

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

March 2026



**BANK INDONESIA**

**The Lower PLR in January 2026 was Contributed by a Lower Cost of Funds and Overhead Costs**

- **The PLR in January 2026 experienced a decline from the previous month, driven by lower cost of funds and overhead costs, which provided room for the banking industry to increase profit margins and improve profitability.**
- **As an aggregate, interest rates on rupiah loans remained relatively stable in February 2026, although interest rates on new loans increased, reflecting an adjustment to risk perception in the banking industry when pricing credit.**
- **Lending rates in most Macprudential Liquidity Incentive Policy (KLM) priority sectors continued tracking a downward trend over the past six months, accompanied by mitigated credit risk, at a level below the industry average.**

**Prime Lending Rate (PLR)<sup>1</sup> Developments in January 2026**

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<sup>1</sup> 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 January 2026 due to improving liquidity in the banking industry, which lowered the cost of funds. On a monthly basis, the PLR experienced a significant decline of 28 basis points (bps) to 8.78%. The lower PLR occurred as credit growth in the banking industry accelerated by 36 bps (mtm) to 9.96% (yoy) in January 2026 (**Graph 1**).<sup>2</sup> Such developments indicate that lending rates are becoming more competitive, thereby boosting demand for financing and strengthening banking intermediation. By bank group, regional government banks and state-owned banks recorded respective declines in the PLR of 82 bps and 43 bps to 9.14% and 8.97% (**Graph 2**). Meanwhile, national private commercial banks recorded a modest 1-bps decline to 8.58%. In contrast, the PLR at foreign bank branches increased by 16 bps to 5.15%. This disparity indicates the different responses taken by different bank groups, influenced by liquidity conditions, lending strategies and the risk profile faced by each bank group. Going forward, this is expected to strengthen the transmission of a lower policy rate to prime lending rates.

### **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 January 2026 by Bank Group**

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<sup>2</sup> 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.

*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 Component<sup>3</sup>**

**The lower PLR was primarily attributable to the ongoing decline in the cost of loanable funds (CoLF), which provided room for the banking industry to increase profit margins.**

On a monthly basis, the cost of funds or cost of loanable funds (CoLF) fell a further 15 bps to 3.10% in January 2026 (**Graph 3**). This reflects milder funding pressures as liquidity conditions in the banking industry improved. On the other hand, the OHC component experienced a significant decline of 31 bps to 3.44%, primarily influenced by lower promotional and advertising costs, and other costs. This provided room for the banking industry to improve profitability, as reflected by a 27-bps increase in the profit margin to 2.23%.

### **Graph 3 Components of PLR\* (%)**

*CoLF; OHC; Profit Margin*

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<sup>3</sup> 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

**The cost of loanable funds (CoLF) decreased in January 2026 as funding conditions improved in the banking industry.** By bank group, the CoLF decreased significantly at regional government banks and state-owned banks by 67 bps and 34 bps to 3.73% and 2.82%, representing the lowest levels since the pandemic (**Graph 4**). Meanwhile, the CoLF at national private commercial banks decreased by a more moderate 3 bps to 3.37%, contrasting the 18-bps increase recorded at foreign bank branches to 1.82%. As an aggregate, the lower CoLF reflects the lagged effect of ongoing policy rate reductions by Bank Indonesia. At state-owned banks, accumulated budget surplus placements by the Government continued to reduce the need to offer special rates on term deposits, particularly to corporate customers, thus easing interbank competition for funding. At national private commercial banks, the relatively large market share of CASA accounts from corporate and individual depositors, accounting for 69.92%, improved the funding structure with lower costs, thereby reducing the cost of loanable funds (CoLF). Meanwhile, the lower CoLF at regional government banks stemmed from lower regional government savings deposits, typically with higher costs, leading to sub-optimal regional cash performance at the beginning of 2026. On the other hand, the higher CoLF at foreign bank branches was influenced by a higher cost of funds from liabilities to other banks.

**The OHC component fell significantly, primarily due to decreases observed at state-owned banks and regional government banks.** In January 2026, the OHC of the banking industry decreased by 31 bps to 3.44%. The main contributors were state-owned banks and regional government banks, recording respective decreases of 53 bps and 47 bps to 3.69% and 3.37% (**Graph 5**). Smaller declines were observed at national private commercial banks,

namely by 5 bps to 3.19%. On the other hand, OHC at foreign bank branches increased by 11 bps to 1.86%. The lower OHC component at nearly all bank groups was influenced by lower other costs, consisting of procurement costs. In terms of state-owned banks, the lower OHC was also influenced by lower promotional and advertising costs, while at regional government banks and national private commercial banks, the lower OHC component stemmed from lower labour costs. Meanwhile, the main contributors to the higher OHC at foreign bank branches were increases in the fair value of financial liabilities and the depreciation/amortisation of assets allocated to lending rates.

**Profit margins increased at all bank groups, except foreign bank branches.** As an aggregate, profitability in the banking industry increased by 27 bps to 2.23% in January 2026. By bank group, state-owned banks and regional government banks recorded respective increases of 43 bps and 31 bps to 2.45% and 2.03% (Graph 6). The wider profit margins at both bank groups were supported by a lower cost of funds and operational cost efficiency. Similar developments were also observed at national private commercial banks, although lower than the increases at state-owned banks and regional government banks, namely by 6 bps to 2.02%. On the other hand, foreign bank branches reported 13-bps narrower profit margins of 1.47% due to increasing compensation for core depositors to retain funds. Overall, heterogenous 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 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**

**Lending rates on rupiah loans were stable in February 2026, amid higher interest rates on new loans.**<sup>4</sup> The weighted average interest rate on rupiah loans remained at a level of 8.80%, with interest rates on new loans increasing by 24 bps to 9.39% (**Graph 7**). The higher interest rate on new loans reflects the banking industry's response to risk perception and latest market conditions, while lending rates on rupiah loans are still influenced by the pricing of existing loans, therefore adjustments to interest rates on new loans are not yet fully reflected in lending rates on rupiah loans. Meanwhile, interest rates on new loans increased at all bank groups, except national private commercial banks. Interest rates on new loans increased significantly at regional government banks and state-owned banks by 84 bps and 60 bps to 9.03% and 8.55% (**Graph 8**). A more limited increase of 22 bps was observed at foreign bank branches to 8.08%. On the other hand, national private commercial banks lowered interest rates on new loans by

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<sup>4</sup> Interest rates on new loans are the prices set by lenders on new credit facilities.

32 bps to 9.99%. Higher interest rates on new loans were influenced by changes in the banks' perception of increasing credit risk among borrowers in February 2026 in line with lower credit quality, which prompted higher provisions for impairment losses. Such dynamics indicated that movements in 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, stable interest rates on rupiah third-party funds (TPF) indicated bank efforts to maintain liquidity.** Interest rates on rupiah TPF were stable at 2.68% in February 2026, among others reflecting bank efforts to retain depositors (Graph 7). Stable TPF rates during the past month were influenced by steady market shares and interest rates on all TPF types. Moving forward, synergy and the monetary operations strategy to support bank liquidity as well as government fund placements in the banking industry will still contribute to improve the funding structure and ease competition. Such developments are occurring during a period of persistently elevated geopolitical uncertainty, with banks striving to maintain adequate liquidity.

#### **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 Since August 2024**

### **The elasticity of interest rates on new loans to the policy rate declined in February 2026.**

On a monthly basis, transmission of the policy rate to interest rates on new loans has moderated, as indicated by a 6-bps decrease in the industrywide coefficient of elasticity to 0.25 in February 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, however, the industrywide coefficient of elasticity remains higher than in February 2025 at a level of 0.11, thus indicating improved transmission over the past year. Nevertheless, each bank group has responded to policy rate reductions at different speeds and different magnitudes. In February 2026, the lower coefficient of elasticity at regional government banks was influenced by the growth of consumer loans, which tend to have higher interest rate rigidity than productive loans. A similar trend was observed at state-owned banks, where consumer loans were the segment that posted positive monthly growth relative to other segments. Meanwhile, elasticity decreased at foreign bank branches due to higher interest rates on investment loans. On the other hand, a stronger response was indicated by national private commercial banks, supported by the realisation of working capital loans with relatively more competitive interest rates.

### **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 Macprudential Liquidity Incentive Policy (KLM) Priority Sectors<sup>5</sup>**

**The forward-looking and performance-based KLM incentive schemes contributed to more competitive lending rates in most priority sectors, supported by improving liquidity and lower cost of funds for banks extending loans to KLM priority sectors.** Such conditions indicating the transmission of the lower policy rate to lending rates in KLM priority sectors and the positive risk perception maintained by the banking industry in terms of borrowers in KLM priority sectors. In February 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, the services sector, including the creative economy, experienced a 3-bps decline to 7.80%, supported by lower lending rates in the corporate services and social services sectors. Meanwhile, the construction, real estate and housing sector also experienced a decline of 2 bps to 6.87%, supported by corporate services and other services, amongst others. On the

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<sup>5</sup> Macprudential 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 Macprudential Liquidity Incentive Policy (KLM), the priority sectors were reclassified on 1<sup>st</sup> 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.

other hand, agriculture, the manufacturing industry and downstream sector recorded relatively stable interest rates, increasing by just 1 bps to 8.67% due to the supporting sector for electricity, gas and water supply. As of February 2026, Bank Indonesia has disbursed macroprudential liquidity incentives totalling Rp 427.5 trillion, thus supporting effective monetary policy transmission and accelerating optimal financing in pursuit of sustainable economic growth. Lending rate developments in KLM priority sectors occurred as the NPL ratio experienced a slight increase, despite remaining relatively low with NPL ratios for all priority sectors below the 5% prudential threshold (**Graph 11**). On the other hand, the MSME segment experienced a monthly decrease of 2 bps to 10.55%, accompanied by lower credit quality as the NPL ratio increased by 8 bps to 4.68% in February 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<sup>\*</sup>; 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<sup>\*</sup>; 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, namely 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, credit 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 decreased slightly by 1 bps to 10.69% in line improving credit quality, as reflected by a decline in the NPL ratio of 9 bps to 1.67% (Quadrant IV). Meanwhile, the MSME segment recorded lower lending rates despite increasing credit risk, indicating bank efforts to support inclusivity by maintaining credit quality management in line with the characteristics and risk profile of the borrowers.

### **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 August 2025 and February 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 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 support 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, 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).