

Assessment of Credit Supply and Demand in the Banking Industry

1. Credit growth in August 2025 was sluggish, recorded at 7.56% (yoy), up slightly from 7.03% (yoy) the month earlier and remaining below the same period in 2024 at 11.40% (yoy) (Graph 1). This year, loans disbursed by the banking industry posted 3.17% (ytd) growth, the slowest pace recorded in the past three years. The main contributors to credit growth in August 2025 were state-owned banks and national private commercial banks (Graph 2). By loan type, investment loans and working capital loans recorded 13.86% (yoy) and 3.53% (yoy) growth, respectively, while consumer loans moderated to 7.89% (yoy) in response to high lending rates in this segment (Graph 3). By sector, credit growth, specifically investment loans, were driven by the mining and quarrying sector, while the manufacturing industry and corporate services contributed to growth of working capital loans.

Graph 1 Credit Growth

Graph 2 Credit Growth by Bank Group

Regional Government Banks; State-Owned Banks; National Private Commercial Banks; Foreign Bank Branches; Total

Graph 3. Credit Growth by Loan Type

Investment Loans; Consumer Loans; Working Capital Loans; Total

2. **Credit growth remains below potential, thus requiring greater efforts to revive lending.** The ratio of credit to GDP over the past 10 years has stagnated at approximately 35% despite persistent economic growth (Graph 4). This indicates that the role of bank financing in the economy must be increased to drive economic growth. Notwithstanding, despite the various accommodative policy measures instituted by Bank Indonesia, new loan disbursements by the banking industry continue to confront

the challenge of disequilibrium in the supply-demand of credit. Various indicators point to demand constraints holding back credit growth, despite well-maintained credit supply.

Graph 4 Credit to GDP Ratio

Real GDP Growth (% yoy); Credit/GDP (rhs)

Source: Bank Indonesia and BPS-Statistics Indonesia, processed

3. Bank appetite to lend remains strong, supported by adequate financing capacity.

This is reflected in the loose lending requirements (Graph 5). In terms of funding, bank capacity to disburse loans is supported by third-party funds (TPF), with growth in August 2025 accelerating to 8.51% (yoy) from 7.00% (yoy) the month earlier in line with fiscal expansion (Graph 6). Consistent with TPF growth stronger than credit growth, the loan-to-deposit ratio (LDR) decreased to 86.03% as an aggregate, thereby indicating further capacity to disburse loans (Graph 7). Bank lending capacity is also underpinned by ample liquidity, as reflected by a ratio of liquid assets to third-party funds (LA/TPF) that increased to 27.25% (Graph 8). Loose liquidity conditions in the banking industry are also supported by monetary liquidity expansion and macroprudential liquidity incentives from Bank Indonesia.

Graph 5 Lending Requirement Index (LRI)

Regional Government Banks; State-Owned Banks; National Private Commercial Banks; Foreign Bank Branches

Graph 6 TPF Growth by Bank Group

Regional Government Banks; State-Owned Banks; National Private Commercial Banks; Foreign Bank Branches; Industry

Graph 7 LDR, TPF and Credit Growth

Credit Growth (% yoy); Deposit Growth (% yoy); LDR (rhs)

Graph 8 LA/TPF Ratio

Regional Government Banks; State-Owned Banks; National Private Commercial Banks; Industry; Foreign Bank Branches (rhs)

4. **The demand for credit is projected to remain weak.** The ratio of undisbursed loans to total credit remains high, reaching 22.71% in August 2025 from 22.35% at the end of 2024 (Table 1). The high ratio of undisbursed loans to total credit primarily affects working capital loans in the manufacturing industry, mining sector, corporate services and trade, and has been identified among foreign bank branches (Table 2). Meanwhile, the performance of micro, small and medium enterprises (MSMEs) and households remains subdued, as indicated by lower consumer confidence in current incomes. Household performance, particularly among middle- and lower-income households, also remains weak, accompanied by limited repayment capacity. In terms of MSMEs, the demand for new loans has been influenced by deteriorating performance.

Table 1 Ratio of Undisbursed Loans to Total Credit by Loan Type

Loan Type; Investment Loans; Consumer Loans; Working Capital Loans; Industry

Table 2 Ratio of Undisbursed Loans to Total Credit by Bank Group

Regional Government Banks; State-Owned Banks; National Private Commercial Banks; Foreign Bank Branches; Industry

5. **Weak demand for credit is also consistent with lagged reductions to lending rates.** Industrywide, the weighted average lending rate and interest rate on new loans in August 2025 were recorded at 9.13% and 9.76%, both of which were lower than the respective positions at the end of 2024 and in the same period of 2024. When compared

with July 2025, however, the reductions are more limited (Graph 9). By sector, lower interest rates on new loans have primarily been transmitted to productive sectors (Graph 10). Limited reductions in lending rates were caused, among others by persistently high margins, risk perception in the banking industry, overhead costs (OHC) and cost of loanable funds (CoLF). Meanwhile, deposit rates (Rp) and the 1-month term deposit rate in August 2025 tracked downward trends, despite remaining high. The high cost of funds was primarily influenced by the high rates offered by banks to core depositors, primarily in the form of special rates.¹

Graph 9 Lending Rates and Lending Rates on New Loans

BI-Rate; Lending Rate on Rupiah Loans; Lending Rate on New Loans; 3-Month Average Lending Rate on Rupiah Loans; Rupiah Deposit Rate; 1-Month Term Deposit Rate

Graph 10 Interest Rates on New Loans by Bank Group

Regional Government Banks; State-Owned Banks; Foreign Bank Branches; National Private Commercial Banks

¹ Special rates are deposit rates offered on third-party funds with a value of more than Rp2 billion, which are higher than the guarantee rate offered by the Indonesia Deposit Insurance Corporation (LPS).