# THE EFFECT OF PROPERTY CREDIT INTEREST RATE AND INFLATION ON THE NPL OF THE PROPERTY SECTOR IN INDONESIA

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## ABSTRACT

The first time Indonesian banking experienced non-performing loans (Non-performing loans) in the property sector was during the monetary crisis in 1997-1998. sharply increased by 50%. This condition had an impact on the property sector at that time, where many property developers experienced problem loans and ended up bankrupt. Based on the results of estimation using the multiple regression method using Eviews 8 software, the goodness of fit measure was obtained at 78%, the independent variable is the loan interest rate the property sector, and inflation simultaneously have a significant effect on the dependent variable. Meanwhile, partially

**Keywords:** SBK property sector, inflation and NPL of the property sector in Indonesia.

## INTRODUCTION.

Indonesia's population from year to year has increased. According to data from the Central Bureau of Statistics, Indonesia's population in 2015 reached 254.9 million people and when compared to 2014 the population in Indonesia was 252 million people. carried out in Indonesia and this has also resulted in an increase in demand for the property sector, especially housing. This is because the property sector is one of the basic needs of the population which will continue to increase along with the increase in population in an area.

The increasing demand for housing by residents in Indonesia has prompted the government to make a one million housing policy, namely a program aimed at creating an increase in the supply of housing for the Indonesian population, especially for middle and lower housing. Along with the increase in demand for housing, house prices have also increased. This resulted in the ability of people to be able to buy a house to decrease. In this case, banking acts as a credit distributor in the property sector because credit makes it easy for people to be able to own a house, banking products in the form of Home Ownership Credit (KPR) are a means of financing the community to be able to buy or own a house by paying in installments. Apart from KPR, property sector loans in Indonesia include construction loans, real estate loans and KPA (Apartment Ownership Credit).

The property sector can be a driving force for economic activity because increased activity in the property sector will encourage increased activity in other related sectors. In this case the property sector has a multiplier effect, namely by encouraging a series of other economic sector activities. All economic activities, both in the field of services and goods, will basically always require property products as a factor of production. But on the other hand, excessive development of the property sector can have a negative impact on the economy. The uncontrolled increase in the property industry so that it far exceeds demand (oversupply) can have an impact on disrupting the national economy.

This disruption is especially if there is a drastic decline in prices in the property sector. This condition will affect the financial condition of banks through two aspects, namely disruption of liquidity and the value of bank guarantees as well as the performance of debtors in the property sector. Liquidity difficulties and a decrease in the value of collateral at this bank will have an impact on reducing the bank's ability to deal with non-performing loans (Non Performing Loans) that will arise. And non-performing loans can also arise due to a decrease in the debtor's performance in the financial sector property.

This is because many creditors (debtors), such as contractors, are unable to pay credit for the cost of manufacturing property products due to a drastic decline in the price of property products, which has had an impact on declining profits received by property developers (contractors).

Since the bad credit case in the property sector in 1997-1998. Central Bank Indonesia has anticipated this by issuing a Loan to Value (LTV) policy. The Loan to Value (LTV) policy is a policy to regulate the amount of credit that can be given by the bank against the initial collateral value, which is set at a maximum of 70% or in other words a down payment of 30% of the selling price. This policy aims to increase the prudential aspect of banks in lending property, so that the risk of non-performing loans (NPL) in the property sector can be avoided, because banks will be more careful in extending credit. However, this policy actually became one of the factors causing the decline in the national property credit rate when economic conditions were unstable.

Bad loans or Non Performing Loans (NPL) in the property sector in Indonesia are showing an increasing trend. This increase was triggered by the condition of the national economy that was still unstable, as a result of Indonesia's GDP growth which had continued to decline since the last eight years. The increase in the inflation rate also affected the increase in NPLs in the property sector. When inflation occurs, people's real income decreases, this triggers a decrease in people's ability to pay . People will prefer to use their money to meet basic needs that cannot be postponed such as food needs, educational expenses, fuel and prefer to postpone credit payments that can still be given a time period. This is what can cause an increase in the level of NPL. High inflation rates trigger an increase in the NPL of the Indonesian property sector, particularly in the construction subsector. Inflation causes the price of building raw materials to rise, thereby reducing the debtor's ability to pay construction credit installments.

## LITERATURE REVIEW.

### 2.1. Keynesian Theory of Supply and Demand for Money

For banks, offering credit to the public can be interpreted as a form of money supply. In monetary theory, money supply is the amount of money in circulation. The amount of money circulating in society is determined by the government, the central bank, public banks, and the public (Nopirin, 1990). Meanwhile, according to Keynes, the supply of money to the public is fully determined by the Central Bank, and is not influenced by interest rates. As a result, the Keynesian money supply curve in the short run is vertical.

### 2.2. Credit

According to Veithzal (2007), credit is the delivery of goods, services or money from one party (creditor) on the basis of trust to another party (customer or debtor) with a promise to pay from the credit recipient to the creditor on a date agreed by both parties.

Based on the definition of Bank Indonesia, property loans are all financing from banks for business fields whose activities are related to the procurement of land, buildings and their facilities for sale or lease. These property loans are provided in the form of investment loans, working capital loans and consumer loans. Judging from its composition, property loans consist of three types of credit, namely construction loans, real estate loans, and housing/apartment ownership loans (KPR/KPA). The three types of loans have different designations and market segments. Construction loans are generally given to entrepreneurs or contractors to build offices, malls, shop houses and other business centers. Real estate loans are given to developers to build upscale housing complexes. Meanwhile KPR/KPA is given to individuals who will buy or repair a house or apartment.(www.bi.go.id).

### 2.3. Inflation

According to the Dictionary of Bank Indonesia, inflation is an economic condition characterized by rapid price increases resulting in a decrease in purchasing power, often followed by a decrease in the level of savings and/or investment due to increased public consumption and little for long-term savings.

The interest rate is the cost of borrowing or the price that must be paid for borrowed funds, usually described as a percentage of the amount of funds borrowed in one year.

**ANALYSIS AND DISCUSSION**

**3.1. Analysis Development**

The development of the ratio of Non-Performing Loans (Non-Performing Loans) in the property sector from 2012 to 2015 experienced fluctuations and growth tended to increase. Even though the level of the NPL ratio in the property sector in Indonesia in these 5 years is still below 5%, which according to Bank Indonesia regulations means that the performance of banks in Indonesia in the property sector credit is still in the healthy category. However, looking at the latest figures, the NPL ratio for the property sector in Indonesia has reached more than 3%. This shows that credit in the property sector in Indonesia is currently very risky to become unhealthy. The property sector's NPL ratio was the highest during 2012 up to 2015 showed that the third quarter of 2015 was the highest NPLP, which was 3.5%

Indonesia's inflation rate from 2012 to 2015 fluctuated. the high rate of inflation in 2013 which reached 8.60% in the third quarter was the impact of rising world oil prices which had an impact on rising domestic oil prices. The large and continuous increase in world oil prices made it impossible for the Indonesian government to contain domestic oil prices through subsidies, because large fuel subsidies threatened to push the state budget deficit past the 3% level of Gross Domestic Product (GDP) at that time. . whereas Indonesian law prohibits the state budget deficit to exceed 3% of GDP. (www.indonesia-investments.com)
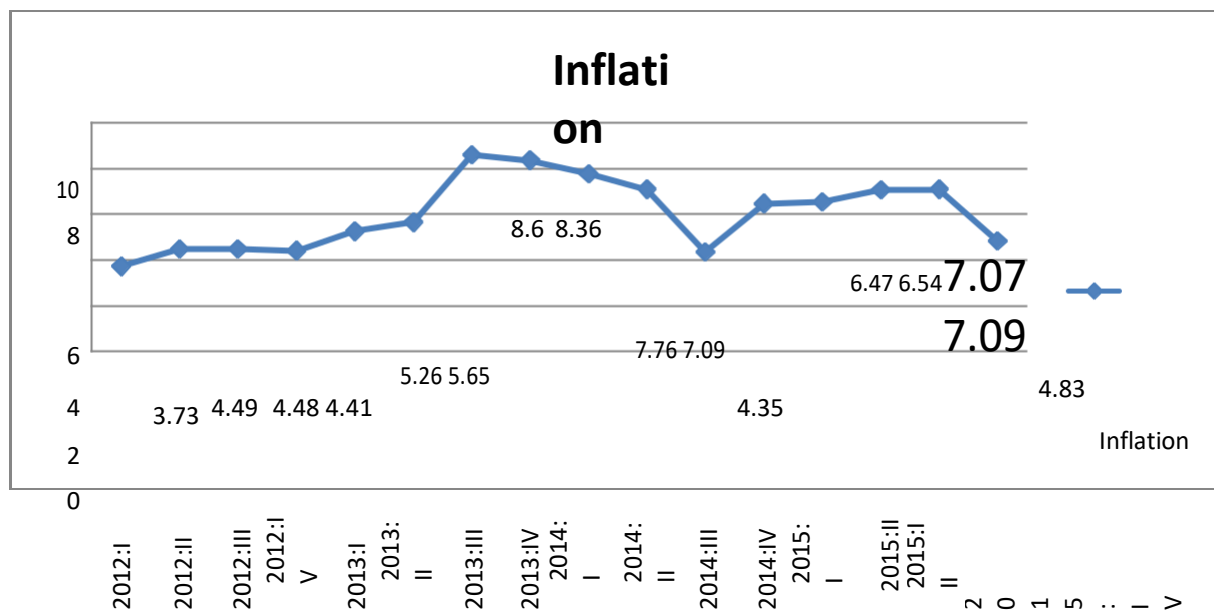


**Figure 1.** Development of Inflation in Indonesia

Figure 1 below shows that the movement of lending rates in the property sector in Indonesia from 2012 to 2015 fluctuated. In 2012 to early 2013 there was a decline in lending rates for the property sector. The reduction in loan interest rates was carried out with the aim of stimulating credit growth which had declined throughout the year. The sharp decline in the property credit growth rate occurred in the third quarter of 2012, when at that time the credit growth rate was quite high, reaching 6.87%, dropping drastically to 2.53% % in the fourth quarter of 2012 and continued to decline to 2.31% in early 2013.

The decline in property loan interest rates that occurred until the second quarter of 2013 has succeeded in driving credit growth which increased sharply to 8.00%. This too drastic growth is also not good if it is not controlled, because it will have an impact on over supply in the property sector which results in a drastic decline in property prices. Drastic decline Property prices can cause disruption to banking finances, which is detrimental to both creditors and debtors

Therefore, in mid-2016 Bank Indonesia lowered the interest rate (BI rate) and succeeded in reducing interest rates for property sector loans in Indonesia. With the aim of re-stimulating credit growth in the property sector and reducing the growth rate of bad loans or non-performing loans in the property sector in Indonesia.
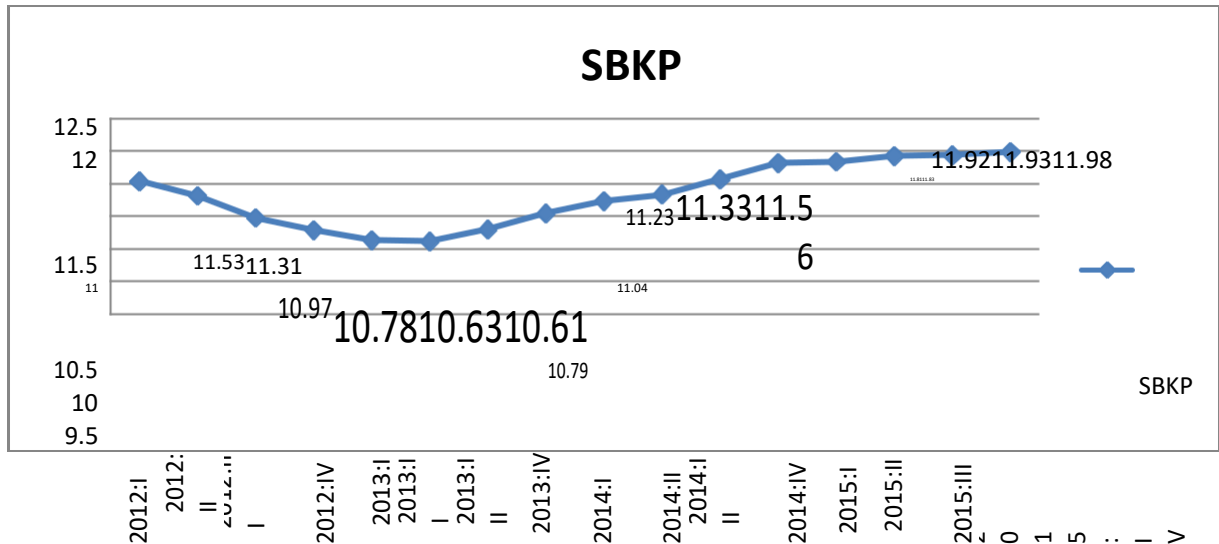
**SBKP**



**Figure 2.** Development of Property Sector Loan Interest Rates

### 3.2 Regression Analysis Results

Dependent Variable: LOG(NPLP)

Method: Least Squares
Date: 08/03/17   Time: 16:18
Sample: 2012Q1 2015Q4

Included observations: 16

| Variables | coefficient | std. Error | t-Statistics | Prob. |
|---|---|---|---|---|
| LOG(SBKP) | 2.321222 | 0.350826 | 6.616457 | 0.0000 |
| LOG(INFLATION) | 0.106536 | 0.056994 | 1.869229 | 0.0843 |
| C | -4.837236 | 0.854015 | -5.664110 | 0.0001 |

| | | | | |
|---|---|---|---|---|
| R-squared | 0.787339 | Mean dependent var | | 0.982681 |
| Adjusted R-squared | 0.754622 | SD dependent var | | 0.117740 |
| SE of regression | 0.058323 | Akaike info criterion | | -2.678277 |
| Sum squared residue | 0.044221 | Schwarz criterion | | -2.533417 |
| Likelihood logs | 24.42622 | Hannan-Quinn criter. | | -2.670859 |
| F-statistics | 24.06505 | Durbin-Watson stat | | 1.211024 |
| Prob(F-statistic) | 0.000043 | | | |

**Figure 3.** Hypothesis

From the estimation results obtained, an interpretation of the model or hypothesis can be made through the results of this regression, namely:

a. Whereas the property sector credit interest rate variable (SBKProperti) has a positive influence on Non Performing Loans in the property sector in Indonesia, this is because the coefficient value of the property sector credit interest rate variable (SBK) is greater (>) than $\alpha = 5\%$ or 0.05, namely 2.321222. That is, if the value of property sector credit interest rates (%) is increased by 1%, it will increase the value of Non-Performing Loans in the property sector in Indonesia by 2.321222% (caterisparibus). property sector in Indonesia, this is due to the value of the inflation variable coefficient (INF) is greater (>) than $\alpha = 5\%$ or 0.05, namely 0.106536. That is, if the value of Inflation (%) is increased by 1%, it will increase the value of Non Performing Loans in the property sector in Indonesia by 0.106536% (cateris paribus).

## CONCLUSIONS

The regression/estimation results show that the effect of INF and Property SBK is 78% while the remaining 22% is explained by other variables included in the estimation model, or are in the disturbance error term. Simultaneously (together) INF and Property SBK affect the formation of the NPL value of the property sector in Indonesia while partially, the INF and Property SBK variables affect the non-performing loans (NPL) of the property sector in Indonesia.

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