

ABSTRACT

Changing climate conditions are a big challenge for us at this time. The phenomenon of climate change caused by human activities causes various disasters. These human activities produce Greenhouse Gases (GHG) which trap geothermal heat so that the earth's temperature is increasing. To prevent the earth's temperature from increasing, on November 4 2015 in the city of Paris, countries in the world entered into an agreement known as the Paris Agreement. All countries that are present in the Paris Agreement are required to develop a plan to address the problem of climate change, known as the Nationally Determined Contribution (NDC). The Indonesian government is trying to develop sustainable finance to achieve the target of reducing GHG emissions as stated in the NDC. The Financial Services Authority (OJK) fully supports the government's efforts to reduce GHG emissions by issuing provisions related to sustainable finance.

Based on OJK regulations, Commercial Banks as a financial service institution are required to implement sustainable finance, among others by reporting loans that meet the criteria for Environmentally Friendly Business Activities (KUBL) or green credit. In our opinion, research on the effect of green credit on bank credit risk as reflected in NPLs has never been carried out. In this study, we analyze the effect of green credit, bank performance variables (LDR, CAR, ROA, NIM) and bank size on credit risk of commercial banks in Indonesia. This study uses data samples from 107 commercial banks and 16 commercial banks groups based on Core Capital (KBMI) 3 and 4 in Indonesia from 2019 to 2021. Data processing uses panel data regression.

Based on the results of this study, the effect of green credit on NPL is not significant because the percentage of green credit is still relatively low compared to the total bank credit portfolio in Indonesia. For this reason, various incentives are needed from both the Authority and the Government to encourage commercial banks to increase green credit. Meanwhile bank performance variables, namely LDR, CAR, NIM and bank size have a significant influence on the credit risk of commercial banks in Indonesia. Bank performance variables namely LDR, CAR have a positive effect on bank NPL. Meanwhile, the NIM ratio and bank size have a negative effect on bank NPLs.

Keywords: *green credit, NPL, sustainable finance*