

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

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BANK INDONESIA

Banking Industry Maintains Stable Prime Lending Rates (PLR) in March 2026, Supporting Lower Interest Rates on New Loans and Stronger Banking Intermediation

- **The banking industry maintained a low and competitive PLR in the reporting period, supported by the ongoing decline in the Cost of Loanable Funds (CoLF), despite higher overhead costs (OHC) triggering a build-up of pressure on bank profit margins. Such developments reflect the ongoing transmission of policy rate reductions in line with banking sector efforts to maintain competitive lending rates to boost intermediation.**
- **Interest rates on rupiah loans and new loans declined in April 2026, supported by ample liquidity in the banking system and lower COF pressures. This indicates the improving effectiveness of policy rate transmission, as reflected by higher elasticity of interest rates on new loans to the policy rate.**
- **Lending rates in most Macprudential Liquidity Incentive Policy (KLM) priority sectors remained below the banking industry average and continued tracking a downward trend in line with contained credit risk. This points to how the monetary and macroprudential policy mix of Bank Indonesia can strengthen policy rate transmission, while supporting financing to priority sectors and sustainable economic growth.**

Prime Lending Rate (PLR)¹ Developments in March 2026

As an aggregate, the PLR in the banking industry in March 2026 remained stable at 8.63%, although the responses in different bank groups tended to vary. The stable PLR was maintained amid higher credit growth of 9.49% (yoy) in March 2026, up from 9.37% (yoy) in February 2026 (**Graph 1**)². Such developments indicate that the PLR remained low to support stronger demand for credit. Although stable as an aggregate, PLR performance across different bank groups indicated a mixed response. On a monthly basis, foreign bank branches and state-owned banks recorded a lower PLR, declining respectively to 5.13% and 8.80% in March 2026 from 5.16% and 8.82% in February 2026 (**Graph 2**). In the same period, the PLR at national private commercial banks remained stable at 8.47%, while regional government banks recorded a higher PLR of 8.95% from 8.84% in the previous period. The mixed response among different bank groups reflected variations in liquidity conditions, fund mobilisation and credit disbursement strategies, as well as heterogeneous risk perception across bank groups.

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. 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.

² In October 2024, the components of the PLR were adjusted in accordance with the provisions contained in OJK Regulation (POJK) No. 13 of 2024 concerning the Transparency and Publication of Prime Lending Rates. The PLR values in October 2024, November 2024 and December 2024 were restated in line with data corrections submitted by the reporting banks for the aforementioned periods.

Banks with greater access to liquidity tended to enjoy more room to maintain or lower the PLR in order to maintain competitiveness, while bank groups facing relatively higher funding and operational cost pressures tended to maintain or adjust the PLR more conservatively. Overall, bank groups other than regional government banks continued their ongoing efforts to maintain competitiveness through a lower or stable PLR. Moving forward, such developments are expected to strengthen the transmission of policy rate reductions to lending rates in the banking industry.

Graph 1 Prime Lending Rate (%)

PLR; Credit Growth (rhs)

*based on the new regulation with adjustments to bank revisions

Source: Financial Services Authority (OJK), processed

Graph 2 Prime Lending Rate in March 2026 by Bank Group

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

*based on the new regulation with adjustments to bank revisions

Source: Financial Services Authority (OJK), processed

PLR by Component³

³ 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,

The stable PLR in March 2026 reflected bank efforts to maintain intermediation in line with ample liquidity amid higher operational costs due to the national religious holiday period (HBKN). The stable PLR, accompanied by a lower CoLF in March 2026 and higher OHC component, triggered a build-up of pressure on profit margins. On a monthly basis, the CoLF declined to 3.01% in March 2026 from 3.04% in February 2026. The lower CoLF reflected, among others, persistently solid liquidity conditions in the banking industry. On the other hand, the OHC component increased to 3.41% in March 2026 from 3.35% in the previous period, primarily influenced by higher labour costs and other costs. The increase in OHC, which exceeded the decline in CoLF, narrowed profit margins to 2.21% in March 2026 from 2.25% in February 2026 (**Graph 3**).

The latest developments indicate that the transmission of a lower cost of funds is continuing. The lower cost of funds provided banks room to lower the PLR further, which was nevertheless limited by rising operational costs. Under such conditions, the banks continued maintaining competitive lending rates to support credit demand and growth.

Graph 3 Components of PLR* (%)

CoLF; OHC; Profit Margin

*based on the new regulation with adjustments to bank revisions

Source: OJK, processed

The CoLF decreased in March 2026, primarily influenced by adequate liquidity stemming from government spending realisation, thereby improving funding conditions

foreign exchange conversion loss, other expenses and other overheads, (iii) profit margin, which is set by the bank when disbursing new loans.

in the banking industry. Overall, the aggregate decline in the CoLF reflected the continued transmission of policy rate reductions to funding costs. By bank group, regional government banks and state-owned banks recorded a lower CoLF, declining respectively to 3.47% and 2.78% in March 2026 from 3.52% and 2.83% in February 2026 (**Graph 4**). The lower CoLF at regional government banks was influenced, among others, by accelerated regional transfers and village fund disbursements (TKDD) ahead of the Eid-ul-Fitr national religious holiday period (HBKN), particularly for personnel expenditures, which increased low-cost funds and strengthened liquidity at regional government banks. For state-owned banks, an additional Rp100 trillion placement of accumulated budget surplus (SAL) from the Government supported a more efficient and competitive funding structure. Such developments demonstrate that adequate liquidity support can promote a more efficient funding structure and expand room for lower PLRs. On the other hand, foreign bank branches and national private commercial banks recorded a higher CoLF at 1.82% and 3.24%, respectively, up from 1.77% and 3.23% in the previous period. The increase was influenced, among others, by short-term liquidity needs ahead of Eid-ul-Fitr, which drove short-term deposit rates upwards, particularly among individual, corporate and private non-bank financial institution customers. In addition, significant growth in foreign currency deposits at both bank groups also contributed to a higher cost of funds.

The OHC component in March 2026 increased on a monthly basis across all bank groups, except foreign bank branches, primarily due to higher labour costs ahead of Eid-ul-Fitr. At the industry level, OHC rose to 3.41% in March 2026 (**Graph 5**), with the largest increase recorded at regional government banks, rising to 3.48% from 3.27% in February 2026. State-owned banks and national private commercial banks also recorded a slightly higher OHC

component at 3.62% and 3.19%, respectively. In contrast, foreign bank branches were the only bank group that recorded a lower OHC, declining to 1.68% from 1.79% in the previous period.

In general, the higher OHC reflected increasing labour costs and other operational expenses across most bank groups. Meanwhile, the lower OHC at foreign bank branches was driven by lower miscellaneous expenses, particularly related to the procurement of goods and services.

On a monthly basis, bank profit margins declined in March 2026 across all bank groups, except foreign bank branches, which were edged upwards by higher operational costs.

Bank profitability declined to 2.21% in March 2026 from 2.25% in February 2026 (**Graph 6**).

By bank group, profit margins at regional government banks, state-owned banks and national private commercial banks decreased respectively to 2.00%, 2.40% and 2.04% from 2.05%, 2.44% and 2.06% in the previous period. The declines reflected higher operational costs that exceeded the declines observed in funding costs. On the other hand, profit margins at foreign bank branches increased to 1.64% from 1.60% in February 2026, supported by operational efficiency. In general, such developments indicate that operational cost pressures constrained room for profitability improvements, despite PLRs remaining stable.

Graph 4 CoLF* Component by Bank Group (%)

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

*based on the new regulation with adjustments to bank revisions

Source: Financial Services Authority (OJK), processed

Graph 5 OHC* Component by Bank Group (%)

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

*based on the new regulation with adjustments to bank revisions

Source: Financial Services Authority (OJK), processed

Graph 6 Profit Margin* Component by Bank Group (%)

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

*based on the new regulation with adjustments to bank revisions

Source: Financial Services Authority (OJK), processed

Lending Rates

Interest rates on rupiah loans retreated in April 2026, driven by maintained banking liquidity, as reflected in lower interest rates on new loans.⁴ On a monthly basis, the weighted average interest rate on rupiah loans declined to 8.73% in April 2026 from 8.76% in March 2026 (**Graph 7**). Such developments were supported by lower interest rates on new loans, which decreased to 8.95%, thus reflecting maintained liquidity conditions and lower COF pressures, while also influenced by improving bank perception of borrower credit risk in March 2026 compared with February 2026. Lower funding costs allowed banks to adjust loan pricing in order to maintain credit growth momentum. By bank group, the decline in interest rates on new loans in April 2026 was mainly driven by state-owned banks, which decreased to 7.31% in April 2026 from 7.84% in March 2026 (**Graph 8**). The decline was supported by an additional Rp100 trillion of liquidity placed at Himbara (Association of State-Owned Banks) banks in March 2026, thereby prompting the lowest lending rates among all bank groups. On the other hand, regional government banks, national private commercial banks and foreign

⁴ Interest rates on new loans are the prices set by lenders on new credit facilities.

bank branches recorded higher interest rates on new loans at 9.54%, 10.94% and 8.35%, respectively, in April 2026, up from 8.42%, 10.13% and 7.64% in March 2026.

In terms of fund mobilisation, interest rates on rupiah third-party funds (TPF) continued tracking a downward monthly trend, driven by less competition in funding markets alongside bank efforts to maintain a more efficient funding structure. As an aggregate, the interest rate on rupiah TPF was recorded at 2.65% in April 2026 (**Graph 7**). Moving forward, synergy between monetary and macroprudential policy will continue contributing to stronger policy rate transmission. Adequate liquidity support is expected to maintain stability in funding markets, strengthen efficiency in banking funding structures and create broader room for lower lending rates. Nevertheless, global uncertainty still demands close vigilance due to its potential to increase liquidity volatility and risk perception in financial markets.

Graph 7 Interest Rates on Rupiah Loans and Rupiah Third-Party Funds (%)

BI-Rate; 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; 1-month Term Deposit Rate

Source: Integrated Commercial Bank Reports (Antasena), processed

Graph 8 Interest Rates on New Loans by Bank Group (%)

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

Source: Integrated Commercial Bank Reports (Antasena), processed

Elasticity of Interest Rates on New Loans

The elasticity of interest rates on new loans to the policy rate strengthened in April 2026 in line with adequate liquidity in the banking industry. On a monthly basis, transmission of

the policy rate to interest rates on new loans improved, as reflected by an increase in the industrywide elasticity coefficient to 0.43 in April 2026 from 0.40 in March 2026 (**Graph 9**). The coefficient reflects improving short-term sensitivity of changes in interest rates on new loans to changes in the policy rate. As a trend, industrywide elasticity was also higher than in the same period in the previous year, recorded at 0.35, thereby reflecting stronger policy rate transmission over the past year. By bank group, stronger industrywide elasticity was supported by state-owned banks amid adequate liquidity, enabling the banks to offer more competitive lending rates, particularly for working capital loans, as reflected in working capital loan growth for state-owned bank borrowers supporting government priority programs. On the other hand, weaker elasticity at regional government banks reflected higher lending rates across all loan segments. At foreign bank branches, weaker elasticity was also influenced by limited growth of new consumer loans and working capital loans, despite lower lending rates in both segments. Meanwhile, national private commercial banks indicated weaker sensitivity due to higher interest rates on investment loans and consumer loans.

Graph 9 Elasticity of Interest Rates on New Rupiah Loans by Bank Group

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

Notes:

- Elasticity is calculated based on the following formula = (percent change in interest rates on new rupiah loans) / (percent change in BI-Rate)
- Base period used when calculating elasticity is August 2024, namely when the BI-Rate reductions began.

Source: Integrated Commercial Bank Reports (Antasena), processed

Lending Rates in Macroprudential Liquidity Incentive Policy (KLM) Priority Sectors⁵

The forward-looking, performance-based Macroprudential Liquidity Incentive Policy (KLM Forward Looking) provides room for banks to lower lending rates in most priority sectors in line with lower funding costs and optimised lending to KLM priority sectors.

Such developments indicate that the transmission of policy rate reductions to KLM priority sectors remains consistent with relatively well-maintained risk perception regarding debtor quality. In April 2026, lending rates across all KLM priority sectors remained below the industry average and declined in most sectors (**Graph 10**). Lending rates in the Construction, Real Estate and Housing sector decreased to 6.82% in April 2026 from 6.84% in March 2026. In the same period, lending rates in the Services sector, including the Creative Economy, decreased to 7.77% from 7.79%. Meanwhile, lending rates in the Agriculture, Manufacturing and Downstreaming sector remained relatively stable at 8.68%. Disbursements of macroprudential liquidity incentives, amounting to Rp427.9 trillion as of the first week of April 2026, also supported policy rate transmission and accelerated financing. Lower lending rates

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. In accordance with Board of Governors Regulation (PADG) No. 7 of 2025, as the third amendment to Board of Governors Regulation (PADG) No. 11 of 2023 concerning the implementation regulations for Macroprudential Liquidity Incentive Policy (KLM), the priority sectors were reclassified on 1st December 2025 to strengthen KLM implementation as follows: (i) agriculture, manufacturing, and downstream sectors, (ii) services, including the creative economy, and (iii) construction, real estate and housing. In addition to the priority sectors, KLM policy also targets the MSME segment and micro enterprises.

in most KLM priority sectors were consistent with contained credit risk, as reflected by NPL ratios remaining below 5% in all priority sectors (**Graph 11**). Mitigated credit risk strengthened bank confidence to expand financing and maintain competitive lending rates, thereby accelerating credit growth in priority sectors. Meanwhile, in the MSME segment, lending rates remained relatively stable at 10.47% amid a slight increase in the NPL ratio to 4.62% from 4.60% in March 2026.

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 (PPIP); Transportation, Tourism and Creative Economy (TPEK); Construction (including Public Housing); Green^{}; Non-KLM Agriculture, Manufacturing and Downstream Sectors; Services Sector, including the Creative Economy; Construction, Real Estate and Housing Sector*

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 (PPIP); Transportation, Tourism and Creative Economy (TPEK); Construction (including Public Housing); Green^{}; Non-KLM Agriculture, Manufacturing and Downstream Sectors; Services Sector, including the Creative Economy; Construction, Real Estate and Housing Sector*

Source: Integrated Commercial Bank Reports (Antasena), processed

NPL in MSME Segment (%)

Industry; MSMEs

Source: Integrated Commercial Bank Reports (Antasena), processed

Based on a longer-term perspective, namely the past six months, lending rates across all KLM priority sectors have declined. The reclassification of priority sectors through KLM Forward Looking supports a stronger outlook for loan disbursements and the demand for credit in KLM priority sectors, thereby supporting further credit growth. Lower lending rates positioned KLM priority sectors in Quadrants II and III (**Graph 12**), reflecting a combination of lower lending rates and relatively contained risk. In aggregate terms, lending rates in KLM priority sectors remained below the banking industry average, indicating that KLM policy can strengthen the transmission of policy rate reductions, while boosting banking intermediation. Meanwhile, non-KLM sectors recorded lower lending rates, declining to 10.51% in April 2026 from 10.60% in October 2025, in line with improving credit quality, as reflected by a lower NPL ratio to 1.65% from 1.74% in the same period (Quadrant IV). In the MSME segment, lower lending rates amid rising credit risk reflected selective lending rate adjustments by banks according to borrower characteristics and risk profiles.

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

KLM; Non-KLM;

MSMEs; Construction (including Public Housing); Trade, Agriculture, Manufacturing Industry; Construction, Real Estate and Housing Sector; Agriculture, Manufacturing and Downstream Sectors; Transportation, Tourism, Creative Economy; Services Sector, including the Creative Economy; Non-KLM

Lending Rates September 2025 and March 2026 Positions

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:

Size of bubble indicates credit share.

Direction of arrow indicates movement of bubble from July 2025 to January 2026.

Source: Integrated Commercial Bank Reports (Antasena), processed

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

The objective of the prime lending rate transparency assessment 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 economy.

As part of this effort, Bank Indonesia (BI) is publishing the “Assessment of Policy Rate Transmission to Prime Lending Rates in the Banking Industry.” Several factors influence the determination of the prime lending rate at each bank, namely the Cost of Loanable Funds (CoLF), overhead costs (OHC), and profit margin. This publication is expected to enhance public understanding of prime lending rates in the banking industry in Indonesia, including information on the mapping of such 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, boost the demand for loans and accelerate national economic momentum.

Similar publications are a common international practice. Central banks in other jurisdictions, including Malaysia, India, and China, also promote PLR transparency through publications such as the External Benchmark Rate, Loan Prime Rate and Base Rate. Moreover, the International Monetary Fund (IMF) requires members countries 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).