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INFLUENCE OF INTERNAL AND EXTERNAL FACTORS ON NON-PERFORMING FINANCING OF SHARIA PEOPLE'S FINANCING BANKS (2020–2024)

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Abstract

Sharia Rural Banks (SRB) play a vital role in the Indonesian economy, particularly in stimulating the real sector through financing for Micro, Small, and Medium Enterprises (MSMEs). As an integral part of the national sharia financial system, BPRS faces significant challenges in risk management, especially regarding financing risk. This study analyzes internal bank factors, namely the Capital Adequacy Ratio and the Financing, to. Deposits. Ratio, as well as external factors, including macroeconomic conditions inflation and BI-Rate and Covid-19 pandemic, against Non-Performing Financing risk proxied by the Non-Performing Financing NPF ratio. Employing a quantitative descriptive method and using secondary data from BPRS financial statements, this research uses panel data regression analysis via the Eviews 12 application to examine the effects of the independent variables on the dependent variable. The empirical results demonstrate that, partially, inflation and the BI-Rate have a significant effect on Non-Performing Financing NPF. conversely, FDR, CAR, and Covid-19 partially show no significant effect on NPF.

Keywords: *Capital Adequacy Ratio, Financing to Deposit Ratio, Inflation, BI-Interest Rate, Non-Performing Financing.*

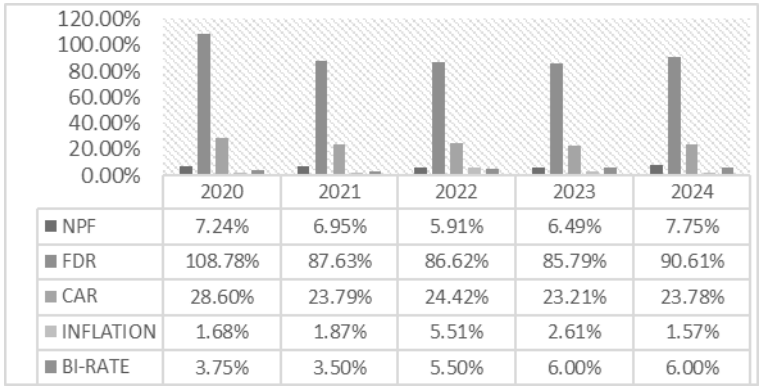
1. Introduction

Bank People's; (BPRS) occupies position strategic in system Indonesian finance, in particular in expand financing for MSMEs in areas that have not yet served optimally managed by Islamic commercial banks. BPRS channel funds from surplus units to productive economic actors, thereby supporting the real sector of the economy. Statistics published by the Indonesian Financial Services Authority (OJK) show that the proportion of BPRS financing allocated to the MSME sector tended to increase during the 2020–2024 period. In 2024, MSME financing reached 58.46% of total BPRS

financing, up from 51.20% in 2020. This trend underscores the critical role of these institutions in driving inclusive economic growth in Indonesia.

Despite these contributions, Rural Islamic Banks (BPRS) continue to face persistent critical challenges in financing risk management, as reflected in chronic Non-Performing Loan (NPF) levels. NPF is a key indicator of financing quality in Islamic banking institutions (Priyadi et al., 2021) . The Indonesian Financial Services Authority (OJK), through POJK No. 19/POJK.03/2014, has set a maximum NPF threshold of 5% as a benchmark for bank health. However, empirical data shows that the NPF ratio of BPRS consistently exceeds the regulatory threshold, fluctuating between 5.91% and 7.75% throughout the 2020-2024 period, with the highest level recorded in 2024 at 7.75%. This condition is very worrying, as this high NPF ratio not only worsens the bank's financial performance also has the potential to threaten the stability of the financial system as a whole (Priyadi et al., 2021) .

Figure 1Development of NPF, FDR, CAR of Bprs and Inflation, National BI-Rate



	2020	2021	2022	2023	2024
NPF	7.24%	6.95%	5.91%	6.49%	7.75%
FDR	108.78%	87.63%	86.62%	85.79%	90.61%
CAR	28.60%	23.79%	24.42%	23.21%	23.78%
INFLATION	1.68%	1.87%	5.51%	2.61%	1.57%
BI-RATE	3.75%	3.50%	5.50%	6.00%	6.00%

Source: OJK and BPS

Previous literature identifies two main categories of determinants of Non-Performing Loans (NPF): internal bank factors and external factors. an internal factor perspective, *the Financing to Deposit Ratio* (FDR), which measures the proportion of disbursed financing to collected third-party funds, is closely related to financing risk. Theoretically, an excessively high FDR indicates aggressive financing expansion and, if not accompanied by prudent risk management practices, can exacerbate default risk (Priyadi et al., 2021) . However, empirical findings yield conflicting results: Wahyudin et al. (2020) report a positive effect of FDR on NPF, while Rahmah & Armina (2020) find a negative relationship, arguing that the distribution of high-quality financing can actually increase profitability and reduce NPF levels. Similarly, *Capital Adequacy Ratio* (CAR), which measures a bank's capital adequacy relative to its risk-weighted assets, is theoretically expected to reduce NPF by absorbing potential losses (Muhammad et al., 2020) . However, OJK data shows that in 2020, when CAR peaked at 28.60%, the Non-Performing Loan (NPF) remained high at 7.24%. In 2024, with CAR at 23.78%, the NPF further increased to 7.75%, coinciding with the FDR surge to 90.61%. This empirical anomaly challenges existing

theory and reflects inconsistencies in the academic literature. Priyadi et al. (2021) found a positive relationship between CAR and NPF, while Muhammad et al. (2020) found a negative relationship. Nugrohowati & Bimo (2019) , and Suhel et al., (2022) reported opposite findings.

External variables further complicate the dynamics of Non-Performing Loans (NPF). Theoretically, inflation is expected to weaken debtors' ability to meet payment obligations by reducing purchasing power and real income, thus driving an increase in NPF (Effendi et al., 2017) . However, empirical data show a contradictory trend: in 2022, inflation surged to 5.51% while NPF declined to 5.91%. In 2024, inflation fell sharply to 1.57%, but NPF increased significantly to 7.75%, deviating from the prevailing hypothesis. Regarding the impact of inflation, Wahyudin et al. (2020) confirmed a positive effect on NPF, while Effendi et al. (2017) found a negative correlation, and Shaheen et al. (2024) observed no significant impact. Regarding the BI-Rate, although Islamic banking not implement an interest-based system, the BI Rate remains a benchmark for determining margins or profit-sharing ratios and influences the dynamics of competition between Islamic and conventional banks (Nugrohowati & Bimo, 2019) . When the BI-Rate rises, customers tend to shift to Islamic banks for more affordable financing, potentially increasing financing volume and subsequently driving an increase in the NPF. However, empirical data for the 2021–2022 period shows that when the BI-Rate rose from 3.50% to 5.50%, the NPF actually decreased. Throughout 2023–2024, the BI-Rate remained stable at 6.00%, but the NPF continued to increase. Previous studies also show inconsistencies; Nugrohowati & Bimo (2019) confirmed a positive effect of the BI-Rate on NPF, while Arinda et al. (2022) showed no significant effect.

Furthermore, the Covid-19 pandemic, declared a global health emergency by the World Health Organization, has caused serious disruptions to economic activity since early 2020, substantially weakening borrowers' ability to meet financing obligations and driving up *Non-Performing Financing (NPF)* (Ozili & Arun, 2020) . Furthermore, research by Kryzanowski et al. (2023) revealed that Covid-19 had a significant positive impact on credit risk (NPL). Conversely, a study by Fakhrunnas & Anto (2024) showed that Covid-19 had a negative effect on NPF. They argued that this was due to the fact that during the outbreak, Islamic banks adopted a more cautious approach by being more selective in their financing. However, this finding differs from a study by Indriyani et al. (2021) which showed that Covid-19 had no significant impact on *Non-Performing Financing.* In response to this dynamic, the Financial Services Authority (OJK) issued POJK No. 11/POJK.03/2020 as a counter-cyclical economic stimulus policy that aims to maintain the stability of the national financial system.

Based on the above description, two major research gaps emerge. First, previous studies have produced inconsistent findings regarding the direction and significance of the influence of FDR, and BI-Rate NPF in Islamic Rural Banks (BPRS), while observational data consistently deviate from theoretical predictions. Second,

there is a lack of research that simultaneously integrates the Covid-19 pandemic variable with conventional macroeconomic determinants using contemporary data spanning the full economic cycle, including the crisis phase (2020), recovery phase (2021–2022), and new normal phase (2023–2024). This study seeks to bridge this gap and add to the literature for future researchers.

2. Literature review

2.1. Non-Performing Financing (NPF)

Non-Performing Financing NPF) serves as the primary indicator for measuring non-performing financing in Islamic banking, reflecting the proportion financing to the overall financing portfolio. This condition occurs when customers fail to fulfill their payment obligations, including principal installments and investment profit sharing in accordance with the agreed contract (Muhammad et al., 2020) . Considering the intermediation function as a pillar of economic development, Islamic banks are required to implement optimal and preventive NPF management to maintain asset quality and operational performance. This is crucial because a spike in the NPF level not only has the potential to disrupt internal financial stability but can also reduce the institution's competitive position against conventional banks and erode stakeholder trust (Priyadi et al., 2021) . Consequently, NPF represents the level of financing repayment failure, which has direct implications for the operational sustainability of Islamic banks.

2.2. Financing to Deposit Ratio (FDR)

The Financing to Deposit Ratio (FDR) serves as a liquidity measurement instrument that represents the ability of Islamic banks to transform third-party funds (TPF) into a financing portfolio, which includes both equity- and debt-based financing (Priyadi et al., 2021). A high FDR indicates an optimized intermediation function and effective fund distribution, which has the potential to accelerate bank profitability, provided the portfolio is managed with high quality (Muhammad et al., 2020). However, financing expansion reflected in an increase in the FDR also has implications for the institution's risk profile; a linear increase in this ratio can increase the potential risk of *Non-Performing Financing* (NPF) if the distribution of funds ignores prudential banking principles *in* creditworthiness analysis.

H1: *Financing to Deposit Ratio* has a significant positive influence on *Non-Performing Financing.*

2.3. Capital Adequacy Ratio (CAR)

The Capital Adequacy Ratio (CAR) is a fundamental instrument for evaluating a bank's capital adequacy and its capacity to mitigate potential losses from productive assets, particularly credit risk (Priyadi et al., 2021). An expansive CAR indicates a robust capital structure, enabling banks to anticipate financing risks more effectively, thereby minimizing the level of *Non-Performing Financing* (NPF). Conversely, a low capital position tends to trigger moral hazard, where banks are encouraged to channel high-risk financing to achieve revenue targets (Muhammad

et al., 2020). Therefore, maintaining an ideal CAR level is crucial; this ratio must be strong enough to guarantee security against default risk, yet remain within efficient limits to ensure financing expansion policies remain competitive and controlled.

H2: *Capital Adequacy Ratio* has a significant positive influence on *Non-Performing Financing.*

2.4. Inflation

According to Bank Indonesia, inflation is an economic condition characterized by rapid price increases and a decline in people's purchasing power. This situation is usually accompanied by a decline in savings and investment, as most income is spent on consumption, with little allocated for long-term savings (Indrajaya, 2019) . Inflation affects economic activity at various levels, both macro and micro, including investment activity. This condition suppresses people's purchasing power, leading to a decline in sales and consequently reducing company profits. This decline in profits can weaken the ability of debtors to meet their financing installment obligations, which in turn increases the non-performing financing ratio (Wahyudin et al., 2020).

H3: Inflation has a significant positive effect on *Non-Performing Financing.*

2.5. BI Rate

The BI-Rate is a monthly interest rate determined and regularly announced by Bank Indonesia. This interest rate serves as a monetary policy signal, reflecting the direction and stance of policies implemented by the monetary authority to achieve economic stability and control inflation (Upadiyanti et al., 2018) . In general, Bank Indonesia will raise the BI-Rate if economic conditions are projected to overheat, which risks triggering inflation. Conversely, the central bank will lower the BI-Rate if the economy is predicted to weaken or fall below the expected growth target (Wahyudin et al., 2020). Although Islamic banks do not implement an interest-based system in their operations, changes in the BI-Rate remain an indirect benchmark for Islamic banks in determining the profit-sharing ratio (nisbah) for financing, which ultimately has an impact on increasing the risk of *Non-Performing Financing* (NPF) in Islamic banks.

H4: BI-Rate has a significant positive influence on *Non-Performing Financing.*

2.6. Covid-19

Covid-19 is a disease caused by the SARS-CoV-2 virus, a new type of coronavirus that first appeared in China at the end of 2019. This virus spread rapidly to various countries through human mobility, triggering a global crisis that not only affects public health but also has a broad impact on economic activities and social systems throughout the world (Ozili & Arun, 2020) . Furthermore, Ozili & Arun (2020) explained that in the banking industry, the macroeconomic slowdown caused by the Covid-19 pandemic reduced the ability of debtors to meet their credit obligations, thus causing an increase in non-performing loans in the banking sector.

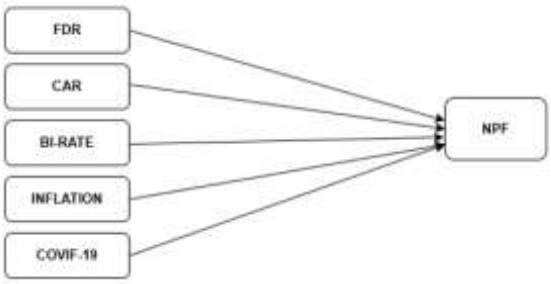
H5: Covid-19 has a significant positive impact on *Non-Performing Financing.*

3. Research methods

quantitative approach to analyze the factors influencing Non-Performing Financing at Sharia People's Financing Banks Indonesia. study utilizes secondary data including quarterly financial reports issued the Financial Services Authority OJK and macroeconomic indicators obtained from

Agency (BPS) and Bank Indonesia. The observation period covers 2020 to 2024 to capture the complete economic cycle, including the crisis, recovery, and new normal phases. *The variables used in this study are* divided into dependent and independent variables. The variables that become focus study is Non-Performing Financing (NPF), while influencing variables consists of from *Financing to Deposit Ratio* (FDR), *Adequacy Ratio* (CAR), BI-Rate, inflation, and dummy variable Covid-19. In study this, the method used is analysis panel data regression with EViews 12 as device analysis. The following is a research model that applies analysis panel data regression.

Figure 2Research Model



$$NPF_{it} = \alpha + \beta_1 FDR_{it} + \beta_2 CAR_{it} + \beta_3 INFLASI_{it} + \beta_4 BIRATE_{it} + \beta_5 Dummy_{it} + e_{it}$$

Information :

Y_it	= Dependent Variable is *Non-Performing Financing* (%)
α	= Constant Value
β_ 1 - β_5	= Coefficient of each independent variable
X1	= Financing to Deposit Ratio
X2	= *Capital Adequacy Ratio*
X3	= Inflation
X4	= BI-Rate
X5	= Covid-19
i	= cross
t	= time series
e	= Error term or residual

4. Results and Discussion

4.1. Analysis Results Statistics Descriptive

The analysis of statistics aims to present information regarding the average (mean), maximum, minimum, and standard deviation

values of the variables used in the study. The following the of obtained from observational data.

Figure 3Results of Statistical Analysis Descriptive

	NPF	FDR	CAR	INFLASI	BIRATE	COVID
Mean	10.71161	102.4181	35.30515	2.169000	4.800000	0.700000
Median	8.150000	93.26500	28.02500	1.775000	4.875000	1.000000
Maximum	58.48000	646.2000	222.7700	5.510000	6.250000	1.000000
Minimum	0.000000	1.050000	-96.94000	0.740000	3.500000	0.000000
Std. Dev.	8.370476	47.24076	28.44620	1.383547	1.134288	0.458544
Skewness	1.911991	4.002818	2.442637	1.189103	-0.014417	-0.872872
Kurtosis	7.784601	33.48658	13.67921	3.704880	1.180798	1.761905
Jarque-Bera	1250.508	33117.40	4597.048	205.0906	110.3443	152.6833
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	8569.290	81934.44	28244.12	1735.200	3840.000	560.0000
Sum Sq. Dev.	55981.83	1783120.	646539.9	1529.447	1028.000	168.0000
Observations	800	800	800	800	800	800

Source: Eviews (Data Processed with EViews 12)

Based on results testing against 800 samples of semester panel data from 2020 to 2024, analysis descriptive show that variables dependent, *Non-Performing Financing* (NPF), has The mean value is 10.71% and the median is 8.15%. This average indicates that financing problems at BPRS which became sample generally be on top safe threshold regulation (5%), with mark maximum reached 58.48% at PT BPRS Sarana Prima Mandiri and a minimum value of 0.00% at PT BPRS Rahmania Dana Sejahtera. In terms of internal banking indicators, the Financing to Deposit Ratio (FDR) recorded an average of 102% and a median of 93.26%, with a range of 1.05% to 646%, while *the Capital Adequacy Ratio* (CAR) had an average of 35.30% and a median of 28.02%, with an extreme maximum value of 222% and a minimum value indicating a capital deficit of up to -96.94%.

For external variables, the national inflation rate averaged 2.1% and a median of 1.7%, with a peak of 5.51% in the second half of 2022 and a low of 0.74% in the first half of 2021. Furthermore, the BI-Rate variable recorded an average value of 4.8% and a median of 4.87%, with fluctuations ranging from 3.5% to 6.25%. Meanwhile, the Covid-19 dummy variable showed an average of 0.7 with a median and maximum value of 1. Overall, all variables in this study had standard deviation values smaller than their mean values, which proves that the data distribution is homogeneous, relatively stable, and does not experience significant deviations from its central value.

4.2. Model Selection Test Results

A. Chow Test

Chow Test aim determine whether model regression data panel that uses *Fixed Effects Model* (FEM) more appropriate used compared to with the Common Effects Model (CEM). Test results the is as following :

Figure 4Chow Test Results

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	6.419791	(79,715)	0.0000
Cross-section Chi-square	428.876303	79	0.0000

Source: (Data Processed with EViews 12)

Based on the figure, the Chow test results show a probability value of 0.000, which is smaller than the 0.05 significance level. Consequently, H0 is rejected and H1 is accepted. Thus, it can be concluded that *the Fixed Effects Model* is better than the *Common Effects Model* ; therefore, the next step requires testing using the Hausman test to determine the most appropriate model.

B. Hausman test

The Hausman test was conducted to determine whether a panel data regression model using *the Fixed Effects Model* (FEM) was more appropriate than *the Random Effects Model* (REM). The test results the is as following :

Figure 5 Results Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	5	1.0000

* Cross-section test variance is invalid. Hausman statistic set to zero.

Source: (Data Processed with EViews 12)

Based on these results, the Hausman test shows a probability value of 1.0000. Although this value is greater than 0.05, there is a special note stating, " *Cross-section test variance is invalid. Hausman statistic set to zero.*" This condition indicates that the basic assumptions for conducting the Hausman test are not met. Therefore, the *Fixed Effects Model* (FEM) is the most appropriate model to use in this study.

4.3. Assumption Test Classic

Based on the tests conducted, it can be concluded that the Fixed Effects Model (FEM) is the most appropriate panel data regression model to use. Therefore, implementing the classical assumption test on the FEM model is crucial to ensure that the OLS (Ordinary Least Squares) estimator is BLUE (Best Linear Unbiased Estimator). According to Basuki & Imamudin (2014) , the classical assumption test required for this model is limited to multicollinearity and heteroscedasticity tests.

A. Multicollinearity Test

The multicollinearity test is used to whether there is a linear relationship at between independent variables in a regression model. The decision-making criteria in this test are based on the following:

- If the VIF value > 10, the independent variable is said to be experiencing symptoms of multicollinearity.
- If the VIF value is < 10, the independent variable is declared to be free from symptoms multicollinearity.

Figure 6Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	4.595126	83.03136	NA
FDR	5.10E-05	10.74122	1.075542
CAR	0.000227	6.132102	1.018763
INFLASI	0.032317	3.863625	1.116400
BIRATE	0.106298	46.72212	2.468157
COVID	0.627117	7.932157	2.379647

Source: (Data Processed with EViews 12)

From the multicollinearity analysis conducted, it can be seen that each independent variable has a VIF value < 10. This shows that the independent variables in this study are free from

B. Heteroscedasticity Test

Heteroscedasticity testing is performed to determine whether there are differences in the variance of the residuals from one observation to another in a regression model. If the variance of the residuals remains consistent across observations, this condition is known as homoscedasticity. Conversely, if the variance of the residuals varies across observations, this condition is called heteroscedasticity. The criteria for making decisions in this test are as follows:

- If the probability value > 0.05, it means that the regression model does not experience heteroscedasticity.

- If the probability value is < 0.05, it means that the regression model experiences heteroscedasticity.

Figure 7Heteroscedasticity Test Results

Dependent Variable: ABS_RES
Method: Panel Least Squares
Date: 05/02/26 Time: 20:48
Sample: 2020S1 2024S2
Periods included: 10
Cross-sections included: 80
Total panel (balanced) observations: 800

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.407555	1.233946	5.192735	0.0000
FDR	-0.007411	0.004111	-1.802855	0.0718
CAR	-0.008116	0.008673	-0.935752	0.3497
INFLASI	-0.283378	0.103481	-2.738441	0.0063
BIRATE	0.022001	0.187677	0.117227	0.9067
COVID	-0.850688	0.455850	-1.866159	0.0624

Source: (Data Processed with EViews 12)

This regression model fails the classical assumption test heteroscedasticity because one variable, inflation, significantly influences the absolute residual (prob. 0.0063 < 0.05). This indicates that there are unequal residual variances among the various observations in the model. To address this issue, this study uses *the White's diagonal standard errors method* when estimating panel data regression. This approach is in line with (Gujarati & Porter, 2009) who stated that the use of White's diagonal standard errors will produce statistical inferences that remain valid even if there are heteroscedasticity problems in the data.

4.4. Analysis Results Panel Data Regression

Based on the results of the Chow test and the Hausman test, the model that best fits the characteristics of the research data is *the Fixed Effects Model* (FEM). Classical assumption testing indicates a violation of the heteroscedasticity assumption, therefore, *White's diagonal standard errors method* is used to ensure that statistical testing via the t-test still produces valid inferences. The results of the parameter significance test indicate that two of the five independent variables have a significant effect on the model, namely inflation and the BI-Rate. Consequently, the best selected model equation can be formulated as follows:

Figure 8Results of Analysis Regression Data Panel

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.994223	1.990707	4.518106	0.0000
FDR	-0.001544	0.006411	-0.240895	0.8097
CAR	-0.006545	0.017758	-0.368555	0.7126
INFLASI	-0.571739	0.168852	-3.386046	0.0007
BIRATE	0.722385	0.306335	2.358149	0.0186
COVID	-0.172464	0.795519	-0.216794	0.8284

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.434537	Mean dependent var	10.71161
Adjusted R-squared	0.368105	S.D. dependent var	8.370476
S.E. of regression	6.653844	Akaike info criterion	6.728437
Sum squared resid	31655.66	Schwarz criterion	7.226177
Log likelihood	-2606.375	Hannan-Quinn criter.	6.919647
F-statistic	6.541076	Durbin-Watson stat	1.044429
Prob(F-statistic)	0.000000		

Source: (Data Processed with EViews 12)

$$NPF = 8.994223 - 0.001544FDR_{it} - 0.006545CAR_{it} - 0.571739INFLASI_{it} + 0.722385BIRATE_{it} - 0.172564COVID_{it}$$

Based on results testing in a way partial indicated by the value *p-value,* conclusion For testing hypothesis from each variable independent obtained as following :

1. FDR variable does not own meaningful contribution to *Non-* Performing
   This indicated from mark probability of 0.80 which exceeds level significance of 0.05, with direction connection flow negative refers to the value coefficient the regression.
2. *Capital Adequacy Ratio* show direction relationship that goes against behind against NPF. Although Thus, the impact in a way statistics No meaningful Because mark probability (p-value) reaches 0.71 > 0.05.
3. The inflation variable has been shown to have a negative and significant effect on NPF. This opposite direction of the relationship is consistent with the negative regression coefficient, supported by a probability value of 0.007 < 0.05.
4. The BI-Rate has a positive and significant effect on NPF. Its positive regression coefficient indicates a unidirectional relationship, supported by a probability value of 0.018 < 0.05.

5. The COVID-19 pandemic did not significantly impact NPF, with a negative relationship. This is evidenced by the relatively high probability value of 0.82 < 0.05.

4.5. Discussion

Based on the selected FEM model, the first internal influence analysis focused on *the Financing to Ratio* (FDR) variable. The estimation results show a regression coefficient of -0.001544 with a probability value of 0.8097 > 0.05, indicating that FDR has a negative but insignificant effect on NPF. This finding implies that fluctuations in financing disbursement volume are not the main determinant driving the level of non-performing financing at BPRS. According to Priyadi et al. (2021), As long as financing risk management is strictly implemented for each debtor, the size of the financing volume will not distort the quality of productive assets. Muhammad et al. (2020) also added that this lack of significant influence could be due to the diversification of BPRS revenues into other financial market instruments such as SBSN, as well as the tendency of BPRS to predominantly channel low-risk financing such as murabahah contracts rather than profit-and-loss sharing contracts. These results reject the proposed hypothesis and are inconsistent with the study by Wahyudin et al. (2020) which stated a positive effect of FDR on NPF.

The second internal factor, the *Capital Adequacy Ratio* (CAR), shows a regression coefficient of -0.006545 with a probability of 0.7126 > 0.05, indicating that CAR has no significant effect on NPF. This insignificant effect is due to the formation of NPF being essentially triggered by external debtor factors, such as the failure of the customer's business capacity to meet its installment obligations. On the other hand, CAR conceptually only functions as a capital adequacy buffer instrument *to* absorb potential losses, so that the high or low capital adequacy ratio does not directly correlate in reducing the non-performing financing ratio (Khatimah et al., 2020). This finding contradicts the research hypothesis and is inconsistent with the conclusions of Muhammad et al., (2020) and Suhel et al., (2022). which confirms the significant negative influence of CAR on NPF.

Turning to macroeconomic factors, the inflation variable empirically produces a regression coefficient of -0.571739 with a probability value of 0.007 <0.05. This proves that inflation has a negative and significant effect on NPF. Contextually, the national inflation rate throughout the 2020–2024 period was in the mild and controlled category. This moderate inflationary pressure actually acts as a stimulus for economic growth, which in turn boosts people's real income and strengthens debtors' repayment capacity to repay their financing (Suhel et al., 2022) . Furthermore, referring to Huda et al. (2008) in Effendi et al. (2017), the resulting inflation can reduce people's tendency to save in banks due to a decrease in the purchasing power of the currency, thereby reducing the acquisition of third-party funds (TPF). This decrease in TPF limits the expansion of financing volume disbursed by banks, which mathematically has an impact on reducing the nominal value of non-performing financing. This finding rejects the initial hypothesis

and is inconsistent with the research results of Wahyudin et al. (2020) which states that inflation has a positive effect on NPF.

Conversely, monetary policy, as proxied by the BI-Rate, has been shown to have a positive and significant impact on non-performing financing, with a regression coefficient of 0.722385 and a probability of 0.0186 <0.05. This positive relationship is inseparable from the operational reality of banking in Indonesia, which implements a dual *banking system.* When the BI-Rate increases, BPRS tend to adjust their financing margin policies to maintain competitiveness and compensate for funding costs. This increase in profit-sharing margins directly increases the installment burden that must be borne by existing and new customers. This heavier financial burden has the potential to erode customer repayment capacity and trigger an increase in financing risk (Nugrohowati & Bimo, 2019). These test results successfully accepted the research hypothesis and strengthened the previous empirical study by Nugrohowati and Bimo (2019).

Finally, testing the Covid-19 dummy variable yielded a regression coefficient of 0.001725 with a probability value of 0.8284 > 0.05, indicating that the Covid-19 pandemic crisis did not significantly impact the NPF level of BPRS. This lack of significant impact reflects the effectiveness of countercyclical policies intervened by regulatory authorities. Since the beginning of the pandemic, the Financial Services Authority (OJK) has implemented a massive financing restructuring scheme stimulus, including rescheduling policies, margin adjustments, postponement or reduction of principal arrears, tenor extensions, and the provision of new financing facilities. This easing policy successfully served as a safety net for debtors affected by the pandemic, effectively curbing the rate of NPF formation in the BPRS industry. Therefore, these results reject the hypothesis that Covid-19 has a positive effect on NPF, while also contradicting the findings of Kryzanowski et al. (2023).

5. Conclusion and Suggestions

Through results analysis panel data regression, study This prove that *Financing to Deposit Ratio,* and *Capital Adequacy Ratio* influential negative However No significant to *Non-Performing Financing* of BPRS in Indonesia. These results explain there is principle caution in expansion financing as well as more capital functions focus as bearings risk. Meanwhile, macroeconomic factors showed contrasting results. Controlled inflation was proven to have a negative and significant effect on reducing non-performing financing through increasing customers' real income. Conversely, the BI-Rate had a positive and significant effect because its increase triggered a surge in financing margins, which increased customers' installment burdens. On the other hand, the Covid-19 crisis variable was found to have no significant effect on non-performing financing thanks to the effectiveness of economic stimulus policies and the massive financing restructuring program implemented by the relevant authorities.

To minimize the risk of future non-performing financing, BPRS management is advised to increase margin policy flexibility through competitive pricing schemes, provide extensions for micro, small, and medium enterprises facing capital cost

pressures, and strengthen funding distribution to resilient real sectors such as the food and healthcare industries. Future researchers are advised to include additional internal and external variables, as the coefficient of determination (*Adjusted R-Square*) of this model remains at 36.81%. Future researchers are also advised to extend the observation period after the Covid-19 stimulus policy ends and to segment data by region, such as grouping BPRS within and outside Java, to capture regional macroeconomic dynamics more specifically.

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