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Appendix of Press Release No. 28/43/DKom

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

February 2026

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The Lower PLR in December 2025 was Supported by a Lower Cost of Funds, amid a Limited Increase in Overhead Costs and Stable Profit Margin

- The PLR in December 2025 experienced a decline, driven by improving liquidity that lowered the cost of funds.
- As an aggregate, lending rates experienced a modest decline in January 2026 despite an increase in lending rates on new loans, thus reflecting an adjustment of risk perception in the banking industry.
- Lending rates in most Macroprudential Liquidity Incentive Policy (KLM) priority sectors continued tracking a downward trend over the past six months, accompanied by mitigated credit risk.

Prime Lending Rate (PLR)[1] Developments in December 2025

[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.

The Prime Lending Rate (PLR) decreased in December 2025 due to a lower cost of funds, which primarily stemmed from improving liquidity in the banking industry. The PLR experienced a monthly decline of 5 basis points (bps) to 9.06%. The PLR decline occurred as credit growth accelerated by 186 bps to 9.6% (yoy) in December 2025 (**Graph 1**).[2] Such developments indicate that the lower PLR primarily stemmed from improving liquidity conditions rather than demand-side pressures. By bank group, state-owned banks and national private commercial banks were the main contributors to the lower Prime Lending Rate (PLR) in the reporting period, decreasing respectively by 7 bps and 6 bps to 9.40% and 8.59% (**Graph 2**). In contrast, the PLR at regional government banks and foreign bank branches increased respectively by 15 bps and 2 bps to 9.96% and 4.99%. Such disparity indicates the different responses taken by different bank groups and the credit risk conditions faced. This is expected to strengthen the transmission of a lower policy rate to prime lending rates moving forward.

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 December 2025 by Bank Group

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

[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.

*based on the new regulation with adjustments to bank revisions

Source: Financial Services Authority (OJK), processed

PLR by Component[3]

The lower PLR was primarily attributable to the ongoing decline in the cost of loanable funds (CoLF), as the overhead cost (OHC) component experienced a modest increase and profit margin remained stable. On a monthly basis, the cost of funds, or cost of loanable funds (CoLF), fell a further 6 bps to 3.35% in December 2025 (**Graph 3**), reflecting milder funding pressures as liquidity conditions in the banking industry improved and interbank competition eased. On the other hand, the OHC component experienced a moderate increase of 1 bps to 3.75%, primarily edged upwards by higher promotional and advertising costs. Meanwhile, profit margin in the banking industry remained relatively stable at a level of 1.96%, reflecting that banks chose to maintain lending rate competitiveness to support ~~the banking industry's propensity to offer competitive lending rates to maintain~~ credit growth.

Graph 3 Components of PLR* (%)

CoLF; OHC; Profit Margin

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

*based on the new regulation with adjustments to bank revisions

Source: OJK, processed

In December 2025, the lower cost of loanable funds (CoLF) was primarily influenced by broad-based improvements in terms of liquidity conditions at most bank groups, particularly state-owned banks and national private commercial banks. The CoLF at state-owned banks and national private commercial banks fell respectively by 8 bps and 5 bps to 3.16% and 3.40%, representing the lowest levels recorded in 2025 (**Graph 4**). At foreign bank branches, a more moderate decrease of 2 bps was observed in the CoLF to 1.64%, contrasting the CoLF at regional government banks that increased by 3 bps to 4.40%. As an aggregate, the lower CoLF in the banking industry reflects the ongoing lagged effect of the policy rate reductions implemented by Bank Indonesia in 2025 totalling 125 bps. The cost of funds at state-owned banks was lowered by liquidity stimuli through accumulated budget surplus placements by the Government and growth of corporate funds, which lessened the need for banks to offer special rates on term deposits and also eased interbank competition for funding. At national private commercial banks, growth of third-party funds (TPF) in the corporate and individual segments reached 10.03% (yoy), which strengthened the funding structure, thereby reducing the cost of funds and special rate term deposits. Meanwhile, the dominant share of demand deposits at foreign bank branches, accounting for 76%, provides a lower-cost funding structure, with moderating interest rates on demand deposits therefore lowering the cost of loanable funds (CoLF). On the other hand, the CoLF at regional government banks increased due to compensation on special rate demand deposits held by the Government at the end of 2025. Moving forward, the ongoing downward cost of funds trend is expected to strengthen incentives for banks to lower lending rates to boost the demand for credit and improve the intermediation outlook.

The OHC component increased moderately, primarily due to increases observed at regional government banks and national private commercial banks. On a monthly basis, overhead costs increased by 1 bps to 3.75%, driven by regional government banks and national private commercial banks that recorded increases of 17 bps and 1 bps to 3.84% and 3.24%, respectively (**Graph 5**). The impact was offset, however, by lower overhead costs at state-owned banks and foreign bank branches, falling by 1 bps to 4.22% to 1.75%, respectively. In general, the higher overhead costs were influenced by increasing promotional and advertising costs to support the expansion of products and services in line with bank strategies to strengthen intermediation. In terms of regional government banks, the higher OHC component primarily stemmed from other costs and labour costs given efforts to maintain and strengthen the supervision of credit quality. Meanwhile, the higher overhead costs at national private commercial banks were driven by the increasing procurement of goods and services. In contrast, the lower OHC at state-owned banks was attributable to greater labour cost efficiency as a corollary of optimising digital banking services, while the lower OHC at foreign bank branches stemmed from other costs.

Profit margin in the banking industry remained stable at a level of 1.96% in December 2025, despite mixed dynamics among different bank groups. Profit margin at foreign bank branches and state-owned banks increased by 5 bps and 1 bps to 1.60% and 2.02% (Graph 6). This was supported by a larger decline in the cost of funds than the increase in operational costs, coupled with greater efficiency. Nevertheless, profit margin as regional government banks narrowed by 5 bps to 1.72% amid a higher cost of funds and overhead costs in the same period. Meanwhile, national private commercial banks reported a relatively stable profit margin at 1.96%, reflecting a balance between the lower cost of funds and higher OHC. Overall, diverse conditions in the banking industry reflect different business strategies, funding structures and characteristics of the customer base in response to cost and risk dynamics.

Graph 4 CoLF* Component by Bank Group (%)

Industry; Regional Development 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 Development 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 Development 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 experienced a modest monthly decline in January 2026, despite higher interest rates on new loans[4]. The weighted average interest rate on rupiah loans experienced a monthly decline of 1 bps to 8.80%, with interest rates on new loans increasing by 83 bps to 9.15% (**Graph 7**). The disparity indicates the lagged effect on lending

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

rates, which are still influenced by the pricing of existing loans, while interest rates on new loans are more responsive to changes in risk perception and the latest market conditions. The largest increase in interest rates on new loans was observed at foreign bank branches, climbing 104 bps to 7.86%. Meanwhile, more moderate increases were observed at national private commercial banks and state-owned banks of 78 bps and 79 bps to 10.31% and 7.95%, as well as at regional government banks that increased by just 9 bps to 8.19% (**Graph 8**). Higher interest rates on new loans were influenced by changes in bank perception to increasing credit risk among borrowers in January 2026 in line with lower credit quality, which increased provisions for impairment losses. Such dynamics indicate that interest rates on new loans are more sensitive to changes in risk perception and the composition of loan disbursements relative to the ongoing downward trend in the cost of funds.

In terms of fund mobilisation, improving liquidity conditions in the banking industry continued to lower the cost of funds. On a monthly basis, interest rates on rupiah third-party funds (TPF) in January 2026 fell by a further 3 bps to 2.68%, thereby maintaining the downward trend since July 2025 (**Graph 7**). The decline reflects the lagged impact of accommodative monetary policy by Bank Indonesia through policy rate reductions totalling 125 bps in 2025, underpinned by an accommodative ~~expansionary~~ monetary operations strategy to maintain adequate liquidity in the banking industry. In addition, accumulated budget surplus placements by the Government in the banking industry further improved liquidity conditions and reduced interbank competition for higher cost funds. Moving forward, the prospect of lower funding and lending rates will persist in line with expectations of lower interest rates globally, the impact of looser domestic monetary policy and expansionary fiscal policy, while considering the state of financial system stability.

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 Development 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 Since August 2024

The elasticity of interest rates on new loans to the policy rate has indicated moderation at the beginning of 2026. Transmission of the policy rate to interest rates on new loans has moderated relative to December 2025, as indicated by a 35-bps decrease in the industrywide coefficient of elasticity to 0.31 in January 2026 (**Graph 9**). The coefficient reflects the sensitivity of changes in interest rates on new loans to changes in the policy rate in the near term. As a trend, the industrywide coefficient of elasticity remains higher than at the beginning of 2025 at a level of 0.04, thus indicating stronger transmission throughout 2025. Nevertheless, each bank group has responded to policy rate reductions at different speeds and different magnitudes. In January 2026, the lower coefficient of elasticity at regional government banks was influenced by the dominance of consumer loan disbursements, which tend to have higher interest rate rigidity, amid higher lending rates in the consumer loan segment. A similar trend was observed at state-owned banks, where a change in the composition of investment loans and working capital loans influenced sensitivity to the policy rate. Meanwhile, a lagged response at national private commercial banks was due to higher interest rates on consumer loans and working capital loans, coupled with a larger portion of consumer loan disbursements.

Lower elasticity at foreign bank branches was primarily influenced by higher interest rates on working capital 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 Sectors[5]

[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.

Strengthening the forward-looking and performance-based KLM incentive schemes contributed to more competitive lending rates in priority sectors, supported by improving liquidity and lower cost of funds for banks extending loans to KLM priority sectors. Such conditions indicate the ~~effective~~ transmission of the lower policy rate to lending rates in KLM priority sectors, accompanied by relatively well-managed ~~and the positive~~ risk perception ~~maintained by~~in the banking industry in terms of borrowers in KLM priority sectors. In January 2026, lending rates in all KLM priority sectors were below the industry aggregate and experienced a monthly decline (**Graph 10**). In terms of KLM priority sectors, agriculture, the manufacturing industry and downstream sector experienced a decline in lending rates of 6 bps to 8.66%, which was also supported by the contribution of the social services sector. Meanwhile, the construction, real estate and housing sector also experienced a decline of 4 bps to 6.89%, supported by corporate services and other services, amongst others. The services sector, including the creative economy, experienced a more moderate decrease of 1 bps to 7.83%, supported by the social services sector. As of December 2025, Bank Indonesia has disbursed macroprudential liquidity incentives totalling Rp338.1 trillion, thus supporting effective monetary policy transmission and accelerating optimal financing in pursuit of sustainable economic growth. Lending rates to KLM priority sectors decreased as credit quality deteriorated, which was nevertheless managed prudently, as reflected by NPL ratios for all priority sectors below the 5% ~~prudential threshold~~ (Graph 11). On the other hand, the MSME segment experienced a moderate monthly increase of 1 bps to 10.57%, accompanied by lower credit quality as the NPL ratio increased by 27 bps to 4.60% in January 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

NLP in MSME Segment (%)

Industry; MSMEs

Source: Integrated Commercial Bank Reports (Antasena), processed

Based on a longer perspective (the past 6 months), interest rates in all KLM priority sectors tracked a downward trend. The reclassification of priority sectors through forward-looking KLM disbursements has improved the prospect of demand for credit from KLM priority sectors, thereby strengthening credit growth moving forward. Lower lending rates placed all priority sectors in Quadrant II and III (**Graph 12**), thus reflecting a combination of lower interest rates and relatively well-mitigated risk despite early indications of moderate increases in several KLM sectors. As an aggregate, all KLM priority sectors recorded lower lending rates than the industry average, indicating the effectiveness of KLM policy in terms of strengthening the transmission of BI-Rate reductions and increasing banking intermediation. Nevertheless, risk pressures were observed to increase in the services sector, including the creative economy, after the reclassification of KLM sectors, which requires further monitoring. On the other hand, lending rates in non-KLM sectors increased by 8 bps to 10.69% in line adjustments to risk aspects, as reflected by an increase in the NPL ratio of 5 bps to 1.68% (Quadrant IV). Meanwhile, the MSME segment recorded higher lending rates in line with increasing credit risk, indicating an adjustment to lending rates in the MSME segment. This is consistent with the characteristics and relatively higher risk profile relative to other KLM priority sectors.

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 July 2025 and January 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 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 obtain information on developments in bank PLR and lending rates offered by banks~~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 encouraging ~~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 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).