022 and cross section of 10 commercial banks in Indonesia) [7].

This study uses one variable dependent variable and three independent variables. The dependent variable in this study is Credit Distribution, while the independent variables in this study are Third Party Fund, Capital Adequacy Ratio, Non Performing Loan, and BI Rate. For the model that will be used to determine bank lending in 2018-2022:

$$\mathbf{Yit = \alpha + \beta 1X1it + \beta 2X2it + \beta 3X3it + \beta 4X4it + \varepsilon it}$$

4. Results and Discussion

To determine which regression model is chosen between Chow test, Hausman test or LM test in this study, the Random effect is required. The following are the results of the Random effect:

Table 1. Estimation results with Random Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob
LOGX1	0.925603	0.036069	25.66208	0.0000
LOGX2	-0.561345	-0.62887	-8.926178	0.0000
X3	-0.040235	-0.015332	-2.624255	0.0000
X4	0.034795	0.013817	2.518317	0.0118
C	1.933032	0.312868	6.178433	0.0154
Weighted Statistics				
R-Squared			0.925236	
Adjusted R-Squared			0.918590	
S.E.ofregression			0.100336	
F-Statistic			139.2234	
Prob(F-statistic)			0.000000	

Source: E-Views Processes data (2024)

Based on the regression results in table 4.5, it can be seen that the results of the regression equation in this study is:

Y= 1.93 + 0.92 X1 - 0.561 X2 - 0.04 X3 + 0.034 X4 + *e*

Based on the regression results above, the effect of the independent variables on the dependent variable can be explained as follows:

1. The Coefficient C value of 1.93 indicates that if all independent variables do not change, bank credit will grow by 1.93. This can be interpreted that the relationship between the independent variables has a positive effect on bank lending.
2. The DPK (X1) coefficient value of 0.92 indicates that if the DPK value increases by 1 rupiah, bank credit will grow by 0.92 and the regression results show the results of the DPK variable have a positive effect on bank credit. The higher the amount of DPK, it will affect the increasing amount of bank credit that will be channeled.
3. The CAR (X2) coefficient value of -0.56 indicates that if the CAR value increases by 1%, bank credit will decrease by 56% and the regression results show the results of the CAR variable having a negative effect on banking.
4. The NPL coefficient value of -0.04 indicates that if the NPL value increases by 1 rupiah, bank credit will decrease by 40% and the regression results show the results of the NPL variable having a negative effect on banking.

The BI Rate Coefficient value of 0.034 indicates that if the BI Rate value increases by 1%, bank credit will grow by 3% and the results of the BI Rate variable have a positive effect on banking

5. Conclusions

Based on the results of panel data regression testing which contains model testing and hypothesis testing, the conclusions obtained from this study are:

Partial test results with Random effect Model (REM), third party funds have a positive and significant effect, Capital Adequacy Ratio has a negative and significant effect, Non-performing loans have a negative and significant effect, BI Rate has a positive and significant effect on bank lending at 10 commercial banks in Indonesia.

The results of the simultaneous test (F-test) with the Random Effect Model (REM) show that Third Party Funds, Capital Adequacy Ratio, Non Performing Loan, BI Rate together (simultaneously) have a positive and significant effect on the value of Return On Assets positive and significant at 10 commercial banks in Indonesia.

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