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Policy Rate, Exchange Rate, and Commercial Banks' Investment Credit in Indonesia, 2022–2026: A Short-Run ARDL Analysis

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Background & Research Gap

Context

- **Fed tightening** pressured emerging-market currencies
- **Policy rate** ranged 3.50%–6.25% in 2022–2026
- **Rupiah** moved from Rp14,357 to Rp18,058 per USD
- **Investment credit** rose about 85% over the sample

Three gaps

1. **Mixed evidence**
   Exchange-rate effect on Indonesian bank credit is inconclusive.

2. **Outdated samples**
   Prior studies end 2023–2024, missing the 2025–26 rate moves.

3. **Fiscal liquidity shock**
   Rp200 trillion placed in state banks (Sept 2025) is ignored.

Objectives & Novelty

Are the policy rate and the rupiah exchange rate associated with commercial banks' investment credit once the 2025 liquidity episode is accounted for?

H1 **Policy rate** · **One-sided test**

A higher policy rate is associated with lower investment credit.

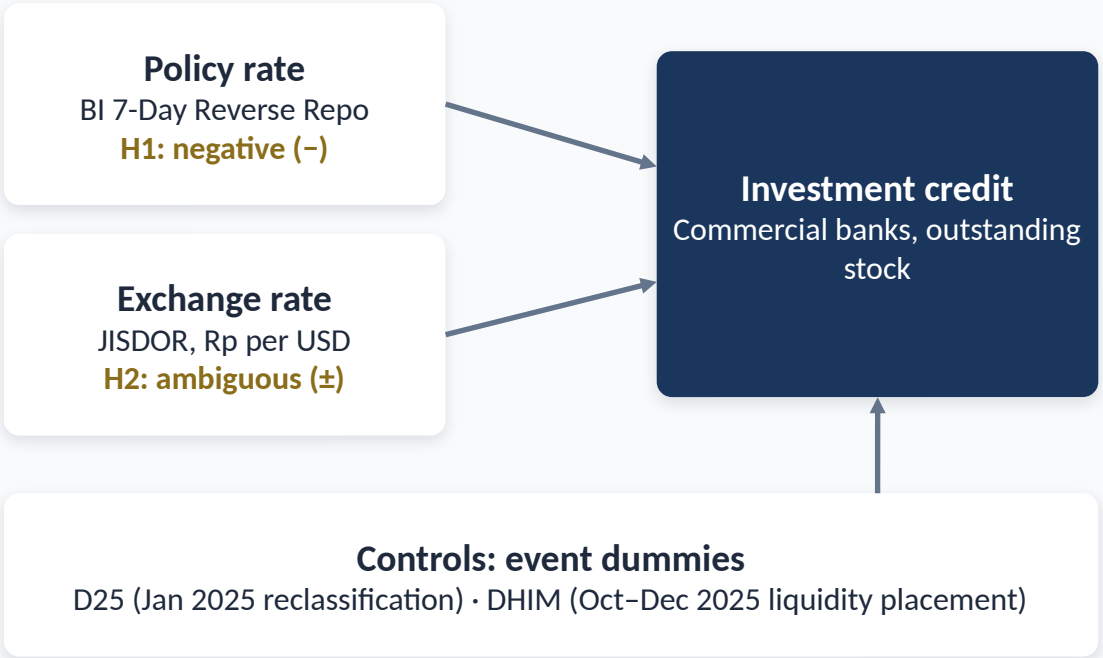
H2 **Exchange rate** · **Two-sided test**

Depreciation may lower credit (balance-sheet risk) or raise it (valuation).

Contributions

1. Updated 2022–2026 short-run evidence
2. Do exchange-rate results survive the 2025 liquidity placement?
3. Interval estimates of each effect's precision

Theoretical Framework



Theoretical anchors

- **Bank lending channel** (Bernanke & Gertler, 1995)
- **Depreciation:** import-cost and balance-sheet risk, or valuation effect
- **ARDL bounds** suit mixed I(0)/I(1) series (Pesaran et al., 2001)

Methodology & Data

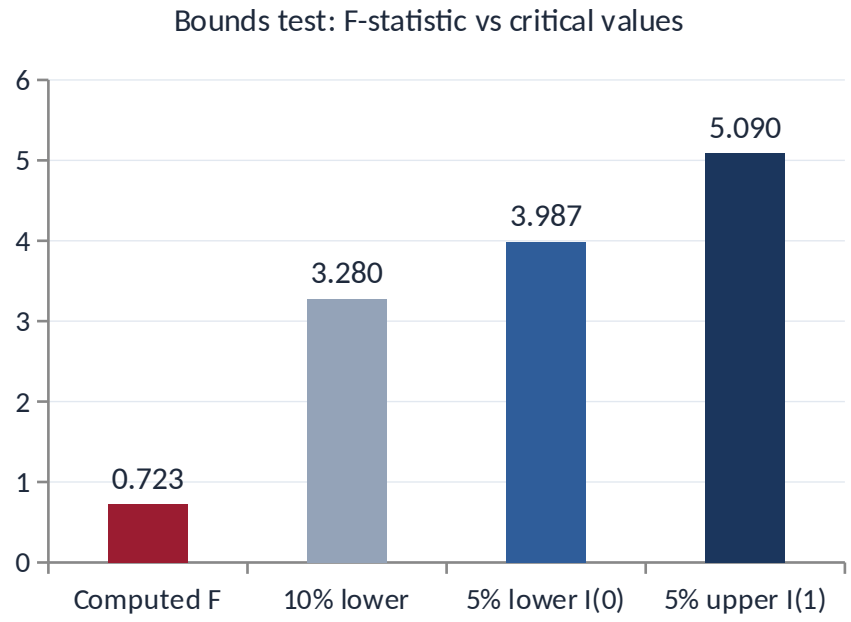
56	monthly observations, 2022M01–2026M08
52	observations in the short-run model
3	series: credit, BI rate, JISDOR
2	pulse dummies: D25 and DHIM

Estimation strategy (EViews 12)

1. **Unit root tests** — ADF, level and first difference
2. **Bounds test** — ARDL, Case 3, Narayan critical values
3. **Short-run model** — ADL(1,3,1), OLS, Newey–West SE
4. **Diagnostics** — LM, BPG, JB, RESET, CUSUM, Chow
5. **Granger check** — Does BI respond to the exchange rate?

Sources: Bank Indonesia (SEKI Table I.6; BI 7-Day RR; JISDOR). CREDIT = all banks minus rural banks (BPR).

Key Findings I: Long-Run Tests



No cointegration

F = 0.723 sits below even the 10% lower bound

Mixed integration

Credit and BI are I(1); JISDOR depends on trend specification

Diagnostics pass

No serial correlation, heteroskedasticity, or misspecification; CUSUM stable

Key Findings II: Short-Run Model

Effect	Coeff.	p-value
ΔlnJISDOR, same month	**0.341**	**<0.001**
JISDOR, cumulative (H2)	**0.303**	**0.007**
BI, cumulative (H1)	−0.0025	0.359*
DHIM (Oct–Dec 2025)	0.026	<0.001
D25 (Jan 2025)	−0.004	0.165

Dependent variable: ΔlnCREDIT; N = 52; R^2 = 0.619; Newey–West SE. *One-sided.

+0.34 pp

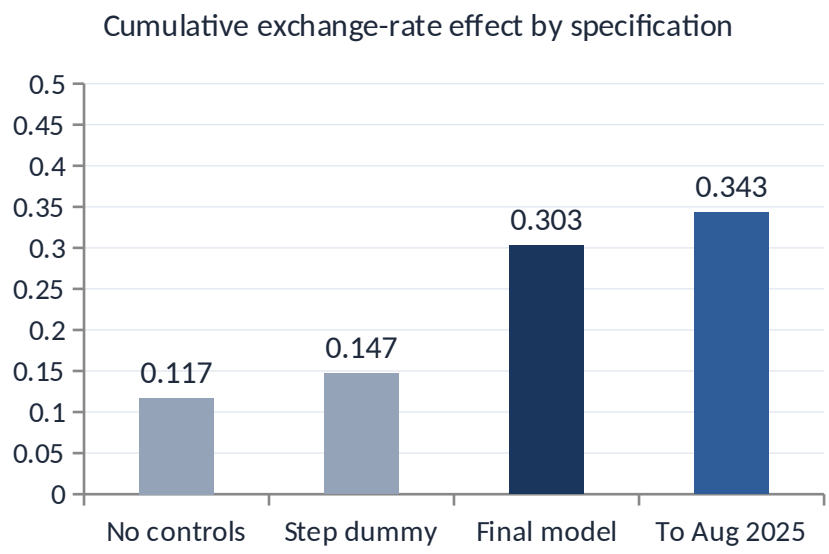
credit growth per 1% depreciation in the same month (p < 0.001)

−0.25%

credit per +100 bp (95% CI −1.6% to +1.1%); not significant

H1 not supported · H2 supported as a same-month association

Discussion & Robustness



p-values: 0.417 · 0.282 · 0.007 · 0.046

- **Same-month effect stable:** 0.27–0.37 in end-of-month models
- **Persistence depends** on the dummy window (p = 0.005–0.107)
- Aligns with **Atikah et al. (2026): 0.256**
- Contrasts with **Hassanpour et al. (2025) and Zanforlin (2011)**
- **Valuation effect** on dollar loans: plausible, untested

Implications

Policy

- **Rate changes alone** show no clear short-run credit effect
- Account for **fiscal liquidity injections** when reading credit growth

Banking practice

- **Monitor exchange-rate moves:** same-month credit responds
- Track rupiah and **foreign-currency loans** separately

Academia

- **Report intervals,** not only significance
- **Test robustness** to event-dummy windows

Findings are short-run associations, not causal effects; implications are cautious.

Conclusion & Future Research

Main takeaways

- **No long-run** relationship (F = 0.723)
- **H1 not supported:** policy-rate effect small, imprecise
- **H2:** depreciation linked to **+0.34 pp** same-month credit growth
- **Persistence depends** on controlling the 2025 liquidity shock

Limitations

- Short sample: 56 observations
- Dummy window chosen post hoc
- Output, inflation not controlled

Future research

- Longer or bank-level data
- Split rupiah and FX-denominated credit
- Model the liquidity placement directly

Thank You

Questions & Discussion

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