

Indonesia: implications of global financial structural shifts

Bank Indonesia

Executive summary

Since the Great Financial Crisis, the global financial system has undergone structural transformation. Financial intermediation has increasingly shifted away from traditional bank-based models towards more market-based forms of finance, accompanied by the rapid expansion of non-bank financial intermediaries (NBFIs) (BIS (2025)), although these vary from one country to another.

These developments in general have altered the composition, volatility and transmission of global capital flows, increasing the sensitivity of many emerging market economies (EMEs) to global financial conditions, shifts in investor risk appetite and valuation effects. More recently, the growing digitalisation of finance, including the rise of cryptoassets and stablecoins, has introduced additional potential channels for cross-border capital movements and raised new questions regarding exchange rate dynamics, capital flow management and monetary policy effectiveness.

This short note assesses how these global financial structural shifts have affected Indonesia as an EME. The note provides the implications of the global financial structural shift for Indonesia's international investment position, gross capital flows, investor composition, exchange rate dynamics, domestic financial conditions, and conduct of monetary and macroprudential policy. While Indonesia's exposure to global financial conditions has moderately increased, the macro-financial transmission of NBFIs and cryptoassets remains limited at this stage. Indonesia's external position continues to be driven primarily by conventional capital flows, particularly foreign direct investment and portfolio investment, as well as valuation effects on traditional financial instruments. Domestic financial conditions have remained resilient through recent global stress episodes, supported by solid macroeconomic fundamentals and a comprehensive, well-coordinated policy mix.

1. Global financial structural shifts: background and context

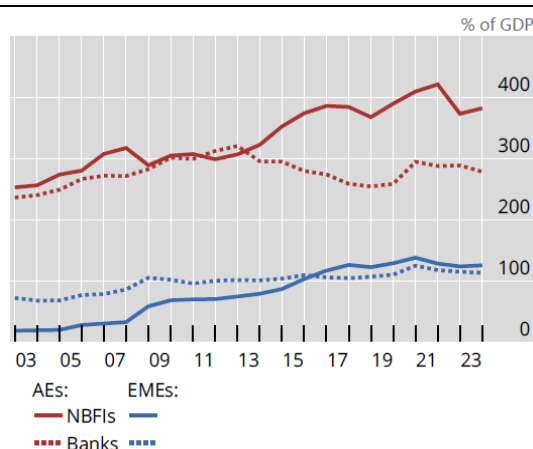
Since the Great Financial Crisis, the structure of the global financial system has changed markedly. Bank-based intermediation has gradually given way to more market-based financing, reflected in the rapid expansion of NBFIs. In advanced economies, NBFIs assets have grown to exceed those of the banking sector and now average around 400% of gross domestic product (GDP) (see Graph 1). This expansion has been driven by post-crisis regulatory reforms, prolonged periods of low interest rates and investors' search for yield, all of which have reshaped the allocation of global capital. In EMEs, NBFIs remain smaller in relative terms, but their assets have also grown steadily, in some cases overtaking banks in size (BIS (2025)).

This shift towards market-based intermediation has been accompanied by important changes in the structure of debt financing. While bank lending remains an important source of financing for households and firms, bond market financing has expanded more rapidly, particularly since 2020 (see Graph 2). Governments have become the largest borrowers in global debt markets. As a result, sovereign bond markets have assumed greater importance in the transmission of global financial conditions, particularly through valuation effects, benchmark-driven investor behaviour and exchange rate dynamics (Chan et al (2025)).

Financial assets on NBFIs have overtaken banks

(median across 7 AEs and 12 EMEs)

Graph 1

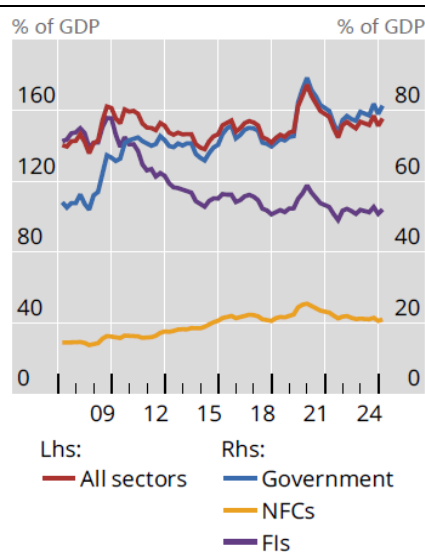


Source: BIS GEM, 2025.

Bonds as a share of global GDP

(share of the global total)

Graph 2



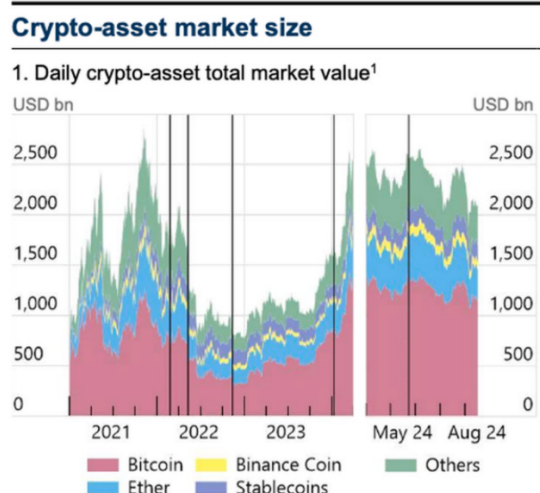
Source: BIS, Quarterly Review, September 2025.

Alongside these structural shifts in market-based finance, crypto assets have emerged as a new asset, although their systemic impact remains limited. According to the FSB-IMF crypto asset policy roadmap of the Financial Stability Board and the International Monetary Fund (FSB-IMF (2024)), financial stability risks from crypto markets are still contained. As of 30 August 2024, the estimated market value of the crypto market was \$2.2 trillion, largely driven largely by the price increases of Bitcoin and Ether, which represent almost 80% of the crypto-asset total market value.

However, the total crypto assets remain a small portion (less than 1%) of global financial system assets (see Graph 3). Regarding the stablecoins, the market value is gradually increasing from 2023, but their use for payment and settlement in the real economy is still very limited (FSB-IMF (2024)). (FSB, IMF, 2024). According to a survey by the BIS, the use of stablecoins for payments outside the crypto ecosystem, however, is still extremely limited, regardless of the payment purpose, (see Graph 4). More than half of central banks indicated that the use of stablecoins within their jurisdictions is still trivial or negligible (Di Iorio et al (2024)). (Di Iorio, Kosse, & Ilaria, 2024).

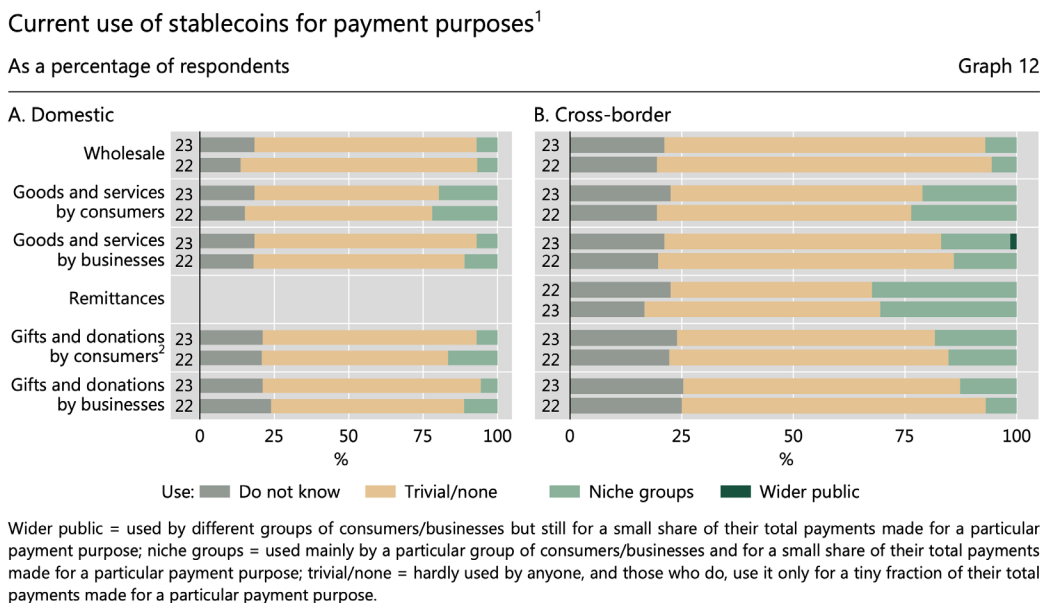
Daily cryptoasset total market value

Graph 3



¹ The vertical lines indicate 23 February 2022, the day before the start of the Russia-Ukraine war; 9 May 2022, the day TerraUSD started to significantly decouple from its peg; 11 November 2022, the day FTX filed for bankruptcy; 10 January 2024, the day the SEC approved 11 spot bitcoin ETPs; and 23 May 2024, the day the SEC approved eight spot Ethereum ETPs.

Source: FSB-IMF, *G20 Crypto-Asset Policy Implementation Roadmap*, 2024.



ⁱ Apart from potentially being used in decentralised finance. The sample includes only central banks that have replied to the survey since 2022.

Source: BIS central bank surveys on central bank digital currency and crypto, 2022–23.

For EMEs, these global structural shifts, including the expansion of NBFIs and changes in bank lending patterns, have raised concerns regarding increased exposure to global risk sentiment and the procyclicality of capital flows. At the same time, the digitalisation of finance, including the emergence of cryptoassets and stablecoins, has introduced new, albeit still evolving, channels for cross-border financial flows that may interact with traditional capital flow dynamics.

2. Indonesia’s exposure to global financial structural shifts

Global financial structural shifts have resulted in a moderate increase in exposure to global financial conditions for Indonesia, rather than a significant or disruptive change. This reflects Indonesia’s relatively diversified capital flow structure, the continued dominance of conventional investment channels and the presence of a large and stable domestic investor base. While Indonesia remains integrated into global financial markets and is affected by global financial cycles, the transmission of structural changes in the global financial system has so far remained contained.

A key factor underpinning this assessment is the role of NBFIs in Indonesia’s financial system. NBFIs have continued to transform domestic financial intermediation by broadening sources of financing beyond the banking sector. Their primary contribution has been to enhance access to finance for households and micro, small and medium-sized enterprises (MSMEs), particularly in segments not

fully served by banks. This has occurred through financing companies, venture capital firms, microfinance institutions, digital lending platforms and pawn-broking services.

Despite this expansion, NBFIs remain a relatively small part of Indonesia's financial system, accounting for around 21% of total financial sector assets. Moreover, the growth of NBFi intermediation moderated in 2025, with financing expanding by 3.71% year-on-year in the first half of the year, driven mainly by financing companies. Risk indicators suggest that credit risk remains contained across the sector, with non-performing financing ratios remaining low (the risk profile of financing companies remains controlled with gross non-performing financing (NPF) = 2.52 %, net NPF = 0.88 % (July 2025)). Importantly, interconnectedness between NBFIs and the banking sector remains limited, with asset and liability exposures of around 3%. This limited interconnectedness significantly reduces the risk of spillovers from NBFIs to the broader financial system, even during periods of heightened global financial stress.

3. International investment position and gross capital flows

Indonesia's external position continues to be shaped primarily by foreign direct investment and portfolio investment (Graphs 5 and 6). Direct investment liabilities recorded surpluses, driven by foreign equity inflows into sectors such as manufacturing, wholesale and retail trade, and mining and quarrying. These flows reflect continued investor confidence in Indonesia's medium-term growth prospects and domestic economic fundamentals. Portfolio investment flows also contributed to changes in the international investment position.

At the end of the third quarter of 2025, Indonesia's international investment position recorded a net liability of USD 262.9 billion, equivalent to 18.3% of GDP, increasing from USD 244.5 billion or 17.2% of GDP in the previous quarter. The latest developments were driven mainly by a larger increase in foreign financial liabilities, resulting from ongoing foreign capital inflows into direct investment and higher valuations of domestic financial instruments.

On the liability side, foreign financial liabilities rose to USD 803.9 billion and continued to be dominated by direct investment and portfolio investment (Graph 7). Direct investment amounted to USD 336.9 billion, driven primarily by equity capital in line with foreign capital investment in several sectors, including the manufacturing industry, wholesale and retail trade, and the mining and quarrying sector, thus reflecting maintained investor confidence in the promising economic outlook and conducive investment climate. Portfolio investment liabilities reached USD 278.2 billion, driven primarily by an increase in the position of equity capital. On the asset side, foreign financial assets increased to USD 541.1 billion, supported by higher prices of gold, global equities and assets prices in several placement countries.

International investment positions

(in USD millions)

Graph 5



*) preliminary figures; **) very preliminary figures

Source: Bank Indonesia, *Indonesia international investment position Q3 2025*.

Indonesia international financial asset position

(in USD millions)

Graph 6



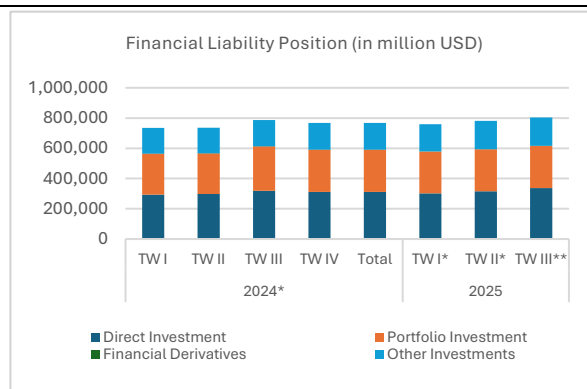
*) preliminary figures; **) very preliminary figures

Source: Bank Indonesia, *Indonesia international investment position Q3 2025*.

Indonesia international liability positions

(in USD millions)

Graph 7



Source: Bank Indonesia, *Indonesia International Investment Position Report Q3 2025*.

4. Government bond and equity market structure

Indonesia's government bond market has expanded significantly in recent years and plays a central role in the transmission of global and domestic financial conditions. As of 31 October 2025, the outstanding amount of tradable rupiah-denominated government securities amounted to IDR 5,313.1 trillion for conventional bonds and IDR 1,153.7 trillion for sharia-compliant securities. Domestic investors held most of these securities as of 31 October 2025 (DJPPR (2025)). Non-resident holdings of rupiah-denominated government securities amounted to IDR 878.1 trillion, including holdings by foreign governments and central banks.

This ownership structure highlights the dominant role of domestic investors in Indonesia's sovereign bond market and provides an important buffer against sudden capital flow reversals. The large and diversified domestic investor base helps reduce the sensitivity of government bond yields to global risk sentiment and benchmark-driven portfolio reallocations.

Historical ownership data for rupiah-denominated Indonesian government securities (SBN) confirm this pattern, with domestic investors consistently accounting for most holdings. Foreign investor participation declined during 2019–22, reflecting a combination of global risk-off sentiment during the Covid-19 pandemic, aggressive monetary tightening in advanced economies and portfolio reallocations to save haven assets. This was followed by a modest recovery since 2022.

A similar pattern is observed in Indonesia's equity market. As of 31 October 2025, total listed equity value amounted to IDR 8,722.2 trillion (see Table 1). Domestic investors accounted for 56.16% of market capitalisation, while foreign investors held 43.84%. Although foreign participation remains significant, the majority domestic ownership contributes to market resilience during periods of global financial volatility and mitigates the risk of abrupt capital outflows.

Domestic equity ownership by local and foreign investors*

Table 1

Category	Local	Foreign	Total
Share (%)	56.16%	43.84%	100%
Value (in trillion rupiah)	4,898.28	3,823.72	8,722.15

*As of 31 October 2025

Source: KSEI Capital Market Statistics.

5. Exchange rate dynamics and domestic financial conditions

Throughout 2025, heightened global uncertainty driven by global growth concerns, geopolitical and trade fragmentation, and uncertainty over the future path of monetary policy in major advanced economies led to capital outflows from many EMEs, including Indonesia. Non-resident investors recorded net sales in equities, government securities and Bank Indonesia Rupiah Securities (net sales of IDR 32.17 trillion in the equity market, IDR 6.52 trillion in the SBN market, and IDR 143.83 trillion in Bank Indonesia Rupiah Securities (SRBI), based on settlement data as of 20 November 2025 (Bank Indonesia (2025b)). Despite these outflows, Indonesia's domestic financial markets remained stable, supported by ample liquidity conditions and an accommodative policy stance, underpinned by Bank Indonesia's monetary policy and coordination with fiscal authority.

During this period, domestic money market and government bond yields declined markedly amid ample liquidity conditions. Money market interest rates declined, as reflected in the decline of SRBI yields for 6–12-month tenors by 256–261 bp (as of 14 November 2025). Government bond yields also fell, with 2-year SBN yields declining by 224 bp and 10-year SBN yields decreasing by 83 bp over the course of 2025 (as of 20 November 2025).

These reflect strong liquidity provision by Bank Indonesia and effective coordination with fiscal authorities. This outcome indicates that while capital flows and exchange rate movements influence domestic financial conditions, their impact remains moderate and is largely mitigated by domestic policy frameworks and macroeconomic fundamentals. Indonesia's experience suggests that capital flows have not exhibited excessive procyclicality in their transmission to domestic financial conditions.

More recent developments further indicate that domestic financial conditions have remained stable despite a build-up of pressures stemming from heightened global financial market uncertainty. This resilience can be attributed to a combination of solid macroeconomic fundamentals and consistent policy implementation. Bank Indonesia has remained firmly committed to maintaining rupiah stability through a well-calibrated and consistent policy mix, supported by close coordination with the Government and other relevant authorities. In parallel, Indonesia's solid economic performance – characterised by low inflation, a sound

balance of payments position with a low current account deficit, positive growth prospects and attractive yields – has continued to support investor confidence and sustained capital inflows, particularly into government bonds, thereby reinforcing exchange rate stability. In addition, the implementation of the new regulation on export proceeds from natural resources (DHE SDA), as stipulated in Government Regulation No. 8/2025, has encouraged greater conversion of US dollar export earnings into rupiah. This has increased foreign exchange supply in the domestic market, further supporting exchange rate stability and strengthening overall macroeconomic resilience.

6. Cryptoassets and cross-border digital flows

Indonesia’s cryptoasset market has expanded rapidly in terms of participation, with the number of cryptoasset consumers reaching 18.08 million as of August 2025 (see Table 2). This growth has been driven predominantly by domestic individual investors, which account for most users, while foreign participation remains very limited. Data on ownership structure indicate that Indonesian citizens represent almost all individual crypto users, whereas foreign individual investors number fewer than 40,000. Participation by entities, both domestic and international, remains marginal relative to individual users. Overall, these patterns suggest that the expansion of cryptoasset participation in Indonesia has been broad-based domestically but has not been accompanied by significant foreign involvement.

Cryptoasset ownership by local and foreign investors

Table 2

Number of cryptoasset consumers based on ownership									
No	Number of cryptoasset consumers		Period						
			Feb 2025	Mar 2025	Apr 2025	May 2025	Jun 2025	Jul 2025	Aug 2025
1	Individual	Indonesian citizen	13,278,892	13,675,106	14,118,651	15,034,052	15,812,156	16,463,689	18,042,004
		Foreign citizen	29,728	36,610	36,850	37,200	37,477	37,765	38,476
2	Entity	Domestic	367	398	418	440	469	509	559
		International	214	220	229	242	256	265	270
Total			13,309,201	13,712,334	14,156,148	15,071,934	15,850,358	16,502,228	18,081,309

Source: OJK, Statistics on Digital Financial Assets and Cryptoassets, 2025.

Despite the rapid increase in the number of users, household exposure to cryptoassets remains modest. Crypto holdings account for only about 0.84% of total household financial assets and approximately 1.81% of household third-party funds. This indicates that cryptoassets continue to represent a relatively small component of household balance sheets and do not constitute a major channel of financial intermediation within the Indonesian financial system. Moreover, most crypto transactions in Indonesia are conducted through domestic trading platforms, which implies that traceable cross-border crypto flows remain limited.

Cryptoasset transaction values in Indonesia during 2025 exhibited notable volatility rather than a sustained upward trend (see Table 3). Transaction values declined from IDR 41.3 trillion in January to around IDR32 trillion in February and

March, before recovering moderately in April. A more pronounced increase was observed in May, when transaction values rose to nearly IDR 49.6 trillion, reflecting a temporary surge in market activity. This momentum weakened again in June, followed by a sharp rebound in July, which recorded the highest transaction value during the period at IDR 52.5 trillion. In August, transaction values moderated to IDR 45.2 trillion. These fluctuations suggest that crypto market activity in Indonesia remains highly sensitive to market sentiment and price dynamics rather than reflecting a steady expansion of systemic financial use.

Cryptoassets transaction value in Indonesia

Table 3

Cryptoasset transaction value (in IDR trillions)	Period							
	Jan 2025	Feb 2025	Mar 2025	Apr 2025	May 2025	Jun 2025	Jul 2025	Aug 2025
	41.30	32.72	32.45	35.61	49.60	32.31	52.46	45.21

Source: OJK, Statistics on Digital Financial Assets and Cryptoassets, 2025.

The use of cryptoassets in Indonesia is subject to a strict and clearly defined regulatory framework that limits their scope and systemic relevance. Under the prevailing legal regime, cryptoassets are classified as digital commodities rather than as means of payment or instruments within the formal financial system. This framework is anchored in Law Number 7 of 2011 on Currency, which establishes the rupiah as the sole legal tender in the territory of the Republic of Indonesia. Consequently, the use of cryptoassets as a means of payment is prohibited. As a result, crypto-related activities in Indonesia are largely confined to investment and trading purposes, significantly constraining their transmission to the payment system and the broader financial system.

Consistent with this regulatory treatment, the macro-financial impact of cryptoassets in Indonesia has so far remained limited. Bank Indonesia's international investment position data do not indicate any identifiable impact of crypto activity on either foreign financial assets or foreign financial liabilities. Moreover, Indonesia reports no significant macro-financial impact from cross-border crypto or stablecoin flows, as there has been no observable effect on capital flows, exchange rate dynamics or monetary policy transmission. Stablecoins are not recognised as legal tender, and the rupiah remains the sole legal means of payment. Cryptoassets are regulated as financial assets under the supervision of the Financial Services Authority (OJK), which has helped contain risks related to currency substitution, circumvention of capital flow management measures and broader financial instability. Despite the rapid expansion of the domestic crypto user base and intermittent increases in transaction values, cryptoassets currently play only a marginal role in Indonesia's external position and overall macro-financial dynamics.

7. Monetary policy, financial conditions and the policy mix

Changes in US monetary policy and global financial conditions affect Indonesia primarily through shifts in global risk appetite and portfolio rebalancing, which influence capital flows and the relative attractiveness of emerging market assets. Movements in the federal funds rate and US Treasury yields are therefore closely monitored by Bank Indonesia, as increases in US yields tend to prompt portfolio adjustments, higher risk premia and upward pressure on domestic government bond yields.

Empirical analysis conducted by Bank Indonesia indicates that increases in US long-term Treasury yields are associated with positive but inelastic increases in Indonesia’s long-term local-currency government bond yields. Specifically, a 1 percentage point rise in the US 10-year Treasury yield is linked to an increase in the domestic 10-year government bond yield with a pass-through coefficient of less than one. This finding underscores the influence of global financial conditions on domestic financial markets while also highlighting the important role of domestic macroeconomic fundamentals and policy frameworks in moderating the transmission of external spillovers.

Indonesia has deployed a comprehensive and well-sequenced policy mix during recent periods of heightened stress, including the Covid-19 pandemic, the global monetary tightening cycle beginning in early 2022 and episodes of elevated geopolitical tension. This policy mix has combined adjustments to the policy rate, prudent purchases of government securities, foreign exchange market intervention and accommodative macroprudential measures. According to Indonesia’s self-assessment, these measures have been effective to very effective in maintaining macroeconomic stability, safeguarding financial system resilience and supporting exchange rate stability.

Regarding monetary policy, during the Covid-19 pandemic, Bank Indonesia responded decisively to the sharp contraction in economic activity and heightened financial market stress. Between early 2020 and February 2021, Bank Indonesia gradually reduced the 7-Day Reverse Repo Rate by a cumulative 150 bp, consistent with subdued inflationary pressures and the need to support economic recovery. At the same time, Bank Indonesia implemented large-scale quantitative easing measures by injecting substantial liquidity into the banking system, amounting to approximately IDR 726.6 trillion in 2020, with further expansion in early 2021. Liquidity provision was conducted through a range of instruments, including purchases of government securities in both the primary (under Perppu No 1/2020 only during the Covid-19 pandemic) and secondary markets.

During the global rate hike cycle from early 2022 to mid-2023, Bank Indonesia adopted a pro-stability monetary stance. The policy rate was gradually increased from its post-pandemic low to contain inflationary pressures and preserve the attractiveness of rupiah-denominated assets. Exchange rate stabilisation was reinforced through a “triple intervention” strategy, encompassing spot foreign exchange intervention, Domestic Non-Deliverable Forwards (DNDF) and purchases of government bonds in the secondary market. At the same time, macroprudential and payment system policies remained accommodative to support credit growth and economic recovery, ensuring that the overall policy mix balanced inflation and exchange rate stability with the need to sustain domestic growth momentum.

In response to escalating geopolitical tensions and capital outflow pressures that led to rupiah depreciation in April 2024, Bank Indonesia adopted pre-emptive and forward-looking measures. The policy rate was increased by 25 basis points (bp) to 6.25% to strengthen exchange rate stability and ensure inflation remained within the $2.5 \pm 1\%$ target range for 2024–25. This action was complemented by strengthened foreign exchange market stabilisation through spot intervention, DNDF operations and secondary-market government bond purchases. In parallel, Bank Indonesia optimised the use of SRBI, SVBI and SUVBI instruments to attract portfolio inflows, while maintaining an accommodative macroprudential stance to support banking intermediation and domestic economic recovery.

Following the April 2024 policy adjustment, Bank Indonesia maintained a tight and data-dependent monetary policy stance: keeping the policy rate at 6.25% for an extended period through most of 2024 to maintain exchange rate stability, anchoring inflation expectations within the target range and preserving portfolio inflows amid elevated global financial uncertainty. As external pressures gradually eased, global financial conditions became less restrictive, and domestic inflation showed a sustained moderation, Bank Indonesia began a cautious and calibrated easing cycle, lowering the policy rate to 4.75% towards the end of 2025.

Monetary easing was complemented by a broad set of macroprudential policies aimed at sustaining credit flows and mitigating financial stability risks. Bank Indonesia implemented a series of liquidity-enhancing measures during 2020. In addition to reductions in reserve requirements, Bank Indonesia temporarily removed additional reserve requirement penalties for banks that failed to meet the Macroprudential Intermediation Ratio (RIM) target range of 84–94%, effectively reducing both upper and lower disincentive parameters to zero. This measure provided additional liquidity to the banking sector amounting to approximately IDR 15.8 trillion. Further liquidity support was provided through a 50-bp reserve requirement incentive for banks extending credit to MSMEs and export-import activities, as well as for banks expanding credit to priority sectors under the Task Force Chief for National Economic Recovery (PEN) programme. Liquidity support was also extended to banks restructuring MSME and ultra-micro loans, helping to maintain credit flows at lower cost and support economic recovery.

To preserve banking sector resilience while supporting intermediation, Bank Indonesia maintained the countercyclical capital buffer (CCyB) at 0% throughout 2020. At the same time, the Macroprudential Liquidity Buffer (Penyangga Likuiditas Makroprudensial-PLM/PLM Syariah) was strengthened in line with monetary expansion through reserve requirement reductions effective 1 May 2020. The PLM ratio was increased from 4% to 6% of rupiah third-party funds for conventional banks and to 4.5% for Islamic banks, with compliance required through holdings of government securities purchased in the primary market. In parallel, Bank Indonesia lowered minimum down-payment requirements for environmentally friendly vehicle loans and financing to 0%, effective 1 October 2020, to further support domestic demand.

In 2021, Bank Indonesia continued its accommodative macroprudential stance while gradually normalising selected instruments in line with improving economic conditions. Loan-to-value (LTV) and financing-to-value (FTV) ratios for property loans and down-payment requirements for motor vehicle loans were relaxed to 0% from 1 March 2021, in close coordination with the Government and the OJK,

which had introduced complementary measures to stimulate the property and automotive sectors. Bank Indonesia also began publishing assessments of banks' base lending rate transparency in February 2021 to strengthen the transmission of monetary and macroprudential easing. As economic conditions improved, the RIM was gradually reactivated, with the lower bound raised to 75% in May 2021, 80% in September 2021 and 84% in January 2022. Export bills were incorporated into the RIM calculation, while accommodative liquidity conditions were maintained through a CCyB of 0% and a PLM ratio of 6%, with PLM instruments fully eligible for repo transactions with Bank Indonesia.

During this period, Bank Indonesia also refined its MSME Credit Ratio framework into the Macroprudential Inclusive Financing Ratio (RPIM). The refinement aimed to broaden financial inclusion by expanding the financing target beyond MSMEs to include MSME corporations and low-income individuals. Greater flexibility was provided to banks by widening eligible financing modalities, including direct and supply-chain-based financing; financing through financial institutions and service agencies such as rural banks (BPR/BPRS), fintech platforms, Permodalan Nasional Madani (PNM) and Sarana Multigriya Finansial (SMF); and financing through the purchase of securities linked to inclusive financing, including Inclusive SBN, Inclusive Medium Term Notes and Inclusive Asset Backed Securities (*Efek Beragun Aset (EBA) Inklusif*).

Beyond cyclical responses, macroprudential policy during 2024–25 was designed to maintain financial system stability and ensure balanced and high-quality intermediation in the domestic economy. In 2024, Bank Indonesia maintained a pro-growth macroprudential stance, with the Macroprudential Liquidity Incentive (KLM) emerging as the central instrument. The KLM incentive was progressively expanded from 1.0% of third-party funds at its introduction to 2.8% in April 2023 and 4.0% in October 2023, while sectoral coverage was broadened to include 46 priority subsectors. In 2024, the priority list was further expanded to include mineral down-streaming, agriculture, livestock, plantations, fisheries, construction, housing (including affordable housing), tourism, the creative economy, MSMEs/KUR and ultra-micro financing, positioning KLM as a more targeted and powerful tool than general reserve requirement easing.

Other macroprudential instruments remained accommodative, including a flexible PLM ratio, 100% LTV/FTV ratios for property loans, a 0% down-payment requirement for vehicle loans, a RIM range of 84–94%, a CCyB of 0%, the RPIM framework and strengthened transparency of banks' base lending rates. The period also saw the introduction of the Foreign Funding Ratio (RPLN), with a 30% ceiling and a dynamic countercyclical parameter of 5%, to strengthen banks' foreign funding management through a risk-based and countercyclical approach.

Entering 2025, Bank Indonesia maintained an accommodative macroprudential stance focused on expanding banks' lending capacity, particularly to priority and labour-intensive sectors aligned with the Government's Asta Cita agenda. Effective 1 April 2025, the KLM incentive was further strengthened beyond the previous 4% threshold and sharpened towards sectors with high multiplier and employment effects, notably agriculture and housing. In parallel, the RPLN framework was eased by raising the ceiling from 30% to 35% and increasing the countercyclical parameter from 0% to +5%, providing banks with greater flexibility to access foreign funding while maintaining prudential safeguards.

Further enhancements to KLM were announced in December 2025 through a forward-looking and performance-based mechanism. The refined framework introduced incentives linked both to banks' lending commitments to priority sectors and to the speed of adjustment of lending rates to Bank Indonesia's policy rate. Under this framework, lending channel incentives of up to 5% of third-party funds and interest-rate channel incentives of up to 0.5% of third-party funds could be granted, bringing the total potential incentive to 5.5%. Incentive allocation also incorporated adjustment factors based on the realisation of credit growth relative to prior commitments.

To further strengthen domestic liquidity management, Bank Indonesia reduced the PLM ratio effective 1 June 2025 and lowered the repo flexibility threshold, providing banks with greater room to mobilise liquidity for lending. Other macroprudential instruments remained accommodative, including the RIM range of 84–94%, a CCyB of 0%, extended 100% LTV/FTV ratios and 0% down-payment requirements through end-2025, and continued implementation of the RPIM framework. Bank Indonesia implemented close coordination with the Financial System Stability Committee (KSSK) to maintain financial system stability and revive lending to priority sectors, thereby supporting economic growth, exports and financial inclusion.

Bank Indonesia monitors domestic financial conditions through the Financial System Stability Index (FSSI), which serves as a comprehensive indicator of financial system soundness. The FSSI is used primarily for macroprudential surveillance, crisis management and financial stability assessments. While the index informs policy discussions and supports decision-making, it is not used directly as an operational tool for monetary policy.

The FSSI is composed of three main components: the Resilience Index, the Intermediation Index and the Efficiency Index, with respective weights of 70%, 20% and 10%. The Resilience Index captures vulnerabilities in the financial system across multiple risk dimensions. Credit risk is assessed using indicators such as the Domestic Systemically Important Bank (D-SIB) score, banks' non-performing loan (NPL) ratios and NPF ratios of other financial corporations (OFCs). Liquidity risk is measured through the D-SIB score, banks' total asset-to-securities gaps and OFCs' current liabilities-to-current assets ratios. Capital risk indicators include the D-SIB score, banks' capital adequacy ratios and OFCs' capital-to-asset ratios. Market exposure risk is captured using the D-SIB score, monthly average foreign exchange returns, net open positions, indicators from the inter-dealer market association and banks' holdings of sovereign bonds, including trading and available-for-sale securities. Market risk is assessed using global and domestic volatility indicators, including the VIX, the 10-year government bond yield, average monthly USD/IDR exchange rate volatility and Jakarta Composite Index volatility. The D-SIB score reflects the domestic systemic importance of individual banks across these risk categories.

The Intermediation Index is weighted by the respective lending shares of banks and OFCs and captures developments in financial intermediation through indicators such as banks' lending growth, loan-to-deposit ratios and OFCs' financing growth. Meanwhile, the Efficiency Index, also weighted by intermediary shares, evaluates the performance of banks and OFCs using indicators such as net interest margins and operating cost-to-income ratios.

The selection and weighting of indicators within the FSSI are determined using a combination of principal component analysis and professional judgment. Methodologically, the FSSI serves three primary purposes. First, it functions as a tool to gauge overall financial stability and is regularly reported to the Board of Governors and published in the *Financial Stability Review*. Second, it acts as one of the key indicators informing the macroprudential policy stance. Third, it serves as a core indicator within the Crisis Management Protocol, supporting timely and coordinated policy responses during periods of financial stress.

The FSSI functions as Bank Indonesia’s primary indicator for assessing overall financial system conditions and serves as a macroprudential tool rather than a monetary policy instrument. In Indonesia, this framework is formally referred to as the *Indeks Stabilitas Sistem Keuangan* and is published on a biennial basis in Bank Indonesia’s *Financial Stability Review*. Given its macroprudential orientation, the index is not used as an operational input for monetary policy decisions. Instead, it plays an important role in informing macroprudential policy formulation, financial stability surveillance and crisis preparedness. Importantly, Bank Indonesia publishes only the finalised aggregate index, while the detailed methodology and underlying component indicators are not disclosed publicly. This approach reflects the index’s role as an internal policy-support tool designed to guide supervisory assessment and policy coordination, rather than as a market-facing monetary policy signal.

Overall, the evolution of Bank Indonesia’s policy mix during 2024–25 reflects a consistent strategy centred on strengthening the KLM as the primary lever, supported by flexible liquidity buffers and adaptive foreign funding regulations. This approach has aimed to safeguard financial stability while sustaining credit expansion, supporting inclusive growth and enhancing the resilience of the Indonesian economy amid persistent global uncertainty.

8. Overall assessment

Indonesia’s experience demonstrates that while global financial structural shifts have increased the complexity of the international financial environment, their transmission to EMEs is not uniform. In Indonesia’s case, the impact of NBFIs and cryptoassets on capital flows, exchange rate dynamics and monetary policy effectiveness remains limited. The external position continues to be driven primarily by conventional capital flows and valuation effects, supported by strong domestic fundamentals and a diversified investor base.

Going forward, Indonesia remains vigilant to evolving global financial developments and supports internationally coordinated regulatory approaches to ensure that future structural changes, particularly in digital finance, do not undermine macro-financial stability.

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