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THE ASYMMETRIC RELATIONSHIP BETWEEN MACROECONOMIC DETERMINANTS AND NONPERFORMING LOANS: EVIDENCE FROM THE BANKING INDUSTRY OF INDONESIA

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Abstract

Non-Performing Loans (NPLs) represent a risk that can significantly affect the financial performance of banks. This study aims to examine the macroeconomic determinants of NPLs in the Indonesian banking industry from 2005Q1 to 2019Q4. It adopts a novel approach, namely the nonlinear autoregressive distributed model and provides evidence that changes in macroeconomic conditions have an asymmetrical effect on NPLs in conventional banks, conventional rural banks, Islamic banks, and Islamic rural banks. In addition, Islamic banks have greater asymmetrical exposure to macroeconomic variables than their counterparts. © The Author(s) 2023.

Author Keywords

Indonesian banking industry; Macroeconomic variables; NARDL; Non-performing loans

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