

## **ABSTRACT**

*The unstable global economic situation has encouraged Micro, Small, and Medium Enterprise (MSME) in Indonesia as a strategy to create an inclusive and sustainable national economy. The growth of MSMEs is essential because it serves a large contribution to economic growth in Indonesia, but the main obstacle of the MSMEs is capital. This study aimed at analyzing the effect of the ratio of bank financial performances and macroeconomics to the distribution of MSME lending by state-owned banks in Indonesia for the 2015-2019 period. The bank's financial performance ratio is an internal factor consisting of liquidity ratio (LDR), solvency (CAR), and profitability (ROA). Besides, macroeconomics is a bank external factor consisting of BI 7-Days (Reverse) Repo Rate (BI7DRR) and Inflation.*

*The sample of the study consisted of four Indonesian state-owned banks, namely BRI, BNI, BTN, and Mandiri, which were selected according to the total sampling technique. The data were secondary data that were obtained from quarterly financial reports of each bank in the official website of each state-owned bank. The analysis method used in this study was panel data regression with fixed effect models using the EViews application.*

*The results showed that partially the liquidity ratio (LDR), profitability (ROA), and BI7DRR do not have a significant effect on MSME lending distribution. Meanwhile, the solvency ratio (CAR) and inflation have a significant negative effect on MSME Loans. In accordance with the simultaneous F-test, the ratio of bank both financial performances and macroeconomics have a significant effect on the distribution of MSME Loans by the state-owned banks in the 2015-2019 period. In addition, this research can be taken into consideration for banks and debtors to make decisions in conducting MSME credit transactions in Indonesia.*

**Keywords:** *Loan to Deposit Ratio (LDR), Capital Adequacy Ratio (CAR), Return on Assets (ROA), BI 7-Days (Reverse) Repo Rate (BI7DRR), Inflation, and Micro, Small, and Medium Enterprise (MSME) Loans.*