ABSTRACT

Profitability is a key indicator of bank soundness, yet the implementation of the Green Macroprudential Liquidity Incentive Policy (KLM) since October 2023 raises the question of whether green financing incentives genuinely encourage bank profitability, given that expanding credit into a new sector potentially carries its own risks and adaptation costs for banks. Therefore, this study aims to analyze the effect of the KLM Policy and the Green Loan Ratio (GLR) on the profitability of Conventional Commercial Banks (BUK) in Indonesia, including the possibility of a non-linear relationship between green credit intensity and profitability.

This research uses a quantitative method with panel analysis based on a Fixed Effects panel regression model. The data used are quarterly financial reports of 21 Conventional Commercial Banks covering the 2018 to 2025 period, resulting in 672 observations. dependent variable is bank profitability, proxied by natural logarithm of net income, the independent variables are the policy time dummy, GLR in linear and quadratic form, and their interaction, with Non-Performing Loan (NPL), Loan to Deposit Ratio (LDR), Capital Adequacy Ratio (KPMM), and total assets as control variables.

The results indicate that bank profitability is higher in the period following the implementation of KLM. GLR shows a U-shaped non-linear relationship with profitability, decreasing at low to moderate levels and rising again after passing a turning point in the range of 25 to 32 percent, although significant only at the 10 percent level. The interaction between the time dummy and quadratic GLR is not significant, so there is insufficient evidence that the policy causally alters this relationship. NPL has a significant negative effect, while LDR, KPMM, and total assets have significant positive effects. These findings indicate that fundamental banking factors influence profitability more consistently than the policy itself, so regulators need to continuously evaluate the design of the incentive policy.

Keywords*: Green Macroprudential Liquidity Incentive Policy, Bank Profitability, Green Credit, Fixed Effect.*