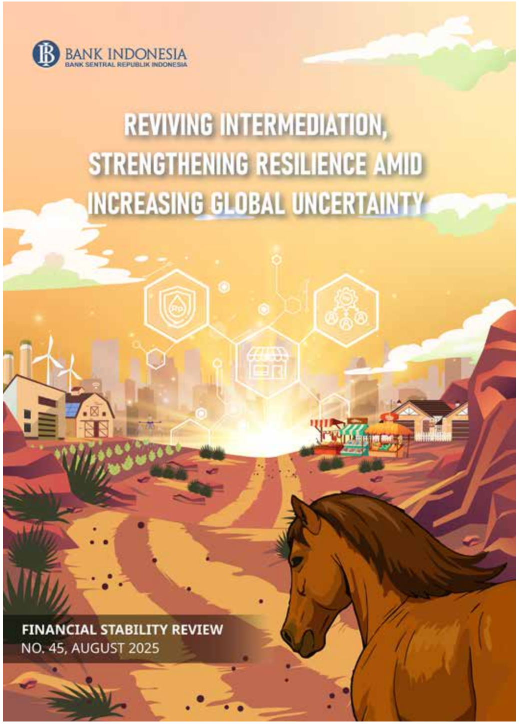
BANK INDONESIA
BANK SENTRAL REPUBLIK INDONESIA

REVIVING INTERMEDIATION, STRENGTHENING RESILIENCE AMID INCREASING GLOBAL UNCERTAINTY

FINANCIAL STABILITY REVIEW
NO. 45, AUGUST 2025



The horse navigating a rocky road *is symbolic of Indonesia's economic journey in the face of global challenges marked by uncertainty and unpredictable changes. The horse keeps moving forward, representing the resilience of the national financial system, which continues to grow and advance.*

The digital iconography *symbolises the three pillars of macroprudential policy, namely financial intermediation, resilience and inclusion, thus reflecting Indonesia's growing economy, accompanied by maintained resilience and inclusiveness underpinning a stable and resilient financial system.*

The beams of light *are indicative of optimism in line with the direction of Bank Indonesia policy, which continues to foster growth and stability. The rugged and bushy landscape represents the challenging global reality that can nevertheless be overcome with the right strategy, strong commitment and synergy with strategic partners.*

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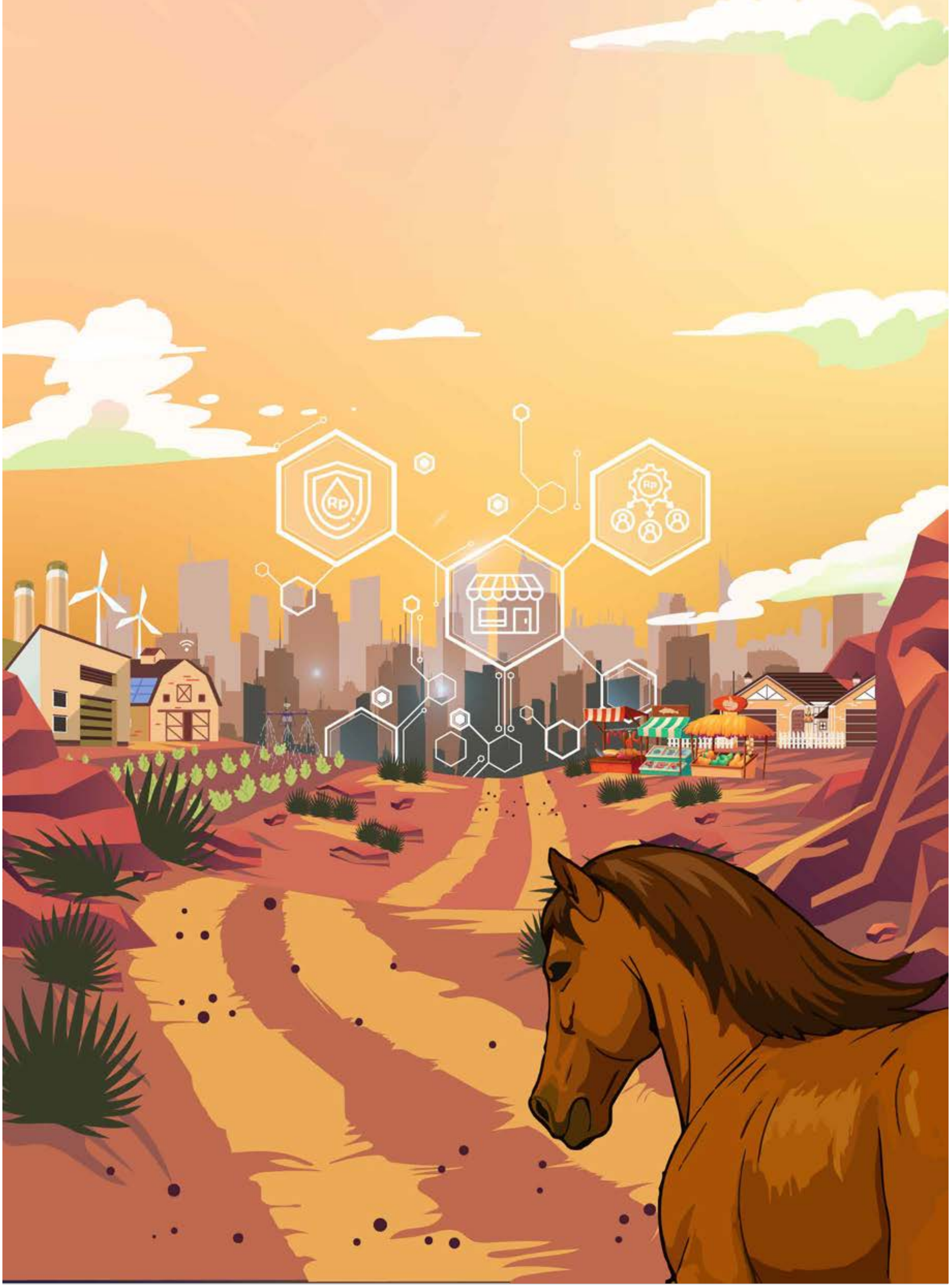

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MACROPRUDENTIAL POLICY DEPARTMENT

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List of Abbreviations

AI	Artificial Intelligence
BNPL	Buy Now Pay Later
BPS	Statistics Indonesia
Capex	Capital Expenditures
CAR	Capital Adequacy Ratio
CBC	Counterbalancing Capacity
CCyB	Countercyclical Capital Buffer
CGE	Recursive-Dynamic Computable General Equilibrium
CKPN	Provisions for Impairment Losses
Covid-19	Corona Virus Desease 2019
CPI	Consumer Price Index
DaR	Debt at Risk
DHE SDA	Foreign Exchange Proceeds from the Export of Natural Resources
DSK-IAI	Sustainability Standards Board of the Institute of Indonesian Chartered Accountants
DSR	Debt Service Ratio
EBUS	Debt Securities/Sukuk
FaR	Financing at Risk
FEKDI	Indonesia Digital Economy and Finance Festival
FFR	Federal Funds Rate
FLC	Funding Liquidity Creation
FSB	Financial Stability Board
FSSI	Financial System Stability Index
GDP	Gross Domestic Product
GNPIP	National Movement for Food Inflation Control
GR	Gearing Ratio
GWM	Minimum Reserve Requirements
ICR	Interest Coverage Ratio
KBMI	Group of Banks by Core Capital
Kemenkeu	Ministry of Finance
KKI	Karya Kreatif Indoensia
KLM	Macroprudential Liquidity Incentive Policy
KPR	Housing Loan
KSEI	Indonesian Central Securities Depository
KSSK	Financial System Stability Committee
KUR	People's Business Loan
LA/TPF	Liquid Assets to Third-Party Funds
LaR	Loan at Risk
LCR	Liquidity Coverage Ratio
LPS	Indonesia Deposit Insurance Corporation
LRI	Lending Requirement Index
LSI	Lending Standard Index
LTV/FTV	Loan to Value/Financing to Value
MIR	Macroprudential Intermediation Ratio
MPLB	Macroprudential Liquidity Buffer
MSME	Micro, Small and Medium Enterprises
NBFI	Non-Bank Financial Industry
NDF	Non-Deliverable Forwards
NGFS	Network for Greening the Financial System NIM
NPF	Non-Performing Financing
NPL	Non-Performing Loan
NPM	Net Profit Margin
NSFR	Net Stable Funding Ratio
OJK	Indonesia Financial Services Authority
ORI	Indonesian Retail Government Bonds
P2SK Act	Financial Sector Development and Strengthening Act
PPN DTP	Government Borne Value Added Tax
PSP	Payment System Providers
repo	Repurchase Agreement
ROA	Return on Asset

ROE	Return on Equity
RPIM	Macroprudential Inclusive Financing Ratio
RPLN	Bank Foreign Funding Ratio
SBI	Bank Indonesia Certificates
SBIS	Sharia Bank Indonesia Certificates
SBN	Government Securities
SRBI	Bank Indonesia Rupiah Securities
SukBI	Bank Indonesia Sukuk
SVBI	Bank Indonesia Forex Securities
SUVBI	Bank Indonesia Forex Sukuk
TPF	Third Party Funds
TPID	Regional Government Inflation Control Teams
TPIP	Central Government Inflation Control Teams
US	United States
VIX	Volatility Index
yoy	year on year
ytd	year to date

Foreword

Perry Warjiyo
Governor of Bank Indonesia

Alhamdulillah, Praise be to God Almighty for the publication of the Financial Stability Review No. 45, August 2025 edition, entitled **Reviving Intermediation, Strengthening Resilience Amid Increasing Global Uncertainty**. Financial Stability Review is an integral part of Bank Indonesia's policy communication, while simultaneously serving as a commemoration and celebration of 80 years of Indonesian independence. The Financial Stability Review provides a comprehensive overview of the current state and prospects of Indonesian financial system stability based on an in-depth assessment of the three main pillars of macroprudential policy, namely intermediation, financial system resilience as well as financial inclusion and the green economy. The three pillars of macroprudential policy represent an important foundation to maintain an optimal balance between sustainable economic growth and financial system stability.

The global economy is currently facing complex risks, not only in the form of heightened uncertainty but also increasing unpredictability. The United States has imposed higher reciprocal import tariffs than initially announced on several countries, thus increasing the risk of global economic moderation. In the United States itself, the economic outlook is potentially lower in line with weaker domestic demand. Meanwhile, China's economy is also experiencing a slowdown as a result of declining exports, primarily to the United States, while the Indian economy is expected to maintain solid growth on the back of domestic investment and consumption.

The implementation of reciprocal import tariffs by the United States government has also triggered a build-up of risk in financial markets and global capital flows. The current trend of slower growth and disinflation have prompted most central banks to favour accommodative monetary policy, except in Japan. Milder inflationary pressures in the United States are strengthening expectations of a future reduction in the Federal Funds Rate. In the near term, however, global financial market uncertainty is expected to persist, thus demanding vigilance to maintain domestic economic resilience against the impact of potential global spillovers.

Despite global uncertainty spurred by inward-looking policies in the United States, economic growth in Indonesia exceeded projections in the second quarter of 2025. Second-quarter growth in 2025 was recorded at 5.12% (yoy), up from 4.87% (yoy) in the first quarter of 2025. Stronger economic performance was supported by investment in line with positive capital investment growth and household consumption as community mobility increased. Non-oil and gas exports also increased due to the front-loading of exports bound for the United States in anticipation of tariffs, accompanied by an influx of inbound international travellers. Domestic macroeconomic resilience was also reflected in a solid Balance of Payments, stable rupiah exchange rates as well as maintained low inflation.

In terms of financial sector performance, loans disbursed by the banking industry maintained positive yet moderating growth in line with restrained corporate demand. Meanwhile, Bank Indonesia acknowledges a further opportunity to accelerate credit growth due to ample liquidity in the banking industry, coupled with faster growth of third-party funds in line with expansionary fiscal spending. To that end, bank lending must be strengthened further to support sustainable economic growth against robust banking industry resilience.

Moving forward, Bank Indonesia will continue strengthening its policy mix to maintain stability in pursuit of sustainable economic growth. Meanwhile, Bank Indonesia continues optimising accommodative macroprudential policy to revive lending/financing, lower interest rates and increase liquidity in the banking industry to support higher economic growth. We remain optimistic in terms of accelerating bank lending/financing, underpinned by maintained financial system resilience. Synergy with the Government and Financial System Stability Committee is key to maintaining stability and driving economic growth in line with the Government's Asta Cita program.

We sincerely hope the 45th edition of the Financial Stability Review serves as a valuable reference for informed decision-making among policymakers, market players, academics and the wider community in terms of understanding national financial system dynamics. Equipped with this insight, let us build optimism that Indonesia can navigate the prevailing global dynamics with strong resilience and sustainable economic growth. To that end, we are confident and reiterate that "*The key to facing uncertainty is policy synergy, interagency coordination and collective optimism. With collective enthusiasm and the spirit of togetherness, we not only survive but also grow stronger*."

Jakarta, August 2025

Governor of Bank Indonesia
Perry Warjiyo

EXECUTIVE SUMMARY

Financial system stability was maintained despite persistent global uncertainty. As an indicator of financial system resilience, the Financial System Stability Index (FSSI) remained in the normal zone throughout the first semester of 2025, underpinned by a resilient banking industry and non-bank financial industry (NBFI) as well as maintained corporate and household performance. Global economic uncertainty resurgence after the announcement of higher reciprocal import tariffs by the United States (US) Government on several advanced and developing economies. Public confidence in financial sector resilience in Indonesia remained strong despite various vulnerabilities and potential shocks. Strong public confidence was supported by the Bank Indonesia policy mix, which remained oriented towards maintaining stability in pursuit of sustainable economic growth in line with the Government's Asta Cita program. In addition, Bank Indonesia continued strengthening policy synergy with the Financial System Stability Committee (KSSK) to maintain financial system stability.

Global economic uncertainty remained high, elevated by the reciprocal import tariffs introduced by the US Administration alongside deepening geopolitical tensions in several regions. Such inauspicious conditions triggered economic moderation in advanced economies, including the US, Europe and Japan, despite authorities in each jurisdiction applying expansionary fiscal policy and accommodative monetary policy. The reciprocal import tariffs are expected to impact world trade performance, particularly through the prospect of weaker demand. In addition, the rebalancing of foreign capital flows from the US to Europe and developing economies, as well as to safe-haven assets, continued in response to a build-up of economic risk in the US, including fiscal risk. Moving forward, vigilance is required alongside a stronger policy response and coordination to mitigate persistently high economic and global financial market uncertainty, while maintaining external resilience, preserving stability and stimulating domestic economic growth.

At home, Indonesia's economy remained resilient with a further opportunity to accelerate growth given the sluggish global economic outlook. National resilience was supported by domestic activity. Investment indicated early signs of recovery, and export maintained growth on the back of global demand for Indonesia's major commodities and manufacturing products. Household consumption posted 4.97% (yoy) growth in line with increasing economic activity and community mobility during the recent series of national religious holidays and school holidays. Meanwhile, US reciprocal import tariffs could potentially trigger trade diversion, thus diverting some exports away from China to Indonesia, particularly in the mining sector, basic metals industry, chemical industry and paper industry, which have strong forward linkages with several countries that have the potential to usurp export share from China. Compelling opportunities to boost growth, therefore, remain available through the positive impact of trade diversion and policy support. Rupiah exchange rate stability was maintained given the strong stabilisation policy response instituted by Bank Indonesia, coupled with renewed enforcement of the Government regulation concerning the Foreign Exchange Proceeds from the Export of Natural Resources (DHE SDA). Inflation was also maintained within the 2.5%±1% target corridor, with volatile food inflation tracking a downward trend as a corollary of inflation control synergy with the Central and Regional Government Inflation Control Teams (TPIP and TPID) through the National Movement for Food Inflation Control (GNPIP) in various regions.

Banking intermediation was maintained despite a further opportunity to accelerate growth in order to support the economy. Growth of loans disbursed by the banking industry in June 2025 recorded 7.77% (yoy) growth, moderating from 12.36% (yoy) in June 2024. The main contributors to credit growth were productive loans, namely investment loans, supported by credit growth in the corporate segment. On the supply side, this was influenced by bank prudence and selective lending, despite third party funds (TPF) growth accelerating to 6.96% (yoy) in June 2025. Faster credit growth than TPF growth prompted the banks to deploy asset reallocation strategies. The banking industry will optimise income and risk (risk-adjusted return) in the asset portfolio by reallocating credit and liquid asset instruments to maximise profitability. Optimising returns and risk management through adjustments to asset portfolio strategies are expected to expand credit. In addition, the prospect of non-TPF funding sources from the domestic and global capital markets increased. Meanwhile, more selective lending appetite was reflected in the Lending Requirement Index (LRI), indicating bank discretion when extending loans.

Banking intermediation was bolstered by positive corporate and household performance, which must be accelerated further. Corporate sales and investment growth helped to maintain the demand for credit. Corporate sales were supported by stronger export sales amid growing pressure on production costs due to the reciprocal import tariffs of the US Government.

Nevertheless, the corporate sector tended to delay expansion given persistently high uncertainty. Businesses increased liquidity to provide flexibility when responding to volatile economic dynamics and to help expand financing. In terms of households, household consumption maintained positively growth which supported household credit growth. Positive household credit growth primarily stemmed from housing loans and multipurpose loans, despite moderation. Notwithstanding, policy synergy between the Government and Bank Indonesia successfully offset deeper moderation of housing loan growth. NBFI financing, including online loans, expanded access to finance for households, particularly low-income households, supported by greater adoption of digitalisation that has accelerated services.

Financial system resilience remained solid, underpinned by robust banking industry and NBFI resilience. Credit risk resilience, liquidity and capital in the banking industry remained solid, supported by selective lending to maintain credit quality. The banking industry dealt with challenges, however, in terms of competition to secure funds. Credit risk eased slightly in line with bank efforts to maintain credit quality, except for micro, small and medium enterprises (MSME) loans and consumer loans. Bank profitability continued tracking an upward trend in line with effective efforts to diversify income, correct provisions for impairment losses and enhance operational cost efficiency. Ample liquidity was maintained in the banking industry despite decreasing in line with lower funding liquidity creation as banks increased the servicing of external debt. Financial system resilience also remained solid amid operational risk caused by digitalisation. Strengthening operational and cyber risk mitigation has become a crucial element of maintaining payment system resilience and reliability in Indonesia. Indonesia has strengthened financial system crisis prevention and handling through a comprehensive legal framework. In terms of the NBFI, the resilience of finance companies and online loans was maintained despite increasing risk due to rapid growth of buy now pay later (BNPL) loans, which continues to demand vigilance. Meanwhile, external debt continued a contractionary trend due to declining corporate external debt.

In line with financial sector resilience, corporate and household repayment capacity were maintained in 2025 despite pressures on the household sector, particularly lower-middle income households. Increasing corporate liquidity and fewer businesses experiencing financial distress were indicatives of maintained corporate resilience. Notwithstanding, the impact of global and domestic dynamics along with escalating geopolitical tensions and US reciprocal tariff policy, particularly on exporters, continued to demand vigilance. In terms of households, particularly lower-middle income households, lower incomes and pressures on purchasing power continued to require attention, as indicated by the dominance of informal workers and the ongoing trend of dismissals and redundancies. Lower incomes have slowed household deposit growth and increased non-performing loans (NPL) across all income levels.

MSME loan growth remained positive, supported by small enterprises. By sector, MSME loan growth was primarily driven by the transportation sector, agriculture as well as accommodation. Growth of MSME loans disbursed to those sectors was spurred by the provision of agricultural equipment and machinery as well as agricultural production facilities, increasing MSME export performance and stronger demand among domestic and international travellers during the holiday period. Nevertheless, MSME loan performance moderated in terms of the construction sector, manufacturing industry and trade sector in line with weaker domestic demand. Bank Indonesia remained firmly committed to strengthening inclusive and sustainable national digital and economic transformation through collaboration to organise and host the Indonesia Digital Economy and Finance Festival in synergy with Karya Kreatif Indonesia (FEKDIxKKI) 2024. Green loan disbursements continued tracking an upward trend, accompanied by mitigated credit risk, despite remaining below potential. Meanwhile, financing disbursed by the sharia banking industry must be increased further to support economic growth. Bank Indonesia constantly strengthened its support to optimise inclusive, green and Islamic finance through macroprudential policies targeting the banking industry, alongside MSME, green and sharia empowerment and financing strategies, and the development of an ecosystem to facilitate access to finance, while increasing public education and literacy. Synergy and coordination with financial sector authorities, the Ministry of Finance and other government ministries/agencies were pursued continuously to optimise inclusive, green and Islamic finance from the policy/regulatory side, while providing supporting infrastructure for the financing ecosystem.

Moving forward, banking intermediation in 2025-2026 is forecast to remain solid, supported by a promising domestic economic growth outlook, financial system resilience as well as stable inflation and exchange rates. Credit growth is projected in the 8-11% range in 2025 before accelerating in 2026. On the demand side, the pace of real sector recovery and strengthening public purchasing power are the main driving factors of banking intermediation. On the supply side, improving intermediation will be supported by lower lending rates, adequate liquidity, including additional liquidity from the Macroprudential Liquidity Incentive Policy (KLM), as well as banking industry optimism concerning financial sector resilience. Meanwhile, inclusive (MSME) and green finance are predicted to maintain positive yet moderating growth, supported by the Bank Indonesia policy mix, People's Business Loan (KUR) program, Islamic finance and commitments to a sustainable economic transition, or a just transition. Notwithstanding, several challenges remain, such as the wait-and-see attitude of the corporate sector, weak purchasing power in the middle-lower income bracket, as well as the need to strengthen MSME competitiveness and the sustainability of banking liquidity.

Bank Indonesia continuously strengthens its policy mix by maintaining an accommodative macroprudential policy stance oriented towards expanding credit to the real sector, including inclusive and green finance, in line with the economic and financial cycles. By optimising various macroprudential policy instruments, Bank Indonesia continuously strives to create a stable and inclusive financial system. Pro-growth macroprudential policy is oriented towards strengthening the intermediation function in pursuit of national economic growth. Furthermore, Bank Indonesia strengthened policies to increase foreign funding in the banking industry and ensure greater liquidity management flexibility through the Bank Foreign Funding Ratio (RPLN) and Macroprudential Liquidity Buffer (MPLB) to revive intermediation. In terms of supervision, Bank Indonesia strengthened systemic surveillance through an integrated approach, supported by the development of supervisory technology and application of artificial intelligence (AI) technology. Maintaining financial system stability and effective policy transmission, policy coordination and synergy with financial sector authorities and relevant government ministries/agencies are continuously strengthened through domestic forums and international cooperation.

BANK INDONESIA

Chapter 1

NAVIGATING THE INDONESIAN ECONOMY AMID GLOBAL UNCERTAINTY

Global economic uncertainty remained elevated, driven by US reciprocal tariffs and escalating geopolitical tensions. *These conditions slowed growth in advanced economies and are expected to moderate growth in developing economies through weaker exports and reduced global trade flows. In turn, tariff policy and geopolitical risks amplified volatility in global financial market.*

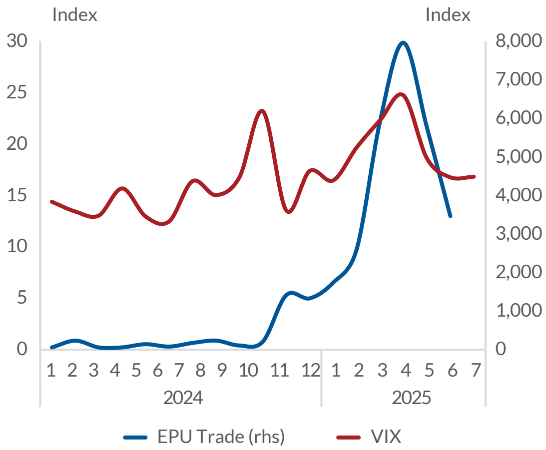
Domestic economic resilience was maintained despite elevated global economic uncertainty. *Domestic economic growth in the second quarter of 2025 was supported by domestic economic activity as well as import-export activity, which increased, and the positive performance of major sectors, such as the manufacturing industry, trade, as well as the information and communication sector. External resilience was maintained alongside rupiah stability, underpinned by Bank Indonesia's stabilisation policy. Inflation remained under control and within the 2.5%±1% target corridor, bolstered by monetary policy consistency and close inflation control synergy with the central and regional government through the GNPIP.*

Consistent with solid macroeconomic resilience against a global uncertainty, financial system resilience was also maintained*. This was supported by the strong foundations of the banking sector, as reflected in lower risk, solid capital and adequate liquidity to support credit growth. Credit growth was recorded in the range projected by Bank Indonesia, namely 8-11% (yoy), driven by the growing need for productive and consumptive financing, despite demand from large corporations indicating moderation. Such conditions supported intermediation performance and maintained the stability of the financial system, as reflected by a FSSI that remained in the normal zone throughout the first semester of 2025.*

1.1 Global Geopolitical Dynamics: Macroeconomic Stability and Financial System Stability Challenges

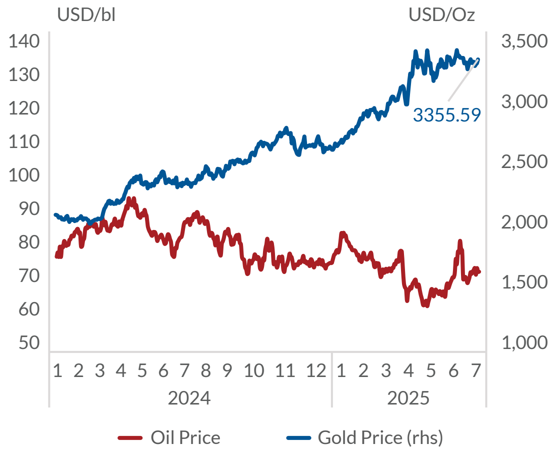
Global economic uncertainty remained high due to the reciprocal import tariffs imposed by the US Government on China and several other countries, coupled with deepening geopolitical tensions in the Middle East. The ongoing phenomena of trade and tariff wars, including the US announcement of reciprocal import tariffs at the beginning of April 2025 and the retaliatory policies instituted by China along with similar responses from other countries, has elevated the level of global uncertainty. Geopolitical tensions in the Middle East in June 2025 further heightened uncertainty and impacted the global economic growth outlook. Although trade war tensions eased in May 2025 due to the temporary pause agreed between the US and China for 90 days, trade, investment and global financial market activities were still affected. Economic moderation was observed in advanced economies, such as the US, Europe and Japan, despite efforts by authorities in each jurisdiction to institute expansionary fiscal policy and accommodative monetary policy. Meanwhile, the impact of US reciprocal tariffs is expected to influence world trade performance, particularly the prospect of weaker global demand. The prospect of slower world trade was triggered by high uncertainty in terms of global trade policy, as reflected in the Economic Policy Uncertainty Trade Index, which increased sharply from 1,726 in January 2025 to 7,956 in April 2025, and subsequently remained high until July 2025 at 3,403 (Graph 1.1.1).

US tariff policy and geopolitical tensions in the Middle East, coupled with the adverse impact on the global economy, heightened global financial market uncertainty. The prospect of economic moderation in the US, accompanied by high fiscal risk, triggered capital outflows from the US to save-haven assets, including gold. Such conditions prompted broad-based US dollar depreciation against the currencies of advanced economies (DXY) and emerging economies (ADXY), although US dollar movements and volatility will remain at the mercy of US tariff policy dynamics and escalating global geopolitical tensions. High global uncertainty was reflected in the volatility index (VIX), peaking in April 2025 at 24.70 (Graph 1.1.1). In addition, escalating geopolitical tensions in the Middle East spurred additional pressures on global economic uncertainty, as reflected in the upward global oil and gold price trends.



Source: Bloomberg, processed

Graph 1.1.1. Economic Policy Uncertainty Trade Index and VIX Index



Source: Bloomberg, processed (data as of 31st July 2025)

Graph 1.1.2. Global Oil and Gold Price Trends

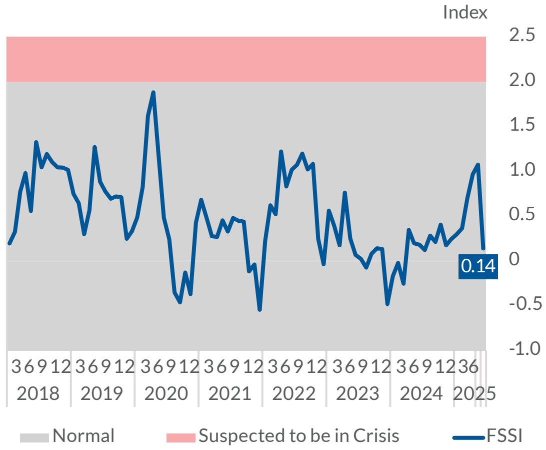
1.2 Economic Resilience and Domestic Financial Stability against Global Risks

Despite global headwinds, Indonesia's economy remained resilient, recording stronger growth of 5.12% (yoy) in Q2 2025, up from 4.87% (yoy) in the previous quarter. Growth from the perspective of expenditure was supported by solid domestic demand alongside improving export-import performance. Household consumption grew 4.97% (yoy) in line with the increasing economic activity and community mobility during the series of national religious holidays and school holidays. Investment grew 6.99% (yoy), underpinned by positive capital investment growth realisation. Meanwhile, exports grew 10.67% (yoy) on the back of increasing demand from Indonesia's major trading partners, accompanied by an slight increase in service exports given the influx of inbound international travellers. All economic sectors maintained positive performance in the reporting period. As the primary economic contributors, the manufacturing industry, trade sector, as well as the information and communication sector recorded solid growth in line with increasing domestic and external demand. Spatially, economic growth accelerated in the second quarter of 2025 in all regions of the archipelago compared with conditions in the previous period, led by Java, followed by Sulawesi-Maluku-Papua, Sumatra, Kalimantan and Bali-Nusa Tenggara. Meanwhile, low inflation was maintained within the target corridor. The Consumer Price Index (CPI) in July 2025 recorded 2.37% (yoy) inflation. Core inflation remained under control at 2.32% (yoy) in line with policy rate (BI-Rate) consistency to anchor inflation expectations to the target. Volatile food and administered prices also remained manageable at 3.82% (yoy) and 1.32% (yoy), respectively, thanks to close inflation control synergy by the TPIP and TPID.

External resilience in Indonesia was maintained alongside rupiah appreciation and stability, supported by Bank Indonesia's stabilisation policy amid elevated global uncertainty. The trade balance in June 2025 amassed a USD4.1 billion surplus, continuing the USD4.3 billion surplus recorded in May 2025, supported by solid non-oil and gas export performance. Foreign capital inflows to domestic portfolio instruments (portfolio inflows) were also maintained due to the promising national economic outlook for Indonesia, high yields on financial instruments for investment and a rebalancing of capital flows to emerging economies, including Indonesia, as economic risk increased in the US. Foreign capital flows to government securities (SBN) at the end of July 2025 recorded net inflows of USD1.05 billion. The position of reserve assets at the end of July 2025 also remained high at USD152.0 billion, equivalent to 6.3 months of imports or 6.2 months of imports and the servicing of government external debt, which is well above the international adequacy standard of approximately 3 months of imports. Rupiah exchange rates remained stable despite experiencing strong headwinds in offshore markets at the beginning of the second quarter of 2025 through non-deliverable forwards (NDF) after the US announced its reciprocal tariff policy, which heightened global economic uncertainty. In response, Bank Indonesia intervened in the foreign exchange market, including intervention in offshore NDF transactions, which brought rupiah movements back under control. In May and June 2025, the rupiah strengthened against the US dollar, underpinned by consistent Bank Indonesia stabilisation policy against a backdrop of persistently high global uncertainty. On 31st July 2025, the value of the rupiah was recorded at Rp16,455 per US dollar, appreciating from Rp16,865 per US dollar in April 2025. Rupiah appreciation was also supported by the conversion of foreign currencies into rupiah by exporters after the Government strengthened its policy concerning DHE SDA.

Solid economic performance helped to maintain financial system stability. The FSSI remained in the normal zone throughout the first half of 2025 (Graph

1.2.1), thereby indicating national financial system resilience in the face of global turmoil. Economic growth momentum from the end of 2024 until the first semester of 2025 sustained solid financial intermediation. Credit growth remained in the range projected by Bank Indonesia, namely 8-11% (yoy), driven by increasing demand for productive and consumptive loans despite demand from large corporations indicating moderation. Rupiah stability along with low and stable inflation also supported the corporate sector's balance sheet. Exchange rate risk continued to demand vigilance, however, particularly among corporations indebted with foreign loans and burdened by a cost structure with a high import content.



Source: Bank Indonesia, processed

Graph 1.2.1. Financial System Stability Index

Financial system resilience was also supported by strong foundations in the banking sector. Banking industry resilience was reflected by low credit risk, a solid capital base and ample liquidity to drive credit growth. The banks applied prudential principles when extending credit, as indicated by low NPL and loans at risk (LaR) at 2.22% and 9.73% in June 2025, respectively. Liquidity resilience was also maintained alongside a solid capital base, as reflected by a ratio of liquid assets to third-party funds (LA/TPF) of 27.05% and a high Capital Adequacy Ratio (CAR) of 25.48%. Such conditions prompted banks to increase new loan disbursements, thereby raising the ratio of credit to total assets from 62.07% to 62.86% in June 2025.

1.3 Vulnerabilities and Sources of Financial System Shocks in Indonesia[1]

The intermediation function remained sound throughout the first semester of 2025 despite the emergence of structural pressures that required attention. Moderating TPF growth began to limit the capacity to disburse credit despite continued interest in financing from the banks. Moderation was consistent with the declining contribution of individual third-party funds since the pandemic, while the dominance of private non-NBFI in the composition of TPF created a dependence on large customers. Such conditions intensified interest rate competition, as indicated by competing bank efforts to offer higher funding rates, including special rates, to attract and retain funds. Consequently, the cost of funds increased, thereby impacting intermediation efficiency.

Structural pressures emerged in line with the findings of a public perception survey concerning the sources of systemic risk in the first semester of 2025, which identified various vulnerabilities[2] and shocks[3] in terms of financial system stability. The survey identified several main factors considered potential sources of systemic vulnerability. Economic growth driven by certain dominant sectors was one of the main factors that can become a potential source of systemic vulnerability. The next factor was digital vulnerability, including the rapid emergence of illegal online loans. Third, portfolio credit in the banking industry that is concentrated in specific sectors or borrowers. Finally, shallow financial markets in Indonesia (Graph 1.3.1).

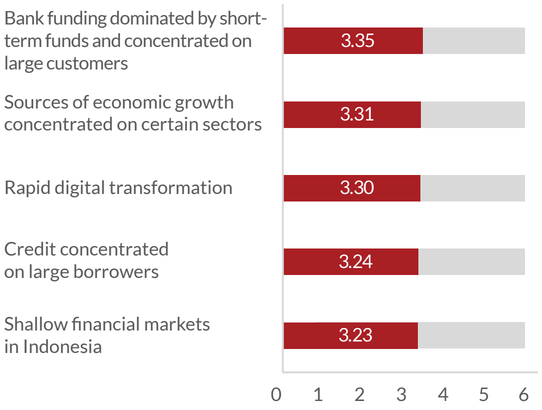
1 Based on the Risk Assessment Matrix compiled from the Systemic Risk Survey conducted in the first semester of 2025 (121 respondents comprising financial institutions, corporations, economists and academics), data as of 21st April 2025.

2 Vulnerabilities are pre-existing features of the financial system that amplify and accelerate the spread of shocks.

3 Shocks are trigger events as the proximate cause of a crisis. Risk materialises when a shock interacts with a vulnerability and can have a systemic impact when not mitigated by adequate financial system resilience.

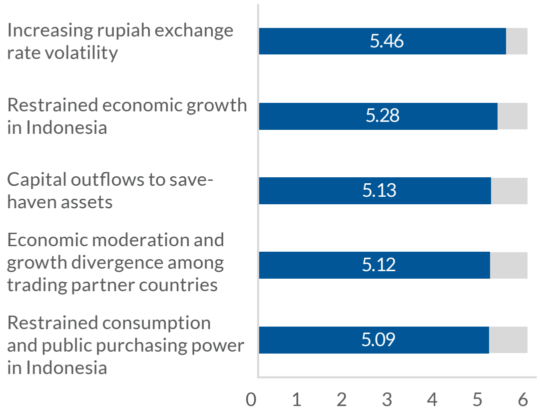
The survey also identified five major shocks that could disrupt financial system stability. First, potential rupiah depreciation and weaker financial markets in Indonesia. Second, potentially restrained economic growth due to global uncertainty, the efficiency of government spending and restrained private corporate performance. Third, a potential increase in capital outflows from Indonesia to the US or other safe-haven countries. Fourth, economic moderation and growth divergence among Indonesia's trading partners due to disruptions caused by global trade policy. Finally, weaker consumption and public purchasing power due to a prolonged recovery in the labour market (Graph 1.3.2).

Public confidence in financial sector resilience remains high in Indonesia despite various vulnerabilities and potential shocks. Survey results indicated that most respondents are confident that financial system stability can be maintained in the face of potential systemic risk. The confidence level was supported by close national policy mix synergy between Bank Indonesia and the Government, which focuses on strengthening sustainable economic growth in line with the Asta Cita program, managing inflation and exchange rates, as well as mitigating the deleterious impact of global uncertainty on the domestic economy. Synergy between Bank Indonesia and the Government was further strengthened by the accommodative macroprudential policy response maintained by Bank Indonesia to revive the intermediation function. Such policies include providing incentives through KLM to banks actively extending credit to priority, green and inclusive sectors, while increasing liquidity by lowering the MPLB and raising the RPLN.



Source: Bank Indonesia, processed

Graph 1.3.1. Sources of Vulnerability[4]



Source: Bank Indonesia, processed

Graph 1.3.2. Sources of Risk[5]

4 The score of 1 to 6 reflects the respondents' views regarding the nature (temporary or structural) and severity (major or moderate) of the vulnerability.

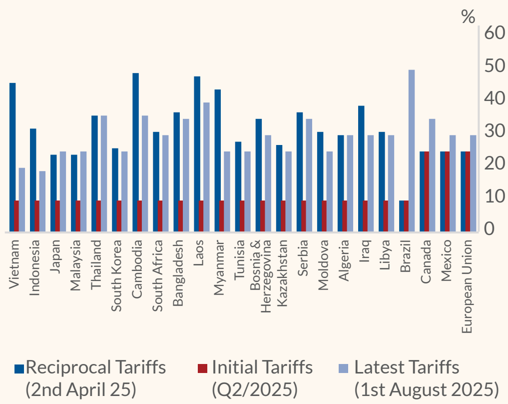
5 The score of 1 to 6 reflects the respondents' views regarding the potential impact of the shock (significant, medium, minimal) and probability of occurrence (high, medium, low).

Box 1.1 United States Tariff Policy

The Liberation Day tariffs announced by the US Administration increased global economic uncertainty and adversely impacted the world economic growth outlook. On 2nd April 2025, US President Trump announced the Liberation Day tariffs through Executive Order No. 14257, thus imposing a baseline universal tariff of 10% on imports from approximately 190 countries along with additional reciprocal tariffs of 10-140%, effective from 9th April 2025. The announcement was met with retaliatory measures from several countries, including China, triggering concerns over a worsening of global trade fragmentation that could weaken the global economy. This was followed by a temporary easing of global uncertainty after the US and China agreed to pause the introduction of reciprocal tariffs for 90 days until 9th July 2025. In July 2025 the US President announced higher reciprocal tariffs for several advanced and emerging economies, with Indonesia subject to a 32% tariff that was planned to take effect on 1st August 2025. Negotiations between the Indonesian Government and its US counterpart in July 2025 resulted in an agreement to reduce the tariff to 19% (Graph B1.1.1).

US reciprocal tariff policy elevated global economic uncertainty and is expected to downgrade the world economic growth outlook. Various indicators show that US tariff policy precipitated global economic moderation. Economic growth in various advanced economies, including the US, Europe and Japan, tracked a downward trend despite expansionary fiscal policy and loose monetary policy. Economic performance in China is also forecast to moderate despite various export diversification strategies. Economic growth in other developing economies is also predicted to slow due to the direct impact of lower exports to the US and the indirect impact of lower trade volume with other countries.

Domestic economic growth must be increased to mitigate global spillovers stemming from economic moderation caused by US tariff policy. Non-oil and gas export performance in the second quarter of 2025 remained solid due to the front-loading of exports to the US by exporters in anticipation of US tariff policy. Nevertheless, risk from the trade channel continues to demand vigilance. The 19% import duties imposed by the US could undermine price competitiveness and exporter profits in Indonesia, particularly affecting major commodities such as machinery and equipment, footwear, and textiles. The impact is expected to remain limited, however, considering Indonesian exports bound for the US account for only 10.57% of total exports. On the other hand, the risk of spillovers in the financial channel is also relatively well contained considering most exporters to the US have a low credit risk profile. The reduction in tariffs from 32% to 19%, which is below other competing countries, has unlocked a compelling opportunity for Indonesia to strengthen exports to the US. Moving forward, the impact of global economic moderation due to US tariff policy must be anticipated, which includes exploring potential new avenues of bilateral and multilateral cooperation. Meanwhile, the sources of economic growth from domestic demand, namely household consumption and investment, must be increased through an optimal national economic policy mix response.



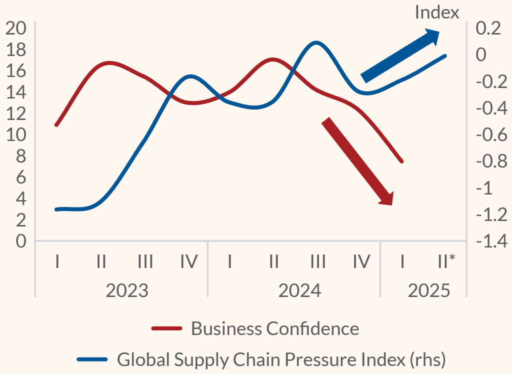
Source: White House Fact Sheets, processed

Graph B1.1.1. Development of US Tariffs

Box 1.2 Financial Sector Opportunities and Challenges in Dealt with Global Uncertainty

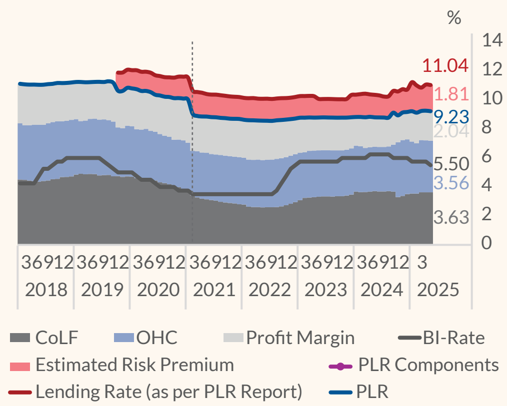
High global and domestic uncertainty influenced market perception/sentiment and the level of business confidence, which impacted intermediation performance (Graph B1.2.1). Risk averse behaviour was reflected in the corporate sector, which pared back production and investment expansion, and relied more on internal funds due to stagnating sales. Such conditions impeded the growth of investment loans and working capital loans. Households indicated a similar response, with high-income households diverting funds to more liquid investment assets with higher returns and low-income households favouring consumption smoothing, while relying on short-term loans to supplement weaker income. Declining household purchasing power undermined the demand for MSME products, lowered sales and impeded repayment capacity, with MSMEs thus relying on internal funds or non-bank loans offering less stringent lending requirements than the traditional banking industry.

Expectations of higher risk prompted greater banking prudence. On the asset side, banking prudence was reflected by a growing allocation of liquid assets amid limited credit expansion throughout the first half of 2025, which was supported by just a handful of large banks. The perception of higher risk also impacted the structure of lending rates[6], which have tracked an upward trend since the third quarter of 2024 despite reductions to the policy rate (BI-Rate). Lending rates have been edged upwards by the profit margin component to maintain profitability, coupled with a higher risk premium in line with expectations of increasing credit risk (Graph B1.2.2). Bank funding has also dealt with pressure due to moderating TPF growth. Nevertheless, intermediation still has a further opportunity for growth, supported by expansionary fiscal policy, credit potential from prospective sectors, as well as the accommodative macroprudential policy stance maintained by Bank Indonesia.



Source: Bank Indonesia, Federal Reserve Bank of New York, processed

Graph B1.2.1. **Business Confidence in Indonesia and Global Supply Chain Pressures**

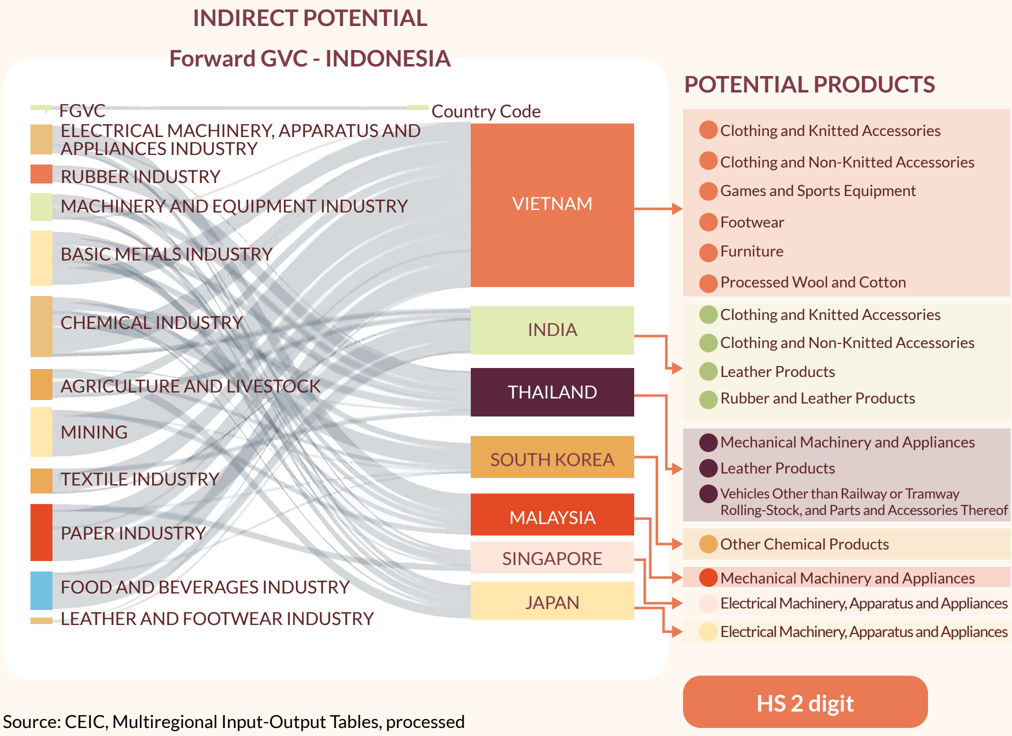


Source: OJK, processed

Graph B1.2.2. **Components of the Prime Lending Rate**

6 Lending rates as reported by banks through the Prime Lending Rate Report to OJK consist of three major components, namely the cost of loanable funds (CoLF), overhead costs (OHC) and profit margin. There is also an additional component in the form of a risk premiums that reflects the level of debtor risk.

The opportunity for growth remains open due to the positive impact of trade diversion and policy support. US tariff policy could potentially divert a portion of China's export share to Indonesia (trade diversion), particularly in the mining sector, basic metals industry, chemical industry and paper industry that have strong forward linkages with several countries that could potentially usurp export share from China (Figure B1.2.1). Such sectors could potentially attract positive spillovers, thereby increasing sales and the demand for credit.



Source: CEIC, Multiregional Input-Output Tables, processed

Figure B1.2.1. Trade Diversion Opportunities for Indonesia through Forward GVC and Potential Products

Chapter 2

BANKING INTERMEDIATION SUPPORTING ECONOMIC GROWTH

Financial intermediation was maintained, underpinned by growth of investment loans for the corporate segment to priority sectors as well as consumer loans for the household segment*.* *Growth of loans disbursed by the banking industry in the second quarter of 2025 was primarily driven by investment loans. The main contributor to investment loan growth in the second quarter of 2025 was the corporate segment, primarily the mining sector, construction and transportation. Meanwhile, growth of bank loans extended to the household segment was primarily driven by consumer loans, namely multipurpose loans and housing loans. Government stimulus programs targeting the housing sector and the provision of KLM incentives by Bank Indonesia helped to maintain positive housing loan growth. In terms of the NBFI, pawnbrokers and online loans were the main drivers of NBFI financing in line with rapid growth of the digital economy in Indonesia.*

Bank funding continued tracking an upward trend, including funding from TPF and non-TPF sources*.* *TPF growth was maintained on the back of fund placements by the Government as fiscal stimuli to pay government projects and expenditures. Non-TPF growth stemmed primarily from issuances of debt securities in the capital market as debt securities/sukuk (EBUS). The value of EBUS issuances in the first semester of 2025 approached the value of EBUS issuances overall in 2024. This represents a liquidity diversification strategy deployed by the banking industry, particularly to refinance maturing debt and expand the role of non-bank financing.*

New loan disbursements by the banking industry must be nurtured through asset reallocation strategies amid adjustments to funding costs and risk-aversion in the banking industry*.* *Interest rate transmission should be encouraged to support intermediation and manage the structure of bank funding. Liquidity conditions and pressures on the cost of funds due to competition with yields on other financial instruments prompted the banking industry to implement asset reallocation strategies. Such strategies were reflected in the ratio of liquid assets to total credit among Group of Banks by Core Capital (KBMI) 3 and 4 banks, which were lower than the industry average. In addition, asset reallocation strategies also reflected credit expansion needs. The comparative advantage of KBMI 4 banks in terms of access to non-TPF funds supported new loan disbursements despite declining lending capacity. Such conditions indicated loan disbursement potential, which remained positive. Meanwhile, KBMI 1 and 2 banks demonstrated more conservative behaviour, as reflected by a higher average ratio of liquid assets to total credit than the industry average. On the other hand, more selective lending appetite, as reflected by a higher LRI, showed the banks became more risk averse when disbursing loans.*

Positive corporate and household sector performance helped to maintain the intermediation function*.* *Corporate sales growth in the first quarter of 2025 was primarily supported by the mining sector, manufacturing industry and agricultural sector. The Return on Equity (ROE) and Capital Expenditures (Capex) indicated positive performance in line with maintained export performance despite pressures on production costs triggered by US reciprocal import tariffs. In addition, corporate liquidity was maintained, as reflected by an upturn in corporate cash, among others due to increasing bond issuances. On the other hand, the household sector maintained positive consumption growth, supported by high-income households and spending in the transportation and communication sector. Household consumption growth was relatively well maintained despite moderation observed in the income index, conditions for buying durable goods and labour market, accompanied by an increase in the share of informal workers. Lower household purchasing power and propensity to consume will remain major concerns in terms of stimulating overall household consumer loan growth.*

2.1 Supply Side: Bank Funding Capacity in Economic Financing

Banking intermediation maintained a positive growth but must be increased further to support economic growth. In the second quarter of 2025, banking intermediation posted 7.77% (yoy) growth, moderating slightly from 9.16% (yoy) in the first quarter of 2025. The positive growth was primarily driven by stable growth of investment loans at a level of 12.53% (yoy), particularly the corporate segment (11.23% yoy). The main contributors to investment loan growth in the reporting period were the mining sector, construction and transportation. On the other hand, there remained a further opportunity to increase working capital loans, especially to the trade sector, manufacturing industry and corporate services sector. Meanwhile, the recovery of MSME loans continued given prudence and selective lending in the banking industry, accompanied by post-pandemic efforts to improve credit quality.

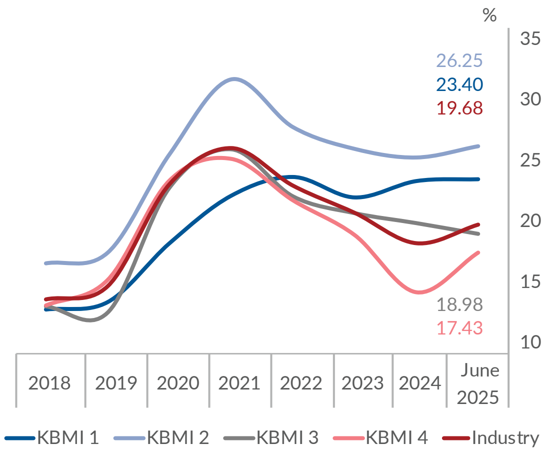
TPF growth remained a solid, driven by fiscal stimuli and government fund placements. In the second quarter of 2025, bank TPF posted 6.96% (yoy) growth, up significantly from 4.48% (yoy) at the end of 2024. Fund placements by the Government to fund project terms and expenditures were the main contributor to TPF growth in the reporting period. TPF growth in the government segment increased by 16.51% (yoy). Meanwhile, TPF growth also increased in the corporate segment (11.25% yoy) and BUMN segment (16.51% yoy). Conversely, individual TPF recorded limited growth of just 0.88% (yoy) in the second quarter of 2025. Moderation in this segment was primarily attributable to public preferences, particularly among high-income households, concerning higher yields on other financial instruments for investment.

Interest rate transmission must be encouraged to maintain an efficient intermediation function. BI-Rate reductions totalling 50 bps from the beginning of the year to the second quarter of 2025 have not been fully transmitted to deposit rates. The deposit rate in the second quarter of 2025 was recorded at 4.09% per annum, up from 4.16% p.a. in December 2024. Meanwhile, the average lending rate remained relatively stable at 9.16% p.a. in the second quarter of 2025, down 4 bps from 9.20% p.a. in December 2024. This reflects the gradual fine-tuning of lending and deposit rates in line with liquidity conditions and the funding structure in the banking industry. The level of competition with yields on other financial instruments prompted the banks to maintain deposit rates at a competitive level in order to preserve TPF growth. Consequently, funding structure management and asset reallocation were the main strategies deployed by the banking industry to support intermediation as well as balance costs and profit margin.

Asset reallocation strategies were implemented prudently by the banking industry to expand new loan disbursements. Pressures on the cost of funds and funding needs for expansion prompted banks to reallocate assets from liquid instruments, such as securities, to credit. The banks' preference for asset reallocation strategies was calculated based on the Portfolio Decision Making method. This methodology measures changes in bank behaviour concerning placements or disbursements of specific assets. A smaller share of securities to total assets, coupled with an increasing share of credit, reflects the asset reallocation strategy and indicates a bank's preference to disburse loans. Meanwhile, increasing fund placements in securities at several banks indicated risk-averse behaviour, which restrained further credit expansion

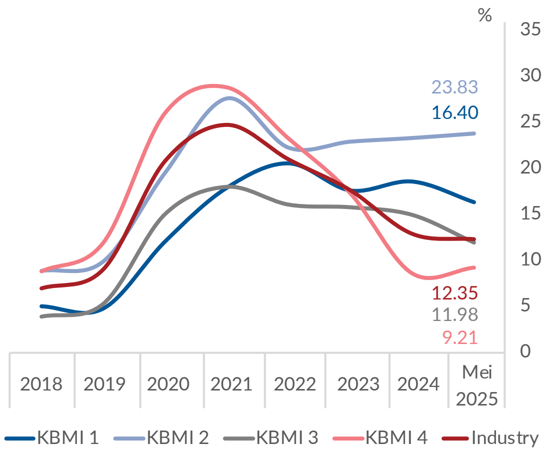
Mixed bank preferences between disbursing loans and placements in securities were reflected in the disparity between KBMI groups in terms of liquidity management. Fund placements in liquid assets by KBMI 4 banks were comparatively lower than other bank groups,[7] indicating the preference of KBMI 4 banks to support intermediation (Graph 2.1.1). This preference impacted the utilisation of lending capacity at KBMI 4 banks, which was more limited at 9.21% (Graph 2.1.2). Nevertheless, KBMI 4 banks enjoyed the

7 In accordance with OJK Regulation No. 12/POJK.03/2021 concerning Commercial Banks, KBMI is an abbreviation for Kelompok Bank Berdasarkan Modal Inti, or Bank Group Based on Core Capital, which is classified into 4 (four) KBMI groups, namely: (i) KBMI 1 banks with core capital up to Rp6 trillion, (ii) KBMI 2 with core capital of more than Rp6 trillion and up to Rp14 trillion, (iii) KBMI 3 with core capital of more than Rp14 trillion and up to Rp70 trillion, and (iv) KBMI 4 with core capital of more than Rp70 trillion.



Source: Bank Indonesia, processed

Graph 2.1.1. Ratio of Liquid Assets to Total Assets by Bank Group



Source: Bank Indonesia, processed

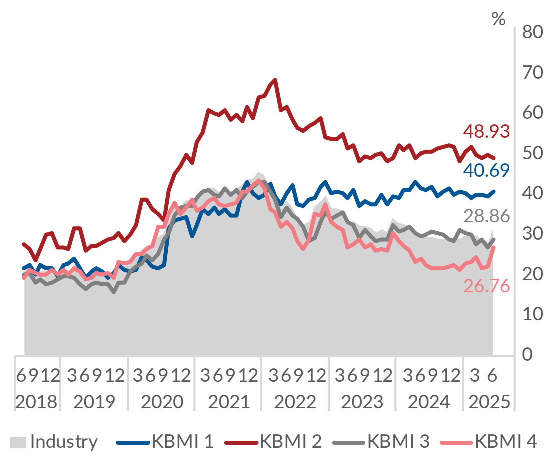
Graph 2.1.2. Lending Capacity to Total Credit Ratio by Bank Group

comparative advantage of greater access to non-TPF funding compared to other bank groups to support the intermediation function. Lending capacity in other bank groups exceeded the industry average, indicating high potential for loan disbursements. The support of accommodative macroprudential policy in the form of a loose MPLB, effective from 1st June 2025, which afforded the banks greater flexibility when placing funds in securities, accelerated the reallocation of assets in the form of securities to credit and increased the availability of funds to revive credit growth. In addition, Bank Indonesia optimised KLM policy to support credit growth oriented towards priority economic sectors.

Heterogenous liquidity management styles to support intermediation were reflected by differences in the ratios of liquid assets to credit between KMBI. KBMI 3 and 4 banks maintained an average ratio of liquid assets to credit that was below the industry aggregate, indicating a preference to reduce the share of liquid assets at both bank groups to stimulate new loan disbursements (Graph 2.1.3). On the other hand, KBMI 1 and 2 banks recorded a comparatively higher ratio of liquid assets to credit, indicating more risk-aversion and a preference towards maintaining liquidity.

Lending appetite was relatively well maintained across most bank groups, accompanied by more selective lending. As of June 2025, the LRI indicated that lending appetite in the banking industry remained favourable. Notwithstanding, a bump in the LRI in the second quarter of 2025 indicated higher risk aversion when disbursing loans, particularly among KBMI 3 and 4 banks (Graph 2.1.4).

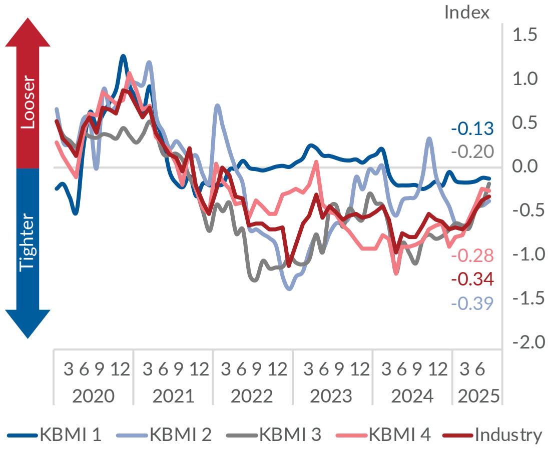
Bank profitability was maintained despite the intermediation and efficiency challenges amid the banking industry. By bank group, KBMI 1, 2, and 4 banks maintained a net interest margin (NIM) above the historical through.[8] Growth of loans disbursed by



Source: Bank Indonesia, processed

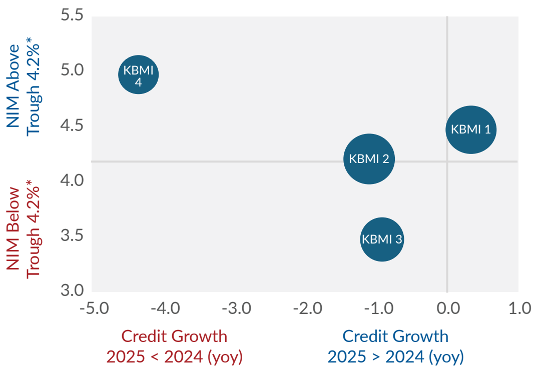
Graph 2.1.3. Ratio of Liquid Assets to Credit by Bank Group

8 The historical low (trough) NIM was calculated based on the Bry-Boschan algorithm to determine the peak and trough levels, where the trough was calculated at 4.2% for the industry.



Source: Bank Indonesia, processed

Graph 2.1.4. Lending Requirement Index by Bank Group



Notes: Trough represents the minimum industry level over the past 15 years (2010-2025). Size of bubble represents buffer between bank CAR (%) and minimum CAR (8%)

Source: Bank Indonesia, processed

Graph 2.1.5. Credit Quadrant and Net Interest Margin by Bank Group

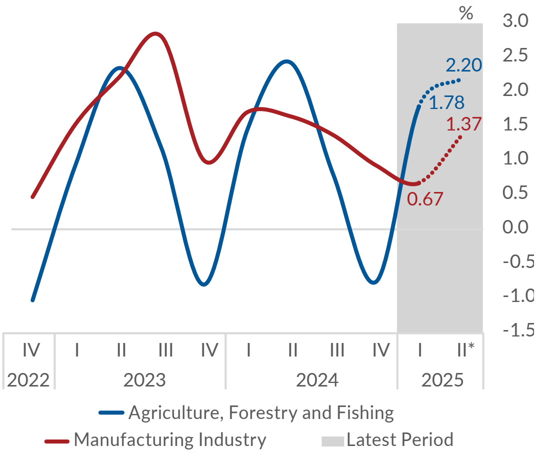
KBMI 1 banks accelerated on the previous year, thereby boosting profitability. In addition, the support of non-credit interest income and derivative transactions further strengthened the profitability of KBMI 1 banks, amid moderating credit growth at KBMI 2 and 4 banks. Meanwhile, KBMI 3 banks experienced pressure in terms of margin and credit growth, indicating potential intermediation challenges and efforts to improve cost efficiency to maintain adequate profitability (Graph 2.1.5).

2.2 Demand for Financing Maintained amid Global Uncertainty

The demand for bank credit increased on the back of positive corporate performance, particularly in the commodities sector. Corporate sales recorded 4.74% (yoy) growth in the first quarter of 2025, accelerating from 2.15% (yoy) at the end of 2024. This was driven by the mining sector, manufacturing industry and agricultural sector, which experienced higher seasonal demand during harvesting and the national religious festive period for Eid-ul-Fitr, accompanied by upward international commodity prices. This was revealed by the results of a Business Survey conducted by Bank Indonesia, indicating high growth in the agricultural sector and positive manufacturing industry performance, which respondents expected to persist in the second quarter of 2025 (Graph 2.2.1), coupled with rising gold prices that boosted sales in the mining sector (Graph 2.2.2).

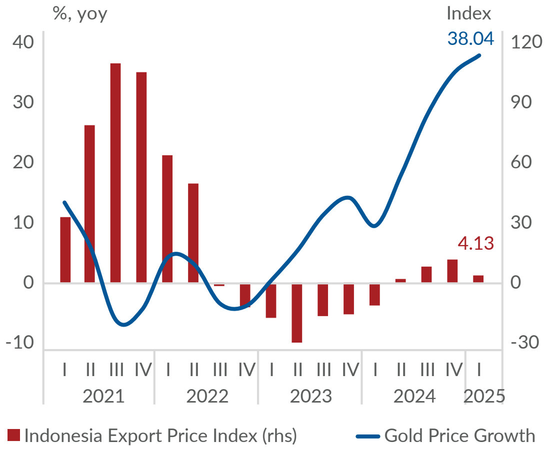
Corporate profitability and investment were maintained in the first quarter of 2025. Maintained corporate profitability was reflected in a ROE of 9.36%. Similarly, capex recorded 7.13% (yoy) growth, primarily supported by the mining sector and manufacturing industry, which recorded significant growth (Table 2.2.1).

Export-oriented corporations maintained limited gains amid the challenge of higher tariff costs that narrowed profit margin. Exporters recorded sales growth of 4.98% (yoy), exceeding aggregate corporate sales growth of 4.74% (yoy) in the first quarter of 2025 (Graph 2.2.3). The net profit margin (NPM) of exporters stood at 7.05%, below the industry NPM of 7.66% and NPM of non-exporters at 9.08% (Graph 2.2.4). The profitability (NPM) of exporters declined primarily due to higher prices of raw materials. In addition, the



Source: Bank Indonesia, processed

Graph 2.2.1. Agriculture Sectors and Manufacturing Industry Business Survey Results



Source: CEIC and Bank Indonesia, processed

Graph 2.2.2. Gold Price Growth and Indonesia Export Price Index

Table 2.2.1. Corporate Sales, Profitability and Capex by Economic Sector

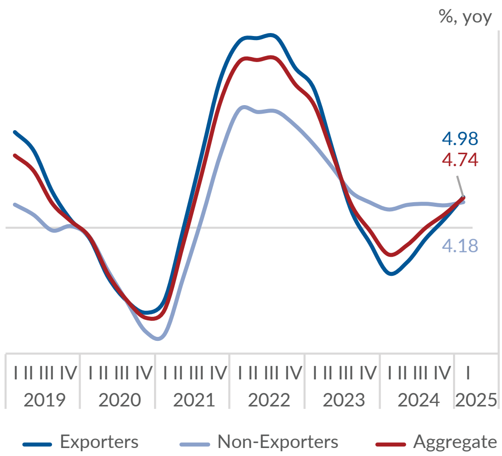
Sector	Sales Growth (% yoy)					Sales Contribution (%)	4Y Trend	Return on Equity (%)					4Y Trend	Capex Growth (% yoy)					Capex Contribution (%)	4Y Trend
	2021	2022	2023	2024	2025			2021	2022	2023	2024	2025		2021	2022	2023	2024	2025		
	Dec	Dec	Dec	Dec	Mar			Dec	Dec	Dec	Dec	Mar		Dec	Dec	Dec	Dec	Mar		
Agriculture	37.89	17.00	-10.95	12.47	22.06	0.97		9.88	14.79	3.97	8.11	9.02		-9.29	32.08	11.56	-9.77	-5.53	-0.23	
Mining	44.96	68.06	-9.15	-1.11	9.73	1.58		22.62	36.53	20.20	15.90	14.65		30.06	57.91	25.14	23.27	30.01	6.41	
Manufacturing	18.42	12.12	-0.52	1.10	2.47	1.01		8.66	9.42	9.14	8.01	7.73		2.90	15.18	23.42	20.85	14.87	3.83	
Electricity. Gas and Water Supply	4.47	18.49	7.67	5.56	5.82	0.11		9.41	9.49	8.68	9.31	7.83		7.18	-39.41	9.07	6.18	9.11	0.11	
Construction	8.94	14.78	10.66	0.09	-2.07	-0.12		1.97	1.98	1.49	6.04	6.52		59.19	-26.22	17.06	10.38	15.74	0.93	
Trade	17.75	26.37	5.28	3.54	3.55	0.60		10.89	18.76	15.34	14.06	13.25		-11.26	57.33	67.50	-13.73	-9.87	-1.06	
Transportation	5.25	20.04	8.02	6.08	4.89	0.47		-14.93	37.72	14.91	11.73	11.49		-3.95	-1.64	-0.92	-12.97	-9.50	-2.48	
Corporate Services	19.61	17.96	1.26	-3.12	-2.87	-0.06		0.66	7.30	2.36	2.93	3.85		-17.50	16.80	21.80	19.87	20.03	0.24	
Social Services	19.35	-2.72	-9.95	7.23	8.24	0.17		9.15	5.59	-0.10	3.25	4.79		-9.99	14.96	4.13	-9.20	-14.53	-0.51	
Total	20.05	22.86	-0.50	2.15	4.74	4.74		7.74	15.59	10.09	9.56	9.36		5.71	10.12	17.44	4.93	7.13	7.13	

Source: Bloomberg and Indonesia Stock Exchange (IDX), processed

production costs of exporters increased to 6% in the first quarter of 2025, thereby outpacing the industry average and non-exporters (Graph 2.2.5). Moving forward, the introduction of 19% reciprocal tariffs on Indonesian exports bound for the US could potentially increase export costs further and intensify pressures on exporters' profit margins.

Corporate growth in the construction sector must be fostered to support economic growth. Data from 100 issuers in the construction sector recorded on the stock exchange indicated a declining sales trend. The contraction is consistent with moderating building investment as a major driver of the construction sector. Moving forward, construction sector performance is expected to recover, as indicated by increasing capex at the beginning of 2025 as the Government sought to accelerate new projects (Graph 2.2.6).

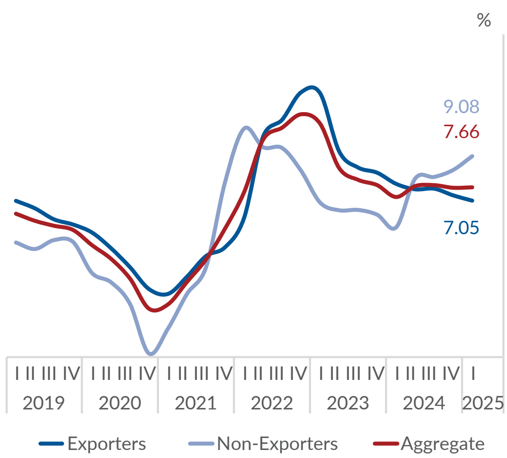
In general, the corporate sector relied on internal funds to support operational activity and investment. Large corporations tended to limit business expansion and serviced foreign loans. To secure funding, corporations increased bond issuances, growing



Source: Bloomberg and Indonesia Stock Exchange, processed

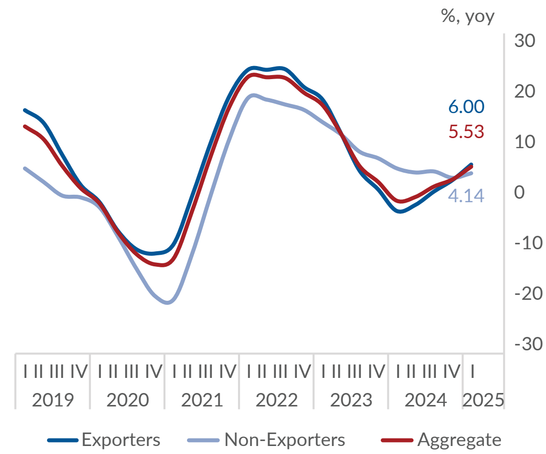
Graph 2.2.3. Corporate Sales Growth based on Sales Orientation

7.76% (yoy) in the first quarter of 2025. This indicated corporate prudence to maintain a funding structure balanced against credit and market risk. In line with more prudent expansion and bond issuances, corporate cash recorded significant 15.43% (yoy) growth in the first quarter of 2025 to maintain the upward trend observed over the past year (Graph 2.2.7). Such conditions indicate relatively solid corporate liquidity, enabling flexibility when responding to economic dynamics and supporting financing expansion.



Source: Bloomberg and Indonesia Stock Exchange, processed

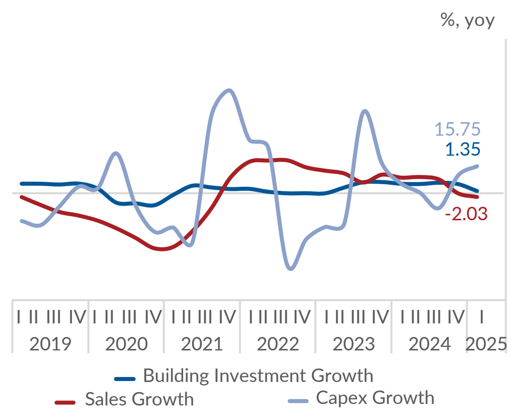
Graph 2.2.4. Corporate Net Profit Margin based on Sales Orientation



Source: Bloomberg and Indonesia Stock Exchange (IDX), processed

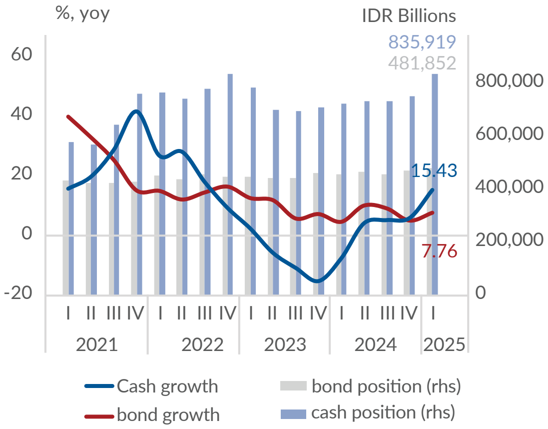
Graph 2.2.5. Growth of Corporate Production Costs based on Sales Orientation

The demand for productive financing in the form of working capital loans and investment loans were maintained growth, despite experiencing moderation. In the corporate segment, working capital loans and investment loans recorded 13.36% (yoy) and 6.51% (yoy) growth, respectively, in the first quarter of 2025, moderating against the same period in 2024 (Graph 2.2.8). Growth of corporate loans was primarily driven by the manufacturing industry and transportation sector at 2.13% and 1.18%, respectively (Graph 2.2.10). Such conditions reflected corporate efforts to maintain



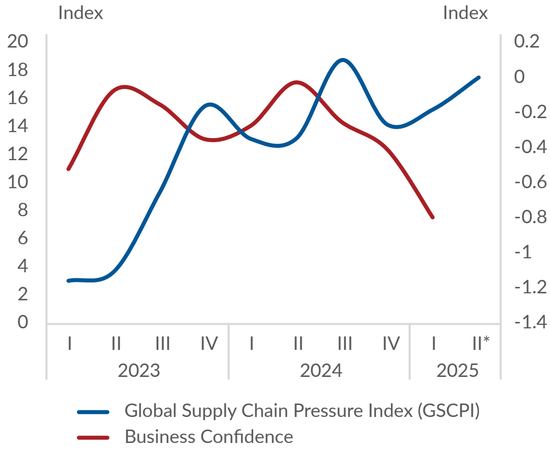
Source: Statistics Indonesia, Indonesia Stock Exchange and Bloomberg, data cut-off on 26th May 2025); 103 Construction Corporations

Graph 2.2.6. Corporate Sales and Capex Growth in the Construction Sector and Building Investment Growth



Source: Indonesia Financial System Statistics (SSKI), Bloomberg, and Indonesia Stock Exchange, processed

Graph 2.2.7. Positions of Cash and Bond Financing in Corporate Sector

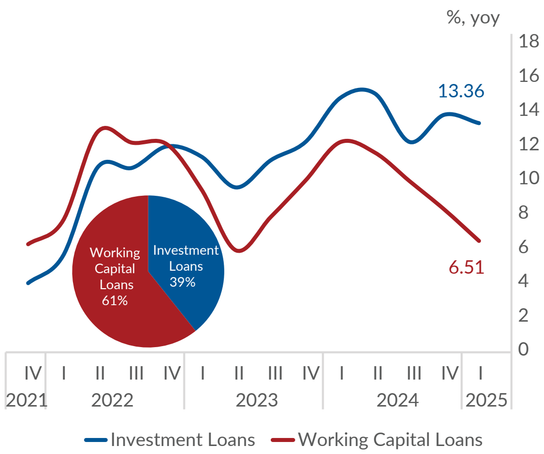


Source: Trading Economics, processed

Graph 2.2.9. Business Confidence Index

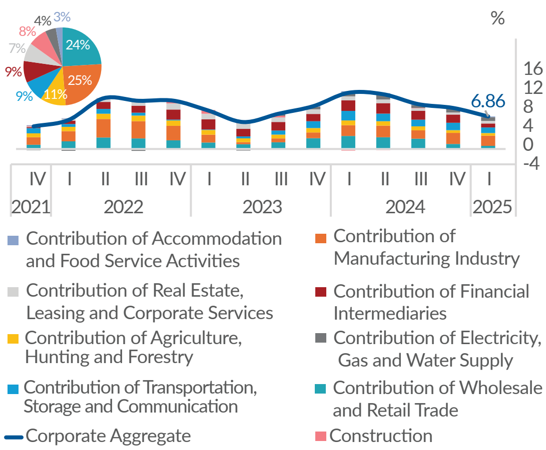
operational continuity and support prudent business expansion against a backdrop of global uncertainty. On the other hand, corporate confidence in current economic conditions and expectations moving forward have declined, as indicated by a decrease in the Business Confidence Index, coupled with an increase in the Global Supply Chain Pressure Index. Declining corporate confidence adversely impacted growth of investment loans and working capital loans (Graph 2.2.9). By sector, growth of corporate loans declined by 6.86% (yoy). Moving forward, several challenges remain that could impact corporate performance and the demand for financing, including persistently high global uncertainty, unresolved geopolitical tensions, and weaker household purchasing power, particularly among lower-middle income households.

Solid household consumption was maintained in the reporting period, supported by upper-income households, which must be stimulated further in pursuit of sustainable economic growth. Household consumption increased by 4.97% (yoy) in the second quarter of 2025, higher than 4.93% (yoy) in the second quarter of 2024. Consumption growth was driven by upper-income households in the tertiary spending category, such as Transportation and Communication (Graph 2.2.11). In addition, the primary category, such as Food and Beverages, excluding Restaurants, also contributed positively (Graph 2.2.12). Moving forward, household consumption must be improved further to support sustainable economic growth in line with the Income Index, Purchase of Durable Goods Index and Job Availability Index, which experienced corrections



Source: Bank Indonesia, processed

Graph 2.2.8. Growth of Investment Loans and Working Capital Loans in Corporate Segment

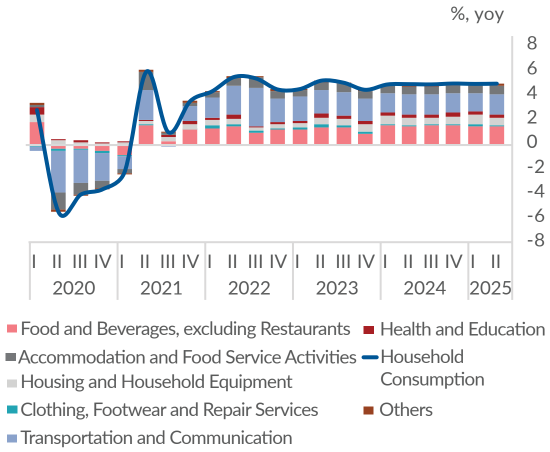


Source: Bank Indonesia, processed

Graph 2.2.10. Aggregate Credit Growth of Corporate and Household Segments

against the same period of the previous year. In June 2025, the Job Availability Index was recorded below the 100-point threshold indicating pessimism (Graph 2.2.13). In addition, the ratio of informal to former workers has increased to 59.4%. In general, informal workers receive lower wages and more limited social protection.

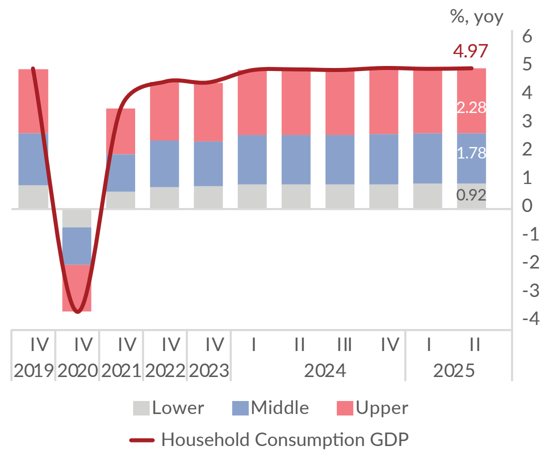
The main contributors to consumer loan growth in the household segment were housing loans and multipurpose loans. Consumer loans rose 8.95% (yoy) in June 2025, with upper-income borrowers contributing 3.91% (Graph 2.2.14). By loan type, housing and multipurpose loans were the main drivers 3.33% (yoy) and 3.30% (yoy), respectively. These two recent moderation reflects weaker purchasing power that delays property purchases and prioritises essentials, tempering overall consumer-loan momentum (Graph 2.2.15). This indicated that although upper-income households remained the main drivers of consumer loan growth, consumption pressures on lower-middle income households influenced the overall dynamics of consumer loan growth.



Source: Statistics Indonesia, processed

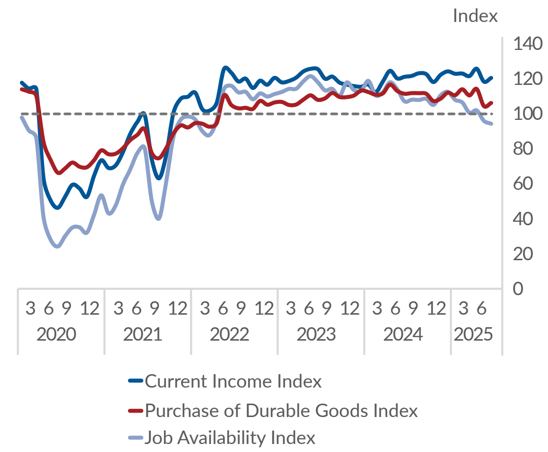
Graph 2.2.12. Household Consumption based on Expenditures

The Government undertook various policy measures to revive consumer loans, particularly housing loans. The Government strived to nurture housing sector performance through the Three Million Homes program alongside various fiscal incentives, including Government Borne Value Added Tax (PPN DTP) of 100%[9]



Source: Statistics Indonesia, processed

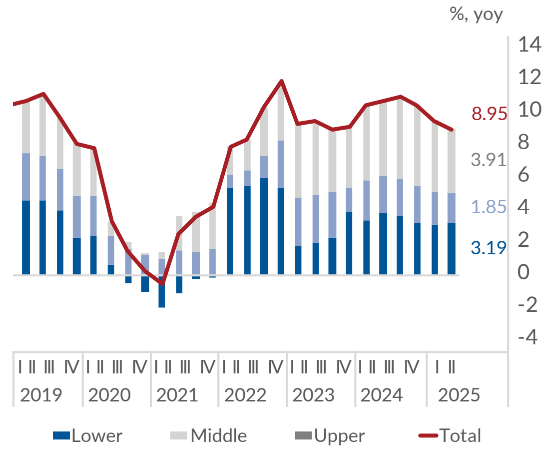
Graph 2.2.11. Household Consumption based on Class



Source: Bank Indonesia, processed

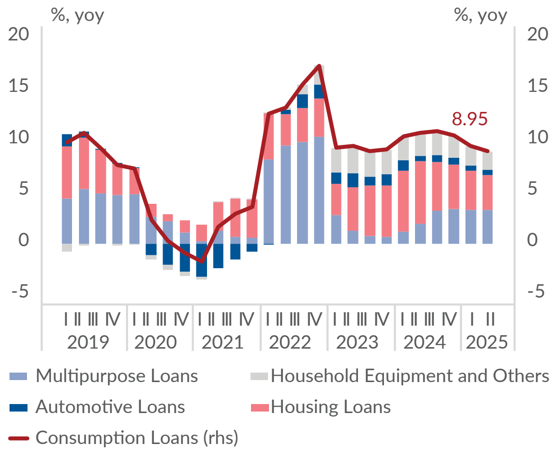
Graph 2.2.13. Consumer Confidence Index

9 PPN DTP of 100% is regulated in accordance with Minister of Finance Regulation Number 13 of 2025, which is awarded when purchasing a landed house or apartment unit with a selling price of up to Rp2 billion, effective from 1st January to 30th June 2025, and 50% effective from 1st July to 31st December 2025.



Source: Bank Indonesia, processed

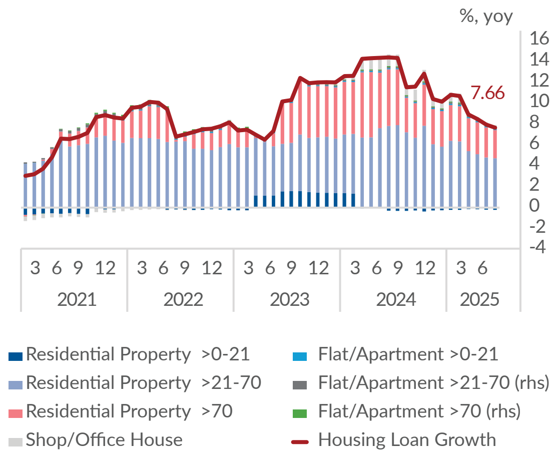
Graph 2.2.14. Contribution of Household Consumer Loan Growth by Income Level



Source: Bank Indonesia, processed

Graph 2.2.15. Contribution of Household Consumer Loan Growth based on Loan Type

and an exemption on Land and Building Acquisition Tax– Building Approval,[10] which provided relief on the cost of home ownership for households. Competitive interest rates on housing loans were held, supported by a looser Loan/Financing-to-Value (LTV/FTV) ratio, thereby maintaining the demand for household financing and offsetting deeper moderation in the property sector, with positive housing loan growth maintained at 7.66% (yoy) in June 2025 (Graph 2.2.16).



Source: Bank Indonesia, processed

Graph 2.2.16. Housing Loan Growth based on Loan Type

10 This policy is based on a Joint Decree issued in 2024 between the Minister of Housing and Residential Areas, Minister of Public Works and the Minister of Home Affairs for low-income communities.

2.3 Intermediation Function of Capital Market, Bonds, NBFI and ITSK

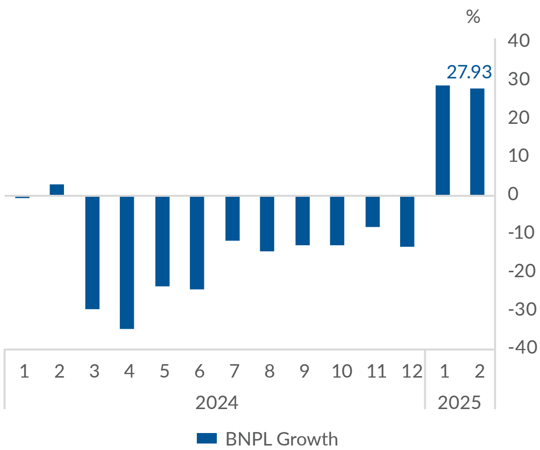
Financing disbursed by the NBFI maintained a positive growth driven by demand for microfinance and the investment preferences of upper-income households. In March 2025, NBFI financing posted 5.37% (yoy) growth, with the total value of disbursed financing reaching Rp935.3 trillion (Table 2.3.1). Financing growth was driven by an upturn in the financing disbursed by pawnbrokers, increasing 31.29% (yoy), given the appreciating trend of gold prices in line with the investment preferences of upper-income households seeking higher yields. Meanwhile, growing demand for microfinance in the context of downward pressure on purchasing power further boosted disbursed financing in the NBFI. Finance companies, which dominate the NBFI, recorded 4.60% (yoy) growth in the reporting period, with moderation caused by lower automotive sales.

Table 2.3.1. NBFI Financing

Total NBFI Financing*	Total Financing (Rp, billions)						Growth (% yoy)			
	2021	2022	2023	2024	2024	2025	2022	2023	2024	2025
	Dec	Dec	Dec	Mar	Dec	Mar	Dec	Dec	Dec	Mar
Finance Companies	364,232	415,864	470,863	488,516	503,428	510,969	14.18%	13.23%	6.92%	4.60%
Specialised Financial Institutions (SFIs)**	138,919	149,221	231,947	234,432	220,991	220,183	7.42%	55.44%	-4.72%	-6.08%
Pawnbrokers	52,420	59,053	69,491	73,483	88,048	96,473	12.65%	17.68%	26.70%	31.29%
FinTech Peer-to-Peer Lending	29,880	51,123	59,644	62,166	77,024	79,966	71.09%	16.67%	29.14%	28.63%
Venture Capital	15,330	17,325	17,343	16,788	15,843	16,731	13.02%	0.10%	-8.65%	-0.34%
Infrastructure Finance Companies**	86,510	97,388	11,556	11,562	11,261	10,322	12.57%	-88.13%	-2.56%	-10.73%
Microfinance Institutions***	836	946	1,008	1,008	1,039	1,039	13.09%	6.57%	3.07%	3.07%
Total Financing	688,126	790,920	861,853	887,956	917,634	935,682	14.94%	8.97%	6.47%	5.37%

Notes: *Net Total Financing. **In August 2023, PT SMI was re-categorised as a Specialised Financial Institution rather than an Infrastructure Finance Company. ***Total Disbursed Financing of Microfinance Institutions in September 2023 and 2024 are the actual positions in August 2023 and 2024.
Source: OJK, processed

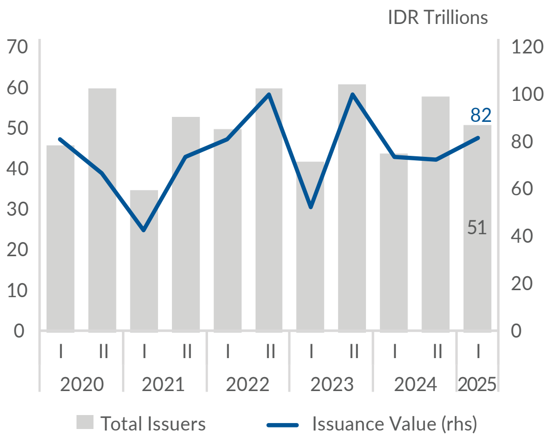
Digital financing recorded a positive growth stemming from the proliferation of digital consumers, coupled with the ongoing evolution in public shopping trends towards online retail. Online financing maintained relatively high growth of 28.63% (yoy) in the reporting period. Similarly, BNPL financing recorded 27.93% (yoy) (Graph 2.3.1). Increasing demand from the digital consumer segment is a corollary of weaker purchasing power, thereby accelerating financing growth through online lending and BNPL financing.



Source: OJK, processed

Graph 2.3.1. Growth of Buy Now Pay Later Financing Disbursed by Finance Companies

Issuances of EBUS increased in response to the growing demand for alternative funding sources, coupled with corporate efforts to maintain a balanced financial structure. Fundraising in the capital market was supported by issuances of corporate EBUS with a value of Rp82 trillion, increase from Rp74.1 trillion in the same period of the previous year, underpinned by expectations of lower interest rates (Graph 2.3.2). The upward trend of EBUS issuances was caused by the need for lower cost funding sources than bank loans,

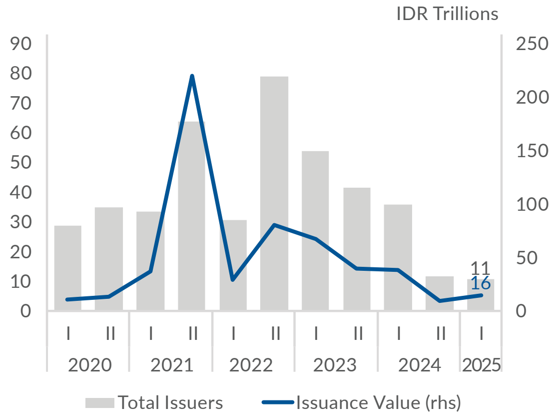


Notes: *Debt Securities/Sukuk (EBUS)
Source: OJK, processed

Graph 2.3.2. Issuances of Debt Securities/Sukuk

as an effort to maintain a balanced financial structure in the corporate sector. Key economic sectors, including raw materials, energy and transportation, are expected to support corporate bond issuances in 2025 in line with the growing trend of investment in capital-intensive sectors. The manufacturing industry, property sector and infrastructure also sustained a recovery trajectory, although more moderate.

The prospect of stock market improvements remained promising, driven by new issuer pipelines amid weaker public offering activities. Declining activity was observed throughout the first half of 2025 (Graph 2.3.3). Share issuances are expected to improve moving forward, however, driven by initial public offering pipelines planned from the financial, consumer and energy sectors for business expansion and balance sheet restructuring in the corporate sector.



Notes: IPO and Rights Issues
Source: OJK, processed

Graph 2.3.3. **Public Offering Trends**

Box 2.1 Portfolio Decision Making and Bank Funding Strategies to Revive Intermediation

Banks optimise income and risk (risk-adjusted return) in their asset portfolios through relocation strategies between liquid assets and credit to maximise profitability. Seeking to maximise profit, banks allocate their asset portfolios to instruments that provide optimal interest income, while determining a tolerable level of (credit) risk. As competition in the credit market increases, however, the banks' ability to raise lending rates decreases and profit margins narrows.[11] In addition, credit allocation is also influenced by bank risk.[12]

To explain the banking industry's response to changes in the relative yields of different instruments, such as securities and loans, the Portfolio Decision Making method is used. This is adjusted based on risk appetite and macroeconomic expectations. By knowing the preferences of the banking industry through Portfolio Decision Making, a threshold rate can be calculated from the yield of each instrument (underlying liquid asset), which is used by the banks to make changes in their placement preferences for specific assets. Furthermore, the threshold rate can also be used as the basis for policy recommendations when determining an optimal policy rate to strengthen credit growth.

Managing the cost of funds based on the yield of different asset classes is critical for optimising profitability. The asset reallocation strategies deployed by the banking industry are important considering the intense cost of funds pressures currently experienced, as indicated by KBMI 4 banks that posted the most significant annual increase of 23 bps to 2.53%. Meanwhile, KBMI 2 and 1 banks also recorded respective annual increases in the cost of funds of 8 bps and 7 bps to 4.06% and 4.03%. On the other hand, the increase in the cost of funds experienced by KBMI 3 banks was more moderate at 2 bps to a level of 3.73%

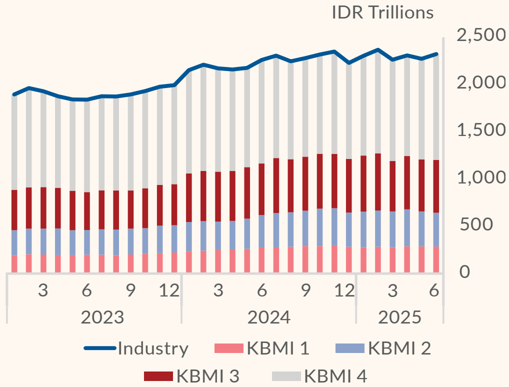
11 Reference: van Leuvensteijn et.al., (2013). Impact of bank competition on the interest rate pass-through in the euro area. Applied Economics, 45(11), 1359–1380.

12 Reference: Mileris, R. (2012). The effects of macroeconomic conditions on loan portfolio credit risk and banking system interest income. Ekonomika, 91(2), 105–122. https://doi.org/10.15388/Ekon.2012.0.580

(Graph B2.1.1). Industrywide, a higher cost of funds forces the banking industry to implement appropriate asset reallocation strategies to maintain an acceptable level of profitability.

Cost of funds pressures, coupled with relatively moderate credit growth, have forced the banking industry to rethink its strategy of holding securities as liquid assets. Such conditions were reflected by a 2.51% decline in bank holdings of SBN on the previous year to 41.72%. KBMI 3 and 1 banks were the main contributors to the decline, retreating by 137 bps and 55 bps to 21.48% and 9.67%, respectively. Meanwhile, relatively large SBN holdings in the banking industry were still dominated by KBMI 4 banks, accounting for 54.76% of the total, or increasing by 153 bps (yoy). Such conditions were supported by comparatively better access to non-TPF funding sources than the other bank groups. KBMI 2 banks also increased their share of SBN holdings by 39 bps in the reporting period to 14.09%. Meanwhile, fund placements by the banking industry in Bank Indonesia Rupiah Securities (SRBI) and demand deposits remained relatively high at 18.86% and 14.75%, respectively (Graph B2.1.2).

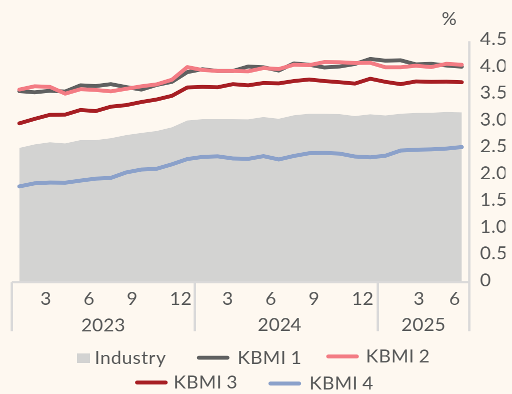
The asset reallocation strategies implemented by the banking industry successfully maintained profitability, which primarily originated from securities income. Securities income in the banking industry recorded significant 124.79% (yoy) growth in June 2025. Broad-based growth of income from securities was recorded across all bank groups, led by KBMI 2 and 3 banks at 349.25% (yoy) and 115.23% (yoy), respectively. Meanwhile, KBMI 1 banks, constrained by capital limitations in terms of optimising placements in securities, achieved 55.14% (yoy) growth in income from securities. KBMI 4 banks, which tended to favour a strategy of higher new loan disbursements, increased securities income by 47.06% (yoy) (Graph B2.1.3). Such conditions clearly indicate the evolving preferences of banks to increase income from securities to maintain profitability.



Source: Bank Indonesia, processed

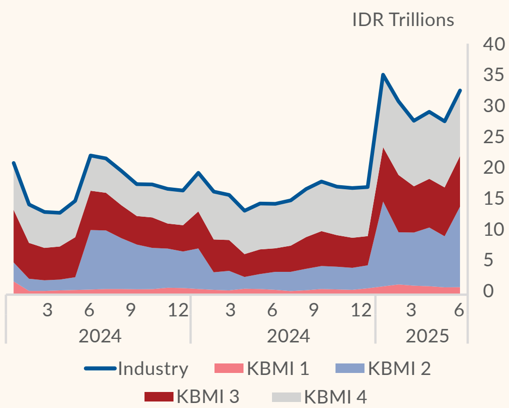
Graph B2.1.2. Composition of SBN Holdings by Bank Group

Optimising returns and risk management by adjusting asset portfolio strategies is expected to foster further credit expansion. Support from access to funds and greater efficiency in terms of fund placements are key factors in maintaining financing capacity in the banking industry to sustain credit growth within the range projected by Bank Indonesia at 8-11% (yoy). Adequate funding and asset strategies that reallocate securities to credit reflect the role of the banking sector in supporting sustainable economic financing.



Source: Bank Indonesia, processed

Graph B2.1.1. Cost of Funds by Bank Group



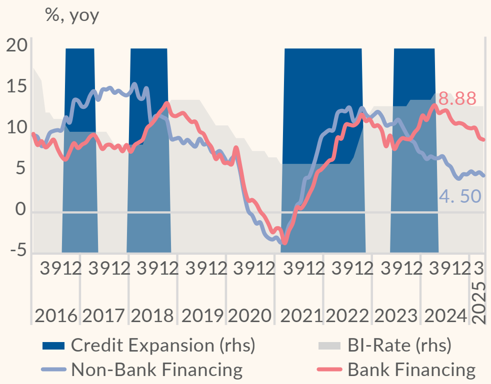
Source: Bank Indonesia, processed

Graph B2.1.3. Securities Income by Bank Group

Box 2.2 Prospect of Non-TPF Funding to Increase Intermediation

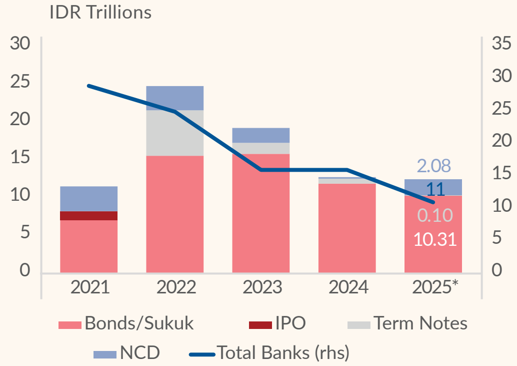
Non-TPF funding, particularly through the capital market, is an important alternative source of financing for the corporate and banking sectors, especially when facing dynamic changes in interest rates and the need to expand financing. Policy rate dynamics influence the growth of financing from the capital market. Non-bank financing is highly elastic to changes in reference rates. BI-Rate reductions in the second quarter of 2025 increased non-bank financing, while higher interest rates would lower capital market financing (Graph B2.2.1). Such conditions indicate corporate cost of funds sensitivity to expected returns and the risk perception of market players.

Indications emerged in the first semester of 2025 of corporations adjusting their capital market fundraising strategies in line with stock market corrections. Domestic public offerings (IPOs and rights issues) must be encouraged as stock markets in the region weaken due to global economic and financial uncertainty. Issuers responded to stock market corrections in the first semester of 2025 through buybacks, particularly the banking industry, to stabilise prices that were no longer in line with market fundamentals. This was also observed in the corporate segment, which shifted funding to issuances of EBUS given the downward trend of yields and premiums (Graph B2.2.2).



Source: Bank Indonesia, OJK, KSEI and Indonesia Stock Exchange, processed

Graph B2.2.1. Event Analysis of BI-Rate Dynamicson Bank and Non-Bank Financing Performance



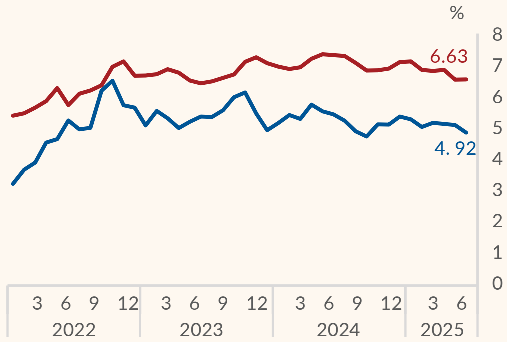
Note: EBUS includes bonds/sukuk, term notes, and NCDs
Source: KSEI, processed

Graph B2.2.2. EBUS Issuances by Banks

The financial sector supported EBUS issuances in the market to increase financing capacity. In the first semester of 2025, the share of financial sector issuances to total EBUS issuances stood at 51.6%, increasing from the 2022-2024 average of 47.8%. This indicates a higher need for market funding amid greater bank prudence and selective lending appetite. On the other hand, the higher issuance value stemmed from the refinancing of maturing short-term debt securities from the previous year with a relatively higher coupon rate. In general, EBUS issuers in the financial sector enjoyed greater funding access and flexibility in the capital market than non-financial sectors due to their AAA credit rating.

EBUS issuances by the banking industry increased in line with the lower policy rate. The banking industry has historically recorded net issuance growth, contrasting conditions in the previous year during a period of BI-Rate reductions. A positive growth was recorded in 2012 at Rp2.3 trillion and in 2016 at Rp34.5 trillion. On the other hand, annual growth of net issuances in the period from 2021-2024 tended to contract in line with ample liquidity in the banking industry and the higher policy rate. This indicates banking industry propensity in the capital market that aligns with the momentum of yield rates as an effort to diversify non-TPF funding.

The outlook for non-TPF funding sources in the banking industry from domestic and global capital markets is improving in line with the relatively high level of EBUS maturing in 2025. This was reflected by new EBUS issuance activity in the banking sector. In the first semester of 2025, the total value of EBUS issuances reached Rp12.49 trillion, approaching the total EBUS issuance value overall in 2024 at Rp12.76 trillion (Graph B2.2.3). In terms of composition, most EBUS issuances were used to meet working capital needs (98%) and service debt (2%). In addition, EBUS issuances were dominated by debt securities to support green project financing. Issuance activity is expected to continue accelerating until the end of 2025 given the relatively high prospect of refinancing EBUS maturing in the second semester of 2025 at Rp14.6 trillion.[13] In addition, global bond issuances by the banking industry in 2025 could also increase due to the potential rollover refinancing of global bonds issued in the previous year, coupled with the downward coupon rate trend observed in global markets. Expectations of lower policy rates globally are also expected to increase foreign currency liquidity in the domestic banking industry.



Source: CEIC and Bloomberg, processed

Graph B2.2.3. Corporate Bond Yields

13 Calculated based on data issued by PT. Pemeringkat Efek Indonesia.

Chapter 3

SOLID FINANCIAL SYSTEM RESILIENCE MAINTAINED

Financial system resilience remained solid, supported by robust banking industry. *Resilience against credit risk remained solid, alongside ample liquidity and capital in the banking industry, supported by greater prudence and risk aversion to maintain credit quality. Credit risk eased slightly in line with bank efforts to maintain credit quality, except MSME and consumer loans. Banks continued increasing profitability in line with successful efforts to diversify income, correct provisions for impairment losses and improve operational cost efficiency. Despite retreating as a corollary of funding liquidity creation to increase external debt repayments, liquidity in the banking industry remained ample. Notwithstanding, the banking industry dealt with stiff funding competition.*

Consistent with financial sector resilience, corporate and household repayment capacity has been maintained in 2025. *Increasing liquidity in the corporate sector and fewer corporations experiencing financial distress indicated maintained corporate resilience. In line with global dynamics, including escalating geopolitical tensions and US reciprocal tariffs, the performance of exporters continued to demand attention. In addition, income and purchasing power among lower-income households must be improved.*

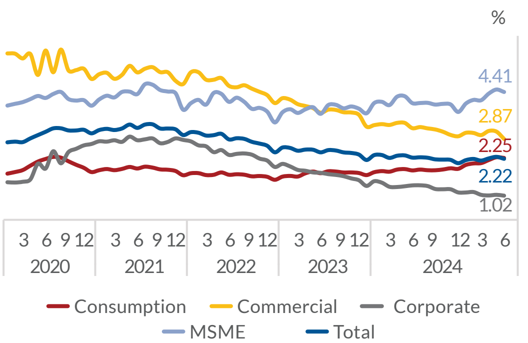
The resilience of the NBFI, finance companies and Fintech peer-to-peer lenders was maintained as private external debt continued tracking a contractionary trend. *BNPL financing through finance companies increased as a way for the public to maintain consumption (consumption smoothing). Nevertheless, increasing risk from the rapid growth of BNPL disbursements must be monitored and mitigated. Private external debt continued to decline due to lower corporate external debt in line with high global financial market uncertainty. Meanwhile, external debt in the banking industry increased, following a contraction in the previous period, indicating bank efforts to utilise foreign funding sources.*

3.1 Persistently Solid Banking Industry Resilience Underpinning Financial System Stability

The stability of the financial system remained solid, as indicated by FSSI in the Normal zone throughout the first semester of 2025. In terms of resilience, credit risk in the banking industry remained under control, accompanied by adequate liquidity and a solid capital base. Given increasing global uncertainty, several structural vulnerabilities continued to demand vigilance, including slower funding growth, lower liquidity and potentially higher credit risk amid moderating an intermediation.

In line with the maintained FSSI, credit risk in the banking industry was contained against a backdrop of economic moderation. The banking industry maintained a low level of NPL below the 5% prudential threshold. In June 2025, NPL was recorded at 2.22%, improving from 2.26% in June 2024 (Graph 3.1.1). A lower NPL was recorded across most economic sectors, except trade, social services and the others sector, which are dominated by MSME loans and consumer loans (Table 3.1.1). Based on borrower segment, the main contributors to the lower NPL in the reporting period were the corporate and commercial segments, decreasing respectively to 1.02% and 2.87% in June 2025 from 1.36% and 3.23% in June 2024. Nevertheless, indications of higher credit risk in the MSME and consumer loan segments demanded monitoring. The MSME segment experienced the highest NPL increase in June 2025 to 4.41% from 4.04% in June 2024. This was attributable to an adjustment in the quality of MSME loans given the discontinuation of the Covid-19 restructuring program introduced during the pandemic, coupled with weaker domestic consumption and purchasing power. Consumer loans also recorded an increasing in NPL from 1.84% in June 2024 to 2.25% in June 2025.

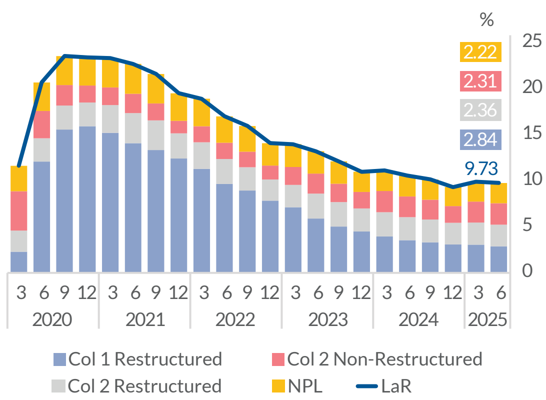
A lower LaR was an indicative of contained credit risk. The LaR ratio was recorded at 9.73% in June 2025, its lowest level in the past five years and below the pre-pandemic level of 9.93% recorded in 2019 (Graph 3.1.2). LaR recorded broad-based improvements across all segments, namely corporate, commercial, MSME and consumption loans. The improving LaR ratio trend was driven by a reduction in the amount of restructured loans across all business segments compared with conditions in the same period one year earlier (Graph 3.1.3) in line with improving repayment capacity among borrowers participating in the credit restructuring program. Nevertheless, the number of restructured consumer loans showed early signs of increasing from the previous month.



Notes:
- Corporate Loans: Loans > Rp100 billion excluded from MSME and consumption loans
- Commercial loans: Loans < Rp100 billion excluded from MSME and consumption loans

Source: Bank Indonesia, processed

Graph 3.1.1. Gross Non-Performing Loans based on Segment



LaR = NPL + Col 2 Restructured + Col 2 Non-Restructured + Col 1 Restructured

Source: Bank Indonesia, processed

Graph 3.1.2. Composition of Banking Loan at Risk

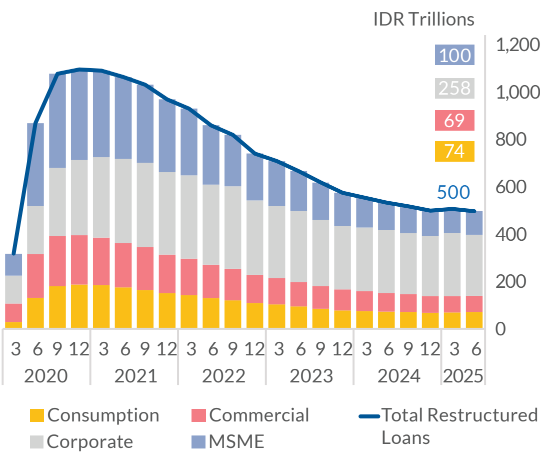
Table 3.1.1. Non-Performing Loans by Economic Sector

Economic Sector	NPL (IDR, trillions)		Loans (IDR, trillions)		NPL (%)		Δ Jun-25 & Jun-24		
	Jun-24	Jun	Jun-24	Jun-25	Jun-24	Jun-25	Nominal NPL	Nominal Credit	Ratio NPL
A. Agriculture	11.37	11.78	535	562	2.13	2.09	0.41	27.31	-0.03
B. Mining	5.05	3.99	326	394	1.55	1.01	-1.06	67.53	-0.53
C. Manufacturing Industry	38.58	34.75	1,166	1,237	3.31	2.81	-3.84	71.43	-0.50
D. Gas and Water Supply	0.42	0.31	202	224	0.21	0.14	-0.11	22.66	-0.07
E. Construction	14.73	10.52	393	398	3.74	2.65	-4.21	4.11	-1.10
F. Trade	45.20	50.07	1,326	1,354	3.41	3.70	4.87	28.27	0.29
G. Transportation	3.99	4.16	412	486	0.97	0.86	0.16	73.90	-0.11
H. Corporate Services	8.70	7.70	797	840	1.09	0.92	-1.00	42.05	-0.17
I. Social Services	3.86	6.46	295	367	1.31	1.76	2.60	72.16	0.45
J. Others	37.34	49.48	2,026	2,198	1.84	2.25	12.14	171.96	0.41
Total	**169.23**	**179.20**	**7,478**	**8,060**	**2.26**	**2.22**	**9.97**	**581.39**	**-0.04**

Source: Bank Indonesia, processed

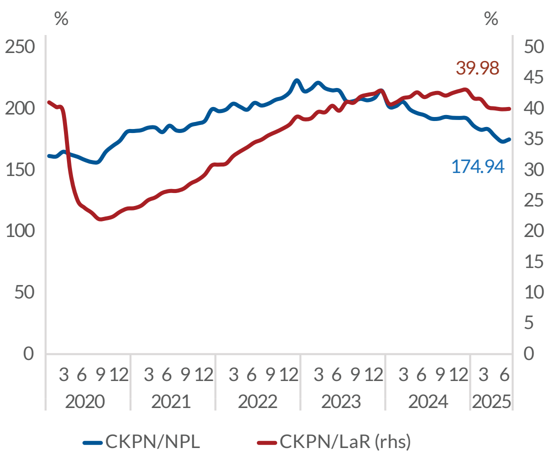
The banking industry continued to apply prudential principles despite improving credit quality. The ratio of provisions for impairment losses (CKPN) to NPL tracked a downward trend in line with lower credit risk. Nevertheless, the banking industry maintained a relatively high accumulation of CKPN, with a ratio of CKPN to NPL of 174.94% and a ratio of CKPN to LaR of 39.98% in June 2025 (Graph 3.1.4), decreasing respectively from 194.67% and 41.91% in June 2024. The lower CKPN to NPL ratio, despite remaining relatively high, indicated banking industry optimism concerning improving credit quality, while maintaining prudential principles.

Liquidity in the banking industry remained adequate to achieve the credit growth target. In line with faster growth of new loan disbursements, the LA/TPF ratio decreased, particularly at KBMI 4 banks as growth drivers. Nevertheless, the LA/TPF ratio is rebounding in 2025 in anticipation of higher demand for credit. Improvements in the LA/TPF ratio assisted to maintain the FSSI in the Normal zone throughout the first semester of 2025. The LA/TPF ratio stood at 27.05% in June 2025, improving from 25.37% in June 2024, which is still above the 10% threshold (Graph 3.1.5).



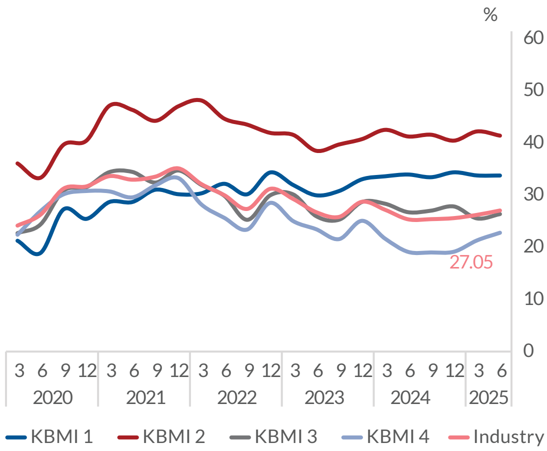
Source: Bank Indonesia, processed

Graph 3.1.3. Restructured Bank Loans based on Segment



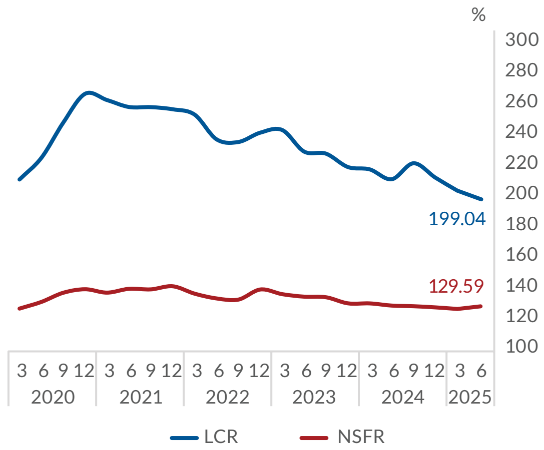
Source: Bank Indonesia, processed

Graph 3.1.4. Coverage of Provisions for Impairment Losses to Credit Risk



Source: Bank Indonesia, processed

Graph 3.1.5. Liquid Assets/Third-Party Funds based on Bank Group



Source: OJK, processed

Graph 3.1.6. Liquidity Coverage Ratio and Net Stable Funding Ratio

Resilient liquidity conditions in the banking industry were also indicated by the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The LCR ratio[14] stood at 199.04% in June 2025, down slightly from 212.22% in June 2024 as credit growth outpaced deposit growth. In addition, the NSFR ratio[15] was relatively high at 129.59% in June 2025, comparatively stable with the 129.93% position recorded in June 2024. Both liquidity ratios remained above the regulatory thresholds set by the Indonesia Financial Services Authority (OJK) at 100% (Graph 3.1.6), indicating the banking industry's ability to manage and meet short-term and long-term obligations.

Ample liquidity was maintained in the banking industry despite potential tightening given stiff competition in the funding market. As an aggregate, TPF moderation increased the banking industry's dependence on core deposits. Competitive returns and interest rates, coupled with ease of access to various financial instruments, such as SBN, Indonesian Retail Government Bonds (ORI), SRBI, Fixed-Income Funds, and Gold, encouraged depositors to place funds in instruments other than deposits. This optimised the returns received amid economic moderation, thus prompting the banks to offer more competitive deposit rates to large depositors to maintain their funding structure.

14 LCR is the ratio between high-quality liquid assets and net cash outflow (total net cash outflow) for the upcoming 30 calendar days under a stress scenario. The goal is to ensure banks have sufficient high-quality liquid assets to cover their estimated short-term liquidity needs under stressed conditions.

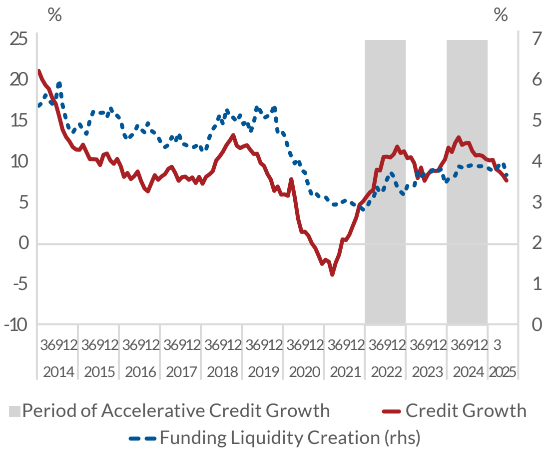
15 NSFR is the ratio between available stable funding and required stable funding. NSFR measures a bank's ability to fund activities using stable funding sources for a period of one year, with the minimum requirement set at 100%.

Liquidity growth in the banking industry originating from loan disbursements was more restrained in the reporting period in line with liquidity outflows from the domestic banking system. Funding liquidity creation (FLC) is a process by which banks create funding liquidity through loan disbursement activities. Loans are issued by simultaneously creating a deposit in the borrower's account[16]. In general, creating funding liquidity through credit or FLC moves in line with credit growth (Graph 3.1.7). Meanwhile, high growth of loans disbursed by the banking industry since 2022 has not been consistent with high liquidity creation, causing liquidity to flow out of the corporate system. This was conducted as part of the corporate effort to anticipate global uncertainty and the enduring high cost of foreign funding due to the higher-for-longer policy rates maintained by many central banks globally.

Overall, liquidity resilience in the banking industry was adequate to address potentially higher market risk and credit risk. Based on the results of liquidity stress tests, industry wide counterbalancing capacity (CBC)[17] is projected in the 31-37% range (Graph 3.1.8). This is considered sufficient to cover TPF withdrawals due to an increase in market risk and credit risk under a risk scenario that could erode liquidity resistance for a one-year period. The projected level of CBC is considered high even though some CBC has been reallocated to revive credit growth against a backdrop of moderating TPF growth.

16 Funding liquidity creation (FLC) is calculated through the formula $= \frac{1}{\frac{AL}{DPK}}$

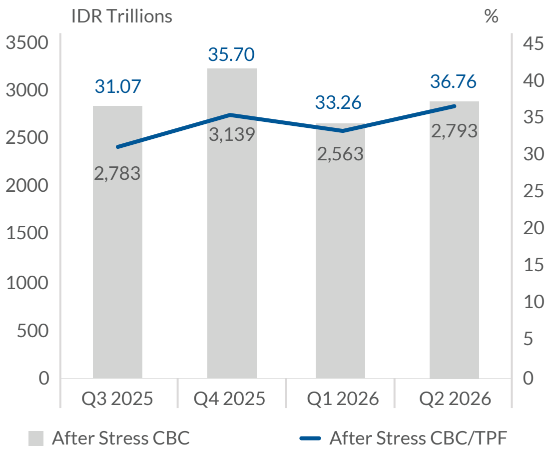
17 Industrywide CBC refers to the collective stock of unencumbered, liquid assets, or other funding sources, that financial institutions can convert to cash to meet liquidity needs.



Source: Bank Indonesia, processed

Graph 3.1.7. Funding Liquidity Creation

Financial system resilience remained solid to address the operational risk triggered by digitalisation. Digital transformation of Indonesia's financial sector has increased efficiency and inclusion but also increased the complexity of new risks, particularly operational risk. Cyberattacks, reliance on third-party technology, and systemic failures pose a real threat to financial stability.[18] Rapid digitalisation of the financial sector in Indonesia has also been accompanied by an increase in the value of digital banking transactions (Graph 3.1.9).

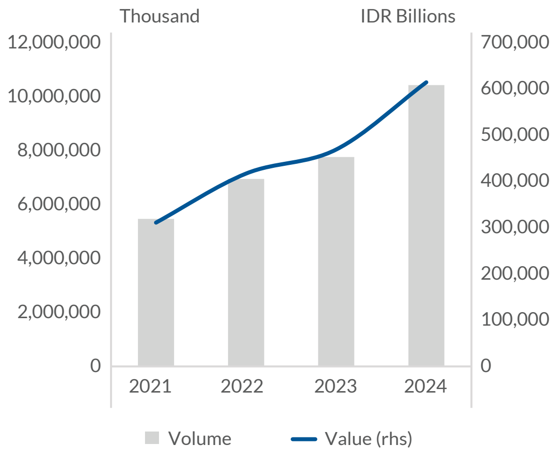


Source: Bank Indonesia, processed

Graph 3.1.8. Counterbalancing Capacity of Banking Industry After Stress based on Results of Liquidity Stress Tests Conducted in June 2025

The main emerging operational risks are cyber risk, service disruptions (downtime), and systemic IT failure.[19] Operational risk due to cyberattacks, systemic failure or the failure of third-party services could potentially trigger a loss of customer confidence and the loss of backup systems or critical service providers, possibly amplifying the impact to other financial service providers through interconnectedness. In addition, more than 403 million cyberattacks were detected in Indonesia in a one-year period, with most targeting the financial sector.

Operational risk and cyber risk in Indonesia's financial sector are well contained, yet resilience must be increased constantly. The availability of payment systems and digital services was recorded at the high level of 98-99%, indicating the reliability of basic infrastructure. Nevertheless, high frequency disruptions averaging 300-500 cases per month, large number of significant cyber incidents, and high reliance on third-party technology indicate that system resilience continues to require attention. Given the high level of interconnectedness and rapid adoption of technology, contagion risk and systemic impact are generally higher. Resilience to operational risk and cyber risk must be strengthened, therefore, in terms of supervision, technology, governance and the response capability to incidents.



Source: Bank Indonesia, processed

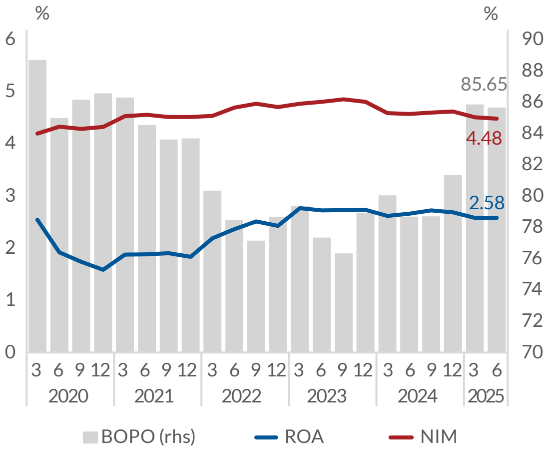
Graph 3.1.9. Growth of Electronic Money Transactions

18 BCBS, 2024, Consultative Document Principles for the Sound Management of Third-Party Risk.

19 Cyber Resilience Landscape in Indonesia, BSSN (2024), more than 403 million cyberattacks detected in Indonesia in a one-year period, with most targeting the financial sector.

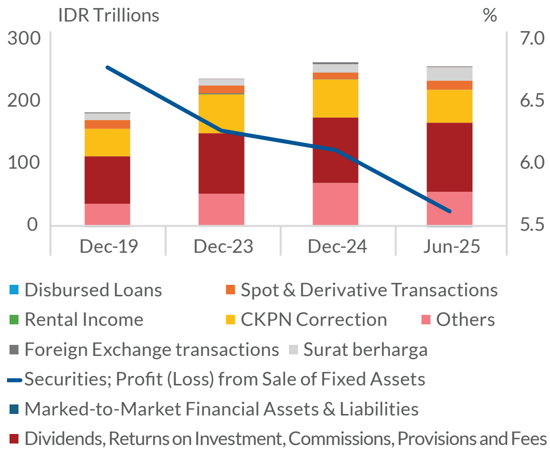
Bank profitability was maintained that supported by income diversification, CKPN corrections and operational efficiency. The return on assets (ROA) in the banking industry fell in June 2025 to 2.58% from 2.66% in June 2024. Meanwhile, the NIM also decreased to 4.48% in June 2025 from 4.57% in June 2024 (Graph 3.1.10) in line with pressures on interest rate spread. The more limited decline of ROA than NIM was attributable to fee-based income, interest income from securities and corrections made to CKPN. Fee-based income and interest income from securities increased respectively to 5.80% and 62.79% in June 2025 from 10.39% and 2.46% in June 2024. Meanwhile, income from CKPN adjustments was relatively stable at Rp52.78 trillion in June 2025 compared with Rp70.12 trillion in June 2024 (Graph 3.1.11). Moving forward, income from CKPN corrections will become more limited due to increasing credit risk, particularly in the MSME and consumer loan segments.

Banking industry resilience was underpinned by a relatively solid capital base. The CAR in the banking industry remained high at 25.81% in June 2025 (Graph 3.1.12), dominated by core capital that accounted for 94.76% in the reporting period (Graph 3.1.13). Such conditions indicated the improving ability of bank capital to absorb risk if risk were to materialise in the banking industry.



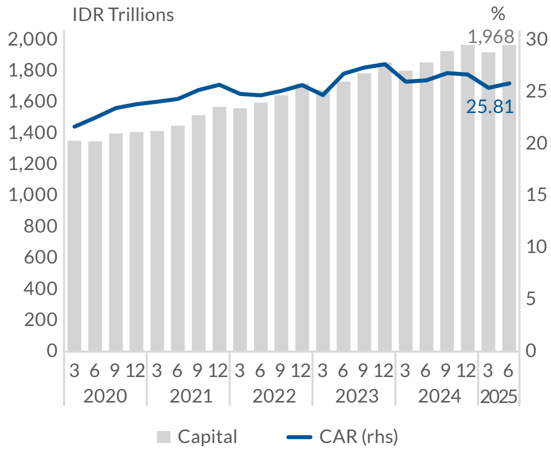
Source: OJK, processed

Graph 3.1.10. Return on Assets, Net Interest Margin and Operating Expenses to Operating Income in the Banking Industry



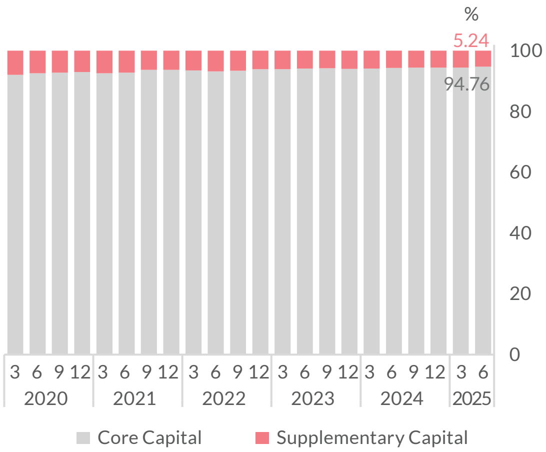
Source: Bank Indonesia, processed

Graph 3.1.11. Non-Interest Income (Annualised)



Source: OJK, processed

Graph 3.1.12. Bank Capital



Source: OJK, processed

Graph 3.1.13. Composition of Bank Capital

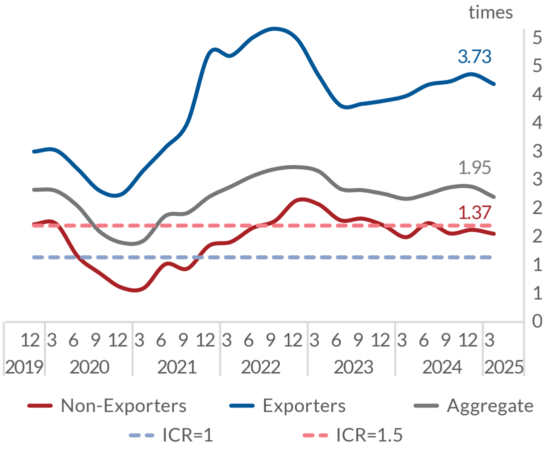
Bank capital resilience remained solid in the face of global geopolitical dynamics. The results of solvency stress tests indicated that NPL would remain below the 5% threshold, accompanied by a CAR above 20%. The solid capital base was shown to effectively mitigate the impact of credit risk and market risk based on various risk scenarios that could undermine liquidity resilience, namely significant upward inflation, pressures on economic growth, and exchange rate depreciation, including the impact of inward-looking trade policies instituted by the US Government.

3.2 Corporate and Household Repayment Capacity Maintained

The corporate sector maintained repayment capacity despite dealt with various pressures stemming from global dynamics. As an aggregate, corporate interest coverage ratio (ICR) -=was recorded at 1.95 in the first quarter of 2025 up from 1.92 in the first quarter of 2024 above the regulatory threshold of 1x. Based on sales orientation, the respective ICR of exporters and non-exporters remained above the threshold at 3.73 and 1.37 in the first quarter of 2025 (Graph 3.2.1).

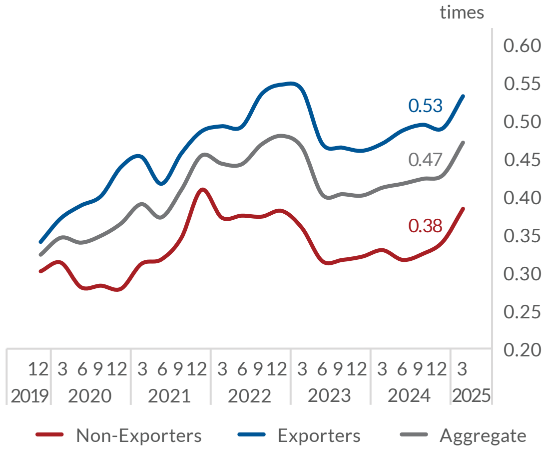
Corporations also strengthened liquidity buffers in anticipation of emerging risk moving forward. Corporations were observed to increase their cash ratio in response to escalate geopolitical tensions and the global tariff war after the inauguration of the new US President. As an aggregate, the corporate cash ratio increased from 0.41 in the first quarter of 2024 to 0.47 in the first quarter of 2025 (Graph 3.2.2). The practice of buffer accumulation is widespread, carried out by corporations with international market exposure (exporters) as well as by non-exporting firms.

Corporate sector resilience sustained repayment capacity and strengthened liquidity buffers, thereby reducing the risk of financial distress. In the first quarter of 2025, the median Altman Z-score posted a limited increase, indicating less bankruptcy risk in the corporate sector (Graph 3.2.3). In addition, the portion of corporations in the distress zone continued a downward trajectory. The portion of corporate assets within the distress zone fell from 16.1% at the beginning of 2024 to 14.9% at the beginning of 2025.



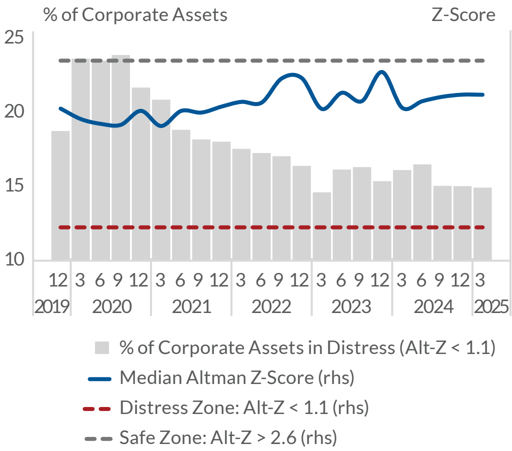
Source: Bloomberg and Indonesia Stock Exchange, processed

Graph 3.2.1. Corporate Repayment Capacity



Source: Bloomberg and Indonesia Stock Exchange, processed

Graph 3.2.2. Corporate Cash Ratio



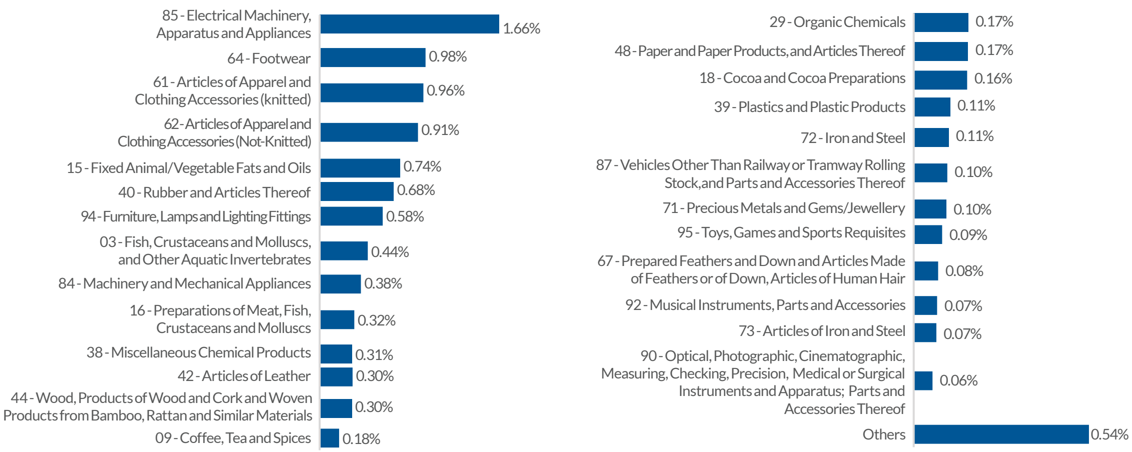
Source: Bloomberg dan BEI, processed

Graph 3.2.3. **Corporate Financial Distress Indicator (Altman Z-Score)**

Pressures on the corporate performance of exporters in Indonesia could potentially re-emerge as US reciprocal policy takes effect. US trade tariffs will affect approximately 10.6% of total Indonesian exports to the US, including 98 major commodities (Graph 3.2.4). The impact of higher tariffs will increase export costs significantly, thereby squeezing profit margins for exporters. Nevertheless, the imposition of US tariffs on countries with competing exports could potentially shift export share to Indonesia if domestic exporters can take advantage of this compelling opportunity.

The corporate sector has adopted a wait-and-see strategy concerning US reciprocal tariff policy and the latest global dynamics. Tariff policy will undermine the performance of exporters directly, which will increase the cost of exports to the US and squeeze profits. Corporations, therefore, are paring back capital expenditures and continuing to accumulate cash. New loan facilities are used for precautionary purposes and maintaining working capital, dominated by short-term loans. Seeking to mitigate the risk of declining sales, corporations are tentatively exploring ways to unlock new and non-traditional markets.

Overall, the resilience of the household sector was maintained, primarily supported by upper-income households. Upper-income households indicated stronger capacity to adapt to vulnerabilities in the labour market. Comparatively stable income provided space for such households to maintain flexibility when managing financial portfolios, while diversifying income sources. As part of their coping strategy, upper-income households responded to low deposit rates and market volatility by increasing their investments in higher yielding instruments, as reflected in a consistently positive trend of investment value (Graph 3.2.5). On the other hand, lower-middle households experienced a build-up of structural pressures. Moving forward, fiscal expansion by the Government is expected to strengthen the resilience of households across all income brackets.

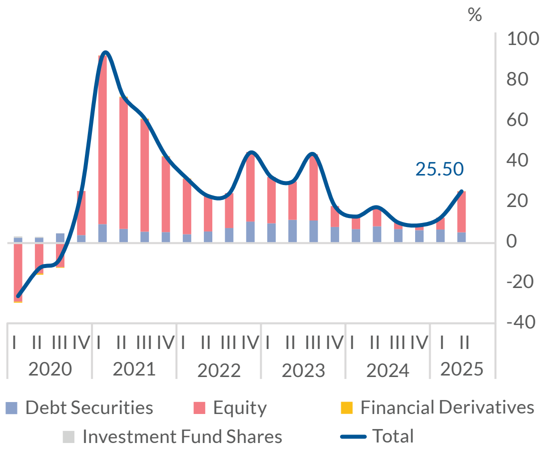


Source: Bank Indonesia, processed

Notes: total share of Indonesian exports to US = 10.57% [20]

Graph 3.2.4. **Export Share of Total Indonesian Exports to the United States**

20 19,641 exporters from Kubus Ekspor

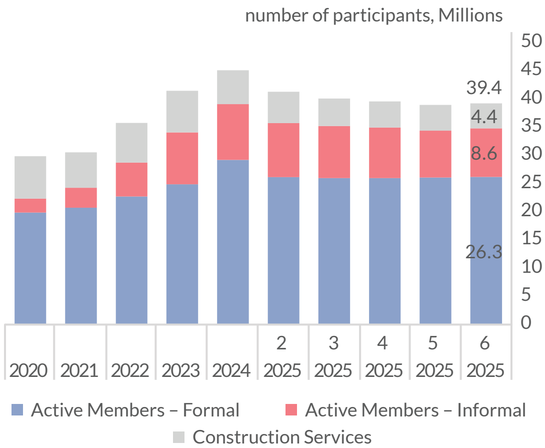


Source: Indonesian Central Securities Depository (KSEI), processed

Graph 3.2.5. Investment Growth of Upper-Income Households

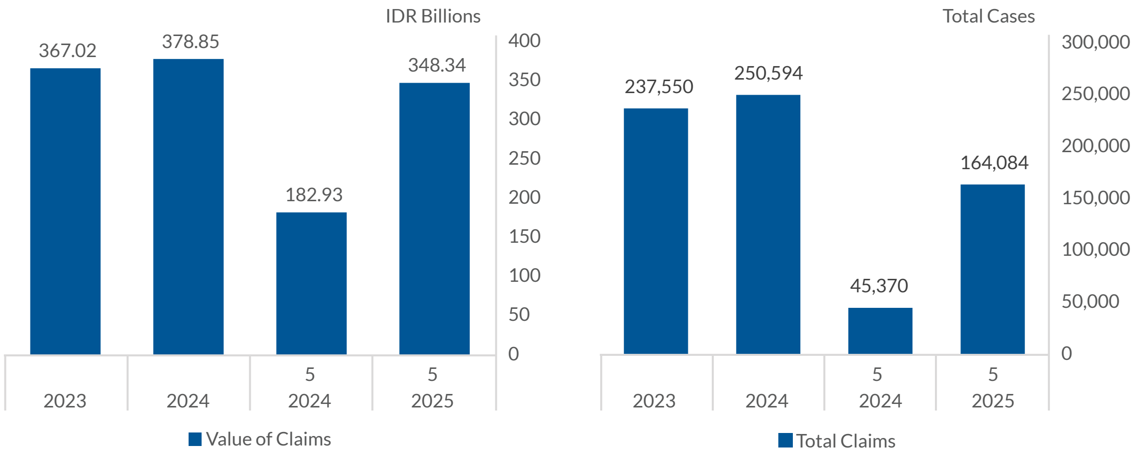
Fiscal expansion by the Government could potentially ease pressures on the resilience of lower-middle households. Such pressures are indicated by the high proportion of informal workers and high level of redundancies and dismissals. Such conditions restrict the ability of lower-middle-income households to maintain consumption, meet repayment obligations and create liquidity buffers through savings. In response to the pressures, such households implement coping strategies, including consumption smoothing, to offset a potentially more severe impact. As of June 2025, the scope of social protection remained limited, with the active participation of the Social Security Agency for Employment covering just 35% of eligible total workers, reflecting the dominance of informal workers who are subject to lower incomes and the absence of protection against the risk of job termination. Furthermore, the number of active Members of Social Security Agency for Employment is tracking a downward trend (Graph 3.2.6). This decline is consistent with an increase in the number of job losses, which totalled 42,385 in the first semester of 2025. Pressure on lower income households was also reflected in the high number of claims for job loss benefits, indicating that labour market conditions have not yet fully recovered (Graph 3.2.7).

The income of lower-middle households was also strengthened by government programs. As an integral part of the policy response, the Government disbursed wage subsidies totalling Rp300,000 per month. This assistance was provided in June-July 2025 to 17.87 million workers earning less than Rp3.5 million per month to bolster the purchasing power of low-income earners. As of 7th July 2025, the realisation of wage subsidies was recorded at 46.46%.



Source: Ministry of Manpower of the Republic of Indonesia, processed

Graph 3.2.6. Active Members of Social Security Agency for Employment

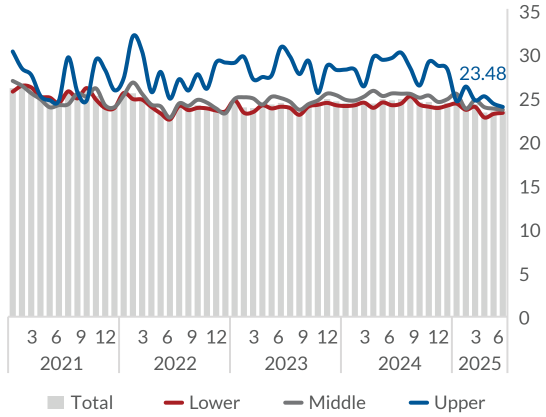


Source: Ministry of Manpower of the Republic of Indonesia, processed

Graph 3.2.7. Total and Value of Job Loss Claims

Efforts to strengthen public purchasing power among low-income earners also aimed to contain rising credit risk in the household sector, particularly among lower-middle households. Low-income households were the main contributors to non-performing consumer loans, with the NPL ratio increasing to 2.27% in June 2025 from 1.82% in June 2024 (Graph 3.2.8). Meanwhile, increasing risk among upper-income households primarily stemmed from housing loans, with the corresponding NPL ratio climbing significantly to 3.13% in June 2025 from 2.48% in June 2024. Meanwhile, household repayment capacity, as reflected by the debt service ratio (DSR), declined to 23.48% in June 2025 from 24.75% in June 2024 (Graph 3.2.9). Such conditions indicate liquidity pressures affecting lower-middle households. Moving forward, economic improvements will help to boost income and improve liquidity conditions in the household sector across all income levels.

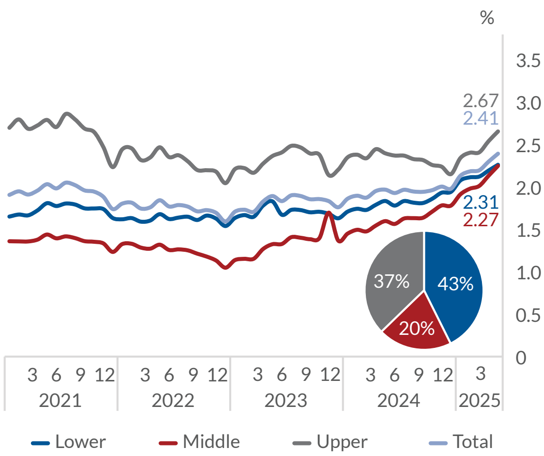
Credit risk in the banking industry originating from the household sector was effectively contained. In June 2025, household credit risk was mitigated with an NPL ratio below the 5% prudential threshold at 2.41%, despite increasing from 1.97% in June 2024. Credit risk across all segments, namely housing loans, multipurpose loans and automotive loans, was maintained below 5% despite tracking upward trend. Housing loans recorded the highest NPL ratio at 3.13%, followed by automotive loans at 2.57% and multipurpose loans at 1.66% in June 2025 (Graph 3.2.10).



Source: Bank Indonesia, processed

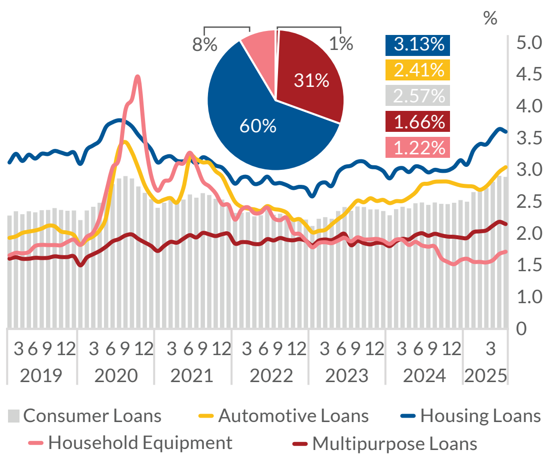
Graph 3.2.9. Debt Service Ratio in the Household Sector by Expenditure Level

TPF growth in the household segment experienced moderation in the reporting period due to the asset reallocation strategies pursued by upper-income households, coupled with a decline in income affecting lower-middle households. Household TPF growth was recorded at 0.88% in June 2025, moderating from 1.61% in June 2024 (Graph 3.2.11). Upper-income households were the main contributors to slower TPF growth, recording a 0.36% (yoy) contraction in June 2025. The TPF contraction was primarily attributable to the reallocation of assets to other investment instruments offering higher returns, such as gold and SBN. Meanwhile, TPF growth among lower-middle households was comparatively restrained, reflecting pressures on purchasing power and less opportunity to



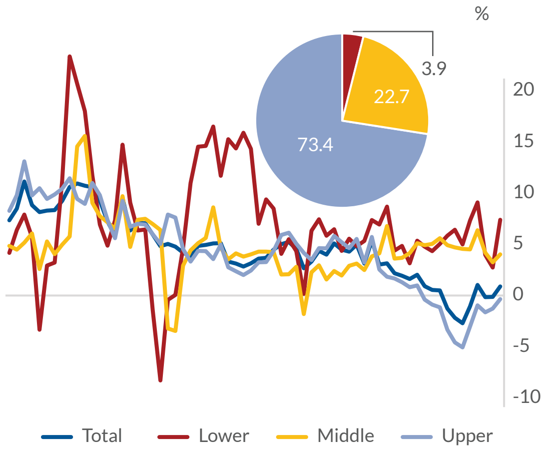
Source: Bank Indonesia, processed

Graph 3.2.8. Non-Performing Loans in the Household Sector by Income Level



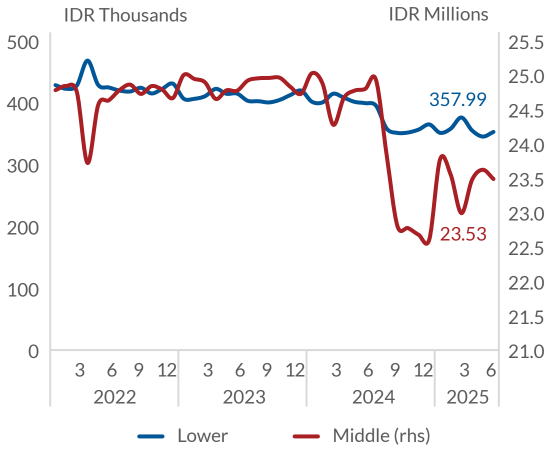
Source: Bank Indonesia, processed

Graph 3.2.10. Household Non-Performing Loans



Source: Bank Indonesia, processed

Graph 3.2.11. TPF Growth in Household Sector



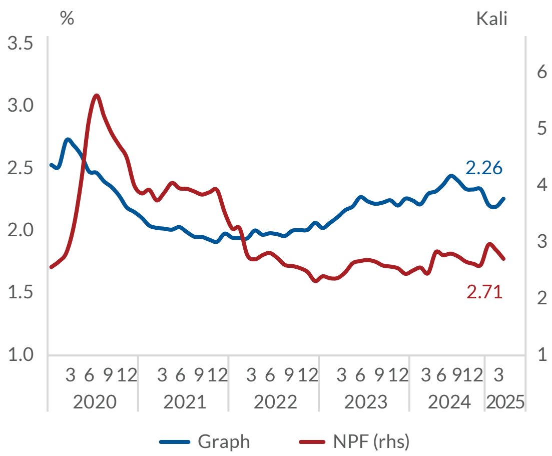
Source: Bank Indonesia, processed

Graph 3.2.12. TPF Growth of Middle- and Lower-Income Households

save. Low-income households recorded stronger TPF growth in June 2025, but the increase was temporary and primarily driven by the wage subsidies disbursed by the Government. Pressures on savings were also reflected in the downward trend of average account balances among middle- and low-income households (Graph 3.2.12). Overall, accumulated savings in this segment have thus far failed to despict signs of a solid recovery. Declines in the average account balance also reflects limited household capacity as well as vulnerabilities in terms of building financial reserves in dealt with persistent income pressures.

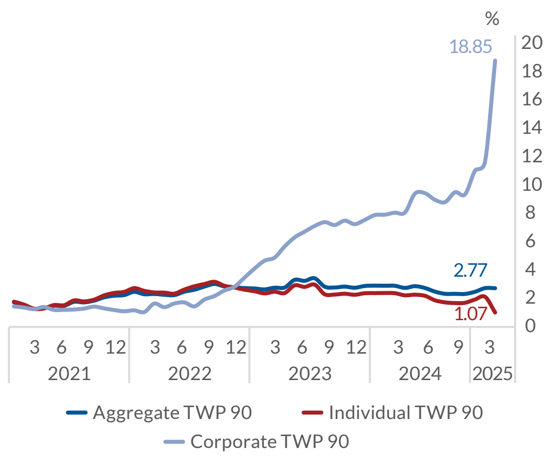
3.3 Resilience of NBFI and Financial System Technology Innovation

Credit risk from finance companies and online loans was contained. Credit risk from finance companies was relatively stable, as reflected by non-performing financing (NPF) of 2.71% in March 2025. Capital resilience, as reflected by the Gearing Ratio (GR), stood at 2.26x for finance companies in March 2025, indicating an adequate level of capital to support financing (Graph 3.3.1). Meanwhile, credit risk from Fintech lending increased slightly, with the aggregate Control of Default Rate or failure to settle obligations (TWP 90) increasing to 2.77% in March 2025, which nevertheless is still considered low (Graph 3.3.2). Credit



Source: OJK, processed

Graph 3.3.1. Non-Performing Financing and Gearing Ratio of Finance Companies



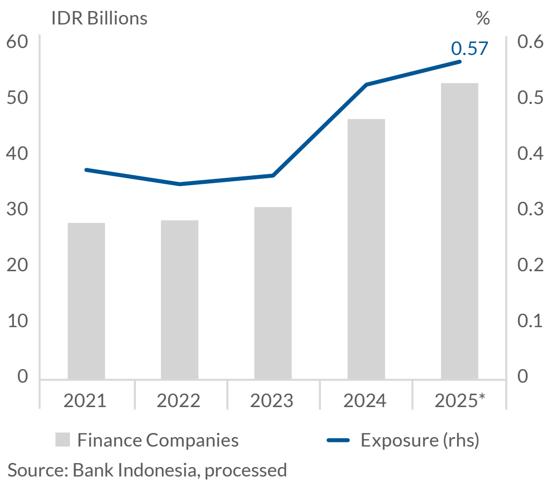
Source: OJK, processed

Graph 3.3.2. Credit Risk in Fintech Lending

risk from Fintech lending increased due to a higher corporate TWP 90, particularly affecting MSMEs. On the other hand, the share of online loan disbursements to corporate borrowers remained relatively small, namely just 5.63%, while most fund disbursements were dominated by individual borrowers, with a TWP 90 of 1.07%.

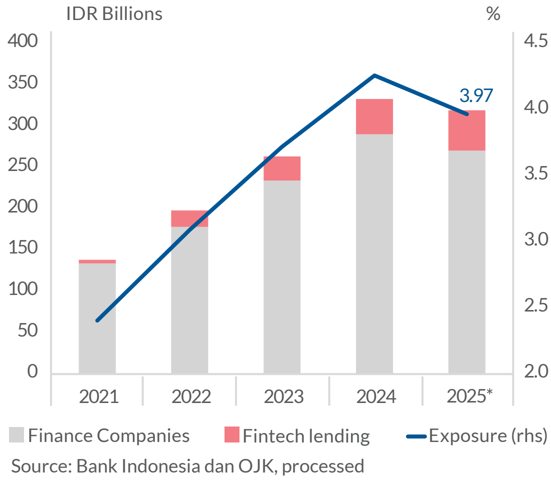
Interconnectedness risk between the NBFI and banking industry remained limited in the first semester of 2025 in line with low exposure. Interconnected risk between banks and NBFI, specifically finance companies and Fintech lending, can arise due to the placement of funds by NBFIs in bank TPF and/or the disbursement of loans by the banking industry to NBFIs. Interconnectedness risk between NBFIs and the banking industry through the placement of funds in bank deposits was mitigated due to minimal exposure, namely in the form of term deposits by finance companies accounting for just 0.57% of total TPF (Graph 3.3.3). Similarly, interconnectedness risk stemming from financing disbursed by the banking industry to finance companies and Fintech lending was also low due to low exposure, accounting for just 3.97% of total outstanding loans disbursed by the banking industry (Graph 3.3.4).

Disbursed financing by finance companies through BNPL schemes increased to maintain private consumption as income decreased (consumption smoothing). The use of finance companies, particularly through BNPL schemes, offers a quick and convenient method of paying for goods without collateral, coupled with small repayments. BNPL financing is an attractive option, particularly for unbanked segments of society. Since the beginning of 2025, BNPL financing by finance companies has increased significantly, with growth reaching 27.93% (yoy) in February 2025 (Graph 3.3.5). This indicates that the public has begun relying on BNPL financing as an alternative form of short-term consumer financing in response to pressure on household purchasing power. Notwithstanding, BNPL risk must be monitored alongside the NPF of BNPL financing disbursed by finance companies. Moving forward, increasing financial literacy and strengthening the credit scoring mechanism are key to maintaining the quality of BNPL financing.



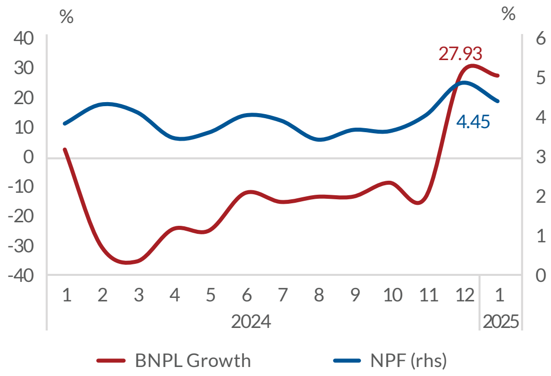
Source: Bank Indonesia, processed

Graph 3.3.3. Finance Company Exposure to Total Bank TPF



Source: Bank Indonesia dan OJK, processed

Graph 3.3.4. Finance Company and Fintech Lending Exposure to Total Bank Credit



Note: BNPL disbursements are similar to the characteristics of BNPL (RSEOJK), including multipurpose and unsecured financing

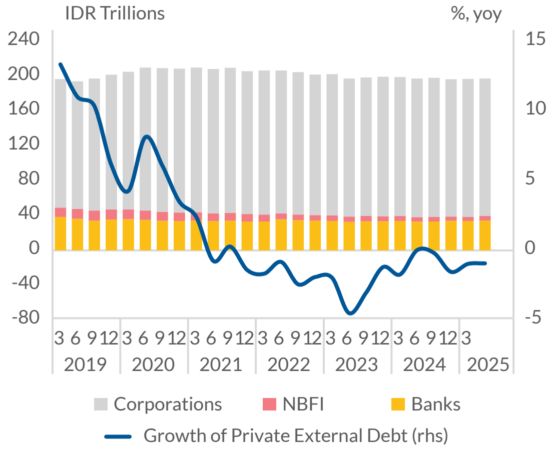
Source: OJK, processed

Graph 3.3.5. Growth and NPF of BNPL Disbursed by Finance Companies

3.4 Performance of Corporate and Banking External Debt Risk

Private external debt maintained a contractionary trend in line with global financial market conditions and persistently high global financial uncertainty. Indonesia's external debt continued increasing, yet the share of private external debt tended to decrease (Graph 3.4.1). In terms of private external debt, the corporate sector was the largest contributor compared with other institutional units, namely banks and NBFI (Graph 3.4.2).

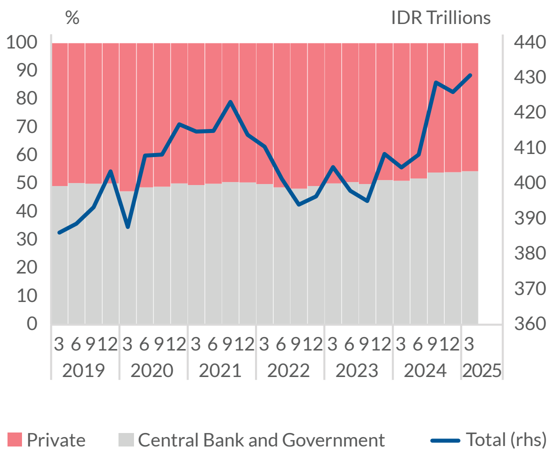
Corporate external debt tracked a downward trend in the first semester of 2025. In May 2025, corporate external debt experienced a deeper 1.45% (yoy) contraction, following a 0.67% (yoy) contraction recorded in December 2024. Declining corporate external debt since the beginning of the Covid-19 pandemic has been due to a higher cost of funds. The cost of funds has been edged upwards by higher interest rates in response to the change in global monetary policy stance and risk premiums, coupled with a shift in financing away from brown sector corporations. Higher risk premiums were indicated by a sharp increase in credit default swaps in Indonesia during the period from 2020-2023, which prevented corporations from seeking additional funding from abroad.



Source: Bank Indonesia, processed

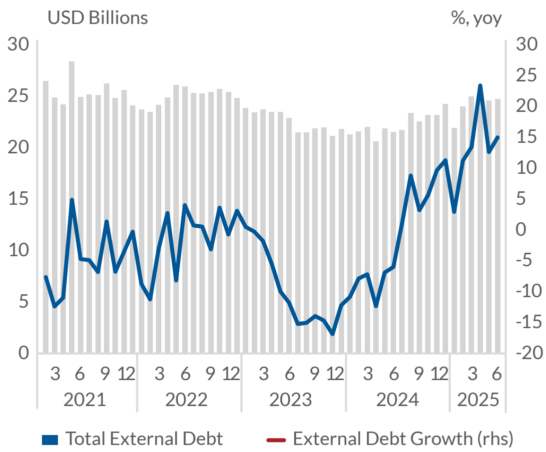
Graph 3.4.2. Performance of Private External Debt by Institutional Unit

The banks utilised external debt to meet their funding needs, particularly in terms of liquidity and foreign currency financing. External debt in the banking industry grew by 14.99% (yoy) in June 2025 to USD24.59 billion, following a 5.99% (yoy) contraction in June 2024 to USD21.38 billion (Graph 3.4.3). The composition of external debt was dominated by assets with long-term maturities in the form of financing received. Long-term tenors delivered the banking industry greater flexibility when using the funds for liquidity or new loan disbursements.



Source: Bank Indonesia, processed

Graph 3.4.1. Indonesia's External Debt by Sector

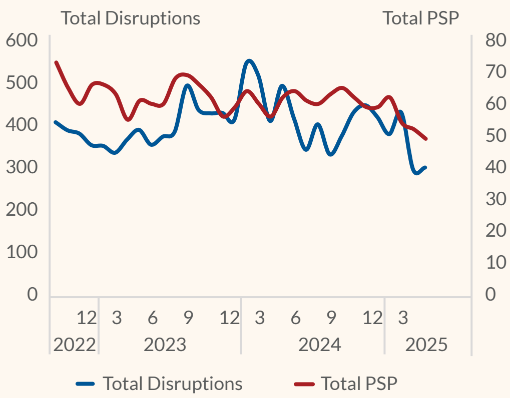


Source: Bank Indonesia, processed

Graph 3.4.3. Outstanding External Debt in Banking Industry

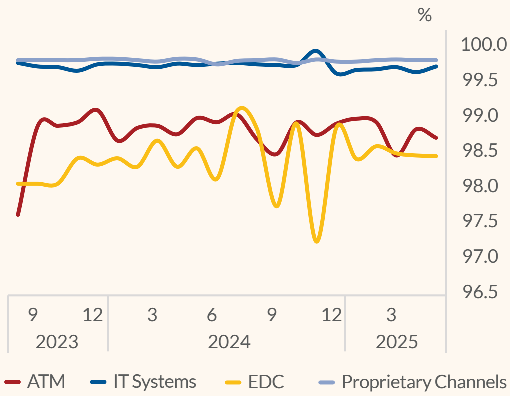
Box 3.1 Financial System Resilience amid Increasing Operational Risk due to Digitalisation

There remains a further opportunity to increase the operational resilience of payment systems at banks or payment system providers (PSP). From 2022-2025, the level of payment system disruptions was considered moderate, namely 300-500 disruptions per month (Graph B3.1.1). Meanwhile, a total of 50-75 payment system providers also experienced disruptions. The severity of disruptions was mainly low and moderate, with severe disruptions only affecting a small portion of PSPs. The availability of information technology systems, proprietary channels, automated teller machines and electronic data capture machines owned by PSPs to support payment system services and other financial access was maintained at 98-99%, which is above the average availability threshold for the industry (Graph B3.1.2).



Source: Bank Indonesia, processed

Graph B3.1.1. Trend of Payment System Industry Disruptions



Source: Bank Indonesia, processed

Graph B3.1.2. Availability of Systems and Payment Channels

Strengthening operational and cyber risk mitigation is a crucial element of maintaining payment system resilience and reliability in Indonesia. Operational risk must bemitigated by strengthening internal governance and applying technology-and policy-based standard requirements, including mandatory implementation of risk management, capital buffers against potential losses and secure system architecture. Nationally, Bank Indonesia urges PSP to apply information security standards consistently, which include strengthening IT infrastructure and supervision. On the other hand, cyber risk is anticipated by increasing detection, protection and incident response capabilities. The implementation of such policies is bolstered by collaboration with the National Cyber and Encryption Agency, alongside compliance with Bank Indonesia Regulations concerning information system security and cyber resilience. In addition, continuous education relating to information security awareness also serves as a solid foundation for building a culture of sustainable cyber resilience. This holistic approach support to create a secure and reliable national payment system that is resilient against risk in the digital age.

Bank Indonesia efforts to maintain financial system stability through service continuity and public confidence in financial infrastructure are contained in the Indonesia Payment System Blueprint 2030. Operational resilience is an integral part of the long-term financial stability strategy, including a macro-financial surveillance approach that encompasses indicators of IT vulnerabilities, service recovery readiness as well as incident mitigation capacity.

Digital resilience is a new foundation in maintaining the stability of the financial system. Creating and maintaining a solid financial system requires a collaborative approach between the regulator, industry and technology providers. IT oversight reform, increased cybersecurity capacity among human resources and systemic simulations of digital attack scenarios are crucial measures to maintain the continuity of the intermediation function and public confidence.

Box 3.2 Integrated Surveillance and Assessments for Financial System Crisis Prevention and Handling

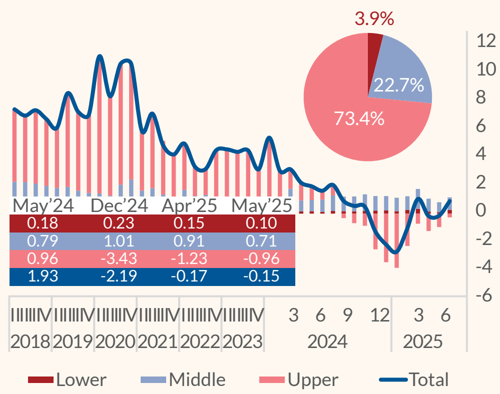
Financial system crisis prevention and handling in Indonesia have been strengthened through a comprehensive legal framework. Crisis prevention and handling in Indonesia is regulated in accordance with Act Number 9 of 2016 concerning Financial System Crisis Prevention and Handling, as amended by Act Number 4 of 2023 concerning Financial Sector Development and Strengthening (P2SK Act). Efforts to maintain the stability of the financial system include comprehensive, integrated and data-based surveillance and assessments. Strengthening the surveillance and assessments for crisis prevention and handling was further enriched by institutional analyses, covering aspects of governance, financial resources and operational facets, including task continuity, information system resilience and cybersecurity. The results of such monitoring are coordinated nationally through the KSSK for evaluation and to determine the status of financial system stability nationally. This is followed by discussions regarding responsive and collaborative policy recommendations.

The KSSK is tasked with maintaining financial system resilience in Indonesia. With institutional members including the Ministry of Finance, Bank Indonesia, OJK and the Indonesia Deposit Insurance Corporation (LPS), KSSK regularly convenes quarterly coordination meetings to discuss current and future (forward-looking) financial system resilience. KSSK discussions cover the latest developments in terms of financial system stability, the latest topical issues affecting the financial system as well as the optimal policy response from each institutional member. Efforts to drive TPF growth remain the priority of financial authorities.

In the first semester of 2025, efforts were still required to stimulate TPF growth as a source of funding for banking intermediation. TPF growth moderated in the reporting period due to the diversification of fund placements by high-income earners in other instruments, coupled with a build-up of pressure on low-income households. Efforts to strengthen economic growth are still needed to simultaneously boost TPF growth (Graph B3.2.1). Seeking to gain a deeper understanding of the strategic issues affecting financial system stability, KSSK members conduct coordinated surveillance and assessments, enriching the assessments with granular data according to the authority of each member institution.

Through KSSK, the Ministry of Finance, Bank Indonesia, OJK and LPS collaborate in synergy to drive sustainable economic growth. The Government optimises the role of the State Revenue and Expenditure Budget as a countercyclical instrument to maintain the economy (and as a shock absorber) through economic stimulus packages, national food security programs, as well as tax and customs reforms, among others, to bolster the investment climate and international trade. Bank Indonesia also strengthens its monetary, macroprudential and payment system policy mix, among others, through accommodative monetary policies to maintain rupiah exchange rate stability, pro-growth macroprudential policies to revive lending/financing, low interest rates and liquidity management flexibility, while strengthening the acceptance of digital payments, infrastructure and payment system industry consolidation. OJK maintains the financial services sector by strengthening risk management in the Fintech lending industry as well as strengthening consumer and public protection through the Task Force for the Eradication of Illegal Financial Activities (Satgas PASTI) and the Indonesia Anti-Scam Centre (IASC). LPS maintains comprehensive deposit insurance coverage as the basis for public confidence in the financial sector, while sustaining stability conducive to economic recovery and adjusting the guarantee's rate to support monetary policy transmission and strengthen national economic recovery momentum.

Moving forward, interagency synergy between financial sector authorities will be strengthened further to ensure an appropriate and coordinated policy and institutional response. Institutional and policy strengthening, progressive regulatory reform and active collaboration among stakeholders are key to addressing the challenges of a dynamic global economy replete with uncertainty, coupled with the structural challenges experience at home.



Source: Bank Indonesia, processed

Graph B3.2.1. **TPF Growth by Income Level**

Chapter 4

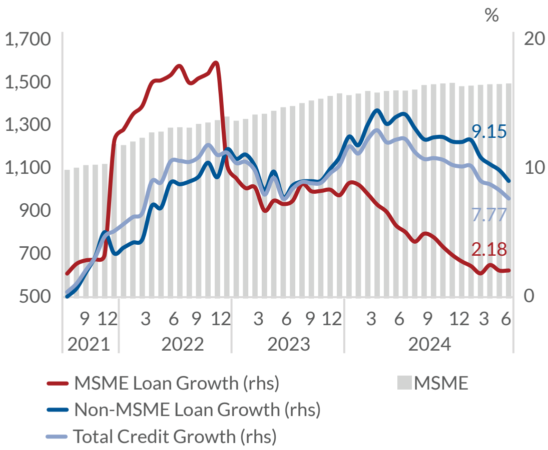
GREEN FINANCE AND INCLUSIVE FINANCE SUPPORT

MSME loans and sharia financing maintained a positive growth, yet there remain further opportunities to improve performance. *Positive MSME loan growth was driven by strategies to increase product diversification by MSMEs, accompanied by lower prices to maintain competitiveness. Notwithstanding, the banking industry and NBFI pursued a strategy of prudent and selective lending against a backdrop of increasing MSME credit risk. In addition, weaker purchasing power, particularly among low-income earners, contributed to limited MSME loan growth. In line with MSME loan performance, sharia financing maintained positive momentum supported by the tertiary sector and consumption sector, particularly housing financing and multipurpose financing.*

Growth of green loans continued on an upward trend, with further opportunities to improve performance. *Green loan disbursements increased due to government tax incentives targeting battery electric vehicles. One of the main challenges to increasing green loan disbursements remains the lack of readiness to receive funding for sustainable projects due to limited technical capacity in terms of meeting global requirements for disbursing sustainable funds. In addition, an insufficiency of a comprehensive sustainable finance ecosystem in Indonesia is holding back the expansion of green loans.*

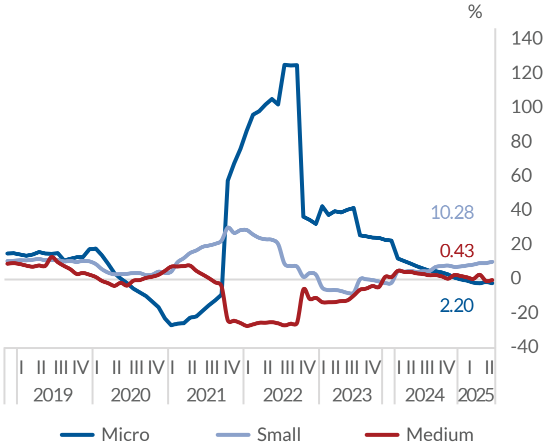
4.1 Inclusive Finance

MSME loans maintained positive performance in the reporting period, primarily supported by small enterprises. MSME loan growth in the second quarter of 2025 remained positive despite moderating to 2.18% (yoy) from 5.68% (yoy) in the same period of the previous year (Graph 4.1.1). By segment, MSME loans extended to small enterprises maintained the positive growth, contrasting the declines of loans disbursed to micro and medium enterprises. In the second quarter of 2025, loans to small enterprises grew by 10.28% (yoy), up significantly from 4.44% (yoy) in the second quarter of 2024. Meanwhile, new loan disbursements to micro enterprises experienced a 2.20% (yoy) contraction in the second quarter of 2025, following 7.69% (yoy) growth in the second quarter of 2024. Finally, loans to medium enterprises recorded a shallower 0.43% (yoy) contraction in the second quarter of 2025 after declining by 3.53% (yoy) in the second quarter of 2024 (Graph 4.1.2). The contraction of MSME loans disbursed to micro enterprises was influenced by prudent and selective lending in the banking industry in response to the upward NPL trend affecting the micro segment. Credit risk was edged upwards by deteriorating MSME performance as a corollary of weaker public purchasing power, particularly among low-income earners. Consequently, this squeezed the repayment capacity of MSMEs. Meanwhile, a wider funding gap prompted the banks to target small enterprises when extending MSME loans. Small enterprises, which are more flexible, adaptive and active when accessing financing, coupled with stronger sales turnover, were more attractive to financial institutions. Based on a survey conducted by Bank Indonesia in the second quarter of 2025, the demand for MSME loans was dominated by micro and small enterprises with a loan value of less than Rp50-100 million. Meanwhile, the banking industry also pursued a strategy of reallocating portfolios to loans with lower credit risk.



Source: Bank Indonesia, processed

Graph 4.1.1. **Total Credit and MSME Loan Growth**



Source: Bank Indonesia, processed

Graph 4.1.2. **MSME Loan Growth by Segment**

The main contributors to MSME loan growth were the Transportation, Agricultural and Accommodation sectors. MSME loan growth was primarily supported by Agriculture, Transportation and Accommodation, with growth recorded at 1.26%, 0.43% and 0.24% (yoy), respectively. MSME loan growth in the transportation sector accelerated to 10.81% (yoy) in the second quarter of 2025 from 9.8% (yoy) in the same period of the previous year. Conversely, MSME loan growth in the agricultural and accommodation sectors was recorded respectively at 7.01% (yoy) and 5.1% (yoy) in the reporting period, down from 11.1% (yoy) and 8.5% (yoy) in the second quarter of 2024 (Table 4.1.1). MSME loans disbursed to the agricultural sector maintained positive growth driven by rice, soybean, cacao, nuts and tobacco. MSME loans extended for rice production were dominated by working capital

Table 4.1.1. MSME loans by Economic Sector

Economic Sector	Growth (% yoy)					Contribution (% yoy)		Contribution Δ	Share
	Jun-24	Dec-24	Apr-25	May-25	Jun-25	Jun-24	Jun-25		Jun-25
Trade	2.5%	0.87%	-0.26%	-0.45%	-0.33%	1.18%	-0.15%	-1.33%	45.4%
Agriculture	11.1%	6.90%	6.54%	6.81%	7.01%	1.91%	1.26%	-0.65%	18.0%
Manufacturing Industry	4.0%	2.96%	-0.32%	-1.68%	-1.63%	0.49%	-0.09%	-0.58%	5.8%
Community Services	12.3%	8.03%	4.68%	3.68%	2.87%	0.71%	0.17%	-0.54%	5.8%
Accommodation	8.5%	6.77%	6.40%	5.78%	5.10%	0.40%	0.24%	-0.15%	4.8%
Transportation and Communication	9.8%	11.75%	15.67%	12.92%	10.81%	0.36%	0.43%	0.07%	4.0%
Real Estate	9.2%	7.16%	3.86%	4.59%	4.64%	0.36%	0.18%	-0.17%	4.0%
Construction	0.2%	-0.13%	-1.36%	-2.25%	-4.32%	0.01%	-0.15%	-0.15%	3.4%
Total	5.68%	3.37%	2.60%	2.17%	2.18%	5.68%	2.18%		

Source: Bank Indonesia, processed

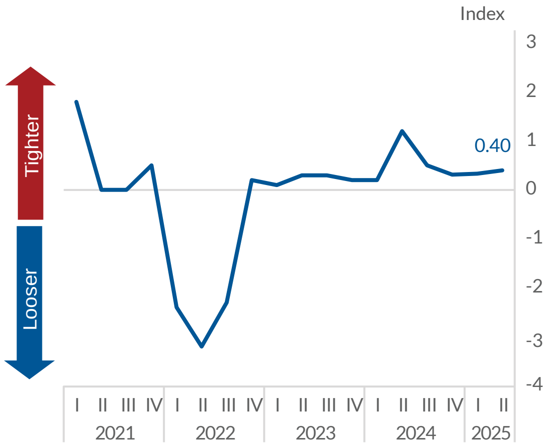
loans used to purchase seeds, fertiliser as well as agricultural machinery and equipment. Meanwhile, growth of MSME loans in the transportation sector was driven by higher demand for credit in the domestic and international sea transportation subsector as the performance of MSME exporters improved. MSME loans in the accommodation sector, including villas, budget hotels and restaurants, were supported by increasing demand for accommodation from domestic and international travellers during the holiday period. The number of inbound international travellers to Indonesia was recorded at 1.42 million in the second quarter of 2025, increase to 18.20% (yoy) from the same period of the previous year,[21] which is the highest level recorded since the beginning of 2020.

Moderating MSME loan growth primarily stemmed from the Construction sector, Manufacturing Industry and Trade. MSME loan growth in the Construction sector was recorded at 4.32% (yoy) contraction in the second quarter of 2025, down from 0.2% (yoy) in the same period of the previous year. Slower MSME loan growth in the Construction sector was attributable to decreasing building investment and the reallocation of government infrastructure projects. Meanwhile, slower MSME loan growth in the manufacturing industry was consistent with the impact of global economic moderation, the introduction of US reciprocal tariffs and weaker domestic purchasing power. MSME loan growth in the Manufacturing Industry contracted by 1.63% (yoy) in the second quarter of 2025, following 4.0% (yoy) growth in the same period of the previous year. On the other hand, MSME loan growth in the trade sector declined by 0.33% (yoy) in the second quarter of 2025 after growing by 2.5% (yoy) in the same period of the previous year. MSME loan growth was undermined by higher credit risk in the MSME segment due to lower repayment capacity, particularly for non-essential commodities, such as clothing, electronics and building materials (Table 4.1.1).

Bank appetite to lend showed early signs of improving, accompanied by more prudent and selective lending. Increasing appetite to lend in the banking industry was reflected in the Lending Standards Index (LSI) for MSME loans, decreasing to 0.4% in the second quarter of 2025 from 1.2% in the same period the previous year (Graph 4.1.3).[22] A positive LSI indicates tighter lending requirements. The downward index trend with a positive value indicates looser yet prudent lending requirements. Increasing global and domestic uncertainty has stoked risk aversion in the banking industry, thereby limiting the expansion of MSME loan disbursements. Restrained growth of MSME loan disbursements was primarily attributable to the micro segment. This is consistent with a higher NPL ratio recorded in the first semester of 2025 at 4.41%, up from 4.04% in the same period of the previous year, dominated by the micro segment (Graph 4.1.4). Major banks lending to MSMEs have implemented top-up restrictions on micro loans and introduced additional requirements on applications for new micro

21 Statistics Indonesia, August 2025.

22 LSI reflects the requirements for banks to disburse new loans to borrowers based on the Banking Survey conducted by Bank Indonesia.

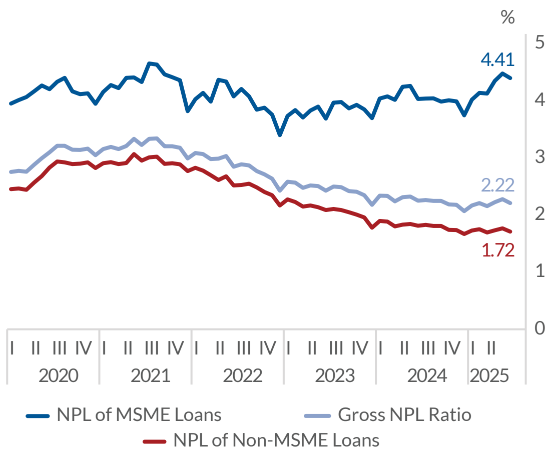


Source: Bank Indonesia, processed

Graph 4.1.3. Lending Standards Index for MSME Loans

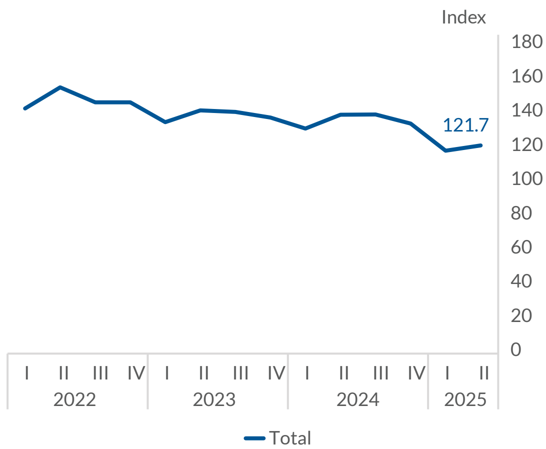
loan facilities with shorter repayment periods.[23] On the other hand, bank appetite to disburse MSME loans to micro enterprises has increased given the healthy structure of financing, with the ratio of loans to working capital below 50%.[24] The sales turnover of small enterprises remains solid due to the product diversification strategies deployed alongside lower prices. Bank appetite to lend to medium enterprises also remains high, despite efforts by such businesses to reduce their interest cost burden amid heightened global and domestic uncertainty.[25] Medium enterprises prefer to utilise internal funds than apply for bank credit facilities.

MSME performance continued to expand, thereby supporting the demand for credit. Expansive MSME performance was reflected in the MSME performance index, recorded at 121.7 in the second quarter of 2025, despite retreating from 139.6 in the second quarter of 2024[26] (Graph 4.1.5). MSME performance was supported by the services sector, with the index increasing to 144.7 in the second quarter of 2025 from 132.5 in the second quarter of 2024. MSME performance in the services sector was influenced by an increase of tourism activity during the national religious holidays. On the other hand, MSME performance in the manufacturing industry decreased to a level of 113.7 in the second quarter of 2025 from 145.6 in the second quarter of 2024 (Graph 4.1.6). MSME performance in the manufacturing industry deteriorated because of lower consumer demand in line with weaker purchasing power.



Source: Bank Indonesia, processed

Graph 4.1.4. NPL Ratio of MSME Loans and Non-MSME Loans in Banking Industry



Source: Bank Indonesia, processed

Graph 4.1.5. MSME Performance Index

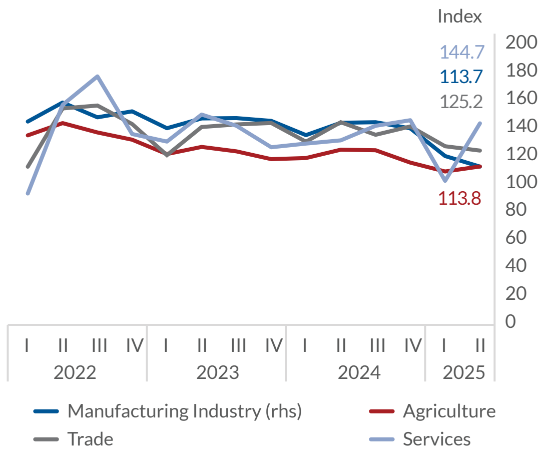
23 Top-up maksimal sebesar 160% bagi kredit s.d Rp100 juta, dan sebesar 130% bagi kredit di atas Rp100 juta.

24 Based on the results of a Bank Indonesia survey conducted in the second quarter of 2025.

25 Based on the results of a Bank Indonesia survey conducted in the second quarter of 2025, the ratio of loans to working capital at medium enterprises was maintained at 91-100%.

26 The MSME Performance Index is measured in a Bank Indonesia survey of 600 MSMEs under the mentorship of Bank Indonesia concerning the state of MSME sales.

Bank Indonesia revived credit growth through strategies to empower and finance MSMEs, while simultaneously improving public education and literacy. On the demand side, Bank Indonesia support was oriented towards MSME empowerment and financing strategies as well as enhancing public education and literacy. Empowerment aimed to level up MSMEs by strengthening the MSME value chain, strengthening capacity and business matching, expanding access to export markets, optimising digital technology, strengthening food clusters end-to-end, and developing business models for the green economy. Access to finance was expanded through business matching (financing), providing data/information, expanding access to green finance and the digitalisation of financial records. Bank Indonesia also strengthened public literacy by providing various educational activities and inclusive finance, complemented by the development of education modules based on basic competencies and gender equality.



Graph 4.1.6. **MSME Performance Index by Sector**

4.2 Optimisation of Green Finance

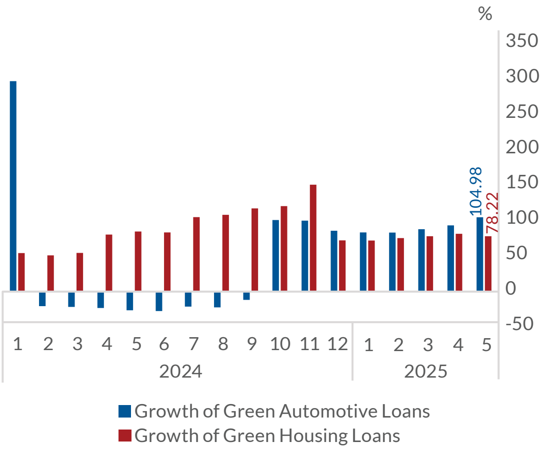
Green loan disbursements continued tracking an upward trend yet remained below potential. The growth of green automotive loans continued to accelerate.[27] reaching 104.98% (yoy) in May 2025, following a 26.33% (yoy) contraction in May 2024. Rapid growth of green automotive loans was driven by tax incentives introduced by the Government for electric vehicles.[28] Growth of green housing loans[29] in May 2025 was recorded at 78.22% (yoy), moderating from 85.01% (yoy) in May 2024 due to weaker household demand coupled with prudent lending in the banking industry (Graph 4.2.1).

The performance of green finance was supported by mitigated credit risk, as reflected by a lower NPL ratio. The NPL ratio of automotive loans in May 2025 was contained at 0.26%, relatively stable compared with conditions in May 2024. Meanwhile, the NPL ratio of green housing loans improved to 2.93% in May 2025 from 3.11% in May 2024 (Graph 4.2.2). Seeking to boost the growth of green loans and in line with the mandate of the Financial Sector Development and Strengthening Act (P2SK Act), Bank Indonesia is authorised to regulate and develop sustainable finance.

27 Bank Indonesia Regulation No. 23/2/PBI/2021: Green vehicles are battery electric vehicles, namely vehicles driven by electric motors powered electrically by batteries directly in the vehicle and recharged by plugging into an external electricity source.

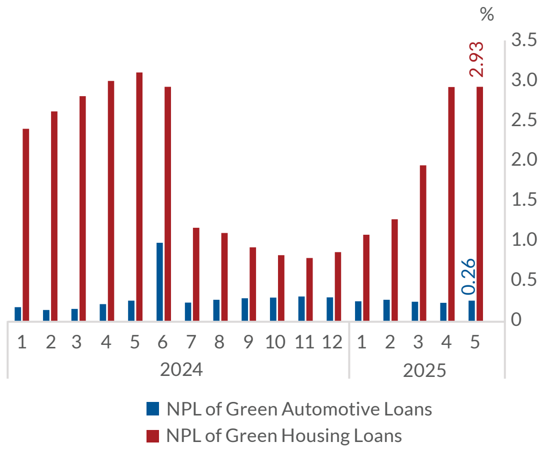
28 Finance Minister Regulation Number 12 of 2025 concerning Value Added Tax on the Delivery of Certain Four-Wheeled Battery Electric Vehicles and Electric Buses and the sales tax on Luxury Goods on Eligible Low-Carbon Emission Vehicles Borne by the Government for the 2025 Fiscal Year.

29 Bank Indonesia Regulation No. 23/2/PBI/2021: Green Property is Property that meets the green building criteria in accordance with standards or certification recognised nationally and/or internationally.



Source: Bank Indonesia, processed

Graph 4.2.1. Growth of Green Housing Loans and Green Automotive Loans



Source: Bank Indonesia, processed

Graph 4.2.2. NPL Ratio of Green Housing Loans and Green Automotive Loans

The optimisation of green financing in Indonesia, from both the demand and supply sides, continues to face various challenges. To date, the implementation of green finance in Indonesia remains an ongoing concern, which includes completing the sustainable finance ecosystem.[30] On the supply side, amid limited domestic funds, the massive potential of global sustainable funds has not been utilised optimally. This is due, among others, to low project readiness to receive funding and limited technical capacity in Indonesia to meet stringent global requirements for disbursing sustainable funds.[31] Consequently, risk perception concerning sustainable projects remains high, as reflected in the high cost of funds. On the demand side, the corporate sector is suffering from limited growth potential because of global dynamics, particularly the introduction of US reciprocal tariffs and weaker domestic purchasing power, leading to relatively limited demand for green financing. In addition, the capacity of human resources and awareness concerning the green economy and finance in Indonesia must be increased further.[32]

Bank Indonesia supports sustainable finance in Indonesia through the strengthening of macroprudential policy, empowerment strategies, education and literacy as well as synergy and collaboration. As of May 2025, the KLM disbursed by Bank Indonesia for green automotive and housing loans as well as water supply, sewerage, waste management and remediation activities totalled Rp33.7 trillion. In addition, Bank Indonesia also maintained an accommodative macroprudential policy stance, setting the maximum LTV/FTV ratio at 100% and minimum downpayment requirement at 0% for green property and automotive loans. Such policy support had a positive impact on maintaining the growth of green housing and automotive loan disbursements in May 2025. Meanwhile, empowerment and financing support was provided through business matching (financing), the provision of data/information, increasing access to green finance, the digitalisation of financial records, strengthening the capacity of green economic practices, optimising digital technology, developing business models for the green economy, increasing information transparency concerning green financing, as well as strengthening banking industry capacity in terms of managing climate risk and applying the principles of sustainable finance. Bank Indonesia also strengthened public literacy through various educational activities concerning the green economy and finance.

30 For example, limited number and variety of instruments in the sustainable finance sector and yet the process of credible tracking and assessment systems for sustainability accreditation to minimise incidences of greenwashing, or false claims of sustainability.

31 Ministry of Finance, Presentation on Challenges and Barriers in Accessing Climate Finance. 2025.

32 Towards a Sustainable Financial System in Indonesia, the UNEP Inquiry into the Design of a Sustainable Financial System in Partnership with the Association for Sustainable and Responsible Investment in Asia (UNEP, 2015).

Bank Indonesia developed the Climate Risk Stress Test as a tool to assess the impact of climate change on the stability of the financial system. Climate risk poses the threat of adverse impacts on the development and structure of the economy and financial sector. Use of a Recursive-Dynamic Computable General Equilibrium Model in the Climate Risk Stress Test developed by Bank Indonesia aims to capture the transmission of climate-related transition risks and the impact on financial sector resilience (Box 4.2).

Synergy and coordination with OJK, the Ministry of Finance and other relevant government ministries/ agencies are implemented continuously. As mandated by the P2SK Act, Bank Indonesia is authorised to regulate and develop inclusive finance and sustainable finance. In conjunction with the Ministry of Finance and OJK, Bank Indonesia is mandated to coordinate when formulating and preparing sustainable finance strategies, policies and programs. In addition, the P2SK Act also mandates Bank Indonesia, the Ministry of Finance and OJK with optimising monetary, payment system, macroprudential, fiscal and microprudential policy support. Tripartite synergy also targets supporting infrastructure and data repositories for the implementation of sustainable finance.[33] In addition, P2SK Act also mandates coordination when preparing the sustainable taxonomy[34]. Bank Indonesia in synergy with the Ministry of Finance and OJK, were required to establish a Sustainable Finance Committee, as regulated by a Government Regulation.[35] Synergy and coordination were also pursued by Bank Indonesia with the Ministry of Investment to promote investment in the renewable energy sector, sustainable agriculture and waste management.

33 Article 223 of the P2SK Act.

34 A sustainable taxonomy is a classification system for economic activities (green/transition/unclassified) to support Indonesia's sustainable development efforts and goals, which is used as guidelines to improve capital allocation and sustainable financing towards the attainment of Indonesia's net zero economy targets. OJK issued the revised Indonesia Green Taxonomy, as contained in the Indonesia Sustainable Finance Taxonomy, in accordance with the mandate of the P2SK Act, for further coordination with the Ministry of Finance, Bank Indonesia and OJK to optimise the fiscal, microprudential, monetary, payment system and macroprudential policy strategies.

35 Article 224 of the P2SK Act.

Indonesia has affirmed its commitment to developing a transparent and accountable sustainability reporting ecosystem in line with international standards. The participation of Bank Indonesia, the Ministry of Finance and OJK as ex-officio members of the Sustainability Standards Board of the Institute of Indonesian Chartered Accountants (DSK-IAI) also plays an important role. On 1st July 2025, DSK-IAI officially ratified the Sustainability Disclosures Standards[36] - S1 and S2, which refers to the International Financial Reporting Standards, effective from 1st January 2027. The application of Sustainability Disclosure Standards is expected to have a strategic impact on the business community because companies will be better perceived as prepared to handle global expectations in terms of investors, trading partners and international organisations. Furthermore, the due diligence process for green financing and cross-border investment will become faster, more efficient and more affordable.

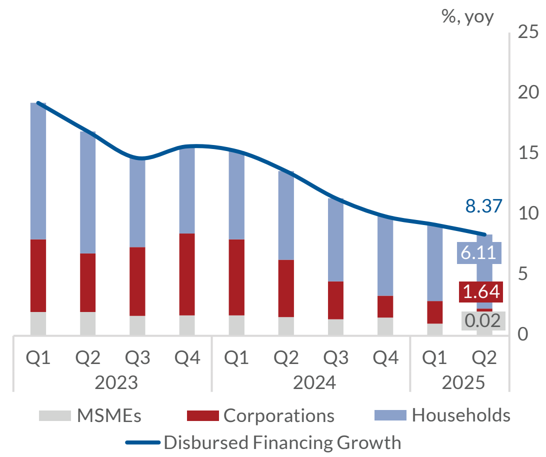
Strengthening the green finance ecosystem, Bank Indonesia continued refining the Green Calculator. In synergy with the Coordinating Ministry for Maritime Affairs and Investment, Ministry of the Environment and Forestry and the Ministry of Energy and Natural Resources, Bank Indonesia developed a Green Calculator, launched in October 2024[37]. The application was designed to be user-friendly, based on international standards using highly accurate emission factors (national emission factors), which is available free of charge for use by all economic entities, including MSMEs and individuals. Moving forward, Bank Indonesia will continue refining the Green Calculator application in synergy with relevant government ministries/agencies to expand the scope of economic sectors and calculate the emissions footprint, including direct emissions (scope 1), indirect emissions (scope 2), and financed emissions (scope 3).

36 Sustainability Disclosure Standards - S1 sets out the General Requirements for Disclosure of Sustainability-related Financial Information and S2 sets out Climate-related Disclosures.

37 https://www.bi.go.id/en/fungsi-utama/stabilitas-sistem-keuangan/Keuangan-Hijau/default.aspx
https://www.bi.go.id/id/edukasi/Pages/Panduan-Kalkulator-Hijau.aspx

4.3 Islamic Finance

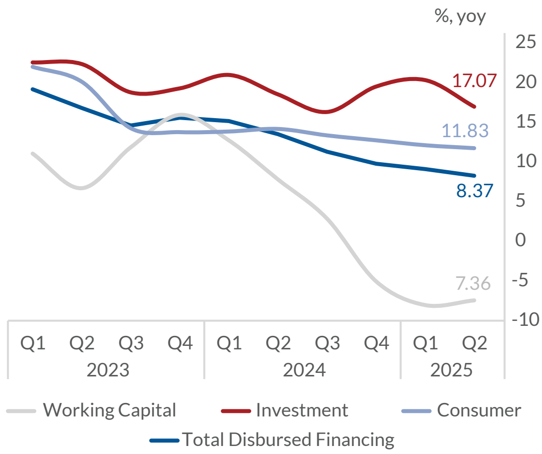
Disbursed financing in the sharia banking industry must be increased to support economic growth. Growth of disbursed financing in the sharia banking industry was recorded at 8.37% (yoy) in the second quarter of 2025, moderating from 14.26% (yoy) in the second quarter of 2024 (Graph 4.3.1). Positive disbursed financing growth was driven by high growth of investment financing and stable growth of consumer financing amid a contraction of working capital financing for both corporate and MSME borrowers (Graph 4.3.2). In the second quarter of 2025, investment financing maintained high growth of 17.07% (yoy), with a growth contribution of 4.06% (yoy) (Graph 4.3.3). Meanwhile, consumer financing recorded 11.83% (yoy) growth and a growth contribution of 6.11% (yoy). Growth of investment financing and consumer financing experienced moderation compared with the same period in 2024, primarily due to the growing preference among sharia banks to disburse secured financing, including the consumer segment through housing financing and payroll financing, as well as the investment segment through secured corporate financing pledging fixed assets as collateral. Meanwhile, growth of working capital financing experienced a 7.36% (yoy) contraction in the reporting period, lower than in the second quarter of 2024. This was primarily influenced by the sharia banks' strategy to reduce their portfolios in the corporate segment amid the ongoing contraction of financing disbursed by specialist MSME banks.



Source: Bank Indonesia, processed

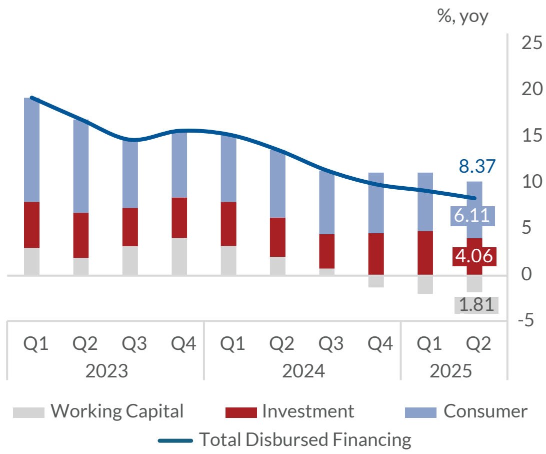
Graph 4.3.2. Growth Contribution of Sharia Financing based on Customer Segment

The main contributors to the positive's growth of financing disbursed by the sharia banking industry were the tertiary sector and consumption sector. Growth of disbursed financing in the tertiary and consumption sectors (specifically housing loans and multipurpose loans) maintained solid growth with



Source: Bank Indonesia, processed

Graph 4.3.1. Growth of Sharia Financing based on Type



Source: Bank Indonesia, processed

Graph 4.3.3. Growth Contribution of Sharia Financing based on Type

slight moderation. This was supported by the financing strategy of sharia banks, which focused on the Islamic ecosystem[38], including Islamic educational institutions/ pesantren (Islamic boarding schools), Islamic healthcare facilities and hospitals as well as hajj and umrah travel services, which are included in the services/ tertiary sector, integrated with payroll services for the employees of such institutions, thereby unlocking the opportunity to expand consumer financing. Meanwhile, the growth of financing disbursed by the sharia banking industry, particularly in the Java region, moderated due to contractionary disbursed financing in the corporate segment of the agricultural sector, mining sector, electricity, gas and water supply sector,

38 The Islamic ecosystem refers to customer segments/ sectors associated with the sharia economy and/or the activities of Muslims, including sectors linked to the halal industry, Islamic educational institutions, Islamic healthcare facilities, hajj and umrah travel services, as well as others.

Table 4.3.1. Growth of Financing Disbursed by the Sharia Banking Industry based on Economic Sector and Region

REGION	PRIMARY SECTORS				SECONDARY SECTORS					
	AGRICULTURE		MINING		MANUFACTURING		ELECTRICITY, GAS AND WATER SUPPLY		CONSTRUCTION	
	Dec-24	Jun-25	Dec-24	Jun-25	Dec-24	Jun-25	Dec-24	Jun-25	Dec-24	Jun-25
Java	5.13%	-5.90%	-12.63%	-24.96%	10.27%	1.60%	-12.45%	-12.63%	-16.26%	-24.10%
Sumatra	18.11%	13.49%	53.38%	33.93%	16.76%	11.91%	155.21%	152.96%	12.12%	9.57%
Kalimantan	30.05%	11.97%	48.15%	18.50%	11.35%	7.81%	14.12%	749.54%	-0.44%	-9.65%
Balinusra	16.59%	12.27%	2587.63%	2609.12%	9.94%	7.45%	8.34%	7.49%	-6.42%	-5.44%
Sulampua	-7.93%	-1.67%	36.33%	37.08%	31.14%	13.32%	0.99%	-3.93%	69.10%	22.19%
Total Disbursed Islamic Financing	20.96%	10.74%	24.28%	4.54%	11.03%	3.09%	13.12%	15.95%	-12.65%	-20.46%

REGION	TERTIARY SECTORS							
	AGRICULTURE		MINING		MANUFACTURING		GAS AND WATER SUPPLY	
	Dec-24	Jun-25	Dec-24	Jun-25	Dec-24	Jun-25	Dec-24	Jun-25
Java	-0.70%	10.82%	-6.16%	10.39%	13.62%	4.59%	7.31%	17.08%
Sumatra	8.00%	1.17%	16.37%	19.57%	34.27%	7.56%	25.26%	20.12%
Kalimantan	9.47%	11.45%	88.54%	41.50%	-13.54%	-23.55%	21.90%	5.07%
Balinusra	15.06%	9.29%	23.43%	16.75%	-31.43%	7.66%	133.24%	53.85%
Sulampua	11.62%	8.93%	-12.81%	-21.77%	14.67%	43.00%	20.39%	5.19%
Total Disbursed Islamic Financing	2.31%	8.05%	1.02%	11.55%	13.38%	4.40%	14.46%	18.05%

REGION	CONSUMPTION SECTOR						TOTAL GROWTH		SHARE	
	HOUSING LOANS		AUTOMOTIVE LOANS		MULTIPURPOSE LOANS					
	Dec-24	Jun-25	Dec-24	Jun-25	Dec-24	Jun-25	Dec-24	Jun-25	Dec-24	Jun-25
Java	9.73%	7.42%	9.60%	16.25%	20.65%	19.45%	5.62%	5.31%	58.60%	58.46%
Sumatra	6.91%	6.20%	4.79%	-1.19%	14.35%	14.99%	15.15%	13.29%	24.76%	24.94%
Kalimantan	4.80%	5.89%	37.09%	29.29%	15.96%	17.00%	21.74%	12.04%	7.18%	7.08%
Balinusra	6.75%	5.65%	29.73%	5.97%	14.79%	9.89%	15.07%	10.70%	4.21%	4.12%
Sulampua	14.65%	11.19%	11.42%	-0.72%	19.39%	22.99%	17.43%	15.57%	5.08%	5.26%
Total Disbursed Islamic Financing	9.24%	7.32%	9.74%	9.85%	16.92%	16.75%	9.87%	8.37%	100.00%	100.00%

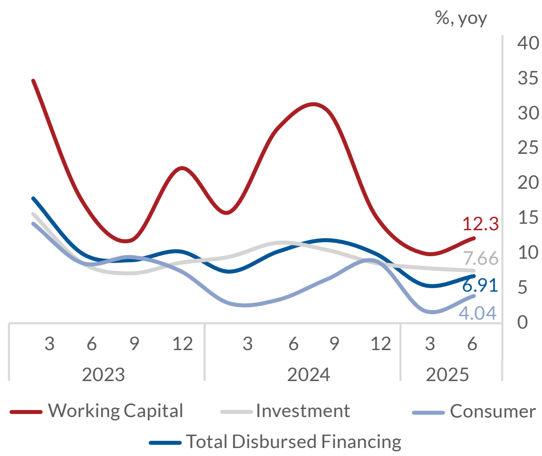
Source: Bank Indonesia, processed

as well as the construction sector (Table 4.3.1). The contraction of disbursed financing to those sectors was caused by bank efforts to improve financing quality in line with the persistently high ratios of NPF and Financing at Risk (FaR) in the aforementioned economic sectors.

The business strategies of several sharia banks to consolidate or maintain financing quality stifled further growth of disbursed financing. The planned spin-*off*[39] of several sharia business units (Islamic windows) from conventional financial institutions will result in consolidation among the sharia business units implementing the spin-off as well as the sharia commercial bank containing the sharia business unit that has separated (acquisition strategy of the conventional parent bank). In addition to consolidation, several banks are rebalancing their financing portfolios from the corporate segment to the MSME or consumer segment to maintain finance and quality. The Government's efficiency policy has also had an impact, particularly on sharia regional government banks, where funding relies on Transfer Fund Allocations to Regions and Village Funds deposited by regional governments in sharia regional government banks. A reduction in the allocation of Transfer Fund Allocations to Regions and Village Funds impacts the funding of sharia regional government banks, thereby limiting financing disbursements.

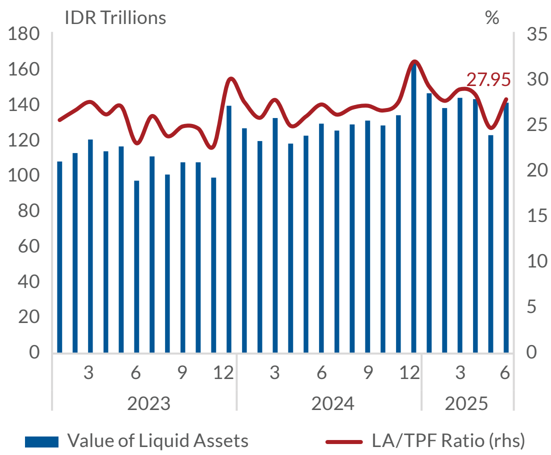
Sharia banking intermediation was nurtured in line with ample liquidity despite moderating growth of TPF. The performance of disbursed financing in the sharia banking industry was consistent with TPF growth, which moderated to 6.91% (yoy) in the second quarter of 2025 (Graph 4.3.4). Nevertheless, liquidity risk and credit risk in the sharia banking industry were relatively well contained in the second quarter of 2025. The ratio of LA/TPF stood at 24.79% in May 2025 (Graph 4.3.5). Meanwhile, the NPF and FaR ratios were recorded at 2.24% and 8.72% in the second quarter of 2025 (Graph 4.3.6).

Given the state of the sharia banking industry, as outlined above, the implementation of macroprudential policies and incentives generally remained sound. Among others, this was indicated by a Sharia Macroprudential Intermediation Ratio (MIR) within the policy corridor (84-94%) (Graph 4.3.7), a Sharia MPLB above the minimum regulatory threshold (> 3.5%) (Graph 4.3.8), and a high realisation of KLM incentives (> 4%) (Graph 4.3.9).



Source: Bank Indonesia, processed

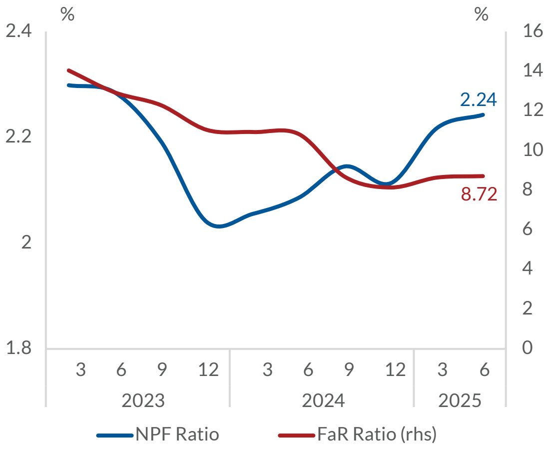
Graph 4.3.4. TPF Growth in Sharia Banking Industry based on Instrument



Source: Bank Indonesia, processed

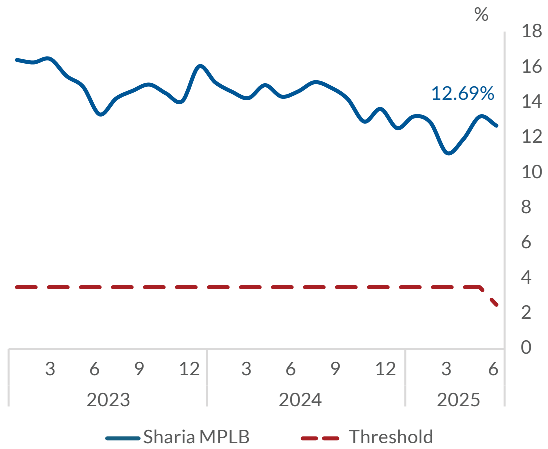
Graph 4.3.5. LA/TPF Ratio of Sharia Commercial Banks

39 In the context of the sharia financial industry (including banking), a spin-off refers to the process where a sharia business unit (Islamic window) is separated from a conventional financial institution. In the sharia banking industry, the spin-off mechanism is regulated in accordance with OJK Regulation No. 12 of 2023 concerning Sharia Business Units.



Source: Bank Indonesia, processed

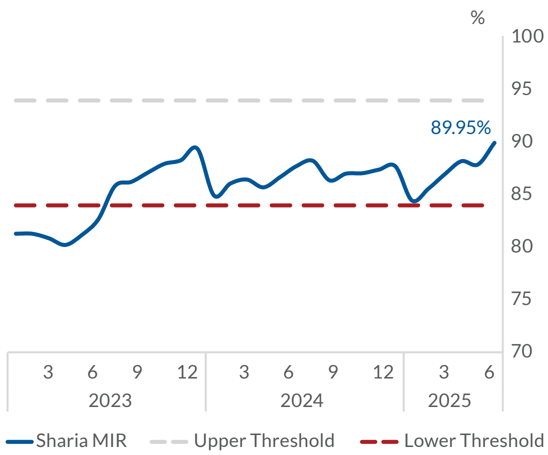
Graph 4.3.6. Financing Quality in Sharia Banking Industry



Source: Bank Indonesia, processed

Graph 4.3.8. Realisation of Sharia Macroprudential Liquidity Buffer

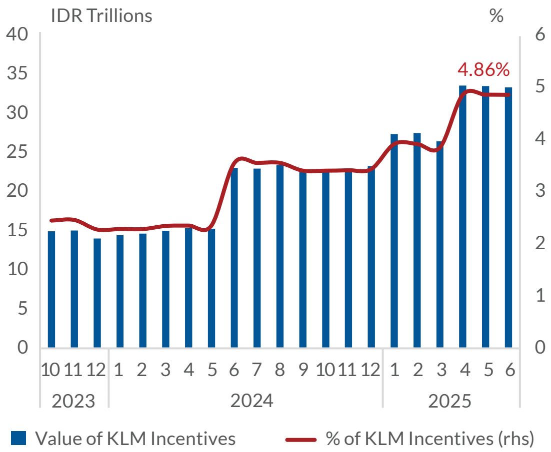
Bank Indonesia supports Islamic finance through community-based sharia economic empowerment, strengthening the halal value chain ecosystem as well as increasing sharia financial literacy and inclusion. Bank Indonesia also encourages Islamic financial sector integration with the real sector through support for halal clusters and local sharia businesses, while expanding promotional channels for halal products through international events, such as the Indonesia Shari'a Economic Festival.



Source: Bank Indonesia, processed

Graph 4.3.7. Realisation of Macroprudential Intermediation Ratio in Sharia Banking Industry

Moving forward, Bank Indonesia expects the growth of financing disbursed by the sharia banking industry to remain positive. This is primarily supported by sharia banking penetration into the Islamic ecosystem and halal industry segments, coupled with the strengthening of sharia banks created due to the spin-off of sharia business units. In addition, the implementation of innovative and unique products of Islamic finance, such as Sharia Restricted Investment Accounts, Cash Waqf-Linked Deposits and others, will also provide value added for sharia banking intermediation. On the other hand, high global uncertainty and the potential spillovers to the domestic economy will continue to demand vigilance as a risk factor for the sharia banking industry.



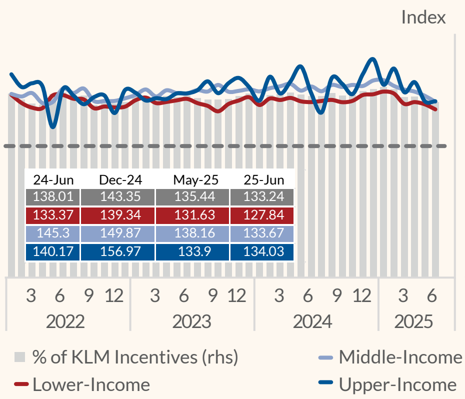
Source: Bank Indonesia, processed

Graph 4.3.9. Realisation of KLM Incentives in Sharia Banking Industry

Box 4.1 | Efforts to Increase the Contribution of MSME Loans

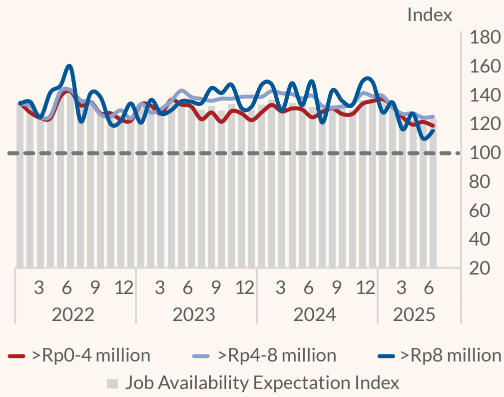
Moderating MSME loan growth was spurred by weaker public purchasing power, particularly among low-income earners. Weaker public purchasing power was reflected by declines in the Income Expectation Index and the Job Availability Expectation Index. In June 2025, the Income Expectation Index for low-income earners was recorded at a level of 127.84, down from 131.63 in May 2025 and from 133.37 in June 2024. Meanwhile, the Job Availability Expectation Index for middle-income earners in June 2025 stood at 133.67, down from 138.16 in May 2025 and 145.30 in June 2024. Lower income expectations were consistent with indications of increasing job terminations (Graph B4.1.1 and Graph B4.1.2).

MSMEs also deal with the challenge of government plans to collect taxes on e-commerce transactions to support tax revenue targets. This has stoked concern among MSMEs, prompting corrections to product prices. Currently, the Government is reviewing the policy of collecting 0.5% income tax (PPh 21) from MSMEs with a turnover of >Rp500 million through e-commerce transactions. This policy aims to increase the efficiency of tax collection for MSMEs, thereby supporting tax revenue targets. On the other hand, this has also triggered a response among industry players, which includes increasing administrative costs, double taxation, the risk of moving to other sales platforms as well as the stability of the tax reporting system when handling much larger amounts of data.



Source: Bank Indonesia, processed

Graph B4.1.1. Income Expectations Index



Source: Bank Indonesia, processed

Graph B4.1.2. Job Availability Expectation Index

Strengthening the demand for MSME loans can be achieved by integrating MSMEs with large industries. This is more applicable to MSMEs within the value chain for food commodities as well as processed food and beverages. Bank Indonesia also bolsters the demand for MSME loans by strengthening green and inclusive economic and financial development programs in pursuit of sustainable economic growth. This includes strengthening the competitiveness of MSMEs through various strategic initiatives, including the downstreaming of food commodities to help control inflation, expanding MSME access to global markets (Go Export) and digital markets (Go Digital), developing MSMEs that support the tourism sector as a national source of foreign exchange, as well as nurturing sustainable economic practices through the development of green MSMEs. Bank Indonesia is also increasing green and inclusive financial literacy and access through a combination of programs to integrate the national digital economy and finance (end-to-end), accompanied by education to increase financial literacy and inclusion. Implementing financial education programs, Bank Indonesia has prepared a basic competency framework for financial literacy. Programs to increase literacy are implemented through collaboration with various national and international stakeholders. Moving forward, Bank Indonesia will continue strengthening accommodative macroprudential policy, alongside coordination with relevant authorities to increase inclusive financing.

Bank Indonesia is firmly committed to strengthening the transformation of an inclusive and sustainable national digital economy and finance through collaboration, which included the Indonesia Digital Economy and Finance Festival and Karya Kreatif Indonesia (FEKDI x KKI) in 2024. FEKDI x KKI is a collaborative forum organised by Bank Indonesia in synergy with the Government, government ministries/agencies, industry associations and businesses, as the manifestation of policy consistency, innovation and synergy towards the development of the digital economy and finance along with the end-to-end development of MSMEs to level up MSMEs as well as expand access to digital and global markets. Bank Indonesia's vision and mission in response to the emerging economic and financial challenges of the digital age are contained within the Indonesia Payment System Blueprint 2030.

Karya Kreatif Indonesia (KKI) functions as a strategic platform to expand market access for MSMEs, increase financing and strengthen MSME integration within the supply chains of large and global industries. KKI is one of Bank Indonesia's flagship events, held annually since 2016. The event aims to accelerate the digital capacity of MSMEs, nurture collaboration to increase innovation and the value added of MSME products, as well as support inclusive and green sustainability aspects. KKI also expands markets between MSMEs and brings together potential buyers/export aggregators, while showcasing premium curated products from MSMEs under the mentorship of Bank Indonesia and government ministries/agencies[40] as well as promoting cultural diversity and tourism in the Indonesian archipelago.

KKI also functions to accelerate MSME performance. The exhibition features creative MSMEs partnering with Bank Indonesia through 46 Domestic Representative Offices, including representative offices that are members of the Sharia Creative Industry and under the mentorship of government ministries/agencies, totalling 364 MSMEs attending the venue and 932 MSMEs attending virtually. During the KKI event, exhibition turnout reached Rp123.1 billion, up 35% (yoy) on the previous year, consisting of Rp98.4 billion from online MSMEs and Rp24.7 billion from offline MSMEs. The event also attracted 150,280 visitors.

Bank Indonesia also expanded MSME access to finance through business matching. The business matching program includes a financing component as well as expanding MSME access to global markets to boost exports. Business matching (financing) at KKI 2024 brought together 180 MSMEs and cooperatives under the mentorship of Bank Indonesia and government ministries/agencies with financial and financing institutions, with the total value of financing increasing by 27% (yoy) on the previous year to reach Rp188.2 billion. On the other hand, business matching (exports) connected 251 export-oriented MSMEs under the mentorship of Bank Indonesia and government ministries/agencies with 23 potential buyers and export aggregators from 12 countries, namely Indonesia, Japan, Singapore, Malaysia, China, Egypt, Hong Kong, United Arab Emirates, Australia, the Netherlands, France and the United States. Business matching (exports) activity raised Rp264.7 billion, consisting of export realisation and the signing of business agreements, up 26% (yoy) on the achievements recorded in 2023.

40 Particularly fabrics, apparel, accessories, home decor, food and beverages, as well as tea and coffee.

Box 4.2 Bank Indonesia Climate Risk Stress Test: Impact of Transition Risk Scenarios on Financial System Stability

Climate risk could potentially impact the development and structure of the economy and financial sector. The medium-long-term characteristics of climate risk allow targeted mitigation measures to be implemented gradually. Net Zero Emissions is a global commitment to mitigating the impact of climate-related risk through efforts to reduce emissions from consumption and production processes. Efforts to achieve Net Zero Emissions are crucial because if climate risks are not mitigated adequately, the world will deal response a growing intensity of physical risk, which will have an adverse impact on the economy. Net Zero Emissions aims to foster an orderly transition in the economic structure from fossil energy to renewable energy. The transition must be managed optimally to mitigate the deleterious impacts emerging from transition risk, namely declining economic performance among high-emission sectors due to the production of final products and the consumption of intermediate products. Weaker sectoral performance could further be exacerbated by sweeping changes in global preferences away from fossil fuels (coal phase-out), potentially reflected by a worsening in the performance of natural resources exports.

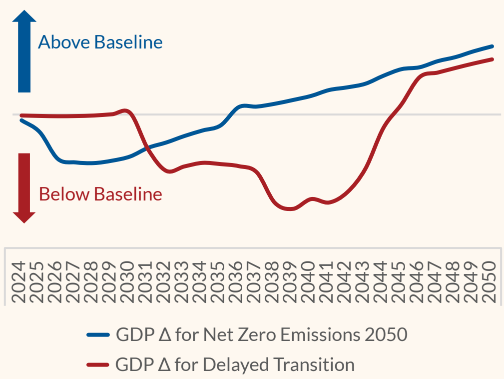
Weaker sectoral performance due to transition risk could adversely impact the financial sector, including through a build-up of credit risk, and financial system resilience in general. Discharging its mandate to maintain the stability of the financial system, Bank Indonesia developed the Climate Risk Stress Test to measure the impact of climate risk on worsening macroeconomic conditions and its transmission to financial system resilience due to transition risk. The first step of the Climate Risk Stress Test is to develop a narrative scenario along with sources of shocks that trigger transmission risk. In this case, the literature uses the timing and stages of carbon tax implementation as a source of shocks. The Network for Greening the Financial System (NGFS, 2024) groups the scenarios related to transition risk into gradual and orderly transitions, assuming carbon taxes are implemented early and incrementally. On the other hand, a disorderly transition assumes the implementation of carbon taxes is delayed or abrupt, requiring stronger and sudden policy measures to meet NZE targets. In the context of NGFS scenarios, Bank Indonesia applies an 'orderly transition' scenario as well as a 'delayed transition' scenario adapted from the 'disorderly transition' scenario developed by NGFS. According to the orderly transition scenario, Bank Indonesia assumes the carbon taxes are introduced in 2025, starting at Rp30,000 per ton of CO_2e, which will subsequently increase in line with the trajectory used in the equivalent NGFS scenario. Based on the delayed transition scenario, however, Bank Indonesia assumes implementation of the carbon taxes is delayed until 2031.

Bank Indonesia's Climate Risk Stress Test aims to capture the transmission risk of climate change and its impact on financial sector resilience. Bank Indonesia uses a Recursive-Dynamic Computable General Equilibrium (CGE) model to capture the transmission of transition risk to macroeconomic performance by sector. Bank Indonesia then uses an econometric macro-financial model to capture the impact on financial system resilience. The CGE model is consistent with best practices to capture the interactions between agents and economic sectors, domestically and externally. Several international organisations, such as the World Bank and NGFS, use CGE models, including MANAGE-WB and NiGEM, to capture the impact of climate scenarios. In the CGE model developed by Bank Indonesia, the application of carbon taxes is determined from both the production and consumption sides for products that produce emissions. The implementation of carbon taxes has a specific impact on sectors that produce high emissions through lower domestic and external demand for emitting products, as well as higher production costs. As the banking industry disburses loans on a sectoral basis, banks could potentially experience higher risk as a corollary of declining sectoral performance, which has the potential to impact the overall resilience of the financial system.

In line with the sectoral posture of emission policies, the manufacturing industry, electricity, gas and water supply, as well as mining and quarrying are the most significantly impacted sectors. Based on the emission balance publication issued by Statistics Indonesia (Statistics Indonesia, 2024), the manufacturing industry is the highest emitter, totalling 340,711 Gg CO_2e, followed by the electricity, gas and water supply sector (297,221 Gg CO_2e). Meanwhile, the mining and quarrying sector produces 29,280 Gg CO_2e of emissions. The electricity, gas and water supply sector as well as the manufacturing industry produce high emissions due to the use of physical energy derived from coal and oil, which is predominantly provided by the mining and quarrying sector. Consequently, even though the mining and quarrying sector has a comparatively low level of final emissions, the sector plays a central role as a provider of the energy-based intermediate products used by other sectors in the production process. The impact of transition risk can be mitigated through early commitment to Net Zero Emissions, which can attract investment to support infrastructure and the adoption of green technologies. Investment plays a key role in significantly reducing the intensity of emissions when producing one unit of a product, which is characterised by a shift in the composition of energy demand from fossil fuels to renewable energy.

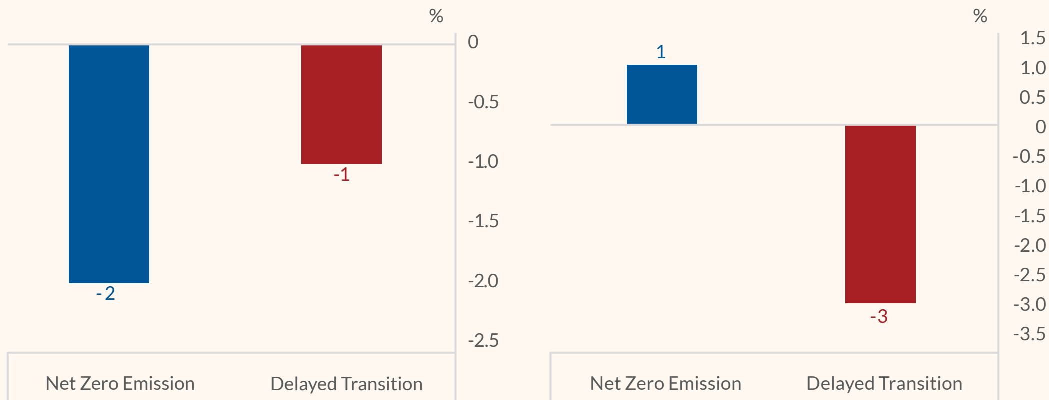
Based on economic model simulations, climate-related transmission risks are, in general, expected to have an adverse impact on growth in the near-term but a positive impact in the long term. Although the short-term impact of climate-related transition risks under both scenarios is negative, economic growth based on the Net Zero Emissions orderly transition scenario (carbon taxes introduced in 2025) would perform better than Gross Domestic Product (GDP) growth based on the delayed transition scenario (carbon taxes introduced in 2031). Furthermore, climate-related transition risks in the long term have a positive impact under both scenarios, with the orderly transition scenario again outperforming the delayed transition scenario (Graph B4.2.1). In terms of economic accumulation, in the long term, the Net Zero Emissions orderly transition scenario recorded stronger nominal economic growth than the delayed transition scenario. In the near term, consistent with the initial transition period, economic growth under the Net Zero Emissions orderly transition scenario would initially record a 2% decline from the baseline scenario, slightly lower than the delayed transition scenario, which was 1% lower than the baseline scenario in 2035 (Graph B4. 2.1). In the long term, however, the Net Zero Emissions orderly transition scenario recorded GDP growth 1% higher than the baseline scenario, contrasting 3% lower economic growth according to the delayed transition scenario in 2050 (Graph B4.2.2).

Green transition policies spur a change in the structure of the economy that is more resilient to climate change. During the early stages, economic activity slows as high-emission sectors begin to



Graph B4.2.1. Economic Growth for Different Transition Scenarios Against the Baseline

transition, however, this transition is followed by increased investment in green economy infrastructure and technology, which accelerates economic growth and activity without leading to additional emissions. Without adequate investment, sustainable and accelerated economic growth are difficult to achieve. Furthermore, the impact of climate-related transition risks on financial system resilience will be contained in line with relatively low credit exposure to high-emission sectors. According to simulations, NPL in the banking industry will be maintained below the 5% regulatory threshold, accompanied by a relatively limited impact on capital. Moving forward, the banking industry's response to supporting the transition will be crucial, particularly in terms of accelerating the financing of green projects that require massive capital investment. Policy mix synergy between the authorities is also important to accelerate the creation of a sustainable financial ecosystem.



Source: Bank Indonesia, processed

Graph B4.2.2. Gross Domestic Product Relative to Baseline Scenario in 2035 and 2050

Chapter 5

MACROPRUDENTIAL POLICIES TO STRENGTHEN FUNDING AND LIQUIDITY, FOSTER INTERMEDIATION

Bank Indonesia oriented macroprudential policy in the first semester of 2025 to foster credit/financing growth and increase liquidity management flexibility in the banking industry in pursuit of sustainable economic growth*.* *Addressing global uncertainty, Bank Indonesia instituted pro-growth and accommodative macroprudential policies by optimising various policy instruments. Bank Indonesia strengthened KLM by raising incentives to revive lending by the banking industry to priority sectors. Bank Indonesia loosened the RPLN by adjusting the countercyclical parameter, thereby increasing the RPLN threshold to expand alternative funding sources for the banking industry. Bank Indonesia also relaxed the MPLB to provide additional liquidity by reducing the ratio of securities that must be held against deposits in accordance with Bank Indonesia regulations. Other policy instruments, namely the Countercyclical Capital Buffer (CCyB), MIR, LTV/FTV ratio and downpayment requirements, remained accommodative to foster credit/financing growth.*

Policy synergy among the competent authorities was strengthened to maintain the stability of the financial system and foster economic growth*. Bank Indonesia, the OJK and Indonesia Deposit Insurance Corporation (LPS) consistently strengthened policy harmonisation, nationally through the KSSK as well as through bilateral and multilateral cooperation. Synergy was realised through policy harmonisation, the drafting of derivative regulations in accordance with the P2SK Act, integrated bank reporting, accelerating integrated licensing, financial market deepening and development synergy, financial inclusion, as well as cyber resilience and security. Bank Indonesia also remained active in various international forums to nurture regional coordination, policy innovation and strengthen financial system oversight. Setting policies and pledging commitment in synergy with the Government, financial authorities and relevant government ministries received international appreciation and recognition as the Best Systemic and Prudential Regulator in Asia Pacific 2025, reflecting Bank Indonesia's success in maintaining financial system resilience and stability, while creating a secure and efficient financial ecosystem.*

5.1 Macroprudential Policy: Pro-Growth and Accommodative

Bank Indonesia maintained a pro-growth and accommodative macroprudential policy stance against a backdrop of persistently high global economic uncertainty. Policy was oriented towards supporting sustainable economic growth and simultaneously maintaining financial system stability. Bank Indonesia optimised various macroprudential policy instruments to foster credit growth and strengthen flexible liquidity management in the banking industry.

Bank Indonesia instituted accommodative macroprudential policy, among others, by strengthening KLM. KLM are liquidity incentives provided by Bank Indonesia through reductions in the average reserve requirements applicable to banks. Since first applied in 2022, KLM policy has undergone several refinements. Bank Indonesia strengthened KLM policy to foster credit growth and support sustainable economic growth against the challenge of global economic uncertainty.

Bank Indonesia strengthened KLM implementation by raising the incentives to support the growth of loans disbursed by the banking industry and in line with the Government's Asta Cita program. Bank Indonesia optimised KLM policy to foster bank lending/financing, particularly to priority sectors, including agriculture, housing, construction, trade and manufacturing, transportation, storage, tourism, and the creative economy, as well as MSME loans, ultra micro loans, and green financing. KLM policy aims to support economic growth and job creation (labour-intensive sectors). Bank Indonesia continued strengthening coordination and synergy to bolster KLM policy in line with the Government's Asta Cita program. Strengthening KLM policy aims, among others, to expand lending capacity to the housing and agricultural sectors. On 1st April 2025, Bank Indonesia strengthened KLM policy by increasing the level of incentives available to the banking industry from 4% to 5%.[41] The incentive offered by Bank Indonesia to banks extending loans to the housing sector was increased to 1.1%, with the overall incentive increased to 1.4%. As of the second week of June 2025, Bank Indonesia had disbursed KLM incentives to the tune of Rp372 trillion, with Rp164 trillion allocated to state-owned banks, Rp166.4 trillion to national private commercial banks, Rp36 trillion to regional government banks and Rp5.6 trillion to foreign bank branches.

Bank Indonesia also strengthened the RPLN to boost bank funding as well as optimise liquidity management and loan disbursements in the banking industry. Bank Indonesia has strengthened RPLN policy in line with prudential principles to support productive activity using a risk-based approach to the RPLN instrument. Bank Indonesia applied a risk-based approach by considering the outlook for external risk, financial system stability, the external debt cycle in the banking industry as well as strengthening risk mitigation by increasing bank surveillance capacity.

Bank Indonesia increased the sources of bank funding from abroad by adjusting the countercyclical parameter within the RPLN regulation. Effective from 1st June 2025, Bank Indonesia set the countercyclical parameter at 5%, thereby raising the upper RPLN limit from 30% to 35%.[42] Applying the countercyclical parameter strengthened liquidity potential in the banking industry in line with the needs of the national economy, while prioritising prudential principles.

41 Board of Governors Regulation No. 7 of 2025, as the third amendment to Board of Governors Regulation No. 11 of 2023 concerning the Implementation Regulations for Macroprudential Liquidity Incentive Policy.

42 Board of Governors Regulation No. 12 of 2025, as an amendment to Board of Governors Regulation No. 7 of 2024 concerning the Implementation Regulations of the Bank Foreign Funding Ratio.

Seeking to strengthen the flexibility of liquidity management in the banking industry, Bank Indonesia relaxed the MPLB. On 1st June 2025, Bank Indonesia lowered the MPLB ratio from 5% to 4% for conventional commercial banks and the sharia MPLB ratio from 3.5% to 2.5% for sharia commercial banks.[43] The lower MPLB/sharia MPLB ratios provided additional space for the banking industry to extend loans/financing using funds previously locked in securities. Banks fulfil the MPLB/sharia MPLB ratios through rupiah securities or sharia rupiah securities held by conventional/sharia commercial banks, which can be used in monetary operations or sharia monetary operations. Eligible securities included Bank Indonesia Certificates (SBI), Bank Indonesia Certificate of Deposit (SDBI), Sharia Bank Indonesia Certificates (SBIS), Bank Indonesia Rupiah Securities (SRBI), Bank Indonesia Sukuk (SukBI) and/or SBN.

In line with the lower MPLB, Bank Indonesia also adjusted the flexibility of the repurchase agreement (repo) feature of MPLB/sharia MPLB policy. Bank Indonesia adjusted the repo flexibility parameter under the MPLB/sharia MPLB to 4% (conventional) and 2.5% (sharia). The adjustment provided greater flexibility for banks to manage liquidity through repo transactions on securities held by banks to fulfil MPLB/sharia MPLB obligations.

Bank Indonesia also maintained an accommodative posture on other macroprudential policy instruments to strengthen the bank intermediation function. The MIR and CCyB were held to nurture optimal lending and financing. Bank Indonesia maintained the MIR ratio in the 84-94% range, with realisation in June 2025 recorded at 87.93%. This indicates a further opportunity to foster banking intermediation, while maintaining prudential principles. In addition, Bank Indonesia held to the CCyB buffer at 0% given maintained financial system stability and no indications of excessive credit growth that could potentially trigger systemic risk. Consequently, banks were not required to maintain an additional capital buffer.

Bank Indonesia also maintained accommodative macroprudential policy instruments to drive inclusive and green finance. This included the LTV/FTV ratio for property loans/financing and downpayment requirements on automotive loans/financing. Bank Indonesia maintained an accommodative LTV/FTV ratio for property loans/financing, including green property, for all property types (landed house, apartment, shophouse/office-house), up to a maximum of 100% (Table 5.1.1).

43 Board of Governors Regulation No. 11 of 2025, as the eighth amendment to Board of Governors Regulation No. 21/22/PADG/2019 concerning the Macroprudential Intermediation Ratio and Macroprudential Liquidity Buffer for Conventional Commercial Banks, Sharia Commercial Banks and Sharia Business Units.

Table 5.1.1. Ratios for Property Loans/Financing and Green Property Loans/Financing

LTV/FTV Ratios for Property Loans/Financing

	Fulfilling NPL/NPF Criteria*				Not Fulfilling NPL/NPF Criteria					
	Property Loans and Financing based on Murabaha and Istishna Contracts		Property Financing based on MMQ and IMBT Contracts		Property Loans and Financing based on Murabaha and Istishna Contracts			Property Financing based on MMQ and IMBT Contracts		
Facility	1	≥ 2	1	≥ 2	1	2	≥ 3	1	2	≥ 3
Landed House										
Type > 70	100%	100%	100%	100%	95%	90%	90%	95%	90%	90%
Type > 21 - 70	100%	100%	100%	100%	95%	95%	95%	95%	95%	95%
Type ≤ 21	100%	100%	100%	100%	100%	95%	95%	100%	95%	95%
Apartment										
Type > 70	100%	100%	100%	100%	95%	90%	90%	95%	90%	90%
Type > 21 - 70	100%	100%	100%	100%	95%	95%	95%	95%	95%	95%
Type ≤ 21	100%	100%	100%	100%	100%	95%	95%	100%	95%	95%
Shophouse/ Office-House	100%	100%	100%	100%	95%	90%	90%	95%	90%	90%

LTV/FTV Ratios for Green Property Loans/Financing

	Fulfilling NPL/NPF Criteria*				Not Fulfilling NPL/NPF Criteria					
	Property Loans and Financing based on Murabaha and Istishna Contracts		Property Financing based on MMQ and IMBT Contracts		Property Loans and Financing based on Murabaha and Istishna Contracts			Property Financing based on MMQ and IMBT Contracts		
Facility	1	≥ 2	1	≥ 2	1	2	≥ 3	1	2	≥ 3
Landed House										
Type > 70	100%	100%	100%	100%	95%	90%	90%	95%	90%	90%
Type > 21 - 70	100%	100%	100%	100%	95%	95%	95%	95%	95%	95%
Type ≤ 21	100%	100%	100%	100%	100%	95%	95%	100%	95%	95%
Apartment										
Type > 70	100%	100%	100%	100%	95%	90%	90%	95%	90%	90%
Type > 21 - 70	100%	100%	100%	100%	95%	95%	95%	95%	95%	95%
Type ≤ 21	100%	100%	100%	100%	100%	95%	95%	100%	95%	95%
Shophouse/ Office-House	100%	100%	100%	100%	95%	90%	90%	95%	90%	90%

*) NPL/NPF Criteria: 1. Gross NPL/NPF ratio of < 5% (five percent), and
2. Property Gross NPL/NPF ratio of < 5% (five percent)

Source: Bank Indonesia, processed

Downpayment requirements on automotive loans/financing, including green automotive loans/financing, were also held at a minimum of 0% (Table 5.1.2).[44] The policy aims to support economic growth, particularly in the property and automotive sectors that have strong backward-forward linkages and high leverage in the national economy. Loose LTV/FTV policy and downpayment requirements will remain effective until 31st December 2025, accompanied by prudential principles and adequate risk management.

44 Board of Governors Regulation No. 19 of 2024, as the sixth amendment to Board of Governors Regulation No. 21/25/PADG/2019 concerning the Loan-to-Value Ratio for Property Loans, Financing-to-Value Ratio for Property Financing and Downpayment Requirements for Automotive Loans or Financing.

Bank Indonesia held the Macroprudential Inclusive Financing Ratio (RPIM) to foster inclusive financing. Through RPIM regulations, Bank Indonesia strived to increase access to finance for and the development of MSMEs and low-income earners based on the expertise and business models of the respective banks, thereby optimising the contribution of the banking industry. In terms of fulfilling RPIM obligations, banks can channel financing directly to MSMEs or through other financial service institutions, such as (sharia) rural banks or non-bank financial institutions, as well as by investing in inclusive securities and sustainable bonds or blended finance. Banks that achieved the RPIM target are eligible to receive the highest KLM incentive of 1%.

Table 5.1.2. Downpayment Requirements on Automotive Loans/Financing and Green Automotive Loans/Financing

Vehicle Type	Downpayment on Non-Green Vehicles		Downpayment on Green Vehicles	
	Fulfilling NPL Criteria*	Not Fulfilling NPL Criteria*	Fulfilling NPL Criteria*	Not Fulfilling NPL Criteria*
Two Wheels	0%	10%	0%	10%
Three Wheels or More (non-commercial)	0%	10%	0%	10%
Three Wheels or More (commercial)	0%	5%	0%	5%

*) NPL/NPF Criteria:
Gross NPL/NPF ratio of < 5%, and
Net NPL/NPF ratio of < 5% for automotive loans/financing
Source: Bank Indonesia, processed

5.2 Implication of Strengthening Macroprudential Policy on Optimising Intermediation

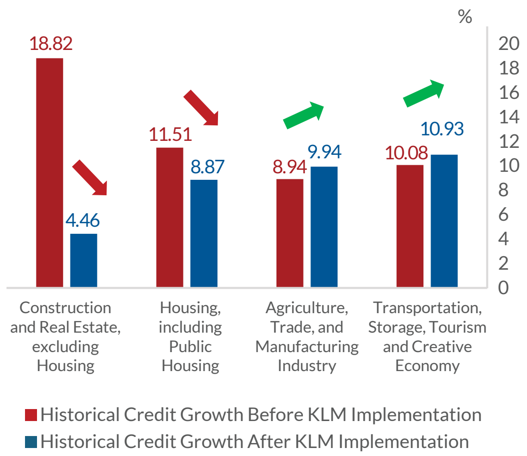
KLM policy plays an important role in increasing financing capacity in the banking industry, while slowing the pace of the higher cost of funds. Strengthening KLM policy in April 2025 contributed significantly to increasing bank lending/financing capacity, as reflected by higher values of liquid assets and third-party funds, which were transmitted to growth of new loan disbursements to priority sectors within the scope of KLM policy. The additional liquidity from KLM incentives also helped dampen pressures on rising cost of funds amid tight competition in the funding market, as indicated by a lower cost of funds in the banking industry than during the pre-pandemic period. The low cost of funds also strengthened banking intermediation capacity and allowed banks to offer more competitive lending rates, thereby expanding access to finance for priority sectors.

By sector, KLM incentives were primarily dominated by the agricultural sector, trade, manufacturing industry and housing. This indicates that the banking industry has used the KLM incentives to increase lending to priority sectors. Credit growth in the agricultural sector, trade sector and manufacturing industry has increased compared with conditions before the policy was introduced. Higher credit growth since KLM policy was implemented has also been observed in the transportation sector, tourism sector and creative economy (Graph 5.2.1).

Loan disbursements to the housing sector must be strengthened to address more limited efforts to optimise the use of KLM incentives. Moderating growth of housing loans indicates that the banking industry still requires more time to reallocate KLM incentives to this sector. In addition, sluggish demand in the non-subsidised property sector, particularly among low- and middle-income earners, has also impacted credit growth. Such conditions are consistent with restrained growth of household income, thereby limiting repayment capacity and suppressing potential demand for housing loans.

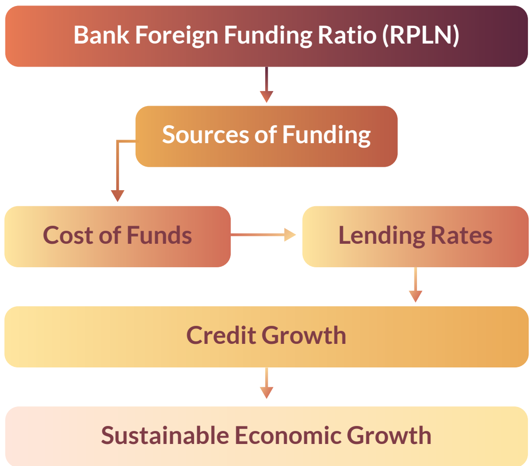
Raising the RPLN ratio from 30% to 35% of capital intends to expand alternative sources of funding in the banking industry. The optimisation of external non-TPF funding in the banking industry dampened upward pressures on the cost of funds in line with tight competition in the domestic funding market. With a more efficient cost of funds, banks have adequate space to lower lending rates, thereby driving up the demand for credit from the real sector. Ultimately, strengthening the sources of funds contributes to bolstering banking intermediation and accelerating credit growth (Figure 5.2.1). The positive impact of such policies was reflected by an increase in short-term external debt, which climbed from Rp129 trillion at the end of May 2025 to Rp132 trillion at the end of July 2025 after Bank Indonesia raised the RPLN ratio.

Bank Indonesia maintained an accommodative MPLB to increase liquidity management flexibility in the banking industry and drive new loan disbursements. The accommodative MPLB provided a positive signal of increasing liquidity flexibility in the banking industry in line with the high ratio of securities to third-party funds, maintained above the 5% regulatory threshold. More flexible liquidity management allowed banks to increase intermediation capacity by reallocating liquid assets to credit, thereby accelerating credit growth. Relaxing the MPLB by just 1% is expected to provide Rp78.48 trillion of additional liquidity in the banking industry.



Source: Bank Indonesia, processed

Graph 5.2.1. Credit Growth in Priority Sectors Before and After KLM Implementation



Source: Bank Indonesia, processed

Figure 5.2.1. Transmission to Credit Growth

5.3 Policy Synergy to Maintain Financial System Stability and Drive Economic Growth

Economic stability and a resilient financial sector are inextricably linked to close cooperation and coordination between the authorities. Strong synergy supports effective task implementation and the authority of each institution when maintaining the stability of the financial system. Through bilateral and multilateral cooperation, Bank Indonesia, OJK and LPS have finalised various implementation regulations following the promulgation of the P2SK Act. This year, Bank Indonesia has issued several strategic regulations relating to the macroeconomic policy mix, macroprudential policy and foreign exchange proceeds from exports. Bank Indonesia oriented the full panoply of policies towards strengthening the resilience of the national financial system against external pressures, while accelerating national economic financing.

Synergy between financial authorities is strengthened continuously to maintain a consistent and harmonious policy direction, prevent redundant and duplicative implementation, as well as support stability and effective intermediation in the financial sector. The macroprudential policy of Bank Indonesia, the microprudential policy of OJK and the resolution policy of LPS are harmonised intensively to ensure alignment at the policy and operational levels of the financial industry. Policy harmonisation also aims to strengthen coordination between authorities to ensure effective and harmonious policy implementation.

Consistent with strategy strengthening, Bank Indonesia and OJK will continue cooperating and coordinating across five priority strategic areas. These include accelerating the integrated licensing and approval process in the financial services sector, policy synergy in terms of financial market development and deepening, policy synergy in the development of digital financial assets and technology innovation, cooperation in strengthening financial education, literacy and inclusion as well as consumer protection, alongside cooperation in strengthening cyber resilience and security.

Strengthening synergy between the authorities will be focused on integrated bank reporting to support data-based policymaking. Bank Indonesia, OJK and LPS are committed to increasing reporting efficiency in the banking industry, strengthening interoperability, as well as ensuring the quality of reliable data as a solid foundation for policymaking. Such efforts also include strengthening the exchange of information between authorities to support data-based policymaking. In addition, following the promulgation of the P2SK Act, the three authorities are actively updating the methodology for determining systemic banks, while expanding the scope of information exchange. This aims to strengthen the ability to respond to systemic risk and maintain the stability of the financial system. Moving forward, coordination will be strengthened further through the integration of each authority's databases, thereby creating an integrated and effective policy ecosystem.

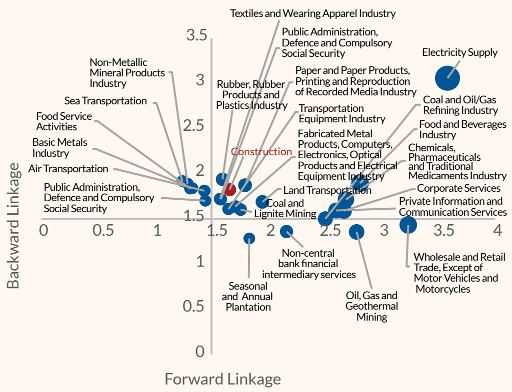
Bank Indonesia continued strengthening collaboration with various international authorities and forums in terms of the macroprudential sector and financial system stability as part of the efforts to help strengthen domestic financial system stability, which contributes to the resilience of the global financial system. Such commitment is reflected through Bank Indonesia's active role in various strategic international forums, such as the Financial Stability Board (FSB) and Basel Committee on Banking Supervision. In June 2025, Bank Indonesia participated in the FSB Plenary meeting to discuss the latest global dynamics, including US reciprocal policy, geopolitical tensions as well as vulnerabilities in the global financial system. In addition, Bank Indonesia also provided a substantial contribution to the discussions concerning the FSB's work program relating to risk in the financial sector, such as developments in the NBFI, crypto assets and stablecoin, as well as the issue of climate change and policy direction moving forward. In the context of sustainable finance, Bank Indonesia, through the G20 Sustainable Finance Working Group, stressed the urgency of climate funding, which includes applying a scheme to combine public, philanthropic, private and financial institution funds to finance sustainable projects (blended finance), simplifying access to concessional funding and optimising digital platforms to expand the availability of climate and financing risk data.

Bank Indonesia is strengthening its leadership role in the Asia-Pacific region by serving as Chair of the Working Group on Banking Supervision, Executive Meeting of East Asia-Pacific Central Banks, for the 2024-2026 period. In its capacity as Chair of the Working Group on Banking Supervision, Bank Indonesia is actively encouraging discussions on strategic issues, such as strengthening financial sector oversight, banking digitalisation as well as climate risk assessments, which are becoming increasingly relevant in terms of financial system stability. Bank Indonesia has also implemented various collaborative activities as a form of active contribution at the regional level. During the first half of 2025, Bank Indonesia attended the Asia Pacific High-Level Meeting on Banking Supervision in synergy with the Bank of Thailand as co-chair in February 2025, the Executives Meeting of East Asia-Pacific Working Group on Banking Supervision in Japan in May 2025 with the host from the Bank of Japan, as well as a virtual Seminar on Digital Fraud in Banking in conjunction with the Financial Stability Institute in April 2025, attended by 220 participants from 12 countries. In addition, in its capacity as co-chair of the ASEAN Senior Level Committee Task Force on Sustainable Finance with the State Bank of Vietnam, Bank Indonesia disseminated the ASEAN Green Map in June 2025 containing the development of sustainable finance initiatives. These efforts reflect Bank Indonesia's firm commitment to strengthening regional coordination, nurturing policy innovation, as well as strengthening banking sector regulation and supervision to maintain the stability of the regional financial system.

Bank Indonesia received The Best Systemic and Prudential Regulator in Asia Pacific Award 2025 from The Asian Banker. The award recognised Bank Indonesia's success in applying an optimal accommodative macroprudential policy stance to maintain financial system stability against global uncertainty, while strengthening management of the digital financial ecosystem. Success was reflected through three strategic measures. First, the implementation of macroprudential instruments to mitigate specific financial sector risks and simultaneously support healthy economic growth. Second, implementing regular stress tests using extreme scenarios to test the resilience of the financial system against various shocks. Third, supervision of the digital financial ecosystem, including licensing and strengthening capital. The strategic measures were deemed effective in maintaining financial system resilience against shocks as well as creating a safe and efficient financial system.

Box 5.1 Bank Indonesia Support to Foster Financing in the Housing Sector

Pro-growth macroprudential policy is oriented towards strengthening the intermediation function and bolstering national economic growth. The housing sector, including construction, is a key policy focus given its strategic role in providing a significant multiplier effect on related sectors, including the non-metallic mineral products industry, basic metals industry and upstream mining industry, alongside wholesale and retail trade, corporate services and the downstream furniture industry, thereby contributing to job creation (Figure B5.1.1). In addition, the housing sector is also a key driver of consumer loans and expanding access to finance, particularly among



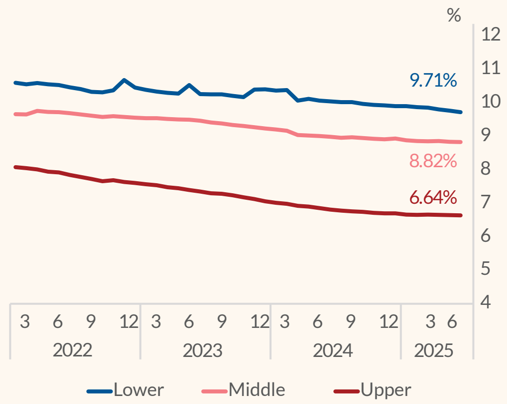
Source: Bank Indonesia, processed

Figure B5.1.1. Backward-Forward Linkages of the Construction Sector

low-middle-income households. Macroprudential policies that support the housing sector are aligned with the Government's Asta Cita program, which targets the development of 3 million housing units to overcome the national housing backlog that currently stands at 9.9 million units.

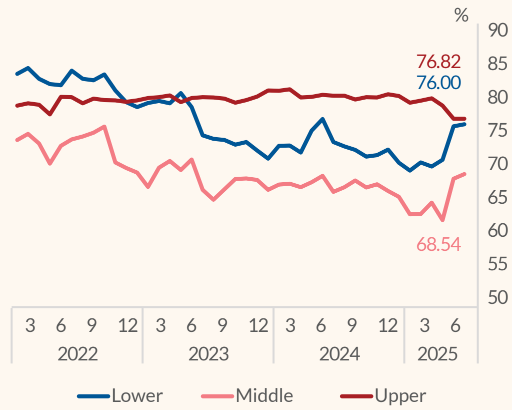
Bank Indonesia continues to accelerate and expand housing sector financing through various strategic policies. Bank Indonesia maintained an accommodative LTV/FTV ratio for property loans or financing at a maximum of up to 100% for all property types, including landed houses, apartments as well as shophouses/office houses. Accommodative LTV policy aims to stimulate bank lending to the housing sector, while maintaining prudential principles. In addition, Bank Indonesia raised the KLM incentives from a maximum of 4% to 5% of TPF, with an additional incentive allocation of Rp80 trillion for the housing sector, including affordable public housing. Strengthening KLM policy increased liquidity in the banking industry, particularly among banks achieving solid credit growth, thereby strengthening lending capacity to the housing sector amid the ongoing supply and demand challenges.

Financing support for the housing sector continues to face several challenges that require attention. In the subsidised housing segment, quota limitations concerning the Housing Financing Liquidity Facility are the most binding constraint to overcoming the housing backlog and meeting growing demand from low-income earners. In the commercial property segment, financing challenges primarily stem from the demand side in line with restrained public purchasing power because of lower incomes. Property prices are rising faster than incomes, thereby limiting access to financing for commercial residential property, particularly among lower-middle-income earners. On the demand side, an emerging challenge is selective lending in the banking industry in terms of commercial housing loans, as reflected in higher lending rates on such loans (Graph B5.1.1), accompanied by a tighter LTV ratio for middle- and lower-income households (Graph B5.1.2).



Source: Bank Indonesia, processed

Graph B5.1.1. Interest Rates on Non-Subsidised Housing Loans by Income Level



Source: Bank Indonesia, processed

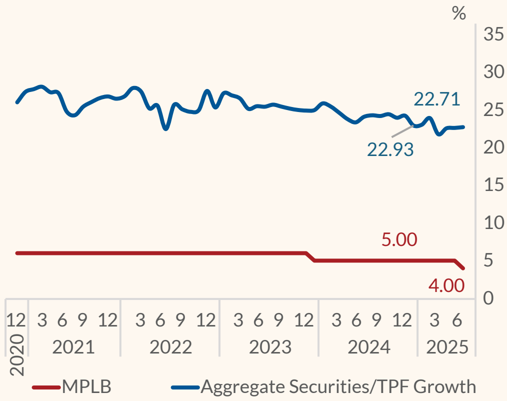
Graph B5.1.2. LTV Ratio by Income Level

Box 5.2 Efforts to Increase the Flexibility of Bank Funding

Bank Indonesia strengthened RPLN policy to increase foreign funding in the banking industry. This is expected to increase bank flexibility in terms of managing foreign funding sources according to economic need. On 1st June 2025, Bank Indonesia raised the maximum RPLN to 35% from 30% by applying a countercyclical parameter of 5%, which stood at 0% previously. The adjustment was made in accordance with prudential principles and in line with indicators of capital capacity, credit risk and market risk.

Strengthening RPLN policy could potentially increase liquidity in the banking industry and, therefore, drive the intermediation function. Increasing the maximum RPLN threshold to 35% is projected to have a heterogeneous impact on bank liquidity depending on bank group based on the funding structure and capacity of each bank to utilise foreign funding sources. As an aggregate, short-term foreign currency funding is expected to increase to Rp14.51 trillion, while the LA/TPF ratio is projected to increase from 24.09% to 25.05% due to the looser RPLN threshold of 35%.

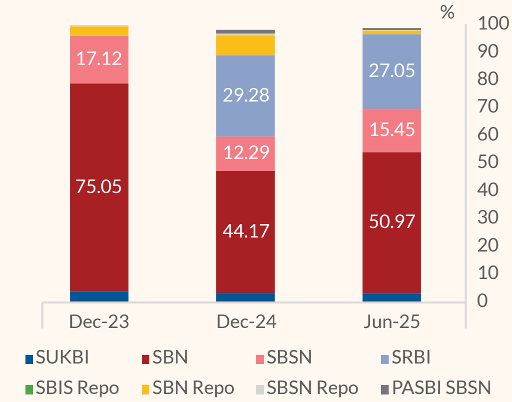
Bank Indonesia continuously strives to increase liquidity management flexibility in the banking industry by strengthening MPLB policy. This aims to support more optimal loan/financing disbursements in the banking industry. Bank Indonesia strengthened MPLB policy by lowering the MPLB ratio by 1%, from 5% to 4% for conventional commercial banks and from 3.5% to 2.5% for sharia commercial banks, effective from 1st June 2025. In addition, Bank Indonesia also increased the flexibility of sharia MPLB to provide more room for the banking industry to manage liquidity through repo transactions and/or the Bank Indonesia securities market. By strengthening MPLB policy, credit growth at the end of the year is forecast to accelerate in line with maintained liquidity in the banking industry, as reflected by a stable and adequate LA/TPF ratio. Looser MPLB policy will provide significantly more additional liquidity for the banks to bolster intermediation. Based on simulations conducted by Bank Indonesia, loosening the minimum sharia MPLB by 1% will provide additional liquidity management flexibility to the tune of Rp78.48 trillion.



Source: Bank Indonesia, processed

Graph B5.2.1. Securities/TPF Growth Industrywide and MPLB

Bank Indonesia lowered the MPLB ratio given solid liquidity resilience in the banking industry and a significantly higher sharia MPLB fulfilment ratio compared with conditions before the pandemic, which provided significant space for Bank Indonesia to loosen the sharia MPLB ratio. As an aggregate, the sharia MPLB ratio in the second week of June 2025 was recorded relatively high at 22.71% compared with the MPLB fulfilment ratio (Graph B5.2.1). The sharia MPLB ratio is calculated by comparing the total securities held by banks (SBI, SBIS, SDBI, SRBI, SukBI and/or SBN) against average TPF. Most banks fulfilled the MPLB obligations through SBN placements, followed by SRBI placements, which have increased significantly since the end of 2024 (Graph B5.2.2).



Source: Bank Indonesia, processed

Grafik B5.2.2. Composition of Securities/TPF to Meet MPLB Ratio

Chapter 6

INTERMEDIATION OUTLOOK AND DIRECTION OF MACROPRUDENTIAL POLICY

The global economy is forecast to moderate amid US reciprocal tariff policy and escalating geopolitical conflict in the Middle East, which have heightened global uncertainty. *Disinflation is projected globally in line with the global economic slowdown. Domestically Indonesia's economy is predicted to remain solid in 2025 before accelerating in 2026 on the back of domestic demand and a stronger policy mix response to drive economic growth. Rupiah exchange rate stability will be maintained, supported by Bank Indonesia's stabilisation policy commitment and maintained foreign capital inflows. Inflation is also expected to remain under control within the 2.5±1% target corridor in line with inflation expectations anchored to the target corridor, underpinned by policy synergy to control inflation between Bank Indonesia and the Government.*

Banking intermediation in 2025-2026 is projected to be maintained, supported by the promising domestic economic growth outlook, financial system resilience as well as steady inflation and exchange rates. *Credit growth is projected in the 8-11% range 2025 before accelerating in 2026. On the supply side, banking intermediation will still be supported by ample liquidity due to the implementation of various accommodative macroprudential policies, lower lending rates and banking optimism concerning financial sector resilience. On the demand side, a faster real sector recovery and stronger public purchasing power are the key drivers of banking intermediation. Meanwhile, inclusive (MSME) and green finance are projected to maintain positive yet moderating growth, supported by the Bank Indonesia policy mix instituted in synergy with other authorities and relevant ministries, the KUR program, sharia-based finance, and commitment to an orderly transition towards economic sustainability. Nevertheless, challenges remain, including the wait-and-see attitude of the corporate sector, weaker public purchasing power among lower-middle income earners, and the need to strengthen MSME competitiveness and the sustainability of liquidity in the banking industry.*

Bank Indonesia continues strengthening its policy mix by maintaining an accommodative macroprudential policy stance to expand credit to the real sector along with inclusive and green finance sustainably. *Bank Indonesia is also committed to creating a stable and inclusive financial system by optimising the full panoply of macroprudential policy instruments available. From a supervisory perspective, Bank Indonesia is strengthening systemic surveillance through an integrated approach, underpinned by the development of supervisory technology and use of AI. Seeking to maintain financial system stability and policy transmission effectiveness, policy synergy and coordination with other financial sector authorities and relevant government ministries/agencies are constantly strengthened through domestic forums and international cooperation.*

6.1 Domestic Economic Growth in Indonesia Requires Strengthening Amid Global Uncertainty

Moving forward, the global economy is projected to remain sluggish in response to US reciprocal tariffs. Various indicators have shown that US reciprocal tariff policy will trigger global economic moderation, which is projected to decelerate from 3.3% in 2024 to 3.0% in 2025 and broadly stabilized in 2026. Economic moderation in several major economies, such as the US and China, is expected to persist until the end of 2026, which could potentially impact global trade and suppress the demand for exports from developing economies, including Indonesia. Global economic moderation will also impact global inflation, which is projected to track a downward trend until the end of 2025 despite remaining at a high level. The global outlook for 2026 is also disinflation as the impact of tariff policies begins to ease gradually. The prospect of disinflation has strengthened expectations of a future reduction in the Federal Funds Rate (FFR).

Overall, economic growth in Indonesia in 2025 is projected in the 4.6-5.4% range. In addition to improving domestic demand, the GDP outlook is also supported by positive export performance following successful tariff negotiations with the US Administration in mid-July 2025.. The various policy mix responses of the Government and Bank Indonesia have also increased economic confidence, which will ultimately drive economic activity. The Government has implemented fiscal stimuli in the form of social protection and implemented the flagship Asta Cita program. In addition to maintaining stability, Bank Indonesia policy is also oriented towards spurring economic growth through BI-Rate reductions, ample liquidity and larger macroprudential incentives for banks that lend to priority sectors.

Economic growth in 2026 is projected to accelerate. Domestic economic growth in 2026 is projected to accelerate compared with conditions in 2025, supported by government policy and the Bank Indonesia policy mix, which will spur domestic demand and maintain positive export performance. Household consumption will increase as economic confidence improves. Investment will also increase, particularly building investment, driven by national strategic projects and the further downstreaming of natural resources, among others. Export performance is forecast to remain solid due to export diversification strategies and the positive impact of tariff negotiations with the US Administration, alongside further downstreaming of natural resources that increases the value-added of Indonesian exports.

The Rupiah exchange rate will remain steady, supported by Bank Indonesia's stabilisation policy. Rupiah stability will be underpinned by Bank Indonesia's commitment to maintain exchange rate stability, together with attractive yields, low inflation and the promising domestic economic outlook for Indonesia. Bank Indonesia will continue strengthening its stabilisation policy response, including measured intervention in offshore NDF markets and triple intervention strategy with a focus on spot and DNDF transactions, while also purchasing SBN in the secondary market. Bank Indonesia will also continue optimising the full panoply of monetary instruments, which includes strengthening its pro-market monetary operations strategy by optimising the SRBI, Bank Indonesia Forex Securities (SVBI) and Bank Indonesia Forex Sukuk (SUVBI) instruments to bolster policy effectiveness in attracting portfolio inflows and supporting rupiah exchange rate stability.

Domestic inflation is expected to remain under control and within the 2.5%±1% target corridor in 2025 and 2026. Core inflation will be maintained in line with anchored inflation expectations, adequate economic capacity, managed imported inflation as well as the positive impact of digitalisation. Bank Indonesia also expects volatile food inflation to remain manageable, supported by inflation control synergy between Bank Indonesia and the TPIP/TPID, while strengthening implementation of the GNPIP in various regions. Administered prices inflation will also be maintained in line fiscal policy implemented as a shock absorber to dampen the spillover effect of global economic uncertainty on domestic economic resilience.

6.2 Banking Intermediation Outlook Remains Solid, Supported by Corporate Performance, Banking Capacity and KLM Policy

Banking intermediation is projected to remain solid, underpinned by financial system resilience and the economic growth outlook. Credit growth in 2025 is projected in the 8-11% range before accelerating in 2026. Credit growth optimism is stoked by the promising domestic economic outlook, alongside manageable inflation and rupiah stability. Solid domestic conditions are expected to boost corporate performance and drive the demand for credit. Further improvements in corporate performance will be supported by trade diversion to replace Chinese exports to the US, coupled with the implementation of various strategic government projects. Moving forward, several economic sectors with high elasticity to GDP and a large contribution to credit growth are expected to bolster intermediation. Household loans are also expected to remain solid, primarily supported by upper-income households. Bank appetite to lend will remain high due to lower lending rates, optimism in the banking industry, more sources of funds and adequate liquidity, predominantly due to additional liquidity from the KLM incentives, which will support banking intermediation. The resilience of the banking industry will also be maintained to help accelerate credit growth in line with a solid capital base and contained risk. The results of stress tests for the second semester of 2025 indicated that banking resilience will remain solid alongside robust corporate performance in the face of domestic and global shocks.

Inclusive and green financing are expected to maintain positive growth in 2025 despite moderation. Slower growth of MSME loans primarily stems from risk aversion in the banking industry to mitigate risk, alongside MSME performance that has not fully recovered. The main contributor to growth of inclusive financing remains the KUR disbursement target in 2025 of Rp300 trillion. Meanwhile, sharia-based financing is expected to maintain positive growth and support overall credit/financing growth as an aggregate. In addition, strong commitment from the government and financial institutions to green finance and supporting an orderly transition towards economic sustainability will also increase appetite to disburse green loans and support credit/financing growth.

Bank Indonesia continuously strengthens its macroprudential policy mix, particularly KLM implementation to accelerate credit growth in the banking industry. As of the beginning of August 2025, Bank Indonesia disbursed KLM incentives to the tune of Rp384 trillion, which is expected to increase further moving forward. Bank Indonesia will continue strengthening KLM policy to drive the growth of loans disbursed by the banking industry by optimising the incentives for sectors with a large contribution to economic growth and job creation. In addition, accelerating the real sector recovery and strengthening public purchasing power also requires fiscal incentives and higher productivity. Integrated and responsive policy synergy is crucial to ensuring the banking sector's contribution to inclusive and sustainable economic growth.

Growth opportunities for inclusive and sharia-compliant intermediation are also supported by strengthening the real sector through business empowerment strategies, expanding market access and increasing access to finance. Bank Indonesia will continue striving to level up MSMEs by strengthening the supply chain, business capacity, digitalisation and green business models, while simultaneously expanding access to finance through business matching and increasing public literacy. Bank Indonesia is also nurturing intermediation through the implementation of innovative and unique sharia-based financial products, such as Sharia Restricted Investment Accounts and Cash Waqf-Linked Deposits to empower sharia-based businesses and financing facilities, including through various flagship programs, like Sharia Financial Literacy Month and the Indonesia Sharia Economic Festival.

The prospect of robust banking intermediation growth faces global and domestic challenges that demand vigilance. The challenges include the wait-and-see attitude of the corporate sector in response to economic uncertainty. Furthermore, restrained public purchasing power among lower-middle-income households remains a challenge in terms of accelerating credit growth. Meanwhile, the sustainability of adequate liquidity also demands attention considering that global pressures could squeeze the banking industry's capacity to disburse loans optimally.

6.3 Accommodative Macroprudential Policy and Policy Synergy to Revive Economic Financing

Bank Indonesia will continue strengthening its policy mix, which includes maintaining an accommodative macroprudential policy stance and sustaining financial system resilience. Bank Indonesia will maintain and optimise its accommodative macroprudential policies to increase credit to the real sector, while prioritising prudential principles. This is expected to drive lending/financing, including inclusive and green loans, while maintaining financial system resilience.

Bank Indonesia institutes accommodative macroprudential policy by strengthening various policy instruments to achieve optimal lending/financing, a stable financial system as well as inclusive and green financing. Bank Indonesia will continue strengthening KLM implementation to drive credit growth in the banking industry by optimising incentives with high economic leverage and job creation in line with the Government's Asta Cita program. Looser liquidity conditions by reducing the MPLB is also expected to provide greater liquidity management flexibility for the banks to disburse loans and simultaneously maintain financial sector resilience. Meanwhile, the RPLN is also expected to provide greater flexibility in terms of funding options for the banking industry. Bank Indonesia will hold the MIR in the 84-94% range, the CCyB at 0%, the LTV/FTV ratio up to a maximum of 100% and the downpayment requirements on automotive loans at 0%. Seeking to foster inclusive and green finance, Bank Indonesia will also maintain MIR and LTV/FTV policy for green loans, including the KLM incentives for green and inclusive loans. Bank Indonesia will continue strengthening the assessment of prime lending rate transparency with a focus on interest rates based on priority sectors in accordance with the scope of KLM policy to improve the effectiveness of macroprudential policy transmission.

Bank Indonesia will continue thematic surveillance and inspections. Oversight aims to monitor and identify systemic risk exposures and ensure bank compliance with macroprudential regulations. Bank Indonesia uses integrated Dynamic Systemic Risk Surveillance to comprehensively analyse macroprudential areas, including linkages with monetary policy and payment system policy. Moving forward, Bank Indonesia will strengthen integrated Dynamic Systemic Risk Surveillance by monitoring linkages between policy implementation, covering key policy and regulatory objectives. Bank Indonesia is strengthening its supervision function by improving SupTech through the development of data and AI technology. Furthermore, Bank Indonesia will continue implementing thematic inspections based on the supervisory strategy deployed.

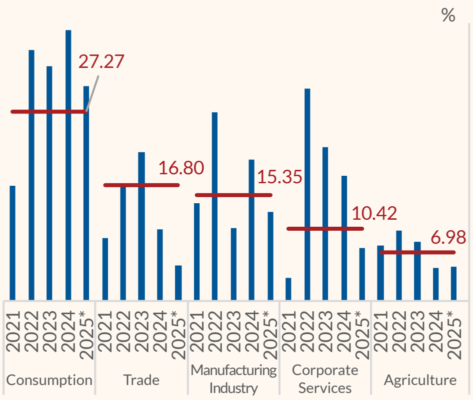
Policy coordination and synergy with other financial sector authorities and relevant government ministries/agencies will continue to maintain the stability of the financial system. Bank Indonesia will continue cooperating in synergy to harmonise the national policy mix and nurture economic growth, while increasing the effectiveness of policy transmission. Coordination is also applied to surveillance in order to maintain financial system resilience. Coordination and synergy are achieved, among others, through the KSSK as well as active bilateral and multilateral participation in various international cooperation forums, such as the FSB.

Box 6.1 Sectoral Credit Allocation Structure and Implications on Economic Growth Elasticity

Banking intermediation has been maintained, yet the contribution of major economic sectors, such as Trade, the Manufacturing Industry, Corporate Services and Agriculture, has moderated. As an aggregate, credit performance is primarily supported by non-major economic sectors, particularly the services or tertiary sector. The weaker contribution of major economic sectors was primarily driven by deteriorating borrower performance, particularly MSMEs (Trade, Agriculture) and commercial borrowers (Manufacturing Industry, Trade). In addition, corporate borrowers in key sectors (Manufacturing Industry, Corporate Services) have also experienced slower credit growth (Graph B6.1.1).

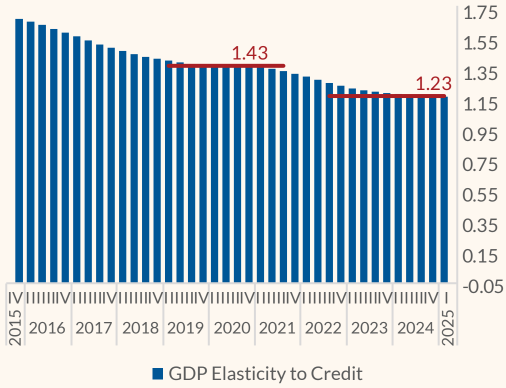
The slowdown affecting key economic sectors was primarily influenced by a structural shift in Indonesia's economy towards a more dominant tertiary sector. Nevertheless, the services sector has weaker forward and backward linkages to other sectors, thereby limiting the multiplier effect of higher credit growth. On one hand, the demand for credit from the services sector (Corporate Services) tends to be lower than the Manufacturing Industry, as reflected by a lower credit share over the past five years (Table B6.1.1). On the other hand, the wait-and-see attitude of the corporate sector due to high global economic uncertainty is reflected by loan disbursements to the Manufacturing Industry, which have tracked a downward trend in the long term despite a dominant credit share. Faster credit growth in the services sector coupled with lower use of credit in the manufacturing industry has reduced the elasticity of credit to GDP. Elasticity is heterogeneous in different economic sectors, reflecting differences in sectoral sensitivity to the economic cycle (Graph B6.1.2).

The prospect of a credit recovery remains promising despite the declining elasticity in several key economic sectors. This is indicated by improving performance of highly elastic economic sectors through to the end of 2025 that will continue to support credit growth, namely agriculture, construction and social services (Table B6.1.2)



Source: Bank Indonesia, processed

Graph B6.1.1. Credit Share by Economic Sector



Source: Bank Indonesia, processed

Graph B6.1.2. GDP Elasticity to Credit

Table B6.1.1. Backward and Forward Linkages of Intermediate Sectors with Corporate Services and Social Services

Sector	Backward Linkage (% of Total Input)		Forward linkage (% of Total Demand)	
	Corporate Services	Social Services	Corporate Services	Social Services
Agriculture	0.04	0.09	0.03	0.00
Mining	0.04	0.08	0.06	0.00
Manufacturing	0.06	0.12	0.19	0.02
Electricity, Gas and Water Supply	0.05	0.16	0.04	0.00
Construction	0.03	0.02	0.15	0.01
Trade	0.01	0.03	0.17	0.01
Transportation	0.11	0.11	0.13	0.03

Source: Statistics Indonesia, processed

Table B6.1.2. Elasticity and Credit Growth by Sector

Sector	GDP Elasticity to Credit	Credit Growth		
		2023	2024	Jun-25
A. Agriculture	1.67%	8.45%	4.84%	5.11%
B. Mining	0.60%	22.36%	28.59%	20.69%
C. Manufacturing	1.27%	4.72%	9.56%	6.13%
D. Electricity, Gas and Water Supply	1.52%	13.33%	19.75%	11.23%
E. Construction	1.77%	-0.37%	0.02%	1.05%
F. Trade	1.08%	8.77%	4.27%	2.13%
G. Transportation	0.87%	19.28%	19.16%	17.94%
H. Corporate Services	1.10%	16.98%	13.09%	5.27%
I. Social Services	1.10%	35.06%	21.15%	24.46%
Consumption	1.02%	9.10%	10.61%	8.49%
Total		10.38%	10.39%	7.77%

Source: Bank Indonesia, processed

Box 6.2 Credit Outlook by Sector and Sources of New Growth as Foundation to Accelerate Credit Growth

The identification of potential sectors as sources of new credit growth is key in response to the external challenges and to accelerating domestic financing. The current economic developments require a new strategy to revive credit growth. Globally, trade diversion of Chinese exports to the Indonesian market due to the simmering trade tensions between China and the US demand vigilance. This condition could potentially squeeze sales of domestic products and demand for corporate credit. On the other hand, this situation provides an opportunity for businesses in Indonesia to fill the gap in China's export market to the US, which could be used to drive expansion and increase access to finance. From a domestic perspective, corporations with direct involvement in national strategic projects, including infrastructure development and downstream industries, are considered catalysts to accelerate credit moving forward. Demand for financing from this group is expected to continue increasing in response to faster realisation of government projects and the national economic transformation agenda.

A data-driven approach is required to comprehensively analyse the credit outlook by sector to identify priority sectors that support faster credit growth. Such analysis can be conducted using various indicators of economic performance, investment loans and working capital loans disbursed by the banking industry, namely using the robust regression method. This approach is expected to provide a comprehensive and data-driven snapshot concerning the direction of credit growth by sector, which can be used as a strategic tool to identify priority sectors as the foundation for accelerating new loan disbursements moving forward.

Several economic sectors have demonstrated high potential for further growth based on the results of the analysis. The sectors include agriculture, the food and beverages industry as well as human health services (Table B6.2.1). The analysis indicated that these three sectors provide a solid contribution to total credit in the banking industry. This reflects increasing domestic demand, particularly when supporting strategic government programs, such as the Free Nutritious Meal program, national food security and strengthening the healthcare system. Furthermore, these sectors are also comparatively more resilient to external pressures and have the potential to boost exports, thereby substituting China's exports to the US as well as exports to other countries.

Table B6.2.1. Impact (Contribution) of Potential Economic Sectors on Total Credit in Banking Industry

No	Economic Sector	Impact (Contribution) to Total Credit
1	Agriculture	0.002%
2	Food and Beverages Industry	0.136%
3	Human Health and Social Services	0.001%

Source: Bank Indonesia, processed

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