



PKRI Insights: Banking Sector

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Growing Role in Carrying Out Shareholder’s Mission Could Strain Banks’ Performance

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PKRI observes a growing tendency of state owned institutions (SOE) to play a more pronounced role in fulfilling the Government of Indonesia’s (GoI) special socio-economic missions. One of key program is the formation of the subdistrict-cooperatives (KMDPs) scheme launched in July 2025, under which four state-owned banks (PT Bank Mandiri (Persero) Tbk (BMRI), PT Bank Rakyat Indonesia (Persero) Tbk (BBRI), PT Bank Negara Indonesia (Persero) Tbk (BBNI), and PT Bank Syariah Indonesia Tbk (BRIS)) are tasked with providing loans to cooperatives at a determined interest rate.

As of mid-July 2025, 81,147 of KMDPs have already been established. Each subdistrict-cooperatives is eligible for a loan with a maximum plafond of IDR 3 billion, a maximum tenor of 72 months, and an interest rate capped at 6 percent. Assuming every subdistrict-cooperatives borrows the maximum IDR 3 billion, total KDMP lending would reach approximately IDR 243 trillion, which is a significant share compared to the combined total loans of about IDR 3,567 trillion held by the four appointed SOE banks as of 1Q 2025. Many cautions that while the program advances important social goals, it risks conflicting with banks’ commercial objectives and operational efficiency - potentially undermining financial discipline and weakening their standalone credit profiles - unless these mandates are supported by strong governance, transparent compensation mechanisms, and rigorous execution.

Bank	Prime Lending Rate by Loan Segment	
	Small	Micro
BMRI	10.00%	13.50%
BBRI	10.40%	14.00%
BBNI	11.05%	11.79%
BRIS	10.23%	10.23%

source: SOE banks' website or 2024 annual report

PKRI underscores that there are three key credit implications for participating SOE banks in the KDMP lending program: 1) Profitability - Margin Compression: A mandated 6% interest rate on KDMP loans stands well below typical market lending rates for businesses in Indonesia. Moreover, the operational costs-encompassing loan origination, oversight, field visits to remote subdistricts, and governance infrastructure - are

substantial. 2) Asset Quality - Elevated Credit & Operational Risk: KDMP loans ultimately reach micro and non-bankable parties, a borrower segment known for higher default probability. Penetrating into this segment also brings governance challenges as not all the banks have strong presence or experience to operate in remote subdistrict areas - raising the risk of fund mismanagement or misuse. 3) Liquidity - Funding & Deployment Tensions: Deploying large-scale KDMP lending could generate liquidity strain, especially if banks tap into their own deposit base (DPK) or excess reserves.

To alleviate these risks, the GoI has formulated a plan to inject liquidity directly into these four SOE banks, enabling them to extend 6% loans to cooperatives without tapping into higher-cost funding sources. The exact size of these fund placements will be shaped by actual loan demand and remains subject to ongoing government discussions. The government’s liquidity injection may also ease some margin pressure since the provided funds come at a lower cost, however, profitability remains constrained. The mandated 6% rate

yields slim margins, especially when weighed against the high fixed costs of administering numerous small loans in remote areas, where operational expenses can significantly erode returns.

The asset quality risk becomes even more pronounced when considering that NPLs in the micro and small enterprise segment run at approximately 4%-5% - while loans to cooperatives show significantly higher stress, with NPLs of around 8.5% as of late-2024. Mitigating the risk, the government would allow the use of regional and local government funds to cover shortfalls in KDMP loan repayments.

The KDMP program poses distinct challenges for SOE banks given that subdistrict cooperations are fundamentally different from conventional banking clients - requiring tailored underwriting and operational oversight. In this regard, PT Bank Rakyat Indonesia (Persero) Tbk (BBRI) appears better positioned to manage these demands, bolstered by its expansive rural footprint, digital lending infrastructure, and longstanding microfinance capabilities. While government-provided liquidity injections and fiscal backstops can help cushion pressure on profitability, asset quality, and funding, their effectiveness depends critically on timely and reliable execution. In the short term, PKRI expects minimal disruption to the standalone credit profiles of the four participating banks, given the program's gradual roll-out. Ultimately, enduring success hinges on disciplined governance, vigilant underwriting, and efficient deployment mechanisms.

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