
The Influence of Non-Performing Loans, Loan To Deposit Ratio And Interest Rates on The Proportion Of Micro, Small And Medium Business Credit (MSMEs) In Indonesia

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Abstract:

This study aims to examine and analyze the effect of non-performing loans, loan to deposit ratio and interest rates on the proportion of micro, small and medium enterprises (MSMEs) loans in Indonesia. The research method used in this study uses a quantitative research method with a type of quantitative descriptive research that is explanatory research. The population of this study are government bank companies listed on the Indonesia Stock Exchange as many as 3 companies. In this study, Bank BTN was not included because the financial statements from Bank BTN were not completely available. The data analysis method used is multiple linear regression. The results of the f test study where the probability results are $0.009145 < 0.05$ indicating that simultaneously Non Performing Loans, Loan to Deposit Ratios and Interest Rates affect the Proportion of Micro, Small and Medium Enterprises Credit (Case Study at Government Banks) in Indonesia. The results of the t-test research where Non-Performing Loans, Loan to Deposit Ratio and Interest Rates have no influence on the Credit Proportion. The results of the analysis of the coefficient of determination obtained an Adjusted R² value of 0.278650, meaning that the variations in the Non Performing Loans, Loan to Deposit Ratio and Interest Rate variables are 27.86%, while the remaining 72.14% is explained by other variables.

Keywords: Non Performing Loan, Loan to Deposit Ratio, Interest Rate, Credit Proportion

1. Introduction

At this time everyone is trying to get a job where the goal is to continue the life of humans. UMKM (Micro, Small and Medium Enterprises) is one of the businesses that are in great demand today. This is because MSMEs require capital that is not too large to start a business. From the bank's side in providing credit to MSMEs, of course, they have criteria and also have the proportion of lending to MSMEs (Darmawan 2018)

From the graph above it can be seen that the proportion of credit given to MSMEs has increased from year to year. The increase in the proportion of credit is due to the

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increasing public interest in creating jobs and starting private businesses (Yudiansyah et al., 2022; Pamungkas 2020). This increase in the proportion of credit can be caused by some of them being Non-Performing Loans.

Non-performing loans describe loan conditions with conditions from creditors failing to make payments that have been scheduled for a certain time. The large number of MSMEs that experience default will of course have an impact on the ability of banks to provide a proportion of existing loans to new prospective creditors and vice versa if the lower the non-performing loan, the bank will be able to provide an even greater proportion of credit (Saleh & Winarso 2021).

In addition, the loan to deposit ratio can also affect the proportion of loans. The loan to deposit ratio is the loan to deposit ratio (LDR) which is often used in assessing bank liquidity by comparing total bank deposits and total bank loans in the same period (Riwayati et al., 2022; Mantik et al., 2021). The bank will analyze the ability of the prospective creditor to pay the debt so that there is no default in the credit process from the customer. This high ratio means that the majority of MSMEs that make credit at these banks have the ability to pay off their high bank debt (Abadi & Ramdan 2021; Budianto et al., 2023).

Interest rate is a term that is often used in the banking world. Banking customers must be familiar with the term. interest rate is the return for services or value provided by the borrower to the lender of funds or money. Interest rates at each bank vary widely, but interest rates have a basis, namely the interest rates set by Bank Indonesia. Higher interest rates will burden creditors even more so that creditors will be unable to pay their debts. And vice versa if the interest rate is set low, creditors will be more fluid in paying their debts

Based on research from Nufus et al. (2021) entitled Effects of Non-Performing Loans, Credit Interest Rates and Bank Capital on Credit Distribution at LQ 45 Banking Companies which states that Non-Performing Loans and Credit Interest Rates have no effect on Credit Disbursement, while Bank Capital has an effect on Credit coating. The results of research from Nasedum, et al (2020) entitled Analysis of the Influence of Non-Performing Loans (NPL), Loan to Deposit Ratio (LDR), Third Party Funds (DPK) and Interest Rates on Credit Distribution at Bank SulutGO Center Manado Period 2011-2018 the results showed that Non-Performing Loans did not have a significant effect on lending, Loan To Deposit Ratio had a significant effect on lending, Third Party Funds had a significant effect on lending, Interest Rates did not have a significant effect on lending.

Identification of problems

1. An increase in non-performing loans is not always followed by a decrease in the proportion
2. Micro, Small and Medium Enterprises (UMKM) Credit in Indonesia
An increase in the Loan to Deposit Ratio is not always followed by an increase in the proportion
3. Micro, Small and Medium Enterprises (UMKM) Credit in Indonesia

An increase in interest rates is not always followed by an increase in the proportion of business loans

4. Micro, Small and Medium Enterprises (MSMEs) in Indonesia
Increases in Non-performing Loans, Loan to Deposit Ratio and Interest Rates are not always followed by an increase in the Proportion of Micro, Small and Medium Enterprises (MSMEs) Credit in Indonesia

2. Theoretical Background

Theory of Non-performing Loans

According to Darussalam (2018), non-performing credit is a condition where the customer is unable to pay part or all of his obligations to the bank as agreed. According to Aini (2013) NPL is a ratio to measure a bank's ability to maintain the risk of failure of credit repayments by debtors. According to Rivai (2019: 398), the definition of non-performing loans is credit that has the possibility of future risks in a broad sense. According to Ismail (2018: 226), states that NPL (Non Performing Loan) is a loan that is overdue for more than 90 days. Where NPL is divided into Substandard, Doubtful, and Loss Credit. The following is the formula to find out the value of a Non-Performing Loan using the formula.

$$\text{NPL Ratio} = (\text{Total NPL (Substandard + Doubtful + Loss)} / \text{Total Credit}) \times 100\%$$

Theory of Loan to Deposit Ratio

According to (Martono. 2018) states that the Loan to Deposit Ratio is the ratio to determine the bank's ability to repay obligations to customers who have invested their funds with credits that have been given to their creditors. According to (Nasedum, et al, 2020) Loan to Deposit Ratio (LDR), is the ratio of loans to third party funds which include current accounts, savings and deposits. Loan Deposit to Ratio is used to determine how far the bank's ability to pay back withdrawals made by depositors by relying on credit that has been given as a source of liquidity According to (Dendawijaya. 2015) defines Loan to Deposit

The ratio is a measure of how far the bank's ability to refinance withdrawals made by depositors by relying on the credit provided as a source of liquidity. According to (A'yun 2020) it shows that the higher the LDR ratio, the more illiquid a bank is, which can be measured by the high NPL value. Company size. Referring to PBI policy No. 17/11/PBI/2015, LDR is the ratio of the total credit disbursed to the total receipt of funds. So, the loan to deposit ratio formula is:

$$\text{LDR} = (\text{Loans Provided} / \text{Total Funds Received}) \times 100\%$$

Interest Rate Theory

The interest rate according to (Aziz & Tri 2020) is "the price of using investment funds (loanable funds). The interest rate is one of the indicators in determining whether someone will invest or save. According to (Hasibuan, 2011), indicators of interest rates are: Economic Conditions; Government Monetary Policy; Inflation Rate; Cost Of Money; Interbank Competition Level; International Monetary Turmoil;

National and International Capital Market Situation. According to (Siswanto, 2018) Loan interest rates are the biggest source of income for banks, and have an important role in determining the profitability of lending activities.

The SBI Interest Rate Indicator in this study uses a theoretical basis from Dahlan (Siamat, 2014): "Through the use of SBI, BI can indirectly affect interest rates in the money market by announcing the Stop Out Rate (SOR). SOR is the interest rate received by BI on interest rate bids from bidders. Furthermore, the SOR can be used as an indicator for transaction interest rates in the money market in general."

Credit Proportion Theory

According to (Suhardi, et al, 2017) Business credit, namely credit aimed at financing productive businesses. According to the Central Bureau of Statistics (2023), MSME credit is all provision of money or bills that can be equated in rupiah and foreign currency, based on agreements or loan agreements between reporting banks and banks and non-bank third parties who meet business criteria according to the law on existing SMEs. Loans with certain guarantees are part of MSME loans. Credit With Certain Guarantees is credit/financing or bills that are equivalent to that based on a loan agreement or loan agreement between the Bank and the debtor guaranteed by the Guarantor Company with certain criteria, as the Government's Program on People's Business Credit (KUR).

Previous Researchers

Based on research from (Sari, et al, 2021) entitled Effects of Non-Performing Loans, Interest Rates on Credit and Bank Capital on Credit Distribution at LQ 45 Banking Companies which states that partially Non-Performing Loans (NPL) have an effect on lending. Research from (Nasedum, et al, 2020) entitled the effect of Non Performing Loans, Loan To Deposit Ratio, Third Party Funds, and Interest Rates on Credit Distribution at Bank SulutGo Central Manado for the 2011-2018 period which states that Partially Non Performing Loans have no effect significant effect on lending, Loan To Deposit Ratio has a significant effect on lending, Third Party Funds have a significant effect on lending, Interest Rates have no significant effect on lending. Research from (Agatha & Priana, 2020) entitled the influence of Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), Loan to Deposit Ratio (LDR), and Consumption Credit Interest Rates on KPR BTN which states that Non- Performing Loans (NPL) and Consumption Credit Interest Rates have an effect on the disbursement of Bank BTN Housing Loans (KPR), while the Capital Adequacy Ratio(CAR) and Non-Performing Loans (NPL) have no significant effect on the disbursement of Bank BTN Housing Loans (KPR).

Conceptual Framework

The conceptual framework is a framework that connects between variables in a study. Where the relationship that is trying to be explained is the relationship between the independent variable and the dependent variable, in this case the independent variable Capital Profit Growth and Company Size with the dependent variable namely Credit. As for the conceptual framework on this research as follows:

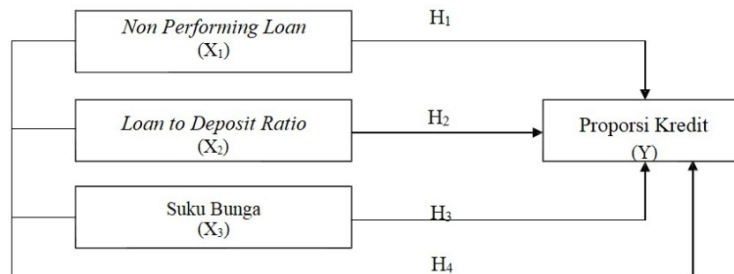


Figure 2. Conceptual Framework

Research Hypothesis

- H1: Non-Performing Loans have an effect on the Proportion of Micro, Small and Business Credit Medium Enterprises (MSMEs) in Indonesia.
- H2: Loan to Deposit Ratio affects the Proportion of Micro, Small and Business Credit Medium Enterprises (MSMEs) in Indonesia.
- H3: Interest Rates have an effect on the Proportion of Micro, Small and Medium Enterprise Credit (MSMEs) in Indonesia.
- H4: Non-Performing Loans, Loan to Deposit Ratio and Interest Rates have an effect on Proportion of Micro, Small and Medium Enterprises (UMKM) Credit in Indonesia.

3. Methodology

Place and time of research

This research was conducted on Micro, Small and Medium Enterprises (MSMEs) in Medan City. The time of this research was conducted from September 2022 to June 2023.

Approach, Type and Nature of Research

The research approach used is a quantitative approach due to research it has a clear and orderly groove. The type of research used is descriptive quantitative research and the nature of this research is explanatory research.

Population and Research Sample

The population of this study are government bank companies listed on the Indonesia Stock Exchange as many as 3 companies. Purposive sampling was chosen as a sampling technique with the following criteria:

1. Companies whose financial reporting period ends on December 31.
2. Companies that present complete and published annual audit reports for 7 years, namely the 2013-2019 period.
3. The company has complete information, especially on the data used in research.
4. In this study, Bank BTN was not included because the complete financial statements from Bank BTN were not available.

Data Collection Technique

The data collection technique in this study was obtained through purposive sampling. Purposive Sampling is a sampling technique with certain considerations.

Data Types And Sources

The type of data used in this study is secondary data which is data obtained from state-owned bank banking companies listed on the Indonesia Stock Exchange for the 2013-2019 period, OJK, BI and BPS

Normality test

According to (Ghozali, 2018), the normality test aims to test whether in the regression model, the confounding or residual variables have a normal distribution. There are 2 tests in the normality test, namely graph analysis by looking at the normality of the residuals by looking at the histogram graph which compares the two observations with a distribution close to the normal distribution. A more reliable method is to look at the normal probability plot which compares the cumulative distribution of the normal distribution. The normal distribution will form a straight line diagonally, and plotting the residual data will be compared with the diagonal line. If the residual data distribution is normal, then the line that describes the actual data will follow the diagonal line and also statistical analysis by looking at the results of the Kolmogorof Smirnov (K-S) non-parametric statistical test. In this test, the guidelines used in making significant decisions are above 0.05

Multicollinearity Test

According to (Ghozali, 2018), the multicollinearity test aims to test whether the regression model finds a correlation between independent (independent) variables. The criterion for indicating the presence of multicollinearity is a Tolrance value <0.10 or the same as a VIF value >10

Autocorrelation Test

According to (Ghozali, 2013), the autocorrelation test aims to test whether in the linear regression model there is a correlation between confounding errors in period t and errors in period $t-1$ (previous). Autocorrelation arises because successive observations over time are related to one another. In this study, the autocorrelation test was carried out using a run test. If the results of the Run Test test show a significant value less than 0.05, it can be concluded that the residuals are not random or there is autocorrelation between residual values and vice versa.

Heteroscedasticity Test

According to (Ghozali, 2018), the heteroscedasticity test aims to see whether in the regression model there is variable inequality from the residuals of one observation to another observation. If from an observation there are different variants, then it is called heteroscedasticity. In other words, this test is intended to see the squared distance of the distribution points to the regression line. There are 2 tests for the heteroscedasticity test, namely looking at the scatterplot graph between the predicted value of the dependent variable, namely ZPRED and the residual SRESID. The criteria for the scatterplot graph are: If there is no clear pattern, and the points spread above and below the number 0 on the Y axis, then heteroscedasticity does not occur and the statistical test chosen is the Glejser test. the criteria for the Glejser test are if

the independent variable is statistically significant affecting the dependent variable then there is an indication of heteroscedasticity.

Multiple Linear Regression Analysis

According to (Santoso, 2018) states that, "In multiple regression, there is one dependent variable and two or more independent variables." Multiple linear regression analysis is a common statistical method used to examine the relationship between a dependent variable and several independent variables. The multiple linear regression equation is as follows

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Keterangan :

Y	: Credit Proportion
X ₁	: Non Performing Loan
X ₂	: Loan to Deposit Ratio
X ₃	: Interest Rate
A	: Constant
β ₁β ₃	: Regression Coefficient
e	: Error

Testing the Coefficient of Determination (R²)

According to (Ghozali, 2018), the coefficient of determination (R²) essentially measures how far the model's ability to explain the variation of the dependent variable. The value of the coefficient of determination is between zero and one. The small value of R² means that the ability of the independent variables to explain the variation in the dependent variable is very limited. A value close to one means that the independent variables provide almost all the information needed to predict the variation of the dependent variable.

Simultaneous Hypothesis Testing (Test F)

According to (Ghozali, 2018), "The F statistical test basically shows whether all the independent or free variables included in the model have a joint effect on the dependent or dependent variable." to find out whether the proposed hypothesis is accepted or rejected is done by comparing F_{count} with F_{table} at a 5% confidence level ($\alpha = 0.05$) with the condition that if F_{count} < F_{table} then H₀ is accepted and H₁ is rejected.

Partial Hypothesis Testing (t test)

According to (Ghozali, 2018), "The t statistical test basically shows how far the influence of one explanatory/independent variable individually explains the variation of the dependent variable." to find out whether the proposed hypothesis is accepted or rejected is done by comparing t_{count} with t_{table} at a 5% confidence level ($\alpha = 0.05$) with the condition that if t_{count} < t_{table} then H₀ is accepted and H_a is rejected.

4. Empirical Findings/Result

Normality test

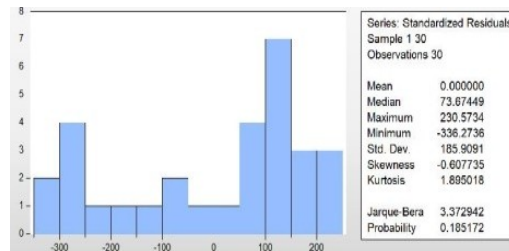


Figure 3. Normality Test Results

Based on Figure 1 above, it shows that the probability results are worth 0.185172 or greater than 0.05. Thus it can be stated that the data contained in this study normally distributed

Multicollinearity Test

Table 2. Multicollinearity Test Results

	NPL	LDR	SUKU_BUN	REDIT
NPL	1.000000	0.313250	-0.525621	0.522211
LDR	0.313250	1.000000	0.140267	0.198077
SUKU_BUNGA	-0.525621	0.140267	1.000000	-
PROPORSI_KREDIT	0.522211	0.198077	-0.484598	1.000000

Based on table 1 above, it shows that the coefficient value of each variable is below 0.80 which indicates that the result does not show symptoms or the occurrence of multicollinearity

Heteroscedasticity Test

Table 3. Glejser Test Results

Dependent Variable: RESABS Method: Panel Least Squares Date:

06/08/23 Time: 17:22

Sample: 1 30

Periods included: 3

Cross-sections included: 10

Total panel (balanced) observations: 30

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	87.79576	219.9523	0.399158	0.6930
NPL	4.237148	25.08344	0.168922	0.8672
LDR	0.274533	0.693954	0.395608	0.6956
SUKU_BUNGA	-5.379082	18.52582	-0.290356	0.7738

Based on table 2 above, it shows that the probability results for each variable are Non-Performing Loans of 0.8672, Loan to Deposit Ratio of 0.6956 and Interest Rates of 0.7738. which means the probability results are not greater than 0.05 then you can there were no signs of heteroscedasticity.

Table 4. Durbin-Watson Test Results

Root MSE	182.7844
Mean dependent var	735.7450
S.D. dependent var	231.1746
Akaike info criterion	13.52116

Schwarz criterion	13.70798
Hannan-Quinn criter.	13.58093
Durbin-Watson stat	0.161669

Based on table 3 above, the Durbin Watson results are 0.161669. It is known that the dL value is 1.5245 and the dU value is 1.7028. Therefore, the d, dL, dU values meet the 1st criterion with the condition $0 < d < dl$ ($0 < 0.161669 < 1.5245$). The results of this test indicate that there is no positive autocorrelation.

Table 5. Test Results t

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	513.1730	466.6958	1.099588	0.2816
LDR	1.305965	1.472434	0.886943	0.3832
NPL	72.55994	53.22215	1.363341	0.1845
SUKU_BUNGA	-70.16274	39.30818	-1.784940	0.0859

Based on table 4 above, the results of the partial test for regression show that the results for the variable Non Performing Loans have a probability value of $0.1845 > 0.05$ indicating that there is no partial effect of Non Performing Loans on the Proportion of Micro, Small and Medium Enterprises Credit (Case Study at Government Banks) in Indonesia, the Loan to Deposit Ratio variable has a probability value of $0.3832 > 0.05$ indicating that there is no partial effect of the Loan to Deposit Ratio on the Proportion of Micro, Small and Medium Enterprises Credit (Case Study at Government Banks) in Indonesia and the Interest Rate variable is $0.0859 > 0.05$, which means that the results show that there is no partial effect of interest rates on the proportion of micro, small and medium enterprise loans (case studies at state-owned banks) in Indonesia.

F test results

Table 6. F Test Results

R-squared	0.353272
Adjusted R-squared	0.278650
S.E. of regression	196.3419
Sum squared resid	1002304.
Log likelihood	-198.8174
F-statistic	4.734134
Prob(F-statistic)	0.009145

Based on table 5 above, it shows the results of the simultaneous test for regression showing a result of $0.009145 < 0.05$, it can be concluded that Non-Performing Loans, Loan to Deposit Ratio and Interest Rates simultaneously affect the Proportion of Micro, Small and Medium Enterprises Credit (Case Study at Government Banks) in Indonesia.

Determination Coefficient Test Results

Table 7. Determination Coefficient Test Results

R-squared	0.353272
Adjusted R-squared	0.278650
S.E. of regression	196.3419

Sum squared resid	1002304.
Log likelihood	-198.8174
F-statistic	4.734134
Prob(F-statistic)	0.009145

Based on table 6 above, the results of Adjusted R Squares are 0.278650 or 27.86%, which means that the variables Non Performing Loans, Loan to Deposit Ratio and Interest Rates can explain the Credit Proportion variable of 27.86% and the remaining 72.14% is explained by variables that are not examined.

5. Discussion

The Effect of Non-Performing Loans on Credit Proportions

variable Non Performing Loans has a probability value of $0.1845 > 0.05$ indicating that there is no partial effect of Non Performing Loans on the Proportion of Micro, Small and Medium Enterprises Credit (Case Study at Government Banks) in Indonesia. These results are in line with research from Sari, et al (2021) entitled The Influence of Non-Performing Loans, Credit Interest Rates and Bank Capital on Credit Distribution at LQ 45 Banking Companies which states that Non-Performing Loans have no effect on Credit Disbursement.

Effect of Loan to Deposit Ratio on Credit Proportion

the Loan to Deposit Ratio variable has a probability value of $0.3832 > 0.05$ indicating that there is no partial influence of the Loan to Deposit Ratio on the Proportion of Micro, Small and Medium Enterprises Credit (Case Study at Government Banks) in Indonesia. These results are in line with research from Nasedum, et al (2020) entitled Analysis of the Influence of Non-Performing Loans (NPL), Loan to Deposit Ratio (LDR), Third Party Funds (DPK) and Interest Rates on Credit Distribution at Bank Sulut GO Center Manado Period In 2011-2018, the results obtained for Non-Performing Loans did not have a significant effect on lending. III.3.3 Effect of Interest Rates on

Credit Proportion

The interest rate is $0.0859 > 0.05$, which means that the results show that there is no partial effect of interest rates on the proportion of micro, small and medium enterprise loans (case studies at state-owned banks) in Indonesia. These results are in line with research from Sari, et al (2021) entitled Effects of Non-Performing Loans, Interest Rates on Credit and Bank Capital on Credit Distribution at LQ 45 Banking Companies which states that Interest Rates have no effect on Credit Distribution.

The Influence Of Non-Performing Loans, Loan To Deposit Ratio And Interest Rates On

Credit Proportion

The results of the simultaneous test for regression show a result of $0.009145 < 0.05$, it can be concluded that Non Performing Loans, Loan to Deposit Ratio and Interest Rates simultaneously affect the Proportion of Micro, Small and Medium Enterprises Credit (Case Study at Government Banks) in Indonesia. These results are in line with research from Nasedum, et al (2020) entitled Analysis of the Influence of Non-

Performing Loans (NPL), Loan to Deposit Ratio (LDR), Third Party Funds (DPK) and Interest Rates on Credit Distribution at Bank SulutGO Pusat Manado Period 2011-2018 which states that simultaneously Non Performing Loans (NPL), Loan to Deposit Ratio (LDR), Third Party Funds (DPK) and Interest Rates affect the proportion of credit.

6. Conclusions

Non-performing loans have no significant effect on the proportion of Micro, Small and Medium Enterprises (MSMEs) loans in Indonesia. Loan to Deposit Ratio has no significant effect on the Proportion of Micro, Small and Medium Enterprises (MSMEs) Credit in Indonesia. Interest rates have no significant effect on the proportion of Micro, Small and Medium Enterprises (MSMEs) loans in Indonesia. Non-Performing Loans, Loan to Deposit Ratio and Interest Rates have a simultaneous and significant effect on the Proportion of Micro, Small and Medium Enterprises (MSMEs) Credit in Indonesia.

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