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Beyond Ample Liquidity: Banking Resilience, Monetary Transmission, and Pro-Growth Intermediation in Indonesia in 2026

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ABSTRACT: This article examines the resilience of Indonesia's banking sector during 2026 through a qualitative and integrative literature review, complemented by a thematic analysis of contemporaneous macro-financial and regulatory evidence available through mid-August 2026. Banking resilience is conceptualised not merely as the possession of abundant liquidity or capital, but as the capacity of banks to absorb shocks while preserving prudent, productive, and policy-consistent intermediation. The analysis identifies a distinctive configuration in 2026: credit growth accelerated, particularly through investment lending, while aggregate liquidity and capital buffers remained strong but selected liquidity ratios declined as intermediation intensified. Simultaneously, Bank Indonesia pursued a pro-stability monetary stance, including a BI-Rate of 5.75%, alongside pro-growth macroprudential measures designed to expand funding flexibility, reduce liquidity segmentation, deepen money markets, and encourage lending to priority sectors. The thematic synthesis suggests that Indonesia's banking resilience rests on the interaction of five dimensions: balance-sheet buffers, funding adaptability, asset quality, effective monetary transmission, and the developmental quality of credit allocation. Ample liquidity therefore constitutes a necessary but insufficient condition for resilience. The article concludes that strengthening resilience while supporting pro-growth development requires distribution-sensitive liquidity surveillance, stronger monetary-policy transmission, disciplined evaluation of macroprudential incentives, preservation of underwriting standards, deeper money markets, and sustained policy coordination among Indonesia's financial authorities.

KEYWORDS: banking resilience; financial intermediation; bank liquidity; monetary policy transmission; macroprudential policy; BI-Rate; credit growth; financial stability; pro-growth policy; Indonesia.
JEL Classification: E52; E58; G21; G28; O16

1. INTRODUCTION

Indonesia entered 2026 with a banking system that had accumulated substantial experience in navigating repeated episodes of global uncertainty. The post-pandemic normalisation process had already required banks to manage changing interest-rate conditions, renewed global capital-flow volatility, evolving financial regulation, digitalisation, and shifts in borrower behaviour. During 2026, these challenges were compounded by heightened geopolitical uncertainty, energy-price pressures, exchange-rate volatility, and a more complicated global monetary environment. At the same time, domestic economic activity remained comparatively resilient: Indonesia's real gross domestic product expanded by 5.29% year-on-year in the second quarter of 2026, while headline consumer price inflation stood at 2.88% year-on-year in July 2026 (BPS-Statistics Indonesia, 2026a, 2026b).

These developments created an unusual policy environment for the banking sector. Bank Indonesia (BI) raised the BI-Rate by 25 basis points to 5.75% in June 2026, with the Deposit Facility rate at 4.75% and the Lending Facility rate at 6.50%. The decision was explicitly directed towards strengthening Rupiah stability and containing inflation risks, while BI simultaneously maintained an accommodative, pro-growth macroprudential stance intended to support lending and financing to the real economy (Bank Indonesia, 2026a). This combination is analytically important because monetary tightening and macroprudential accommodation operate through the same banking balance sheets but may affect different margins of bank behaviour.

The Indonesian banking system was not passive in this environment. Outstanding bank credit expanded by 12.67% year-on-year in June 2026, accelerating from 11.51% in May. Investment loans grew by 24.90%, substantially faster than working-capital loans at 8.94% and consumer loans at 5.75%, while third-party funds expanded by 10.21% year-on-year (Bank Indonesia, 2026b, 2026e). The combination suggests vigorous intermediation but also creates a relevant resilience question: when credit expands faster than deposit funding, how should declining liquid-asset ratios be interpreted?

The Bisnis Indonesia feature entitled Perbankan Tahan Banting captures precisely this tension by framing the banking industry as resilient while drawing attention to liquidity, credit acceleration, monetary conditions, and the

role of banks in supporting economic activity (Bisnis Indonesia, 2026). This article uses that contemporaneous narrative as an initial contextual input, but it does not treat the newspaper report as the principal empirical source. Instead, current banking indicators are triangulated against primary information from Bank Indonesia, the Financial Services Authority (OJK), BPS-Statistics Indonesia (BPS), and the Financial System Stability Committee (KSSK), while the analytical interpretation is grounded in peer-reviewed literature published since 2020.

The distinction between liquidity adequacy and banking resilience is central to this study. OJK reported that the liquid-assets-to-non-core-deposits ratio (AL/NCD) declined from 108.20% in May to 101.92% in June 2026, while liquid assets relative to third-party funds (AL/DPK) declined from 24.74% to 23.08%. Yet both remained well above their regulatory thresholds of 50% and 10%, respectively, while the liquidity coverage ratio (LCR) remained very high at 182.75%. Capital and asset-quality indicators were also favourable: the capital adequacy ratio (CAR) stood at 23.70%, gross non-performing loans at 2.09%, net NPLs at 0.82%, loan at risk (LaR) at 8.47%, and return on assets (ROA) at 2.47% in June (OJK, 2026).

These numbers support a conclusion of current resilience, but they do not justify complacency. A banking system can be liquid in aggregate and still experience segmentation, funding asymmetry, interest-rate rigidity, collateral constraints, or institution-specific liquidity pressures. Similarly, rapid credit growth can be beneficial when it finances productivity-enhancing investment, but it can undermine future resilience if underwriting standards deteriorate, risk is mispriced, or concentration increases. Recent evidence on liquidity regulation also highlights a fundamental trade-off: stronger liquidity buffers can reduce fire-sale externalities while restraining some forms of liquidity creation and lending (Roberts, Sarkar and Shachar, 2023). Resilience is consequently better treated as a dynamic capacity than as a static stock of financial buffers.

The recent literature supports such a multidimensional approach. Research on bank liquidity creation emphasises that banks create economic value precisely because they transform liquid liabilities into comparatively illiquid claims on households and firms; this function inherently generates liquidity and maturity-transformation risk (D'Avino, Girardin and Shabani, 2022; Beck et al., 2023; Carré and Klossner, 2024; Dietrich and Vollmer, 2024). Evidence on bank capital demonstrates that capitalisation can materially affect the capacity of financial institutions to recover from shocks and restore credit creation even if capital alone cannot eliminate crises (Jordà et al., 2021). Research following the COVID-19 shock likewise shows that stronger balance sheets and policy support allowed banking systems to act as important liquidity providers to firms during acute stress (Li, Strahan and Zhang, 2020; Demirgüç-Kunt, Pedraza and Ruiz-Ortega, 2021).

Indonesia also provides a particularly useful setting for analysing the interaction between intermediation and monetary policy. Empirical studies have documented a functioning bank-lending channel but also heterogeneous transmission across banks and incomplete or asymmetric pass-through from monetary-policy rates to retail lending and deposit rates (Naiborhu, 2020; Handayani and Kacaribu, 2021; Triwibowo et al., 2022). More recent Indonesian evidence demonstrates that funding liquidity conditions alter the way monetary policy affects undisbursed lending commitments (Soedarmono et al., 2023), while evidence on monetary-macroprudential policy synergy shows that the bank-lending channel depends on the interaction between the two policy domains (Handayani and Setiastuti, 2025). These findings are especially pertinent in 2026 because undisbursed loan facilities remained exceptionally large, at approximately Rp2,490 trillion or 21.52% of available credit lines (Bank Indonesia, 2026b).

Against this background, the article addresses five interrelated questions. First, how resilient has the Indonesian banking sector been during 2026 when resilience is considered through liquidity, capital, asset quality, profitability, funding, and credit provision simultaneously? Second, how have monetary policy, bank liquidity, and interest-rate transmission interacted with financial intermediation? Third, how should Indonesia's combination of a pro-stability monetary stance and pro-growth macroprudential policy be interpreted? Fourth, to what extent does current credit composition support a genuinely pro-growth development agenda? Finally, what policies could strengthen the capacity of banks to absorb future shocks without disrupting productive intermediation?

The contribution is therefore not an attempt to establish another single-variable measure of bank stability. Rather, it integrates three bodies of literature that are often considered separately: banking resilience, monetary transmission, and development-oriented financial intermediation. The argument developed throughout the article is that Indonesia's banking resilience in 2026 is best understood as the capacity to preserve prudent and productive intermediation while absorbing macro-financial shocks and transmitting a monetary-macroprudential policy mix that simultaneously pursues stability and growth.

Because the year is ongoing, the empirical cut-off is important. Observations described as outcomes refer to information available through 15 August 2026, predominantly June and July banking and macroeconomic data. Statements concerning the remainder of 2026 are explicitly treated as scenarios, risks, or policy outlooks rather than realised facts.

2. LITERATURE REVIEW

2.1. Banking Intermediation, Liquidity Creation, and Economic Development

Financial intermediation is fundamentally a process of transformation. Banks accept relatively liquid and often short-maturity liabilities while extending less-liquid and generally longer-maturity credit. This transformation allows savers to retain liquidity while enabling firms and households to finance investment, production, property, and consumption. Yet the same mechanism creates vulnerability because depositors or wholesale creditors may demand liquidity more quickly than loans can be converted into cash without losses. Recent research has revived interest in bank liquidity creation as distinct from merely holding liquid assets. D'Avino, Girardin and Shabani (2022) construct cross-country measures of aggregate bank liquidity creation for developing and emerging economies and show that liquidity creation varies materially across countries and over financial cycles. Beck et al. (2023) connect liquidity creation with investment and economic growth and demonstrate that banks' developmental contribution depends on where and how liquidity is allocated. Carré and Klossner (2024) formalise a related liquidity-multiplier mechanism in which liquid assets support deposit creation, thereby clarifying why public liquidity provision can have effects beyond the initial injection. Dietrich and Vollmer (2024) further show theoretically that liquidity creation can generate welfare benefits while simultaneously creating endogenous risks when investment externalities affect bank returns.

This literature provides an important conceptual distinction for Indonesia. A high liquidity ratio indicates the presence of a buffer, whereas successful intermediation necessarily involves using a portion of that buffer to transform funding into credit. A decline in a liquidity ratio is therefore not automatically evidence of deteriorating resilience. The relevant issue is whether declining liquidity reflects controlled intermediation supported by stable funding and high-quality assets or whether it reflects stress, funding concentration, market segmentation, or excessive expansion. Capital and liquidity are also interdependent. Hsieh, Lee and Lin (2022), using evidence from Asian banking systems, show that the relationship between capital and liquidity creation is influenced by liquidity conditions and political risk. Baros et al. (2023) find that European banks adapt balance-sheet liquidity management to capital shocks under overlapping liquidity and capital constraints, while Lutz and Pichler (2021) show how liquidity and borrowing externalities can justify financial-stability regulation. Papadamou et al. (2021) support the prudential value of Basel III liquidity provisions. At the same time, Roberts, Sarkar and Shachar (2023) show that liquidity regulation can lower fire-sale risk while reducing some bank lending and liquidity creation, underscoring the importance of balancing resilience and intermediation.

Intermediation nevertheless extends beyond balance-sheet transformation. Banks screen prospective borrowers, monitor projects, price credit risk, construct long-term lending relationships, and allocate scarce funds among competing uses. Bethune et al. (2022) show theoretically that lending relationships can influence the design and transmission of monetary policy, while Winton and Yerramilli (2021) highlight the importance of monitoring incentives in credit origination. These insights matter for a pro-growth framework because an increase in gross credit volumes is not equivalent to an increase in productive financial intermediation. Credit generates sustainable developmental benefits when it improves capital formation and productive capacity without weakening expected repayment performance.

The growth implications are therefore conditional. Beck et al. (2023) find that liquidity creation is associated with real investment and growth, but also identify important heterogeneity in the developmental role of banks. Chatterjee (2023) shows that banking and credit conditions contain information about future real economic growth. For Indonesia, this suggests that the composition of 2026 lending—not merely the headline growth rate—must be examined. Rapid growth in investment loans carries different implications for future productive capacity than an equivalent expansion driven principally by unsecured consumption.

2.2. The Bank-Lending Channel and Interest-Rate Transmission

Banks are simultaneously producers of credit and transmitters of monetary policy. In the conventional bank-lending channel, a monetary-policy action changes the conditions under which banks obtain or deploy funding, which subsequently affects lending quantity, pricing, and risk selection. The strength of the channel depends on bank capital, liquidity, size, efficiency, market power, funding structure, borrower characteristics, and the state of real economic activity. Recent evidence indicates that the bank credit channel can itself be state-dependent, with monetary policy transmitting differently across stronger and weaker growth environments (Sapriza and Temesvary, 2024).

Naiborhu (2020) provides direct evidence that a bank-lending channel operates in Indonesia and that its strength depends partly on bank-specific balance-sheet characteristics. Handayani and Kacaribu (2021) demonstrate that transmission from monetary policy to Indonesian retail interest rates is asymmetric, indicating that changes in policy rates need not be passed through at equal speed or magnitude to deposits and loans. Triwibowo et al. (2022) further show that transmission differs between conventional and Islamic banks and varies with the business cycle. These findings

caution against evaluating monetary policy merely by comparing the BI-Rate with an economy-wide lending rate.

The role of bank heterogeneity is consistent with international evidence. Dwumfour, Oteng-Abayie and Mensah (2022) show that bank cost efficiency affects the bank-lending channel. Dang and Huynh (2022) demonstrate that funding structure and market power can shape the liquidity-creation channel of monetary policy, while Dang (2022) finds that liquidity creation can constitute an independent transmission mechanism in a policy environment with multiple instruments. Correa et al. (2022) show that monetary-policy shocks can also operate through cross-border banking flows, an important consideration for emerging economies exposed to global funding conditions.

The Indonesian literature has increasingly incorporated the interaction between monetary policy and bank risk. Anwar et al. (2023a) examine the relationships among monetary policy, macroprudential policy, and credit risk in Indonesian banking, while Anwar et al. (2023b) study monetary-policy and credit-risk effects on the credit behaviour of listed Indonesian banks. Anwar et al. (2024) subsequently document the relevance of monetary and macroprudential conditions for bank risk-taking. Naiborhu (2024) adds an important balance-sheet dimension by investigating how loan-loss provisioning interacts with monetary policy and lending.

An especially relevant contribution for 2026 is Soedarmono et al. (2023). Their analysis of Indonesia shows that funding liquidity influences the relationship between monetary policy and undisbursed loans. This insight challenges any simplistic assumption that a large credit line is economically equivalent to realised financing. International evidence similarly shows that undrawn credit commitments create contingent demands on both capital and liquidity, particularly during periods of stress (Pelzl and Valderrama, 2023). Credit commitments may therefore signal future lending capacity, yet their macroeconomic impact materialises only when borrowers draw the facility and deploy the funds in productive activity.

International evidence reinforces the risk dimension of monetary transmission. Afanasyeva and Güntner (2020) show that bank market power interacts with the risk-taking channel. Segev (2020) provides evidence linking monetary transmission, bank risk-taking, and economic activity. Matthys, Meuleman and Vander Vennet (2020) examine risk-taking under unconventional monetary policy, while Kandrac (2021) studies the consequences of quantitative easing for lending risks. Wu et al. (2022) show that economic uncertainty alters the relationship between monetary policy and bank risk across countries, and Wang and Zhuang (2022) document the role of bank liquidity in the risk-taking channel. Ngambou Djatche (2022), reviewing the broader literature, concludes that monetary and prudential policies interact materially in determining bank risk behaviour.

For Indonesia, these findings imply that monetary-policy transmission in 2026 should be evaluated across at least four margins: money-market pricing, deposit pricing, lending pricing, and loan quantity. A fifth margin, risk selection, is equally important. A rate increase that stabilises the currency but leads banks to preserve margins through more selective lending may affect borrowers differently from a rate increase that is rapidly transmitted to all retail rates. The broader literature further suggests that the strength of the bank credit channel can vary with prevailing real activity, which cautions against assuming a constant transmission coefficient through the cycle (Sapriza and Temesvary, 2024).

2.3. Banking Resilience as a Multidimensional Concept

Banking resilience is frequently conflated with solvency, but contemporary evidence favours a broader conception. A resilient bank must remain solvent, but it must also preserve liquidity, obtain funding, maintain manageable asset quality, generate sufficient earnings, continue operating, and perform its intermediation function during stress.

Jordà et al. (2021) show historically that stronger bank capital does not simply prevent crises; importantly, better-capitalised financial systems can experience more robust recovery after stress. This is a crucial distinction because the policy objective is not only to reduce the probability of failure but also to limit the persistence of credit contraction after a shock. Supervisory tools can also influence resilience dynamically: stress tests affect banks' lending and risk-taking incentives, which means that supervisory credibility and design matter for the balance between prudence and credit provision (Shapiro and Zeng, 2024).

The COVID-19 episode generated an extensive natural laboratory for studying resilience. Li, Strahan and Zhang (2020) show that banks acted as "lenders of first resort" when firms rapidly drew credit lines during the early pandemic. Acharya and Steffen (2020) document the corporate dash for liquidity, illustrating how stress in the real sector can be transmitted rapidly to banking balance sheets. Demirgüç-Kunt, Pedraza and Ruiz-Ortega (2021) find substantial cross-country variation in banking performance during the pandemic, while Elnahass, Trinh and Li (2021) show that the outbreak materially affected global banking stability.

Other studies reveal that institutional and balance-sheet characteristics shaped resilience. Duan et al. (2021) identify cross-country differences in bank systemic risk around COVID-19. Danisman, Demir and Zaremba (2021) show that banking-market structure influenced financial resilience, while Demir and Danisman (2021) document the importance of bank-specific characteristics and government policy responses. Dadoukis, Fiaschetti and Fusi (2021) find that information-technology adoption was associated with bank performance during the pandemic. Li et al. (2021) show that revenue diversification also affected bank profitability and risk during the shock.

The prudential-policy literature similarly indicates that resilience depends on institutional architecture. Igan, Mirzaei and Moore (2023) find that macroprudential policy moderated some adverse pandemic effects on bank resilience. Trinh, Cao and Elnahass (2023) link pre-existing financial stability to reduced tail risk during the pandemic. Pagano and Zechner (2022) demonstrate more broadly how the pandemic reshaped corporate financing conditions, while Arner, Avgouleas and Gibson (2022) emphasise the importance of carefully designed public support and resolution regimes in systemic crises.

The central lesson from this literature is that banking resilience cannot be inferred from a single ratio. Capital, liquidity, profitability, asset quality, market access, technology, policy credibility, and the ability to continue lending operate jointly. This multidimensional perspective underpins the empirical interpretation of Indonesia in 2026.

2.4. Macroprudential Policy and the Monetary–Macroprudential Mix

Macroprudential policy addresses financial-system externalities that conventional monetary policy cannot target precisely. Monetary policy typically operates at the macroeconomic level, whereas macroprudential instruments can influence particular forms of leverage, liquidity transformation, funding structure, or credit expansion.

De Schryder and Opitz (2021) show that macroprudential measures can meaningfully influence credit cycles, although effects depend on instrument design and financial conditions. Meuleman and Vander Vennet (2020) document a relationship between macroprudential policy and bank systemic risk. Behncke (2023) similarly finds that prudential measures can alter both lending and credit risk. Borrower- and lender-based measures can also complement each other rather than functioning as substitutes, as shown by Apergis, Aysan and Bakkar (2022).

Policy interaction is nevertheless complicated. Bussière (2021) reviews how monetary and macroprudential policy can reinforce or offset each other. Garcia Revelo and Levieuge (2022) demonstrate theoretically that policy conflicts can emerge depending on the nature of shocks, instruments, and policy objectives. Agénor and Flamini (2022) find that institutional mandates and the degree of coordination influence the joint achievement of macroeconomic and financial stability.

For open emerging economies, international capital movements add another layer. Coman and Lloyd (2022) analyse prudential responses to international spillovers, while Fabiani et al. (2022) show that capital controls and domestic macroprudential policies can influence the local bank-lending channel of monetary policy. Such considerations are relevant for Indonesia because external funding conditions, exchange-rate movements, domestic interest rates, and capital flows are tightly connected.

The Indonesian policy configuration in 2026 can therefore be understood as a deliberate assignment of instruments to different objectives. Monetary policy has been directed primarily towards Rupiah and inflation stability, while macroprudential instruments have remained accommodative to preserve intermediation. Recent Indonesian evidence indicates that monetary and macroprudential policies interact through the bank-lending channel rather than operating as fully separable instruments (Handayani and Setiastuti, 2025). Rather than indicating inconsistency, the 2026 configuration can therefore represent a coherent policy mix when instruments are sufficiently differentiated and their interaction is monitored carefully.

2.5. Pro-Growth Intermediation and the Quality of Credit

A pro-growth banking policy should not be defined simply by a high credit-growth target. Financial intermediation supports development when additional lending relaxes financing constraints for economically viable activities, increases productive capital formation, enables working-capital circulation, improves infrastructure, supports entrepreneurship, or facilitates productivity-enhancing technological adoption.

Investment loans therefore deserve particular analytical attention. Their rapid growth may indicate stronger private capital formation and an expansion of productive capacity. However, the developmental value depends on project viability, sectoral allocation, maturity matching, and risk-adjusted returns. Liquidity creation can support economic growth, but the literature does not imply that every increment of bank lending is welfare enhancing (Beck et al., 2023; Hsieh, Lee and Lin, 2022).

Similarly, support for small and medium-sized firms is developmentally important but cannot be evaluated exclusively by credit volume. Relationship banking, information production, digital credit assessment, supply-chain financing, guarantees, and appropriate collateral structures can be equally important for expanding viable access without creating excessive default risk.

The conceptual implication is that a resilient pro-growth banking system must satisfy three criteria simultaneously: **additionality**, meaning financing would otherwise be constrained; **productivity**, meaning financing supports sustainable economic capacity; and **prudence**, meaning the expected risk-adjusted return remains compatible with depositor protection and financial stability. This three-part criterion guides the analysis below.

2.6. Conceptual Synthesis

The literature suggests a circular rather than linear relationship among monetary policy, bank resilience, and growth. Macroeconomic shocks influence monetary policy and financial conditions. These conditions alter banks' funding costs, liquidity management, interest-rate pricing,

and risk appetite. Banks then adjust credit quantities and portfolios, affecting investment, consumption, production, and growth. Real-economy outcomes subsequently feed back into borrower cash flows, credit quality, bank profitability, and future resilience.

Consequently, resilience acts both as an **input into intermediation** and an **outcome of intermediation quality**. Capital and liquidity make it possible for banks to continue lending during stress. Yet whether those buffers remain strong in the future depends partly on whether current credit is allocated to borrowers capable of servicing it.

This article therefore adopts five analytical propositions. Aggregate liquidity is necessary but insufficient for resilience; the distribution of liquidity across institutions matters for monetary transmission; productive credit is more important than credit quantity alone; monetary and macroprudential policies can complement each other but require continuous coordination; and resilience ultimately depends on the interaction among balance-sheet buffers, market functioning, borrower quality, and institutional credibility.

3. METHOD

3.1. Research Design

This study employs a **qualitative, integrative literature review with thematic synthesis**. It is expressly **not a systematic literature review (SLR)** and does not claim exhaustive coverage of all studies that might satisfy predetermined database filters.

The methodological choice is consistent with the purpose of the paper. The objective is to combine conceptually related but institutionally dispersed bodies of knowledge—financial intermediation, liquidity creation, bank resilience, monetary transmission, macroprudential policy, and pro-growth finance—and interpret them in the context of Indonesia's 2026 macro-financial environment. A protocol-driven SLR would be appropriate for a narrowly specified question about the distribution of empirical effect sizes or a comprehensive mapping of a tightly defined literature. The present question instead requires interpretive integration of theories, empirical banking studies, Indonesian evidence, and current institutional data.

Paul and Criado (2020) emphasise that a rigorous literature review must do more than summarise existing studies; it should organise, critique, and generate new conceptual understanding. Kraus et al. (2022) likewise treat literature reviews as independent research contributions when the review process is transparent and analytically structured. Furlong and Lester (2023) specifically develop the logic of qualitative methodological literature reviewing, while Yadav (2022) stresses transparency, reflexivity, and coherence as criteria of qualitative research quality.

3.2. Literature Identification and Source Selection

The academic literature was identified purposively and iteratively rather than through an exhaustive inclusion-and-exclusion protocol. Publications from 2020 onward were prioritised, in line with the requirement to focus on recent literature. Selection was organised around six conceptual domains: bank liquidity and liquidity creation; financial intermediation and investment; the bank-lending and interest-rate channels of monetary policy; bank risk and resilience; macroprudential policy and monetary-macroprudential interaction; and evidence specific to Indonesia.

Peer-reviewed journal articles were prioritised when bibliographic metadata and DOI information could be independently verified. The final reference base contains more than sixty peer-reviewed journal articles published from 2020 onward, supplemented by primary institutional and contextual sources. Older foundational theories are discussed only indirectly through the recent literature and are not counted toward the contemporary reference base.

Current 2026 evidence was drawn from primary institutional sources, particularly Bank Indonesia, OJK, BPS and KSSK. The Bisnis Indonesia feature was used as contextual material to identify salient contemporary narratives, but quantitative claims in the article were cross-checked against primary regulatory or statistical sources. This separation between contextual media evidence and primary institutional data is intended to strengthen source credibility and reduce the risk of reproducing unverified contemporaneous claims.

3.3. Analytical Procedure

Analysis proceeded through iterative thematic coding. The first-order categories were liquidity, funding, capital, asset quality, profitability, intermediation, monetary transmission, bank heterogeneity, risk-taking, macroprudential policy, productive lending, and policy coordination. These were subsequently consolidated into higher-order themes: **buffer capacity**, **adaptive intermediation**, **transmission effectiveness**, **developmental additionality**, and **policy-system coordination**.

Triangulation was applied in two ways. First, theoretical and cross-country findings were compared with Indonesia-specific empirical studies. Second, interpretations of current conditions were cross-checked across institutional sources. For example, the conclusion that liquidity is adequate but being used more intensively is not based on a single press narrative; it emerges from OJK liquidity ratios, BI credit and funding data, and the concurrent acceleration of investment lending.

3.4. Scope, Trustworthiness, and Limitations

The temporal cut-off is 15 August 2026. The latest available banking observations are predominantly for June 2026, with policy decisions and macroeconomic releases extending into July and early August. Accordingly, this article does not describe September-December 2026 as completed events.

The review does not estimate causal coefficients. When the article states that a particular policy *may* improve liquidity distribution or *could* affect risk-taking, these are analytical interpretations grounded in literature rather than causal estimates generated by this study. Aggregate indicators also conceal substantial bank-level heterogeneity. A high system-wide AL/NCD or CAR does not imply that every institution possesses an identical buffer. Finally, the study does not replace supervisory stress testing or micro-level bank analysis.

4. RESULTS: THEMATIC FINDINGS FROM THE LITERATURE AND 2026 EVIDENCE

4.1. Theme 1: A Resilient Domestic Economy Facing an Adverse External Environment

The first thematic finding is that Indonesian banking resilience in 2026 has been tested less by a domestic recession than by the coexistence of relatively solid domestic activity with elevated external uncertainty. Real GDP growth of 5.29% year-on-year in the second quarter indicates that aggregate demand and production remained comparatively robust, while July inflation of 2.88% remained within the government's 2.5% target with a tolerance of one percentage point in either direction (BPS-Statistics Indonesia, 2026a, 2026b). These conditions provided a comparatively supportive domestic backdrop for banking intermediation despite external volatility.

At the same time, geopolitical tensions and global financial-market volatility continued to affect energy prices, capital flows, exchange-rate expectations, and monetary-policy trade-offs. KSSK's assessment emphasised that domestic fiscal, monetary, and financial-sector conditions remained resilient while the authorities continued forward-looking monitoring of elevated external risks (KSSK, 2026). This institutional assessment is consistent with the article's emphasis on resilience as a capacity that must be monitored prospectively rather than inferred only from contemporaneous balance-sheet ratios.

For banks, this configuration matters because the most immediate risk is not necessarily a collapse in domestic loan demand. Instead, the system must manage potential changes in funding costs, foreign funding conditions, Rupiah volatility, imported inflation, borrower margins, and market valuation while credit continues to grow. Resilience is therefore being tested under expansion rather than under outright contraction.

4.2. Theme 2: Liquidity Remains Ample, but Buffer Compression Requires Interpretation

OJK's June data provide strong evidence that aggregate liquidity remained adequate. AL/NCD was 101.92%, more than twice its 50% threshold; AL/DPK was 23.08%, also more than twice its 10% threshold; and the LCR was 182.75%. Nevertheless, both AL/NCD and AL/DPK declined from May, indicating that ample liquidity was being used more intensively as intermediation accelerated (OJK, 2026).

Figure 1 should therefore not be read as evidence of a liquidity crisis. Its purpose is to visualise the distinction between buffer compression and buffer inadequacy. Both liquidity ratios moved downward in June as intermediation accelerated, but substantial headroom over the regulatory thresholds remained.

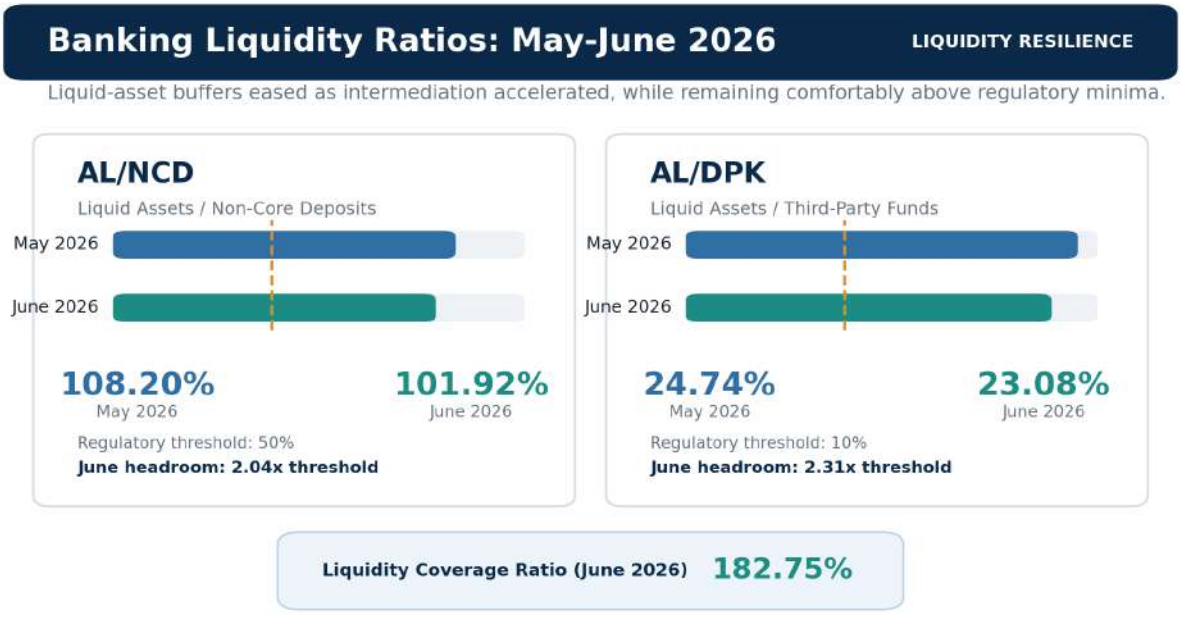

Figure 1. Banking Liquidity Ratios: May-June 2026

Source: OJK (2026). Regulatory thresholds are 50% for AL/NCD and 10% for AL/DPK.

Figure 1 illustrates that the downward movement becomes economically meaningful when read alongside credit and deposit growth. Credit expanded by 12.67% year-on-year in June, while third-party funds grew by 10.21% (Bank Indonesia, 2026b, 2026e). This implies that part of the banking system's accumulated liquidity is being mobilised into credit, which is consistent with the core economic function of banks. The resilience question is whether continued credit acceleration can be funded without persistent erosion of liquidity headroom, excessive competition for deposits, or stronger dependence on unstable wholesale and external funding.

The literature provides support for this interpretation. Liquidity creation is beneficial precisely because banks convert liquid claims into financing for less-liquid productive assets, and liquid assets can support deposit creation through a liquidity-multiplier mechanism (D'Avino, Girardin and Shabani, 2022; Carré and Klossner, 2024; Dietrich and Vollmer, 2024). However, excessive transformation can create fragility, while tighter liquidity regulation may reduce fire-sale externalities at the cost of some lending and liquidity creation (Roberts, Sarkar and Shachar, 2023). A resilience framework should therefore track not only liquidity ratios but also their trajectory, distribution, funding counterpart, collateral quality, and capacity for replenishment.

Bank Indonesia's policies acknowledge this distributional issue. The July policy package explicitly sought to reduce liquidity segmentation in the money market and banking industry. From September 2026, the maximum total Macroprudential Liquidity Incentive (KLM) available to banks is scheduled to increase from 5.5% to 6.0% of third-party funds, while a money-market-deepening component of up to 2.0% of TPF is introduced for qualifying banks (Bank Indonesia, 2026b). The policy architecture therefore implicitly recognises that aggregate liquidity abundance does not guarantee frictionless distribution among banks.

4.3. Theme 3: Intermediation Has Accelerated and Shifted toward Investment Credit

The most striking feature of banking performance in mid-2026 is the acceleration of credit. Outstanding loans grew by 12.67% year-on-year in June, compared with 11.51% in May. Investment lending grew by 24.90%, working-capital credit by 8.94%, and consumer lending by 5.75% (Bank Indonesia, 2026b). The composition therefore points to unusually strong investment-financing momentum rather than an acceleration led mainly by household borrowing.

Figure 2 highlights why headline credit growth alone understates the developmental dimension of current intermediation. Investment lending is expanding at approximately twice the pace of aggregate credit and substantially faster than consumer credit.

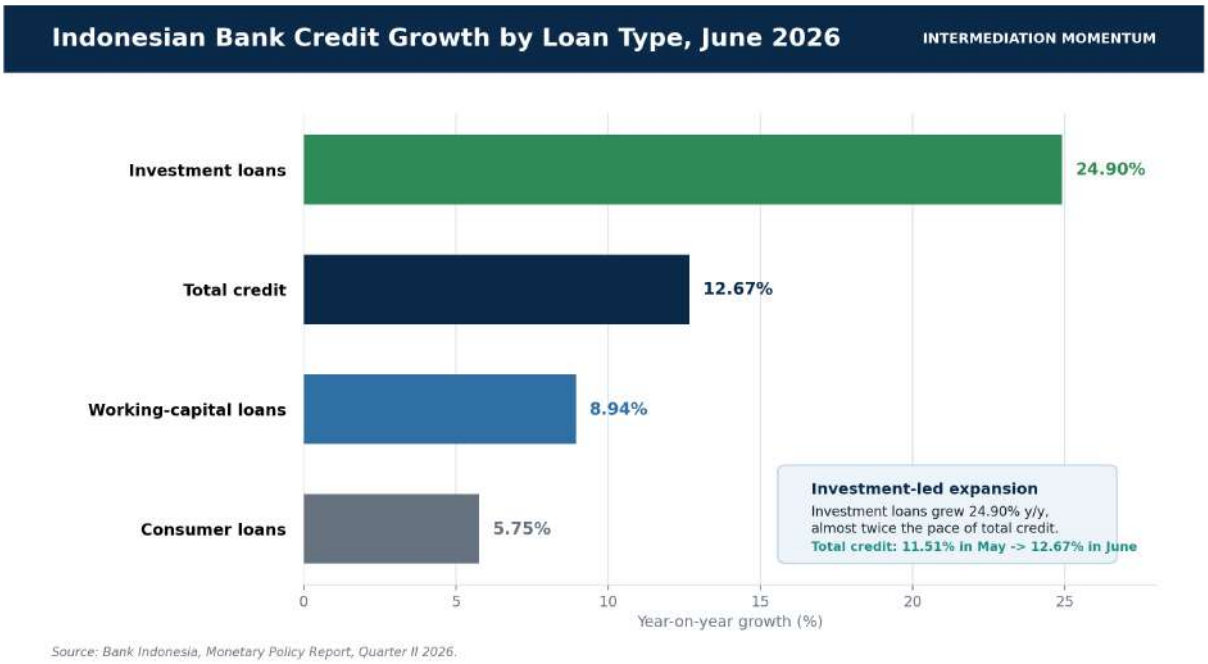

Figure 2. Indonesian Bank Credit Growth by Loan Type, June 2026
Source: Bank Indonesia (2026b).

Figure 2 illustrates that the composition is potentially favourable for a pro-growth interpretation because investment loans are more directly associated with capital expenditure, productive capacity, infrastructure, machinery, property development, and other longer-horizon activities than many forms of consumer credit. This does not mean that every investment loan generates high productivity, but it shifts the policy question from "how rapidly is credit expanding?" toward "what productive assets and cash flows are being created by the credit expansion?"

The Bank Indonesia Banking Survey reinforces the picture of strong intermediation. The Weighted Net Balance for new loan disbursements surged from 38.74% in the first quarter to 93.08% in the second quarter of 2026. Investment, working-capital, and consumer lending all recorded strong positive balances. At the same time, banks reported a mildly positive Lending Standards Index of 1.03, indicating that lending standards became somewhat more prudent during the quarter rather than uniformly easier (Bank Indonesia, 2026c).

This combination—strong new lending alongside continued prudential selectivity—is consistent with resilience. It suggests that the observed increase in credit has not, on available survey evidence, required a general abandonment of underwriting discipline. However, banks expected standards to loosen in the third quarter, implying that asset-quality indicators should be watched carefully if credit remains strong.

A further issue concerns unutilised credit. Approximately Rp2,490 trillion of approved facilities remained undisbursed in June, equivalent to 21.52% of available credit lines (Bank Indonesia, 2026b). This figure can be interpreted in two ways. It represents a reservoir of potential financing that could support future economic activity, but it also signals that credit supply and actual investment demand are not synonymous. Borrowers may delay drawdowns because projects have not reached execution, expected returns have changed, interest costs are unattractive, or uncertainty remains high. The international literature also shows that undrawn commitments are contingent claims on bank capital and liquidity, so their resilience implications become more pronounced during stress (Pelzl and Valderrama, 2023). Accordingly, policy designed to increase credit supply alone may have diminishing returns if the binding constraint lies in borrower demand or project readiness.

4.4. Theme 4: Monetary Policy Transmission Operates under a Deliberate Policy Tension

The fourth finding is that monetary-policy transmission in 2026 must be understood within a policy mix in which the policy rate and macroprudential instruments are intentionally assigned different emphases. BI raised the policy rate to 5.75% in June to strengthen Rupiah stability and contain inflation risks, then maintained it at that level in July, while the macroprudential stance remained explicitly pro-growth (Bank Indonesia, 2026a, 2026d). This configuration is consistent with recent Indonesian evidence that the bank-lending channel reflects interaction between monetary and macroprudential policy rather than the isolated effect of either instrument (Handayani and Setiastuti, 2025).

The difference is not necessarily contradictory. A policy rate can address economy-wide inflation expectations, currency pricing, and international portfolio incentives, while targeted liquidity facilities and macroprudential incentives can improve the distribution of bank liquidity and preserve productive lending. This is consistent with the contemporary literature on monetary-macroprudential policy assignment (Bussière, 2021; Garcia Revelo and Levieuge, 2022; Agénor and Flamini, 2022).

Nevertheless, the effectiveness of the mix depends on transmission. In June 2026, BI reported a one-month term-deposit rate of approximately 4.76% and an average lending rate of 8.81% (Bank Indonesia, 2026b). Indonesian research shows that deposit and lending rates do not necessarily adjust immediately or symmetrically to monetary-policy movements (Handayani and Kacaribu, 2021). Consequently, changes in the BI-Rate may have a delayed effect on borrowers, bank margins, and credit supply, and the magnitude of that effect may vary with the state of economic activity (Sapriza and Temesvary, 2024).

The policy environment also reflects growing reliance on market-based liquidity management. BI continued repo auction windows at three-, six-, nine-, and twelve-month tenors and purchased government securities as part of its liquidity operations. By 21 July 2026, SBN purchases during the year totalled Rp188.68 trillion, including Rp76.62 trillion in secondary-market purchases (Bank Indonesia, 2026d). This approach is consistent with recent research showing that central-bank liquidity facilities and asset purchases can relieve intermediary balance-sheet constraints, improve market functioning, and reduce the risk of one-sided markets during liquidity stress (Cimon and Walton, 2024). Such operations can therefore stabilise liquidity and market functioning while preserving the policy signal delivered by the BI-Rate.

Funding flexibility was also expanded through the Bank Foreign Funding Ratio (RPLN), which increased from a maximum of 35% to 40% of bank capital effective 1 July 2026 (Bank Indonesia, 2026a). This creates additional funding options but simultaneously increases the importance of foreign-currency liquidity management, maturity matching, hedging, and monitoring of external rollover risk. The potential resilience benefit therefore depends on the quality and maturity structure of the additional funding rather than on its quantity alone.

4.5. Theme 5: Prudential Indicators Support a Strong Resilience Assessment

Current balance-sheet indicators provide little evidence of broad banking stress. OJK reported a CAR of 23.70% in June 2026, gross NPLs of 2.09%, net NPLs of 0.82%, LaR of 8.47%, and ROA of 2.47% (OJK, 2026). Taken together, these indicators point to substantial capital headroom, contained realised credit impairment, and positive earnings capacity at the aggregate level.

The combination is important. Strong capital provides loss-absorption capacity; low NPL ratios indicate that realised credit impairment remains contained; positive profitability enables banks to replenish capital internally; and strong

liquidity ratios provide capacity to withstand funding outflows. These dimensions reinforce each other.

Yet prudential resilience should be judged prospectively rather than only from current impaired-loan ratios. Credit deterioration typically lags economic shocks, and the unusually rapid expansion of investment lending means that underwriting quality today may only become visible in asset-quality indicators later. The COVID-era literature repeatedly demonstrates that pre-shock balance-sheet quality matters for subsequent lending capacity and systemic-risk behaviour (Demirgüç-Kunt, Pedraza and Ruiz-Ortega, 2021; Elnahass, Trinh and Li, 2021; Igan, Mirzaei and Moore, 2023).

The policy implication is that the present strength of capital and liquidity should be treated as usable but valuable insurance, not as a reason to relax risk governance indiscriminately. Forward-looking stress testing is particularly relevant because supervisory assessments can affect subsequent lending and risk-taking incentives, making their design and credibility part of the resilience architecture itself (Shapiro and Zeng, 2024).

4.6. Theme 6: Pro-Growth Banking Is Increasingly an Allocation Question

BI's macroprudential framework explicitly channels incentives towards priority activities. As of the first week of July 2026, KLM incentives received by banks totalled Rp431.9 trillion, including Rp369.0 trillion through the lending channel. Eligible priority areas included agriculture, manufacturing and downstream industries, services and the creative economy, construction, real estate and housing, as well as MSMEs, cooperatives, inclusive activities, and sustainable sectors (Bank Indonesia, 2026b). This targeting makes the quality and additionality of credit allocation central to any evaluation of the policy's pro-growth contribution.

This represents a shift from thinking about banking policy solely in aggregate terms toward influencing the composition of financial intermediation. Such targeting can be justified when productive sectors face financing constraints that are not fully explained by project risk. Yet targeting must be accompanied by evaluation of additionality. If a bank receives an incentive for financing a borrower it would have funded anyway, the fiscal or liquidity-equivalent benefit may produce limited additional growth.

A second consideration is risk pricing. Pro-growth policy is most sustainable when it reduces unnecessary financing frictions without suppressing legitimate risk premia. Encouraging banks to lend below a risk-consistent price can weaken future resilience. Conversely, reducing liquidity segmentation, improving collateral markets, increasing information transparency, and lowering transaction costs can support lending without undermining underwriting standards. The central result is therefore that the developmental quality of intermediation has become as important as the quantity of liquidity available to the banking sector. This conclusion is consistent with evidence that liquidity creation contributes to investment and growth only through the way credit is allocated and translated into productive activity (Beck et al., 2023).

5. DISCUSSION AND ANALYSIS

5.1. Moving beyond the "Ample Liquidity" Narrative

The first analytical implication is that the phrase 'ample liquidity' should be used carefully. At the system level, it is empirically justified because liquidity indicators are comfortably above regulatory thresholds (OJK, 2026). Yet resilience depends not only on the stock of liquid assets but on how quickly they can be mobilised, where they are held, what collateral is available, how stable funding is, and whether market infrastructure allows liquidity to move efficiently among institutions. This distinction is consistent with research showing both a liquidity-multiplier role for bank balance sheets and a regulatory trade-off between liquidity creation and lower fire-sale risk (Carré and Klossner, 2024; Roberts, Sarkar and Shachar, 2023).

The June decline in AL/NCD and AL/DPK is therefore better understood as a signal to monitor, not as evidence of stress. Credit grew more rapidly than deposits, which is consistent with banks transforming accumulated liquidity into financing (Bank Indonesia, 2026b, 2026e; OJK, 2026). This is economically desirable as long as the transformation remains within prudent limits and funding can be replenished without materially increasing concentration or rollover risk.

A useful distinction can be made between three states. In the first, liquidity ratios decline because idle liquidity is productively converted into sound credit; resilience remains high. In the second, ratios decline because banks compete aggressively for assets and gradually lose funding headroom; resilience weakens even though regulatory ratios remain above minimums. In the third, liquidity declines because of deposit outflows or market dysfunction; this represents genuine stress. The evidence available through June 2026 is more consistent with the first state than the third, but continued acceleration makes the second scenario relevant for forward-looking supervision.

This distinction also explains why BI's emphasis on liquidity segmentation is important. A national system may have a large aggregate stock of liquidity while smaller or less-connected banks face higher marginal funding costs. If interbank and repo markets are shallow, surplus liquidity at one institution does not automatically become usable liquidity at another. Research on public liquidity provision shows that central-bank facilities can reduce intermediary balance-sheet constraints and improve market functioning when private liquidity is unevenly distributed (Cimon and Walton, 2024). Measures that deepen repo markets and broaden eligible collateral can therefore strengthen resilience without requiring indiscriminate monetary easing.

5.2. The Monetary–Macroprudential Mix: Complementarity with Boundaries

Indonesia's 2026 policy mix illustrates a sophisticated but demanding approach to policy assignment. The BI-Rate is being used to reinforce exchange-rate and inflation stability while macroprudential instruments support intermediation (Bank Indonesia, 2026a, 2026d). The arrangement is consistent with the proposition that one instrument cannot efficiently target all objectives simultaneously, and it is supported by recent Indonesian evidence that monetary-macroprudential interaction materially shapes the bank-lending channel (Handayani and Setiastuti, 2025).

The literature suggests that such complementarity is possible but not automatic. Macroprudential measures can dampen financial amplification or target sectoral constraints, but excessively strong credit incentives may counteract monetary restraint if they generate broad balance-sheet expansion rather than targeted productive lending (De Schryder and Opitz, 2021; Meuleman and Vander Vennet, 2020; Garcia Revelo and Levieuge, 2022). Conversely, an excessively tight policy rate could weaken cash flows, investment demand, and credit quality even if banks retain ample liquidity. Indonesian evidence on policy synergy reinforces the need to evaluate the combined effect of monetary and macroprudential instruments rather than interpreting each stance in isolation (Handayani and Setiastuti, 2025).

The appropriate evaluation criterion should therefore be joint effectiveness, not whether each instrument independently appears accommodative or restrictive. Monetary policy should stabilise the nominal and external environment sufficiently to reduce macro-financial risk, while macroprudential policy should ensure that otherwise viable investment is not unnecessarily constrained by liquidity segmentation or bank funding frictions. Because the strength of the bank credit channel can vary with real economic conditions, the optimal balance between these instruments is also likely to be state-dependent rather than fixed over time (Sapriza and Temesvary, 2024).

An important boundary is risk pricing. KLM and other incentives can lower the effective liquidity cost of financing priority activities, but they should not create an expectation that credit risk will be socialised or implicitly protected. Maintaining bank-level accountability for underwriting is essential. The evidence from the pandemic and from monetary risk-taking studies shows that policy accommodation can preserve valuable lending during stress but can also change risk incentives when prolonged or poorly targeted (Li, Strahan and Zhang, 2020; Matthys, Meuleman and Vander Vennet, 2020; Kandrac, 2021).

5.3. Investment Credit and the Meaning of "Pro-Growth"

The acceleration of investment lending to 24.90% year-on-year creates the strongest empirical basis for describing current intermediation as potentially pro-growth (Bank Indonesia, 2026b). Investment credit can finance productive assets that generate output over multiple periods, strengthening both short-term demand and longer-term supply capacity. This interpretation is consistent with evidence linking bank liquidity creation to investment and growth, although the effect depends on the allocation and quality of financing (Beck et al., 2023).

Nevertheless, credit classification alone does not establish developmental impact. An investment loan can finance a highly productive manufacturing expansion, but it can also finance a low-productivity project exposed to commodity or property cycles. A credible pro-growth assessment should therefore evaluate sectoral allocation, incremental capacity, expected cash-flow generation, import dependence, employment effects, productivity, technological spillovers, and environmental or transition risks.

The current divergence between aggregate credit growth and MSME performance also warrants attention. A pro-growth system should avoid a situation in which large corporate borrowers absorb most incremental bank risk capacity while smaller productive enterprises remain constrained by documentation, collateral, information asymmetry, or transaction costs. The appropriate policy response is not necessarily to mandate higher-risk MSME lending. More durable solutions include better credit information, guarantee structures, supply-chain integration, digital underwriting, invoice financing, and improved formalisation.

The concept of developmental additionality is therefore useful. Credit deserves to be regarded as strongly pro-growth when the financing meaningfully expands viable productive activity that would otherwise have been delayed or underfunded. This is a more demanding standard than simply meeting a loan-growth target.

5.4. Resilience as a Dynamic System

The synthesis developed in this article can be represented as a feedback system rather than a one-directional policy chain. Such a representation is consistent with evidence that bank resilience and growth are jointly shaped by the interaction of capital, liquidity creation, credit allocation, and post-shock lending capacity (Jordà et al., 2021; Beck et al., 2023).

Figure 3 integrates macro-financial shocks, BI's policy mix, bank funding and liquidity, credit intermediation, and economic growth. The central resilience buffers do not sit at the end of the process; they moderate the entire transmission mechanism.

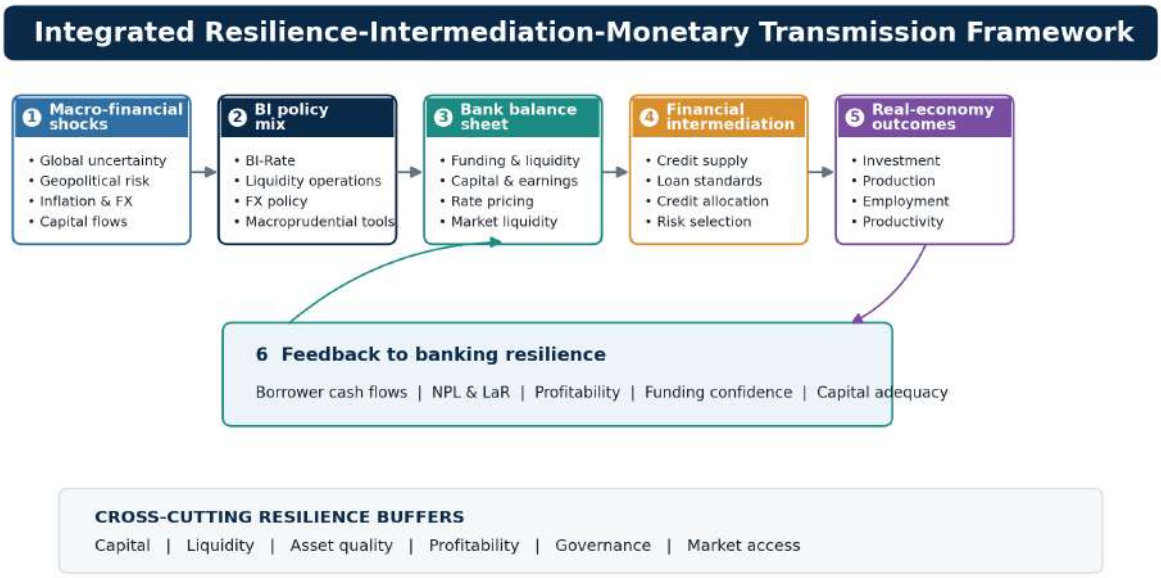

Figure 3. Integrated Resilience-Intermediation-Monetary Transmission Framework
Source: Author's synthesis based on the literature reviewed in this article.

Figure 3 illustrates that external or domestic shocks first change inflation, exchange-rate expectations, risk premia, and growth prospects. BI responds through policy rates, monetary operations, foreign-exchange measures, and macroprudential instruments. Banks translate these policies into changes in funding, liquidity, deposit pricing, lending rates, credit volumes, and borrower selection. The resulting intermediation affects investment and economic activity, which then feed back to banks through borrower cash flows, defaults, profitability, and funding confidence. Capital, liquidity, asset quality, earnings, governance, and market access determine whether the feedback loop absorbs or amplifies the original shock.

This framework helps explain why resilience cannot be maximised by indefinitely accumulating liquidity. If banks retain excessive liquid assets and fail to lend to viable firms, the financial system may appear safe in static terms while underperforming economically. Conversely, using liquidity too aggressively can create future fragility. Optimal resilience therefore requires **productive use of buffers within a credible replenishment and risk-management framework**.

5.5. Undisbursed Credit as a Diagnostic Variable

The Rp2,490 trillion in undisbursed facilities deserves special attention because it reveals a potentially important disconnect between bank capacity and realised financing (Bank Indonesia, 2026b). It also represents a contingent balance-sheet exposure, because undrawn credit commitments can create additional capital and liquidity demands precisely when financial conditions deteriorate (Pelzl and Valderrama, 2023).

From a resilience perspective, undisbursed commitments can create contingent liquidity demands. A firm may draw a committed facility precisely when financial conditions deteriorate, as occurred globally during the early stages of COVID-19 (Li, Strahan and Zhang, 2020; Acharya and Steffen, 2020). Evidence from credit commitments also shows that banks facing capital or liquidity constraints actively manage undrawn facilities during crises, confirming that such commitments are economically meaningful sources of contingent exposure (Pelzl and Valderrama, 2023). Banks must therefore maintain sufficient liquidity not only for current deposits and loans but also for potential drawdowns.

From a growth perspective, the same figure shows that increasing approved credit does not automatically increase investment. If borrowers are unwilling or unable to draw existing facilities, the constraint may lie in uncertainty, project feasibility, demand expectations, permitting, supply chains, or the effective cost of borrowing.

This dual interpretation supports a more granular policy approach. Regulators and banks should distinguish undisbursed commitments associated with normal working-capital flexibility from facilities that remain unused because viable investment is being postponed. The latter may call for complementary real-sector reforms rather than additional banking liquidity.

5.6. Funding Diversification and External Vulnerability

The increase in the RPLN ceiling from 35% to 40% of bank capital expands potential foreign funding and may help banks diversify liabilities as domestic credit growth accelerates (Bank Indonesia, 2026a). International evidence suggests that diversified funding can strengthen lending capacity but can also transmit global monetary and liquidity conditions through cross-border banking channels (Correa et al., 2022; Fabiani et al., 2022). The policy benefit therefore depends on

whether additional foreign funding improves maturity and funding diversification without introducing excessive foreign-currency or rollover risk.

This means foreign funding should be evaluated on a hedged and maturity-adjusted basis. A bank that acquires foreign-currency funding and lends in Rupiah may face currency risk unless hedged. Even when hedged, sudden changes in global basis costs or counterparty limits can affect rollover economics. The resilience benefit of funding diversification is consequently greatest when foreign borrowing is long enough in maturity, properly hedged, diversified by counterparty and jurisdiction, and supported by liquid collateral.

5.7. Key Risks for the Remainder of 2026

Because this study is written in mid-August 2026, developments in the remaining months cannot be described as outcomes. Several forward-looking channels nevertheless deserve monitoring.

One risk is a renewed external shock that simultaneously raises energy prices, weakens the Rupiah, and tightens global financing conditions. Such a scenario could put BI under pressure to maintain or increase monetary restraint even while domestic borrowers face higher costs. Another is persistent divergence between credit and deposit growth, which could gradually increase funding competition and compress liquid buffers. A third is deterioration in loan quality with a lag after rapid investment-credit expansion. These channels are consistent with the broader literature on global liquidity and uncertainty, which emphasises that external financial conditions can transmit rapidly through funding markets and bank risk-taking (Goldberg, 2024; Wu et al., 2022).

A fourth risk is policy-transmission fragmentation. If some banks have excess liquidity while others face elevated funding costs, the average system-wide liquidity ratio may obscure material differences in lending capacity. A fifth risk is that incentives intended to accelerate productive financing lead to credit substitution rather than additionality—that is, banks obtain macroprudential benefits for financing that would have occurred without the incentive.

None of these risks implies that the system is currently fragile. Rather, they define the conditions under which today's strong buffers could become more valuable.

5.8. Policy Recommendations

The first policy priority is to preserve distribution-sensitive liquidity resilience. Supervisory analysis should continuously examine AL/NCD, AL/DPK, LCR, funding concentration, maturity profiles, collateral availability, and stress outflows by bank group rather than relying only on system-wide averages. The objective should be to identify segmentation before it becomes a funding problem. This is particularly important because liquidity regulation and stress testing can change both resilience and lending incentives, so supervisory calibration should account for behavioural responses as well as static compliance ratios (Roberts, Sarkar and Shachar, 2023; Shapiro and Zeng, 2024).

Second, money-market and repo-market deepening should remain central. The July policy package's emphasis on market deepening is economically well founded because better collateral mobility allows liquidity to circulate without requiring every institution to hold excessive idle cash. The effectiveness of the forthcoming KLM PPU should therefore be evaluated in terms of transaction depth, bid-ask conditions, repo usage, interbank dispersion, and the durability of liquidity redistribution, rather than merely the nominal value of incentives. Research on central-bank liquidity facilities supports this emphasis by showing that public backstops can improve market functioning when intermediary balance sheets constrain private liquidity provision (Cimon and Walton, 2024).

Third, BI and OJK should continue strengthening the transparency and speed of interest-rate transmission. Publication and benchmarking of prime lending rates can improve competitive discipline, but evaluation should distinguish changes attributable to the policy rate from changes in credit risk, operating costs, deposit competition, and market structure. The empirical evidence on asymmetric pass-through in Indonesia suggests that this remains a structurally important issue (Handayani and Kacaribu, 2021), while more recent evidence indicates that macroprudential policy can alter the strength of the bank-lending transmission channel (Handayani and Setiastuti, 2025).

Fourth, macroprudential incentives should be assessed by the additional productive financing generated per unit of liquidity incentive. Sectoral credit growth alone is an incomplete metric because observed lending can reflect substitution from non-incentivised to incentivised categories rather than genuinely additional credit. Evaluation should therefore consider whether incentives generate new viable borrowers, new investment projects, productive capacity, or financing-tenor improvements, consistent with the need to assess monetary-macroprudential policy jointly rather than by instrument volumes alone (Handayani and Setiastuti, 2025).

Fifth, rapid investment-credit expansion should be accompanied by intensified forward-looking asset-quality surveillance. Current NPL and LaR ratios are favourable, but underwriting vintages originating during fast credit growth should be stress-tested against exchange-rate depreciation, higher funding costs, commodity volatility, and weaker project cash flows. Stress-testing design matters because supervisory signals can influence subsequent bank lending and risk-taking behaviour, which makes credibility and proportionality important for preserving both resilience and intermediation (Shapiro and Zeng, 2024).

Sixth, the management of undisbursed commitments should become part of liquidity stress analysis. The large stock of undrawn facilities can provide a useful buffer for the real economy but also represents contingent demand for bank capital and liquidity. Scenario analysis should therefore consider simultaneous drawdowns during episodes of market stress, consistent with evidence that constrained banks actively manage credit commitments when liquidity or capital becomes scarce (Pelzl and Valderrama, 2023).

Seventh, funding diversification should be pursued without generating unmanaged currency or rollover risk. The higher RPLN ceiling can be beneficial, but foreign liabilities should be integrated into bank-specific foreign-currency liquidity and hedging assessments. This recommendation is consistent with evidence that cross-border bank flows transmit monetary and global funding shocks across jurisdictions, particularly when domestic banks rely more heavily on external funding (Correa et al., 2022; Fabiani et al., 2022).

Eighth, pro-growth banking should place greater emphasis on the **quality of access** for MSMEs. Credit expansion can be made more inclusive through better information infrastructure, guarantees, supply-chain finance, digital underwriting, transaction-data use, and formalisation rather than through indiscriminate relaxation of credit standards.

Ninth, policy coordination among BI, OJK, the Ministry of Finance, and LPS through KSSK should remain forward-looking. The same macroeconomic shock can simultaneously affect currency markets, government securities, bank liquidity, borrower creditworthiness, and deposit confidence. Coordinated scenario analysis can reduce the risk that one authority's instrument unintentionally weakens another authority's objective, consistent with KSSK's emphasis on cross-authority coordination in safeguarding financial-system stability (KSSK, 2026).

Finally, the overarching policy objective should be to maintain enough resilience to permit banks to use their balance sheets when the economy needs them. Resilience is economically valuable not because banks hold the maximum possible amount of idle liquidity, but because strong capital, liquidity, governance, and market infrastructure allow them to continue prudent lending through changing macro-financial conditions. This perspective is consistent with evidence that resilient bank capital supports stronger post-shock credit recovery and that liquid assets can underpin broader liquidity creation when intermediation remains credible (Jordà et al., 2021; Carré and Klossner, 2024).

6. CONCLUSION

This qualitative literature review has examined Indonesian banking resilience during 2026 through an integrated framework combining liquidity, capital, asset quality, financial intermediation, monetary transmission, macroprudential policy, and developmental finance. The synthesis treats resilience as a dynamic capacity to sustain prudent intermediation through shocks rather than as a static condition inferred from any single balance-sheet ratio.

The evidence available through mid-August 2026 points to a banking system that remains fundamentally resilient. Aggregate liquidity is ample, capitalisation is strong, impaired-credit ratios remain contained, and profitability is positive. At the same time, intermediation has accelerated markedly: June credit growth reached 12.67% year-on-year, with particularly strong 24.90% growth in investment loans. These figures suggest that banks are increasingly deploying balance-sheet capacity into financing the economy rather than simply accumulating liquidity.

The associated decline in AL/NCD and AL/DPK should therefore be interpreted carefully. It represents greater utilisation of liquidity rather than, on current evidence, a liquidity shortage, because both ratios remained comfortably above their regulatory thresholds. Nevertheless, continued compression would eventually narrow the system's capacity to absorb shocks. Monitoring the distribution and replenishment of liquidity is consequently as important as observing aggregate ratios.

A second conclusion concerns monetary transmission. Indonesia's 2026 policy architecture deliberately combines a pro-stability monetary stance with pro-growth macroprudential measures. The BI-Rate of 5.75% supports exchange-rate and inflation stability, while liquidity incentives, repo operations, funding flexibility, and market-deepening measures seek to preserve the flow of financing. The combination is coherent provided that targeted accommodation does not undermine risk pricing or dilute the monetary-policy signal, and recent Indonesian evidence supports analysing these instruments as an interacting policy mix.

Third, the article finds that a meaningful definition of pro-growth banking must extend beyond total loan growth. Investment credit, working-capital financing, MSME access, and priority-sector lending can contribute to development only if financing is additional, productive, and prudent. The unusually strong expansion of investment lending in 2026 is encouraging, but its ultimate developmental impact depends on project quality and future cash flows. This qualification is consistent with evidence that the growth effect of bank liquidity creation depends on how credit is translated into investment and productive activity.

Fourth, resilience itself should be understood dynamically. A resilient banking system does not avoid risk by refusing to intermediate; it can use capital and liquidity buffers to continue financing viable economic activity during uncertainty without compromising future solvency, funding stability, or credit quality. This interpretation is consistent with evidence on the role of capital in post-crisis credit

recovery and on the trade-off between liquidity regulation, lending, and fire-sale resilience.

The principal policy recommendation is consequently to move from a stock-based conception of resilience towards a system-based conception of resilient intermediation. This requires granular liquidity surveillance, deeper money and repo markets, improved interest-rate transmission, disciplined macroprudential incentives, strong underwriting, better management of contingent credit lines and external funding, and sustained KSSK coordination. These priorities are supported by recent evidence on central-bank liquidity facilities, supervisory stress testing, and the management of credit commitments under capital and liquidity constraints.

As the second half of 2026 remains incomplete, these conclusions should be updated when full-year information becomes available. Future research should employ bank-level data to investigate whether liquidity compression, monetary transmission, and credit expansion differ across ownership structures, bank-size groups, conventional and Islamic banks, and differing business models. Such work would complement the qualitative synthesis developed here and provide a more precise understanding of how national banking resilience is distributed across institutions.

The central conclusion is that Indonesia's banking resilience in 2026 cannot be reduced to the statement that liquidity is abundant. Its more meaningful test is whether banks can transform that liquidity into productive, prudently priced credit while maintaining the capital, asset quality, funding flexibility, and policy credibility necessary to absorb the next shock. In this sense, resilience is best understood as a continuing capacity for prudent intermediation, consistent with the broader literature on bank capital, liquidity creation, and monetary-macroprudential transmission.

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