Assessment of Policy Rate Transmission to Prime Lending Rates in the Banking Industry January 2025

PLR Increased in November 2024, particularly at National Private Commercial Banks

- **The PLR in November 2024 was recorded at a level of 10.45%, increasing primarily at national private commercial banks with broad-based increases observed across all credit segments.**
- **Interest rates on loans and new loans decreased in December 2024 despite a higher cost of funds.**
- **Lending rates in most Macroprudential Liquidity Incentive Policy (KLM) priority sectors continued tracking a downward trend over the past six months, supported by improving credit quality.**

Prime Lending Rate (PLR)[1] Developments in November 2024

The prime lending rate (PLR) experienced a monthly increase in November 2024, primarily at national private commercial banks and evenly across all credit segments. The PLR in November 2024 was recorded at 10.45%, up 20 basis points (bps) on the rate recorded in October 2024 (**Graph 1**). In October 2024, the structure and sub-components of the PLR were changed in line with the latest methodology pursuant to OJK Regulation (POJK) No. 13 of 2024 concerning Prime Lending Rate Transparency and Publication. Based on the previous regulation, however, the PLR in November 2024 was recorded at a level of 9.21%, thus experiencing a more limited 2bps increase on the October 2024 position.

The main contributors to the higher PLR in November 2024 were national private commercial banks, recording a PLR of 12.08% (**Graph 2**). The 48bps bump reported in the PLR at national private commercial banks was higher than other bank groups, which remained comparatively below the aggregate level at 10.45%. A higher PLR was observed across most credit segments. Several segments that recorded a higher PLR, such as small enterprises and housing loans, also experienced higher non-performing loans (NPR) as a proxy of credit risk (**Graph 3**).

Graph 1 Prime Lending Rate

New PLR Methodology; Previous PLR Methodology;

Source: Financial Services Authority (OJK), processed

Graph 2 Prime Lending Rate in November 2024 by Bank Group

[1] The Prime Lending Rate (PLR) is published by banks in accordance with OJK Regulation (POJK) No. 13 of 2024 concerning Lending Rate Transparency and Publication, as an amendment to OJK Regulation (POJK) No. 37/POJK.03/2019, dated 19th December 2019, concerning Bank Report Transparency and Publication. The PLR is used as a benchmark for setting the interest rate charged by the bank to debtors but does not consider the individual borrower's risk premium component. Therefore, the interest rate that is charged to debtors is not necessarily equal to the PLR. The assessment period uses PLR data available until the publication of the report.

Aggregate; Foreign Bank Branches; National Private Commercial Banks; State-Owned Banks; Regional Development Banks;
*based on the new regulation
Source: Financial Services Authority (OJK), processed

Graph 3 PLR and NPL in November 2024 by Credit Segment (%)
PLR; NPL (rhs)
*based on the new regulation
Source: Financial Services Authority (OJK), processed

PLR by Component[2]

All components contributed to the higher PLR recorded in November 2024. The contribution of overhead costs (OHC) in the PLR reached 4.67%, while the contribution of cost of loanable funds (CoLF) and profit margin stood at 3.83% and 1.95%, respectively (**Graph 4**). The significant increase in PLR recorded at national private commercial banks was reflected in the CoLF and OHC components, which surpassed other bank groups (**Graph 5** and **Graph 6**).

Graph 4 Prime Lending Rate by Component
CoLF; OHC; Profit Margin
*based on the new regulation
Source: Financial Services Authority (OJK), processed

The profit margin at national private commercial banks and state-owned banks increased, indicating the strength of both bank groups in the credit market (**Graph 7**). In addition, state-owned banks successfully maintained labour costs despite higher OHC, thus providing additional room to optimise credit income by increasing profit margin. Meanwhile, regional government banks and foreign bank branches strived to maintain a competitive PLR by holding profit margins and increasing the cost of funds.

Graph 5 CoLF Component by Bank Group
Industry; Regional Development Banks; State-Owned Banks; National Private Commercial Banks; Foreign Bank Branches
*based on the new regulation
Source: Financial Services Authority (OJK), processed

Graph 6 OHC Component by Bank Group

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[2] PLR consists of 3 (three) subcomponents, namely: (i) Cost of Loanable Funds (CoLF), comprising third-party funds (Cost of TPF, cost of reserve balances, cost of LPS premium) and cost of non-TPF (cost of liabilities to Bank Indonesia and other banks, cost of securities issued, cost of loans received, and others), (ii) overhead costs (OHC), comprising changes in the fair value of liabilities, operational risk loss, commissions/provisions/fees and administration, depreciation/amortisation, impairment of non-financial assets, labour cost, promotion cost, foreign exchange conversion loss, other expenses and other overheads, (iii) profit margin, which is set by the bank when disbursing new loans.

Industry; Regional Development Banks; State-Owned Banks; National Private Commercial Banks; Foreign Bank Branches
*based on the new regulation
Source: Financial Services Authority (OJK), processed
Graph 6 Profit Margin Component by Bank Group
Industry; Regional Development Banks; State-Owned Banks; National Private Commercial Banks; Foreign Bank Branches
*based on the new regulation
Source: Financial Services Authority (OJK), processed

Lending Rates
Lending rates decreased slightly compared with conditions one month earlier due to lower interest rates on new loans[3]. Lending rates were observed to fall 2bps (mtm)[4] in December 2024 despite a higher cost of funds, as reflected by a modest bump in the deposit rate (**Graph 8**). Lower lending rates against a higher cost of funds could signal the prospect of lower lending rates in the banking industry moving forward in line with expectations of lower interest rates globally and policy rate reductions (**Graph 9**).
Graph 8 Interest Rates on Rupiah Loans and Rupiah Third-Party Funds
Lending Rates on Rupiah Loans; Lending Rates on New Loans; 3-Month Moving Average of Lending Rates on New Loans; Interest Rates on Rupiah Deposits (rhs)
Source: Integrated Commercial Bank Reports (Antasena), processed
Graph 9 Interest Rates on New Loans by Bank Group
Regional Development Banks; State-Owned Banks; National Private Commercial Banks; Foreign Bank Branches
Source: Integrated Commercial Bank Reports (Antasena), processed

Lending Rates in Macroprudential Liquidity Incentive Policy (KLM) Priority Sectors[5]

[3] Interest rates on new loans are the interest rates set for the new realisation of credit, while lending rates are the aggregate rate (new realisation and existing).

[4] Referring to the difference in lending rates in the last 1 month, namely from the end of December 2024 compared with the end of November 2024.

[5] Macroprudential Liquidity Incentive (KLM) policy is a set of incentives determined by Bank Indonesia to stimulate balanced, quality and sustainable intermediation by reducing the reserve balances required to be held at Bank Indonesia to meet the average reserve requirement. The Board of Governors in October 2024 decided the priority sectors to strengthen KLM policy, including: (i) Trade, Agriculture, Manufacturing Industry, (ii) Transportation, Tourism, Creative Economy, (iii) Construction (including Public Housing), (iv) Green sector. In addition

Lending rates in most KLM priority sectors tracked a downward trend, particularly the green sector (Graph 10). Lower lending rates in most KLM priority sectors were supported by improving credit quality, which is generally higher than non-KLM sectors (**Graph 11**). Nevertheless, several KLM priority sectors still have credit risk or NPL ratios above the aggregate level, despite tracking an improving trend, including trade, agriculture, manufacturing and the green sector. In terms of MSMEs, high credit risk in this segment has led to higher lending rates than the aggregate level, with conditions nevertheless improving compared to 2023.

Graph 10 Lending Rates in KLM Priority Sectors and MSME Segment

Lending Rates in Priority Sectors and Non-KLM Sectors

Industry; Trade, Agriculture, Manufacturing Industry; Transportation, Tourism and Creative Economy; Construction (including Public Housing); Green; Non-KLM

Source: Integrated Commercial Bank Reports (Antasena), processed

Lending Rates in MSME Segment (%)

Industry; MSMEs

Source: Integrated Commercial Bank Reports (Antasena), processed

Graph 11 NPL in KLM Priority Sectors and MSME Segment

NPL in Priority Sectors and Non-KLM Sectors

Industry; Trade, Agriculture, Manufacturing Industry; Transportation, Tourism and Creative Economy; Construction (including Public Housing); Green; Non-KLM

Source: Integrated Commercial Bank Reports (Antasena), processed

NLP in MSME Segment

Industry; MSMEs

Source: Integrated Commercial Bank Reports (Antasena), processed

Notes: Interest rates in the green sector for green housing loans and green automotive loans apply the assumed average of interest rates on green housing loans and green automotive from the disbursing banks as a sample.

During the past six months, lending rates in KLM priority sectors have consistently tracked a downward trend, supported by improving credit quality. All priority sectors have experienced lower lending rates in the past 6 months, as reflected in the movement of KLM sectors towards Quadrant III, implying low NPL with low lending rates (**Graph 11**). Nonetheless, the green sector still experienced lower credit quality, though relatively limited. Several priority sectors recorded lending rates below the industry average and lower credit risk than the banking industry average, including transportation, tourism and the creative economy. On the other hand, non-KLM sectors experienced moderately improving credit quality, with interest rates relatively unchanged. This indicates improving lending rate efficiency in line with the lower policy rate.

Graph 12 Mapping Lending Rates and NPL in KLM Priority Sectors and Segments

KLM; Non-KLM

Quadrant I: high interest rate, high NPL
Quadrant II: low interest rate, high NPL
Quadrant III: low interest rate, low NPL
Quadrant IV: high interest rate, low NPL
Notes:

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to the aforementioned priority sectors, KLM policy also targets the MSME segment and micro enterprises. The expanded scope of priority sectors is effective as of January 2025.

Size of bubble indicates credit share.
Direction of arrow indicates movement of bubble from July 2024 to December 2024.
Source: Integrated Commercial Bank Reports (Antasena), processed

Box: Overview of Prime Lending Rate Transparency Policy in the Banking Industry

The goal of prime lending rate assessment transparency is to strengthen Bank Indonesia monetary and macroprudential policy transmission. Through transparency, the public and corporate sector can compare the PLR published by different banks. Faster policy rate transmission to interest rates in the banking industry in the form of competitive and efficient lending rates is expected to revive demand for loans and help drive the domestic economic recovery.

As a preliminary measure, Bank Indonesia (BI) is publishing the 'Assessment of Policy Rate Transmission to Prime Lending Rates in the Banking Industry'. Several factors influence PLR setting that are specific to each respective bank, namely the cost of loanable funds (CoLF), overhead costs (OHC) and profit margin. Although the determinants are quite diverse, this publication aims to expand public understanding of prime lending rates in the banking industry in Indonesia, including statistical information concerning the distribution of prime lending rates. In addition to expediting more effective monetary policy transmission, Bank Indonesia also strives to increase the dissemination of information to corporate and household borrowers through this publication. Furthermore, this assessment aims to increase governance, market discipline and competition when setting prime lending rates in the banking industry to ensure more competitive rates, restore demand for loans and accelerate economic recovery momentum.

Similar publications are a common international practice. Other central banks in Malaysia, India and China, amongst others, also promote PLR transparency through publications such as the External Benchmark Rate, Loan Prime Rate and Base Rate. Moreover, the International Monetary Fund (IMF) also requests of all its members to submit a Reference Lending Rate and Reference Deposit Rate for publication as a reference spread between lending rates and deposit rates as one of the Financial Soundness Indicators (FSI).