

ABSTRACT

Excessive credit growth can trigger financial trigger cycle imbalances when credit expansion surpasses economic fundamentals, thereby necessitating macroprudential instruments such as Countercyclical Capital Buffer (CCB). Indonesia has never activated the CCB, as credit conditions have been considered insufficiently expansionary. Therefore, this study aims to examine the potential effectiveness of the CCB in stabilizing credit growth in Indonesia by analyzing the relations between the credit-to-GDP gap (GAP), macroeconomic variables, banking risk indicators, and the interaction between GAP and CCB. In addition, this study develops a scenario of excessive credit growth as the basis for simulating CCB activation in accordance with the Basel III framework.

This research uses quarterly data from 2016 to 2024 and applies the Vector Error Correction Model (VECM) to assess both long-run and short-run relationships among the variables. Furthermore, the Structural Vector Error Correction Model (SVECM) is employed to identify structural shocks and the dynamic responses of credit through the Impulse Response Function (IRF) and Variance Decomposition (VD). The study also constructs excessive credit growth scenarios using a standard deviation approach, estimates the credit-to-GDP gap using HP-Filter method, and simulates CCB activation based on Basel III thresholds.

The results that credit-to-GDP gap has a significant positive long-run effect on credit growth, indicating a correction mechanism when long-term credit expansion surpasses its fundamental trend. Meanwhile, SVECM results reveal that shocks to the credit-to-GDP gap generate short-term expansionary effects before correcting over subsequent periods. Non Performing Loan (NPL) and BI7DRR are found to suppress credit growth, whereas the CCB variable significantly reduces credit growth, confirming its effectiveness as an instrument to mitigate excessive effect, indicating that CCB enhances banking sector resilience when cyclical pressures intensify.

Keywords: *Countercyclical Capital Buffer, Credit-to-GDP gap, Credit Growth, VECM, SVECM, Credit Risk, Macroprudential Policy.*