

ABSTRACT

Financial system stability is crucial for economic resilience, but it is vulnerable to disruptions from the procyclical dynamics of the property sector. In Indonesia, increases in residential property prices and credit growth that are not aligned with economic fundamentals have the potential to trigger systemic risks, especially during financial cycle contractions. This condition is further exacerbated by major shocks such as the COVID-19 pandemic, necessitating analyses that can capture regime dynamics and evaluate the effectiveness of macroprudential policies.

This study aims to analyze the impact of property prices and credit growth on financial system stability in the context of regime differences, as well as to assess the effectiveness of Loan-to-Value (LTV) policies. The method employed is Markov Switching Regression, with the Aggregate Financial Stability Index (AFSI) serving as a proxy for financial system stability.

The results show that the residential property price index and property credit growth have a significant negative impact on financial system stability under unstable conditions (regime 1). Pressures from the property sector tend to intensify when the financial system is in a vulnerable phase. Conversely, in the stable regime (regime 2), only property prices remain significant, while property credit growth is not. Loan-to-Value (LTV) policies do not exhibit a significant impact in either regime. These findings underscore the need for strict monitoring of the property sector, although the effectiveness of macroprudential policies such as LTV has not been evident during the observation period.

Kata Kunci: *financial system stability, residential properti prices, properti credit, Loan-to-Value, Markov Switching*

Klasifikasi JEL: *E32, E44, G28, R31, C32*