ABSTRACT

The banking sector is a means to support the development of a country. Banking sector becomes one of the financial institutions in the societies . The occurrence of economic and financial crisis was caused by macroeconomic factors that can have impact on the stability of banking sector. This usually starts with the increased risk of credit problems, which will disrupt the existing banking system. The purpose of this research is to know the credit risk response of banking to shocks from macroeconomic variables.

This research uses stress test method by utilizing vector autoregressive (VAR) that is the impulse response function (IRF). The variable used in this research is non performing loan (NPL) as dependent variable and some independent variables including inflation, GDP, BI rate, exchange rate, and world oil prices.

The results show that shocks on inflation and BI rate variables affect relatively high to NPL. Simultaneously, the combination of shocks from inflationary variables, exchange rates, and world oil prices, has large influence on NPLs. Thus, these variables can be used as an early warning indicators for the banking sector when domestic and foreign economic conditions are unstable.

Keywords : Stress Test, Credit Risk, Macroeconomic Variable, Vector Autoregressive (VAR), Impulse Response Function (IRF).