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CREDIT ANALYSIS AND CREDIT RISK IN THE INDONESIAN BANKING INDUSTRY

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Abstract: This study analyzes banking credit performance and credit risk in Indonesia before, during, and after the Covid-19 pandemic. The research applies a descriptive analytical method using secondary data obtained from the Financial Services Authority (OJK), focusing on commercial banks. Before Covid-19, banking credit was in a stable condition, with normal lending and credit growth exceeding the growth of third-party funds (DPK). This indicates that banks were active in distributing credit supported by sufficient funding. When Covid-19 occurred, economic performance declined significantly, and credit distribution contracted. For three consecutive quarters, both economic growth and credit growth recorded negative figures as banks became more cautious due to shrinking business activities and rising uncertainty. In the post-pandemic period, spanning nine quarters up to Q4 2024, the banking sector showed strong recovery aligned with economic improvement. Credit growth increased sharply and was noticeably higher than DPK growth, demonstrating restored confidence and better financial intermediation capacity. Regarding credit risk, banks managed non-performing loans (NPL) effectively both before and after Covid-19, maintaining NPL ratios below the 5 percent regulatory threshold. During Covid-19, banks strengthened reserves through increased allowance for impairment losses (CKPN) to keep NPL stable, although this temporarily reduced profitability as reflected in lower return on assets (ROA). Overall, Indonesian banks showed resilience through prudent risk management.
Keywords: Bank; Credit; Credit Risk; and NPL.

INTRODUCTION

The role of Indonesian banking is highly significant in financing national development, particularly through its intermediation function of channeling credit to various economic sectors. The progress of Indonesia's economy today cannot be separated from the banking sector's contribution in supporting development financing.

Indonesia has experienced relatively high and sustainable economic growth, from the New Order era up to the present, with growth ranging between 5 and 7 percent. During this period, the Indonesian banking industry played a major role in financing economic expansion.

As of December 2024, Indonesia's economic growth reached 5.2 percent, while credit disbursement grew by 10.39 percent, with total loan financing amounting to IDR 7,827 trillion. These figures clearly demonstrate the significant contribution of the banking sector in driving Indonesia's economic financing.
The sustainability of the banking industry's role in the future, particularly in providing credit, is largely determined by its funding sources—third-party funds (DPK), current accounts, savings, and time deposits—as well as overall economic conditions, banks' capital adequacy ratio (CAR), and other influencing factors.

Despite its major contribution, the banking sector faces inherent risks, especially in credit disbursement, where loans may become problematic or turn into non-performing loans (NPL). If NPLs are not properly managed by banks and regulatory authorities, they may lead to banking failures and financial crises.

This was evident during the 1998 monetary and banking crisis, when massive loan defaults occurred due to imprudent credit management by banks and the central bank, resulting in a bailout cost of IDR 650 trillion—the largest banking rehabilitation expense globally relative to GDP.

Following this, banks have adopted prudent practices in monitoring NPL indicators, including gross NPL, net NPL, and loan at risk (LaR). While OJK and banks continue to accelerate credit growth to stimulate the economy, maintaining these risk indicators is crucial to prevent future crises.

To analyze banking credit and credit risk, this study uses pre-Covid-19, Covid-19, and post-Covid-19 data to map credit behavior and risk posture, enabling solutions to reduce potential systemic risk.

Based on this, the research problems are: (1) to analyze factors influencing credit disbursement before and after Covid-19, and (2) to analyze the posture of non-performing loans (NPL) in the Indonesian banking sector.

RESEARCHMETHOD

This research applies a descriptive-analytical method. According to Sugiyono (2016), descriptive-analytical research is a method that describes or illustrates collected data as it is, without producing broad conclusions. Descriptive-analytical research seeks to portray a phenomenon, event, or condition occurring at present, where the researcher attempts to capture and describe observations objectively (Sudjana & Ibrahim, 1989). As stated by Ali (1982), this method is used to solve and respond to current issues.

The data used in this study are secondary data. According to Indriantoro and Supomo (2013), secondary data refer to data obtained indirectly through intermediary media, collected and recorded by other parties. The secondary data used in this research are sourced from the Financial Services Authority (OJK) and Bank Indonesia (BI).

RESULTS AND DISCUSSION

The loan-to-deposit ratio (LDR), which measures the proportion of loans to third-party funds (DPK), is considered healthy when it ranges between 85 and 90 percent. In other words, 85–90 percent of funds collected by banks from the public are redistributed as credit to the public.

Long before the Covid-19 health crisis, specifically in March 2015, Indonesia’s LDR had already reached 87.58 percent. This reflects an expansionary credit condition, leaving only 12.42 percent as liquidity. By June 2018, the LDR increased to 92.13 percent, leaving only 7.87 percent of DPK as liquidity. An LDR of 92.13 percent exceeded the healthy range, indicating increasing credit and liquidity risks.

Just before Covid-19, in June 2019, the LDR peaked at 94.18 percent. This implied sharply rising credit and liquidity risks due to aggressive credit expansion and constrained liquidity. Such an LDR level was no longer healthy, as it exceeded the acceptable threshold of 85–90 percent.

With an LDR of 94.18 percent in June 2019, total bank credit reached IDR 5,468 trillion, with growth of 9.92 percent. Four quarters earlier, prior to Covid-19, credit growth ranged between 10.75 and 12.69 percent. Thus, before the pandemic, there was aggressive credit expansion reflected in high credit growth and very high LDR values.

This high credit growth was supported by moderate economic growth ranging from 4.71 to 5.27 percent. When economic growth increases, credit expansion typically follows.

Research data show that when economic conditions are conducive, banking credit growth tends to rise significantly. In general, during favorable economic conditions and credit expansion, credit growth exceeds the growth of third-party funds (DPK).

Based on nine quarters prior to the Covid-19 outbreak, average credit growth was 10 percent, while DPK growth was only 8.18 percent. Since credit growth exceeded DPK growth, LDR rose sharply, reaching 94.18 percent before the pandemic.

Based on the research data, both before and after Covid-19 (up to the present), Indonesia’s economic growth averaged 5 percent, while average banking credit growth reached 9 percent. This reflects a general pattern in which credit growth significantly exceeds Indonesia’s economic growth.

This pattern of economic growth relative to credit growth carries consequences. If Indonesia's economy increases to around 6 percent, it would likely drive credit growth above 10 percent. However, the post-Covid-19 LDR position in Q4 2024 stood at 88.57 percent—near the upper healthy range and difficult to raise further. Meanwhile, DPK growth showed a declining trend over the six quarters preceding Q4 2024. Thus, credit expansion beyond Q4 2024 becomes limited.

Economic growth in 2025 is projected to fall below 5 percent. The Center of Reform on Economics (CORE) estimates growth at 4.6–4.8 percent, consistent with Q1 2025 economic growth of only 4.87 percent. The slowdown in 2025 stems from weakened public purchasing power, still affected by residual post-pandemic conditions.

Covid-19 entered Indonesia in September 2019 but began seriously affecting the economy in Q2 2020, when economic growth contracted sharply by –5.32 percent. Credit growth during this period also dropped drastically to 1.49 percent.

More severe declines occurred in Q4 2020 (–2.41 percent) and Q1 2021 (–3.75 percent). In Q3 2020 and Q1 2021, credit growth fell below 1 percent. Likewise, economic growth contracted in Q2, Q3, and Q4 2020, as well as Q1 2021 due to government policies restricting mobility, social gatherings, and business activities.

The overall impact of Covid-19 required six quarters (Q1 2020–Q2 2021) where both economic and credit growth were negative or very weak.

Recovery began in Q1 2021, when credit distribution returned to normal levels. This continued through Q4 2024, where LDR returned to 88.57 percent and credit grew by 10.39 percent. Meanwhile, during the peak pandemic impact in Q4 2021, LDR fell drastically to 77.79 percent due to sharply reduced lending, while public savings increased amid reduced economic activity.

The economic effects of Covid-19 differed from its impact on bank loan distribution. The Indonesian economy recovered faster than the recovery of bank credit. In Q2 2021, economic growth rebounded to 7.07 percent, returning to pre-pandemic levels. However, banking credit growth did not normalize until Q2 2022, reaching 10.66 percent. This indicates that the banking industry responded more slowly to improving economic conditions.

Another important post-Covid-19 pattern involves differences between credit growth and the growth of third-party funds (DPK). The government's mobility restrictions slowed economic activity, which ultimately reduced credit growth and economic output. At the same time, the decline in business activity caused the public to increase savings in banks.

The severe decline in credit growth lasted for eight quarters—from Q2 2020 to Q2 2022—requiring two years to recover. During this period, average credit growth was extremely low, only 1.3 percent, which caused LDR to drop sharply to 77.39 percent.

Meanwhile, during the same eight quarters, DPK grew significantly by 10.3 percent. This occurred because DPK was not negatively affected by Covid-19; rather, people preferred depositing money in banks instead of investing it in the real sector.

Once the economy recovered and credit distribution normalized, average credit growth from Q2 2022 to Q4 2024 surged to 10.5 percent, reflected by a sharp increase in LDR to 88.57 percent. Conversely, average DPK growth declined to 6.7 percent, showing that funds began flowing back to the real sector.

Banking Credit Risk Before and After Covid-19

Before the Covid-19 outbreak, the gross non-performing loan (NPL gross) ratio remained within the safe threshold, below 5 percent. The peak was recorded at 3.10 percent in Q2 2016. Capital adequacy ratio (CAR) was also strong, reaching 26.66 percent in Q3 2019, far above the 8 percent regulatory minimum, indicating strong buffers supported by CKPN reserves.

During the contraction period, when credit growth fell to –3.77 percent in Q1 2021, the NPL gross ratio remained below 5 percent at 3.17 percent. However, maintaining healthy NPL levels required banks to sacrifice earnings, reflected in reduced ROA of 1.88 percent—down from pre-pandemic levels of 2–3 percent—due to provisioning and loan write-offs.

After the pandemic impact faded, in Q4 2024, NPL gross dropped to 2.08 percent—well below the threshold—while ROA rebounded to 2.69 percent, indicating improved profitability. CAR strengthened further to 26.69 percent, providing strong buffers for bad loan coverage.

A unique pattern occurred for net NPL (NPL net). Before Covid-19, NPL net fluctuated between 1.0 and 1.5 percent. After Covid-19, NPL net declined sharply to 0.74 percent in Q4 2024, reflecting substantial CKPN accumulation by banks to anticipate worsening loan quality.

Another credit risk indicator, loan at risk (LaR), provides a more comprehensive measure because it includes all loans under special mention, substandard, doubtful, loss, and restructured credits. Before Covid-19, LaR was low at 7.96 percent (Q3 2019). During the crisis, LaR surged to 20.29 percent in Q3 2021, driven by the impact of Covid-19 on debtors.

Under POJK No. 48/POJK.03/2020, restructured loans due to Covid-19 remained classified as "current" for NPL calculations. However, these restructured loans were still included in LaR computations, which caused a sharp increase in LaR.

By Q4 2024, LaR declined significantly to 9.28 percent as the restructuring program—peaking at approximately IDR 750 trillion—gradually decreased in line with economic recovery.

CONCLUSION

Before the Covid-19 health crisis, banking credit distribution in Indonesia was stable. Based on the research data, credit growth was consistently higher than the growth of third-party funds (DPK). After the pandemic began, economic growth and credit distribution declined; in fact, during three quarters, both economic growth and credit experienced contraction and negative growth. In the post-Covid-19 period, for nine quarters up to Q4 2024, the performance of the banking sector improved significantly in line with economic recovery, and credit growth far exceeded the growth of DPK.

Prior to Covid-19, credit risk in Indonesian banking was well managed, as indicated by controlled non-performing loans (NPL gross, NPL net, and LaR), all of which remained below the 5 percent threshold. During Covid-19, NPL remained controlled because banks consistently increased their allowance for impairment losses (CKPN), helping maintain healthy NPL levels. However, this came with the consequence of reduced profitability, as reflected by declining ROA.

Meanwhile, LaR rose sharply after Covid-19 due to the large-scale restructuring of loans; greater restructuring volume automatically increased LaR. As the economy recovered post-Covid-19, problematic loans returned to normal levels, and NPL ratios continued to decline to even lower levels than before the pandemic.

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