
THE INFLUENCE OF MONETARY AND MACROPRUDENTIAL POLICIES ON RISKTAKING BEHAVIOR OF COMMERCIAL BANKS IN INDONESIA



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ABSTRACT

This study aims to determine the influence of monetary and macroprudential policies on the risk-taking behavior of commercial banks in Indonesia. The research employs a quantitative analysis method using a time-series data approach. The data used are time-series data from January 2016 to December 2024 (108 observations). The data source is the Indonesian Financial and Economic Statistics Report obtained from the Financial Services Authority (OJK) website. The method applied in this study is the ARDL (Autoregressive Distributed Lag) model using EViews 12 as the analytical tool. The ARDL method is an econometric approach used to estimate short-run and long-run relationships among economic variables. The results of the study indicate that the BI Rate has a significant negative effect on the risk-taking behavior of commercial banks in Indonesia. The money supply has an insignificant negative effect, while the loan-to-value ratio (LTV) and countercyclical capital buffer (CcB) both have insignificant positive effects on risk-taking. Inflation shows a significant positive effect, and the capital adequacy ratio (CAR) also has a significant positive effect on the risk-taking behavior of commercial banks in Indonesia. There are three recommendations for future research. First, future studies are encouraged to use data with a longer time span or to expand the scope of banks (e.g., including Islamic banks and regional development banks) to test the consistency of results. Second, additional variables such as Non-Performing Loans (NPL), bank size, and profitability may be incorporated to provide a more comprehensive understanding of the factors influencing bank risk-taking. Lastly, employing dynamic panel approaches or nonlinear models may enhance the robustness and depth of the analysis.

Keywords: BI Rate, Money Supply (M2), Loan-to-Value (LTV), Countercyclical Capital Buffer (CCB), Inflation, Capital Adequacy Ratio (CAR), Bank Risk Taking

INTRODUCTION

The development of banking in Indonesia between 2000 and 2010 was an important period in the history of this sector, which included recovery from the 1997/1998 monetary crisis, financial sector reform, and transformation towards a more stable and modern banking system. The 1997-1998 monetary crisis destroyed many banks in Indonesia due to malpractices such as granting loans without adequate risk analysis. In the early 2000s, the government took recovery measures such as banking restructuring, liquidation of troubled banks, and strengthening supervision by Bank Indonesia (BI). Several banks were also privatized to improve efficiency and competitiveness.

(Tanjung 2021) Corporate governance is a key focus, with the aim of improving transparency and good governance in the banking sector. From 2016 to 2024, the banking sector will become more mature and stable. Banks play an important role in channeling funds through lending, although they still face inherent risks such as market risk, credit risk, and liquidity risk. Macroprudential and monetary policies implemented by Bank Indonesia and the OJK also play a role in managing these risks.

(Angelina Pasaribu et al. n.d.) Risk taking is a bank's decision to accept risk in order to achieve profits, which must be balanced so as not to cause instability. Excessive or insufficient risk taking can affect economic stability and growth. This risk is reflected in various indicators, including the level of non-performing loans and credit expansion strategies.

Table 1.
Development of Banking Risk Taking for the Period 2016 – 2024



Source: Processed Data, 2025

In this study, risk-taking is proxied by Z-Score, which describes banking bankruptcy risk. The higher the Z-Score, the lower the bankruptcy risk, and vice versa. From 2016 to 2020, the Z-Score declined, presumably due to the implementation of strict Basel III regulations, which encouraged banks to hold back on risk to meet capital adequacy ratios (CAR). (Sihombing 2021) In 2021, there was an increase in risk-taking due to digitalization and better risk management through technologies such as fintech and big data. However, in 2022-2023, the Z-Score declined again, influenced by the impact of the pandemic and global economic uncertainty, which increased credit risk and made banks more focused on liquidity and solvency. In 2024, the trend of declining risk taking continued due to market pressures, high interest rates, and declining deposits, which prompted banks to reduce their risk exposure. (Novalina et al. 2021)

The level of risk taking is greatly influenced by macroeconomic conditions and monetary policy. When the economy improves and monetary policy is loose, banks tend to be more optimistic and increase risk. Conversely, in times of economic uncertainty, banks are more conservative. Policies such as the BI Rate, LTV regulations, CCB, and capital adequacy through CAR influence banks' risk-taking behavior. Changes in the BI Rate affect banks' funding costs and profit margins, which influence banks' decisions to take risks (Pelealu, Karamoy, and ... 2017).

Table 2.
Development of the BI 7-Day Repo Rate for the Period 2016-2024



Source: BPS, 2024

In 2016-2017, the BI 7-Day Repo Rate (BI7DRR) fell from 4.75% to 4.25% to stimulate economic growth, giving banks more room to take risks while remaining cautious in the aftermath of the global crisis. From 2017 to 2019, the BI Rate remained stable, reflecting relatively stable macroeconomic conditions. However, the COVID-19 pandemic caused the BI Rate to fall to a historic low of 3.5% in 2021, encouraging banks to continue lending despite high risks, which could potentially increase risk taking (Ambawani and Wahyudi 2024). As the economy recovered and global inflationary pressures mounted, the BI Rate was gradually raised to 6% in 2023-2024, signaling a phase of monetary tightening that reduced banks' tendency to take aggressive risks. Interest rate policy plays a major role in influencing risk taking; when the BI Rate is low, banks are encouraged to seek higher returns through credit expansion, including in high-risk sectors (search for yield behavior), while when the BI Rate is high, banks are more selective in extending credit and reduce risk taking (Sudardja, Makasenda, and ... 2022).

Based on the Credit Channel and Financial Cycle theory, changes in the money supply, which are influenced by expansionary monetary policy, drive down interest rates, increase demand for credit, and encourage banks to extend more credit, including to higher-risk borrowers. An increase in the money supply gives banks more funds to lend, which has the potential to increase risk taking (Kumalasari and Pratama 2025).

Table 3.
Development of Money Supply for the Period 2016-2024

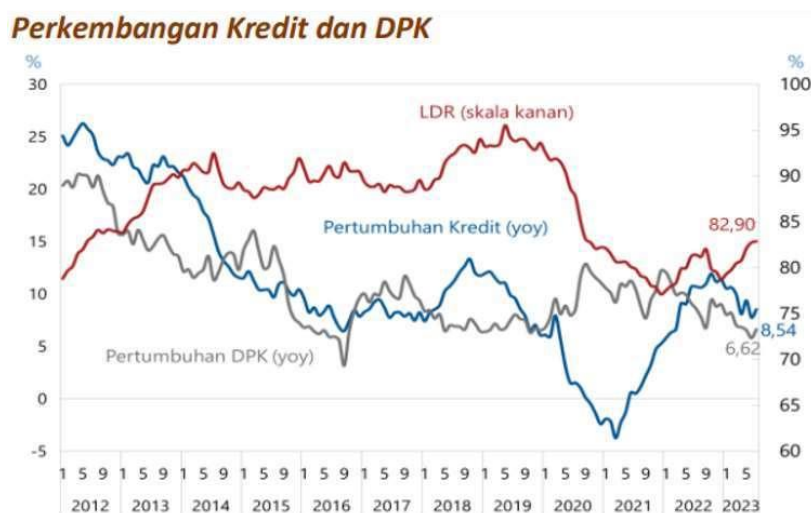


Source: Bank Indonesia

The amount of money in circulation (M2) in Indonesia showed a significant increase from Rp 5,044,976 billion in 2016 to more than Rp 9,210,815 billion in 2024, reflecting loose monetary policy and sustained economic growth. This increase in M2 occurred mainly after the 2008 global crisis and during the COVID-19 pandemic, when the central bank increased liquidity to support the economy. This increase in liquidity triggered competitive pressure among banks to channel funds in the form of credit, which led to a decline in credit standards and portfolio expansion into high-risk sectors, increasing risk taking (Ningtyas 2025).

The Loan to Value (LTV) policy, which regulates the ratio of loans to collateral value, also affects risk taking. Relaxing LTV, such as LTV 90% or 100%, encourages banks to provide credit with minimal collateral, increasing credit expansion and risk taking, especially in the property and automotive sectors. Conversely, tightening LTV aims to curb aggressive credit expansion and reduce risk in these sectors.

Table 4.
LTV Development for the 2016–2024 Period

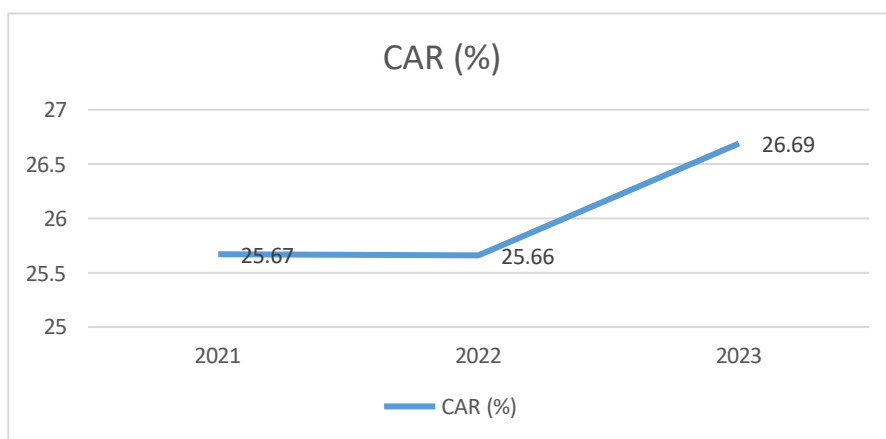


Source: Bank Indonesia

CCB (Countercyclical Capital Buffer) is a dynamic macroprudential instrument used to maintain financial system stability. Banking authorities such as OJK and BI can raise CCB when the credit cycle shows signs of overheating, forcing banks to set aside additional capital as a buffer against systemic risk. This increase in CCB reduces banks' tendency to take excessive risks. Conversely, a decrease in the CCB during an economic contraction encourages banks to increase lending and take greater risks to support economic recovery (Napitupulu 2024).

CAR (Capital Adequacy Ratio) describes the adequacy of a bank's capital to cover potential losses. The higher the CAR, the greater the bank's capacity to bear risk and expand credit, even to risky sectors. Conversely, when CAR is low, banks tend to be more conservative and limit credit expansion. Therefore, CAR is an important indicator in measuring a bank's capacity to take risks.

Table 5.
CAR Development for the Period 2012-2023



Source: Processed Data 2025

The Capital Adequacy Ratio (CAR) of Indonesian banks between 2021 and 2023 shows a very strong level of capital adequacy. In 2021, the CAR was recorded at 25.67%, slightly decreasing to 25.66% in 2022, and increasing to 26.69% in 2023. These figures are well above the minimum threshold set by regulators (8%-14%), reflecting the excellent capital health of banks in Indonesia. High capital adequacy provides banks with more leeway for financing expansion, including into high-risk sectors.

(Novalianda, Dwiyanto, and ... 2021) High inflation creates economic uncertainty, affecting consumer purchasing power, operating costs, and debtors' ability to repay their loans. When inflation is stable within Bank Indonesia's target range (2–4%), banks feel more secure about expanding credit. However, a spike in inflation or instability makes banks more cautious due to the increased risk of default. Conversely, excessively low inflation or deflation can reduce banks' incentives to extend credit, thereby reducing risk-taking.

Table 6.
Inflation Development for the 2016-2024 Period



Source: Bank Indonesia

Understanding the risk-taking patterns of banks in Indonesia over the past two decades is crucial, especially during the 2016–2024 period, which encompasses various economic phases, from post-crisis recovery and stable growth to the global crisis and the COVID-19 pandemic, all of which have influenced banks' risk-taking strategies. Previous studies, both national and international, have provided various findings regarding the impact of monetary policy on bank risk-taking. Borio & Zhu (2012) show that accommodative monetary policy (low interest rates) has a positive effect on risk taking because it lowers funding costs and increases credit demand, which increases bank risk taking in developed countries. These findings are in line with Adrian & Shin (2010), who state that monetary policy-driven credit cycles can increase bank leverage and systemic risk (Agung and Harun 2021).

However, Delis & Kouretas (2011) show different results, where high interest rates actually increase risk taking by banks in Southern Europe. Liquidity pressures resulting from high interest rates encourage banks to seek high-risk assets in order to maintain profitability. In addition, research by Wihlborg & Willeson (2015) shows that macroprudential policies are not always effective in reducing risk taking, as some banks circumvent regulations in undetectable ways, such as expanding their credit portfolios to the informal sector (Setiawan 2025).

RESEARCH METHOD

This study uses quantitative analysis methods with a time series data approach to examine the causal relationship between monetary policy, macroprudential policy, and bank risk-taking. Quantitative methods were chosen because of their focus on collecting and analyzing numerical data to test hypotheses or answer research questions. This approach is systematic, objective, and structured, aiming to produce conclusions that can be applied to a broader population. This study identifies the causal relationship between monetary policy, macroprudential policy, and bank risk-taking behavior, using time series data that will be analyzed statistically.

The dependent variable in this study is bank risk-taking, which is measured using the Z-Score. The Z-Score reflects bank stability; the higher the Z-Score, the lower the risk faced by the bank. The independent variables consist of several monetary and macroprudential policy factors. The monetary policies analyzed include the benchmark interest rate (BI7DRR), money supply (M2), inflation (CPI), and capital adequacy ratio (CAR). The macroprudential policies taken into account are the Loan-to-Value (LTV) ratio and the Countercyclical Capital Buffer (CCB). Each of these variables was selected because of its significant impact on banks' risk-taking decisions (Soelistyo 2023).

This study uses secondary data sourced from the Indonesian Financial Economic Statistics report published by the Financial Services Authority (OJK) and Bank Indonesia (BI). The data used covers the period from January 2016 to December 2024, with a total of 108 observations. This data source was chosen because it provides comprehensive and consistent information on economic and financial indicators relevant to the research objectives.

In analyzing the data, this study uses the ARDL (Autoregressive Distributed Lag) method. The ARDL method allows for the analysis of long-term and short-term relationships between economic variables, even if they have different levels of integration. The main advantage of ARDL is its ability to combine variables with different levels of stationarity in a single model. Stationarity testing is first performed using the Augmented Dickey-Fuller (ADF) or Phillips-Perron (PP) test to determine whether the variables used are stationary at the level or need to be differenced.

(Adriyanto 2012) After the stationarity test was conducted, this study continued with the selection of the maximum lag length for each variable using information criteria such as

the Akaike Information Criterion (AIC) or Bayesian Information Criterion (BIC). Next, a cointegration test was conducted to examine the existence of a long-term relationship between monetary policy, macroprudential policy, and bank risk-taking. The cointegration test was performed using the F-statistic of the and comparing it with the critical value from the table by Narayan (2005) or Pesaran et al. (2001). If the F-statistic was greater than the upper critical value, the null hypothesis stating that there was no cointegration would be rejected.

$$\Delta RTB_t = \alpha_1 + \sum_{i=1}^{p1} \theta_{1i} \Delta RT_{t-i} + \sum_{j=0}^{q1} \beta_1 \Delta BI7DRR_{t-i} + \sum_{j=0}^{q1} \beta_2 \Delta JUB_{t-i} + \sum_{j=0}^{q1} \beta_3 \Delta LTV_{t-i} + \sum_{j=0}^{q1} \beta_4 \Delta CcB_{t-i} + \sum_{j=0}^{q1} \beta_j \Delta Inf_{t-i} + \sum_{j=0}^{q1} \beta_6 \Delta CAR_{t-i} + \delta_{(1)} B7DRR_{t-1} + \delta_2 JUB_{t-1} + \delta_3 LTV_{t-1} + \delta_4 CcB_{t-1} + \delta_5 Inf_{t-1} + \delta_6 CAR_{t-1} + \epsilon_{1t}$$

Where:

- RTB_t is the risk-taking variable at time t.
- BI7DRR_t is the monetary policy at time t.
- JUB_t is the monetary policy at time t.
- LTV_t is the macroprudential policy at time t.
- CcB_t is the macroprudential policy at time t.
- Inflation_t is the monetary policy at time t.
- CAR_t is the monetary policy at time t.
- ϵ_t : Error term (random disturbance)

The ARDL model estimation was performed after selecting the appropriate lag, with a model linking monetary and macroprudential policy variables to bank risk-taking. This ARDL model combines lag variables to capture the temporal dynamics of each variable. Finally, stability tests were conducted using the CUSUM and CUSUMSQ tests to ensure that the model constructed could be used for long-term and short-term analysis without instability.

Using the ARDL approach and testing cointegration, this study aims to provide a better understanding of how monetary and macroprudential policies affect the risk-taking behavior of banks in Indonesia during the period 2016–2024.

RESULTS AND DISCUSSION

Unit Root Test

The t-statistic was compared with McKinnon's critical values (1%, 5%, and 10%) to determine the stationarity of the variables. If the t-statistic was greater than the critical value, the variable was considered non-stationary, while if the t-statistic was less than the critical value, the variable was considered stationary. This test was performed for each independent and dependent variable in the study.

Table 7.
Stationarity Test Results

Variable	Level		1st Difference		Result
	t-Statistic	Prob	t-Statistic	Prob	
BI7DRR	-2.116964	0.2386	-6.463828	0.0000	Stationary (I)
JUB	0.449243	0.9841	-14.43210	0.0000	Stationary (I)
LTV	-1.979106	0.2956	-10.88565	0.0000	Stationary (I)
CcB	-0.475120	0.8907	-10.38919	0.0000	Stationary (I)
Inflation	-2.601457	0.0959	-3.833132	0.0036	Stationary (I)

CAR	-1.426548	0.5667	-8.756310	0.0000	Stationary (I)
Risk-Taking Bank	-8.048417	0.00	-	-	Stationary (0)

Source: Eviews 2025 Output

Based on the results of the stationarity test, most of the variables tested showed that the data was non-stationary at the Level stage, but became stationary after one differentiation. The BI-7 Days Repo Rate (BI Rate), Money Supply (JUB), Loan-to-Value (LTV), Countercyclical Capital Buffer (CcB), Inflation, and Capital Adequacy Ratio (CAR) all had p-values greater than 0.05% at the Level stage, but after one differentiation, their p-values became very low (0.0000), indicating that the data was stationary at the first level. Meanwhile, the Risk Taking Bank variable is stationary at the Level stage with a p-value of 0.0000. Thus, most variables show that they have a rejected unit root after the first differentiation, except for Risk Taking Bank, which is already stationary at the Level stage.

Determination of Optimum Lag

Based on the selection results from the 20 best models shown in the figure, various lag combinations can be used in the ARDL model. Of all the models tested, ARDL (3,1,0,3,1,0,0) was selected as the most suitable model for this study. This model was selected based on its smaller error value compared to other ARDL model combinations. This indicates that the ARDL (3,1,0,3,1,0,0) model is more effective in accurately capturing the dynamics of the relationship between variables in both the short and long term, making it suitable for use in further analysis.

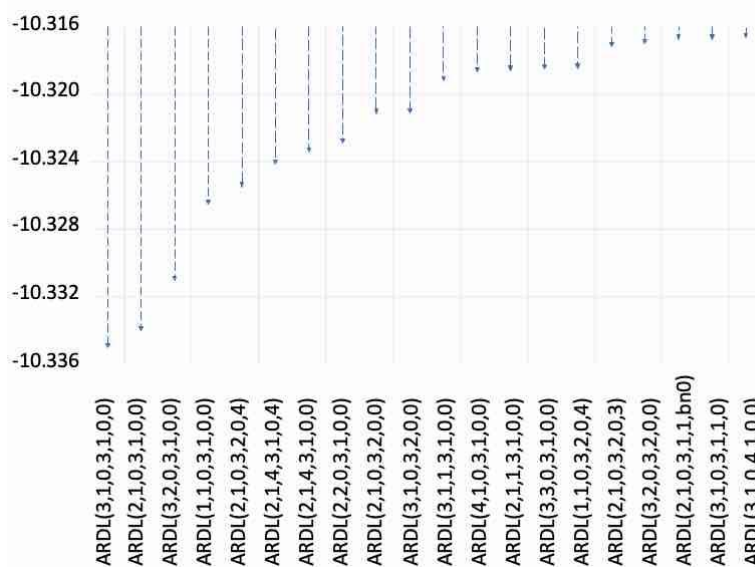


Figure 1.
Optimum Lag Test Results

Source: Eviews 2025 Output

Based on the selection results from the 20 best models shown in the figure, various lag combinations were obtained that can be used in the ARDL model. Among all the models tested, ARDL (3,1,0,3,1,0,0) was selected as the most suitable model for this study. This model was selected based on the consideration that ARDL (3,1,0,3,1,0,0) has a smaller error value compared to other ARDL model combinations. This indicates that the model is more effective in accurately capturing the dynamics of the relationship between variables in both the short and long term, making it suitable for further analysis.

Cointegration Test with Bondtest

Table 8.
Bondtest Cointegration Degree Test

Test Statistic	Value	Signif.	I(0)	I(1)	Result
F-statistic K	8.896970 6	10%	1.99	2.94	The F-statistic value is greater than the I(1) value at the upper level, meaning there is a relationship, Cointegration
		5	2.27	3.28	
		2.5%	2.55	3.61	
		1	2.88	3.99	

Source: Eviews 2025 output

Based on the results of the cointegration test using the Bounds Test method, an F-statistic value of 8.896970 was obtained. This value exceeds the upper bound at significance levels of 1%, 5%, and 10%, both with asymptotic sample assumptions ($n = 1000$) and finite sample assumptions ($n = 80$). For example, at a significance level of 5%, the lower bound (I(0)) is 2.27, and the upper bound (I(1)) is 3.28. Because the F-statistic value (8.896970) is greater than the upper bound, the null hypothesis, which states that there is no cointegration relationship, is rejected. Thus, it can be concluded that there is a long-term cointegration relationship between the variables in the model. Therefore, the ARDL approach can be used to analyze both short-term and long-term relationships simultaneously in this study.

Stability Test

The stability test is used to detect the stability of parameters in the long term and short term. The model is returned to its OLS model. The model is declared stable because the blue line does not exceed the red line. The following are the results of the stability test.

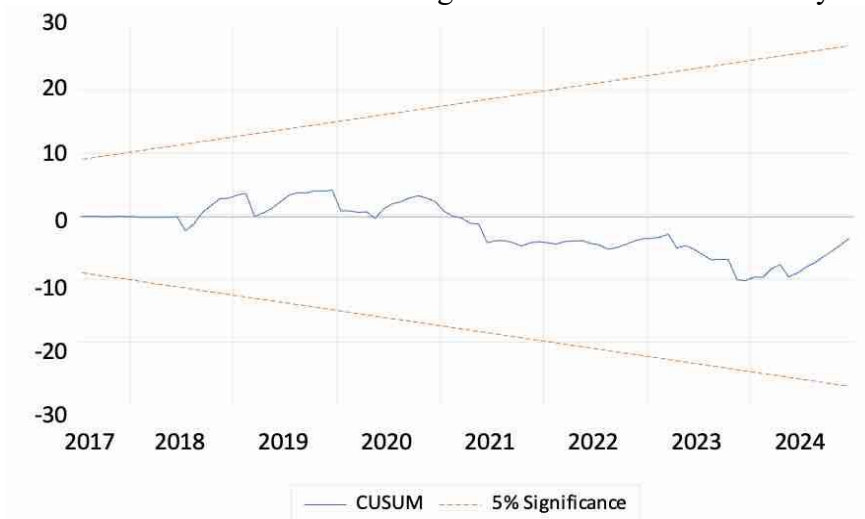


Figure 2.
Cusum Stability Test
 Source: Eviews 2025 Output

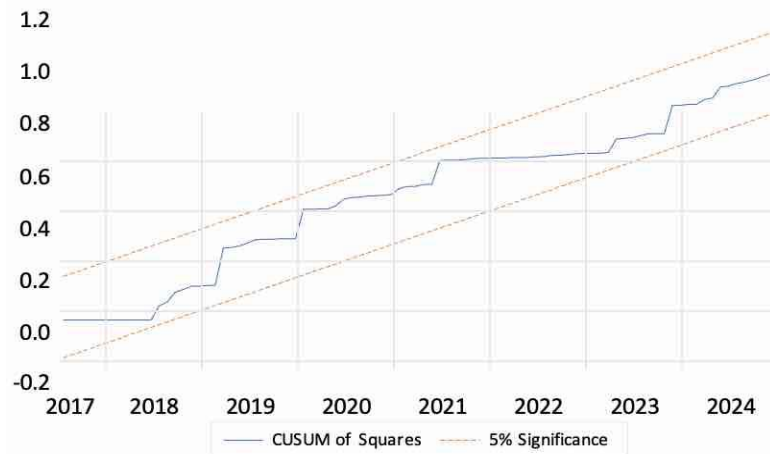


Figure 3.
Cusum of Squares Stability Test
Source: Eviews 2025 Output

The stability test results using the CUSUM and CUSUM of Squares methods show that all blue lines are within the red line, which is the critical limit. This indicates that the ARDL model used in this study is stable in terms of parameters s during the observation period, without any significant structural changes affecting its stability. Thus, the estimation and analysis results of this model can be considered valid and reliable to explain the relationship between variables in the study.

ARDL Model Estimation in Short-Term Equations

The results of testing the estimation of the Autoregressive Distributed Lag (ARDL) model parameter coefficients provide an overview of the dynamic relationship between the dependent and independent variables, both in the short and long term, with the ARDL (3,1,0,3,1,0,0) model.

Table 9.
Short-Term ARDL Estimation Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Result
D(RTB(-1))	0.208336	0.109903	1.895628	0.0612	Not Significant
D(RTB(-2))	0.127695	0.077876	1.639730	0.1046	Not Significant
D(BIR)	-0.001803	0.000646	- 2.790746	0.0064	Significant
D(LTV)	0.002439	0.004943	0.493558	0.6228	Not Significant
D(LTV(-1))	-0.000604	0.004901	-0.123164	0.9023	Not Significant
D(LTV(-2))	0.012930	0.004883	2.647761	0.0096	Significant
D(CCB)	1.15E-07	7.58E-08	1.510584	0.1344	Not Significant
CointEq(-1)*	-1.275785	0.145662	- 8.758519	0.0000	There is cointegration

Source: Eviews 2025 Output

The results of the ARDL model estimation test show a significant relationship between several independent variables and the dependent variable in the short term. First, the BI Rate has a significant effect on Risk Taking Bank, with a probability value of 0.0064 (below $\alpha = 5\%$) and a negative coefficient of -0.001803. This means that every 1% increase in the BI Rate

will reduce Risk Taking Bank by 0.0018 in the short term, while a decrease in the BI Rate will increase bank risk taking. Conversely, Money Supply (MS) does not have a significant effect on Risk Taking Bank in the short term. Similarly, Loan to Value (LTV), although showing a positive relationship with a coefficient of 0.002439, is not statistically significant with a probability of 0.6228, so it is not strong enough to support a real relationship between LTV and Risk-Taking Bank.

Furthermore, the estimation results show that CointEq is -1.275785 with a probability of 0.0000, indicating long-term cointegration, which means that 12.7% of the deviation from the long-term equilibrium is corrected in one period (1 month), showing that the system returns to equilibrium quickly and strongly. The Counter Cyclical Buffer (CCB) has a positive coefficient of 0.000000115 on bank risk-taking, but with a probability of 0.1344, indicating that the effect of CCB on risk-taking is not significant in the short term. Finally, the Capital Adequacy Ratio (CAR) also has no effect on risk-taking by commercial banks in Indonesia in the short term.

Table 10.
Long-Term Estimation Analysis

Variable	Coefficient	Standard Error	t-Statistic	Prob.	Result
RTB(-1)	-0.067449	0.093399	-0.722155	0.4721	Not Significant
RTB(-2)	-0.080641	0.087225	-0.924513	0.3577	Not Significant
RTB(-3)	-0.127695	0.082456	-1.548640	0.1250	Not Significant
BIR	-0.001803	0.000792	-2.277967	0.0251	Significant
BIR(-1)	0.001501	0.000766	1.961125	0.0530	Not Significant
JUB	-4.13E-10	6.87E-10	-0.600332	0.5498	Not Significant
LTV	0.002439	0.005530	0.441110	0.6602	Not Significant
LTV(-1)	-0.010783	0.007118	-1.514879	0.1333	Not Significant
LTV(-2)	0.013533	0.007038	1.922981	0.0576	Not Significant
LTV(-3)	-0.012930	0.005640	-2.292665	0.0242	Significant
CCB	1.15E-07	9.33E-08	1.227644	0.2228	Not Significant
CCB(-1)	-1.88E-07	8.73E-08	-2.158108	0.0336	Significant
INF	0.000609	0.000196	3.102539	0.0026	Significant
CAR	0.068398	0.025167	2.717759	0.0079	Significant
C	0.009706	0.006662	1.456834	0.1486	Not Significant

Source: Eviews 2025 Output

The ARDL model estimation results show that the BI Rate (BIR) has a negative and significant effect on Bank Risk Taking with a coefficient of -0.0018 and a p-value of 0.0251, indicating that every 1% increase in the BI Rate will reduce bank risk taking. This reflects that a tighter monetary policy (high interest rates) makes banks more cautious in taking risks. Money Supply (MS) has a negative but insignificant coefficient with a p-value of 0.5498, indicating that in the long term, MS does not have a significant effect on bank risk taking.

Inflation has a positive and significant effect with a p-value of 0.0026, where every 1% increase in inflation will increase bank risk taking in the long term. Capital Adequacy Ratio

(CAR) also shows a positive and significant relationship with a coefficient of 0.0684 and a p-value of 0.0079, which means that every 1% increase in CAR will increase bank risk taking. Meanwhile, the Counter Cyclical Buffer (CCB) has a positive coefficient of 0.000000115 with a probability of 0.2228, but its effect is not statistically significant, even though the relationship is unidirectional, meaning that a 1% increase in CCB can increase bank risk taking, but the effect is not strong enough to be considered significant.

The Effect of BI Rate on Risk Taking by Commercial Banks in Indonesia

The ARDL estimation results show that the BI Rate has a negative and significant effect on Bank Risk Taking (coefficient = -0.0018, $p = 0.0251$), which means that every 1% increase in the BI Rate will reduce bank risk taking by 0.0251. This finding is consistent with the initial hypothesis that stricter monetary policy (high interest rates) makes banks more cautious in taking risks. This result is in line with the Risk-Return Trade-Off theory and previous studies, which state that an increase in interest rates can encourage banks to adjust their credit portfolios and increase risk-taking.

The Effect of Money Supply on Risk Taking

The results of the study show that the money supply (MS) does not have a significant effect on bank risk-taking in either the short or long term. Although in theory an increase in MS can increase liquidity and encourage banks to take higher risks, in practice, fluctuations in MS are not strong enough to influence banks' risk-taking behavior. These results also support the Liquidity Preference theory, which states that high money availability does not always encourage speculative behavior if banks prioritize liquidity and stability.

The Effect of Loan-to-Value (LTV) on Risk Taking

In the short term, Loan to Value (LTV) shows a positive relationship with risk taking, but the effect is not statistically significant. Although an increase in LTV has the potential to encourage banks to provide higher-risk loans, empirical results show that strict LTV regulation policies in Indonesia play a greater role in controlling credit risk. This is in line with banking risk management theory, which emphasizes the importance of prudence in lending even when LTV is high.

The Effect of Countercyclical Buffer (CCB) on Risk Taking

The results show that in the short term, the Countercyclical Capital Buffer (CCB) has a positive effect on risk-taking, but the effect is not significant. This may be due to the early stage of CCB policy implementation, which may not yet be effective in influencing banks' risk-taking decisions. This finding is in line with risk management theory, which states that capital buffers such as CCB serve as a buffer to prevent banks from taking excessive risks during periods of economic expansion.

The Effect of Inflation on Bank Risk Taking

Inflation has a significant positive effect on risk-taking in the long term, with a coefficient of 0.000609 and a probability value of 0.0026. This means that every 1% increase in inflation will increase bank risk-taking. However, in the short term, inflation does not have a significant effect, indicating that in periods of high inflation, banks may act more aggressively in pursuit of profits, especially in the hope of monetary policies that offset inflation.

The Effect of Capital Adequacy Ratio (CAR) on Risk Taking

In the long term, the Capital Adequacy Ratio (CAR) has a significant positive effect on risk-taking with a coefficient of 0.068398 and a probability value of 0.0079. This indicates that banks with higher capital adequacy tend to be more daring in taking risks. However, in the short term, CAR does not have a significant effect on bank risk taking. This indicates that although CAR is important for bank stability, its effect on risk taking behavior is more dominant in the long term.

CONCLUSIONS

1. The BI Rate has a significant negative effect on risk-taking by commercial banks in Indonesia.
2. The money supply has an insignificant negative effect on risk-taking by commercial banks in Indonesia.
3. Loan-to-Value (LTV) has a positive but insignificant effect on risk-taking by commercial banks in Indonesia.
4. Countercyclical Capital Buffer (CCB) has a positive but insignificant effect on risk-taking by commercial banks in Indonesia.
5. Inflation has a significant positive effect on risk-taking by commercial banks in Indonesia.
6. Capital Adequacy Ratio (CAR) has a significant positive effect on risk-taking by commercial banks in Indonesia.

SUGGESTIONS

1. For Regulators and Monetary Authorities: There is a need to strengthen coordination between monetary and macroprudential policies to reduce excessive risk-taking. Bank Indonesia must pay attention to the impact of interest rates on banks' risk behavior and ensure strict supervision.
2. For the Banking Industry: Banks should establish early detection systems and stress tests to anticipate the long-term impact of variables such as inflation, LTV, CAR, and CCB, and remain cautious in responding to policy changes.
3. Further Research: It is recommended to use longer-term data and expand the coverage of banks, as well as add variables such as NPL, bank size, and profitability for a more comprehensive analysis. The use of dynamic panel methods or nonlinear models is also recommended.

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