

CHAPTER V

CONCLUSIONS AND SUGGESTIONS

5.1 Conclusion

Based on the results of the study on the influence of interest rates, inflation, and the money supply on Non-Performing Loans (NPLs) of Conventional Commercial Banks in Indonesia, the following conclusions can be drawn:

1. Interest rates (IRs) do not affect NPLs in the short term, which suggests that changes in interest rates have not directly affected NPL rates in a relatively short period of time. However, in the long run, interest rates affect NPLs positively and significantly, so rising interest rates tend to increase NPLs.
2. Inflation does not have a significant influence on NPLs in either the short or long term. This shows that changes in economic price levels were not the main factor affecting NPLs in the study period
3. The money supply (M2) shows a significant influence on NPLs in a negative direction in both the short and long term. This suggests that increased liquidity in the economy could encourage credit expansion, potentially increasing NPLs.
4. The VECM test results show that there is an adjustment mechanism towards long-term equilibrium, as shown by *the Error Correction Term* (ECT) with significant values and negative signs. This indicates that any short-term imbalance will readjust towards a long-term equilibrium.

5.2 Suggestions

Based on the above findings, here are some recommendations that are expected to help the progress of the banking industry, especially in handling Non-Performing Loans (NPLs) of conventional commercial banks in Indonesia and other related parties:

1. For the Monetary Authority (Bank Indonesia)

It is expected that monetary authorities will consider the effect on the stability of the banking sector when setting interest rate policy, especially with regard to NPL rates. Excessive interest rate hikes can increase the debtor's credit burden and lead to an increase in non-performing loans.

2. For Banking (Conventional Commercial Banks)

Banks are expected to be more careful in disbursing credit, especially in high liquidity conditions due to an increase in the money supply (M2). Banks need to strengthen credit risk management and improve the quality of creditworthiness analysis to minimize the potential for non-performing loans.

3. For the Next Researcher

Economic growth (GDP), exchange rates, and internal banking factors are some of the other factors that are suspected to affect NPLs. More research is needed. In addition, to get more comprehensive results, it is possible to use a longer research period or various analysis techniques.