

**THE IMPACT OF INTEREST RATES, INFLATION, AND MONEY
SUPPLY ON NON-PERFORMING LOANS OF CONVENTIONAL
COMMERCIAL BANKS IN INDONESIA**

THESIS

**Submitted in Partial Fulfillment of the Requirements for the Degree of
Bachelor of Economics**



Compiled by:

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22011010154/FEB/EP

**DEPARTMENT DEVELOPMENT ECONOMICS
FACULTY OF ECONOMICS AND BUSINESS
UNIVERSITAS PEMBANGUNAN NASIONAL VETERAN JAWA TIMUR**

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PREFACE

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The author realizes that in the process of preparing this thesis, the author cannot run alone. For the completion of this thesis, the author expresses his respect and gratitude to Dr. Dra. Ririt Iriani, S.E., M.E. as the supervisor who has taken the time for the guidance process so that this thesis can be completed properly.

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The author realizes that this thesis still has shortcomings due to limited knowledge and ability. Therefore, constructive criticism and suggestions are highly expected for the improvement of this scientific work. Finally, I hope that this thesis can provide benefits, both for the author himself, for academics, and for interested parties in the field of banking and monetary policy in Indonesia.

Surabaya, May 25 2026

Author

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ABSTRACT

The stability of conventional banking in Indonesia is reflected through the Non-Performing Loan (NPL) ratio, which serves as a key indicator of credit quality. This study aims to analyze the effect of interest rates, inflation, and money supply (M2) on NPL of conventional commercial banks in Indonesia in both the short and long term. This study uses secondary data in the form of monthly time series data for the period January 2016 to December 2024, sourced from the Financial Services Authority (OJK), Bank Indonesia (BI), and the Central Statistics Agency (BPS). The analytical method employed is the Vector Error Correction Model (VECM), preceded by a series of tests including stationarity test, optimal lag determination, and Johansen cointegration test. The results show that in the short term, only money supply (M2) has a significant negative effect on NPL. In the long term, interest rates have a significant positive effect while M2 has a significant negative effect on NPL. Meanwhile, inflation has no significant effect on NPL in either the short or long term. These findings imply that monetary policy through the control of money supply and interest rate setting are the most influential instruments in maintaining the stability of credit quality in Indonesian conventional banking.

Keywords: Non-Performing Loan, Interest Rate, Inflation, Money Supply, VECM