

Agus D W Martowardojo: Maintaining financial stability amid continued economic growth deceleration

Keynote speech by Mr Agus D W Martowardojo, Governor of Bank Indonesia, at the Discussion and Launching of the Financial Stability Review Book, Jakarta, 10 December 2015.

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Honorable,

Our Predecessors Governors of Bank Indonesia,
Members of the Board of Governors of Bank Indonesia,
Officials in the Ministries and State Agencies,
Banking Leaders
Representatives of Industry Associations
Academicians and Economic Observers
Attendees and Invitees,

Assalamu'alaikum warahmatullahi wabarakatuh, Good afternoon and best wishes to us all,

First of all, let us pray our praise and gratitude to Allah SWT, the God Almighty for only upon His grace and blessing, we can all gather here in good health to participate in the discussion and launching of the Book on Financial Stability Review (*Kajian Stabilitas Keuangan-KSK*) No. 25, September Edition Year 2015.

The development of this KSK constitutes a part of the transparency and accountability of Bank Indonesia's duty implementation in the field of macro-prudential. As one of the routine semester publications, KSK contains the results of assessment and review of Bank Indonesia toward the condition of the national financial system.

Such assessment also covers our monitoring to the sources of vulnerability and imbalance of the financial system that can be found in the financial markets; financial agencies/institutions, namely households and corporates; banking; and Non-Bank Financial Institutions (*Institusi Keuangan Non-Bank-IKNB*); and also financial infrastructures.

Due to the deceleration of economic growth experienced by Indonesia, it is critical for Bank Indonesia as the authority in the field of macro-prudential to continue maintaining the stability of financial system. Especially, as the dynamics of the global financial system continue to remain under uncertainties.

Therefore, the edition of KSK this time takes up the theme of "*Maintaining Financial Stability amid Continued Economic Growth Deceleration*" We are convinced that our duty in maintaining the stability of economy will be more challenging. Hence, we expect that depth assessment and review on the condition of national financial system will be a valuable reference for us in taking measures in the future.

Ladies and Gentlemen,

The condition of Indonesia's financial system in 2015 in general is still overwhelmed by various challenges and fluctuations, both sourced from global and domestic. The still weak global economic recovery, the continued declining price of commodities and the decreasing capital inflows to developing countries have become the pressure trigger to the developing countries' economics including Indonesia.

Those conditions are also hardened by the uncertainty and magnitude of the Fed interest rate normalization as well as the measures of monetary easing by European countries, Japan, and China in the efforts to recover their economic growth. One of the China's efforts, i.e. by unexpectedly devaluating Yuan currency, has also triggered fluctuations in the global financial market and given additional pressure to the developing countries.

From the domestic side, the development of financial system in Indonesia also encountered several challenges. Amidst the slowdown of economic growth, pro-cyclical banking reflected in the slowdown of credit growth needs to be looked more closely. Besides, the high pressure against Rupiah exchange rate as well as the non-optimal absorption of fiscal budget also colors the dynamics of Indonesia's financial system.

Attendees, Ladies and Gentlemen,

In response to the increasing pressure against the economic stability derived from global and domestic, Bank Indonesia as the macro-prudential authority has pursued the policy which focused to encourage the realization of macro-economic stability while maintaining the momentum of growth.

Efforts carried out by Bank Indonesia has been taken through loosening measurable macro-prudential policies in order to give space for recovery, for the economic sectors with relatively controlled risk.

The easing macro-prudential policies taken, i.e.:

- Loan to Value Ratio (LTV) magnitude adjustment for property loan, and a decrease in advance for motor vehicle loan in order to provide stimulus from the demand side.
- Improvement of regulation of statutory reserves (*Giro Wajib Minimum-GWM*) of Loan to Funding Ratio (GWM-LFR) to expand space for banking in channeling loans, including MSME's credit, by taking into account commercial papers (securities) issued by banks as third party fund components.

In addition to that, Bank Indonesia also performed macro-prudential supervision, among others was realized by implementing surveillance and joint audit with OJK toward banks that have highest foreign exchange risk exposure, in order to mitigate the emergence of systemic risk in banking in the midst of weakening pressure of Rupiah exchange rate. To strengthen that, Bank Indonesia also continues conducting assessments to the overall national financial system.

Furthermore, the maintained financial stability system has also been the result of Bank Indonesia policy-mix synergy, namely, by exercising monetary policy carefully and consistently, as well as solid coordination with the Government and relevant authorities, both in the form of bilateral coordination and within the framework of Financial System Stability Coordination Forum (*Forum Koordinasi Stabilitas Sistem Keuangan-FKSSK*).

Attendees, Ladies and Gentlemen,

The Banking industry as the main part of the national financial system, currently is in a maintained state. The banking capital is maintained at high level, far above the minimum requirement. Whereas, the ratio of non-performing loan also remains relatively low.

Therefore, the banking industry resilience represented the largest asset share in the domestic financial system is still quite strong to absorb arising risk potential, especially credit risk, market risk and liquidity risk.

Moreover, non-bank financial industry is also still capable to stay at a safe level, although with a risk that tends to increase, following the still weak global economic recovery, the deceleration of domestic economy, and the continued declining commodity prices.

In the household sector, credit risk is still relatively maintained although we need to remain cautious as there is increasing Debt Service Ratio (DSR). The increase of DSR reflects the decrease in the ability of the household sector in paying their debts in line with the slowdown of domestic economy.

On the side of financial system infrastructure, we are grateful that implementation of payment system has been able to run safely, efficiently and reliably so that it become one of the main supporting factors of the maintained financial system stability.

In the effort to continue strengthening the national financial infrastructure, consecutively in June and November 2015, Bank Indonesia has implemented National Clearing System of Bank Indonesia (*Sistem Kliring Nasional Bank Indonesia-SKNBI*) and Real Time Gross Settlement (RTGS) as well as Scriptless Securities Settlement System (SSSS) of Generation II.

The overall effort of strengthening, both in the context of retail payment activities and high value, is intended to enhance the efficiency of the national payment system and to increase the protection and speed of service for customers. With the availability of increasing quality of the payment system service, the supports to the activities in the financial system, which in turn contributed in maintaining the financial system stability, are also expected to continue improving.

Nevertheless, the stability of the financial system is still not immune from the risk potentials, whether liquidity risk, credit risk or market risk. Therefore, Bank Indonesia will constantly take macro-prudential policy directed at efforts to control key risks that could potentially pose a systemic risk and maintain the balance of the financial system.

Attendees, Ladies and Gentlemen,

In the future, the global economy will still be faced with the tough challenges, especially if the deceleration of China's economic structural still continues, commodity prices still experience pressures, and the plan of The Fed monetary policy normalization continues to create fluctuation in the global financial market. Those three factors will impact significantly to the Indonesia's economy and the condition of the financial system.

In the midst of those challenges, the policy of financial system stability needs to continue to be strengthened in order to enhance financial system resilience against various risk potentials, and all at once to motivate the function of banking intermediation to be more efficient and equitable to support the financing of the economy.

In the effort to maintain the stability of the national financial system, which is our joint responsibility, Bank Indonesia will always promote coordination and intensive communication with the Government and relevant Authorities in responding to the existing challenges. We believe that the key to overcome various challenges in the future is to establish a close synergy among all stakeholders in Indonesia.

Ladies and Gentlemen, Attendees,

Thereby, what we can convey as an introduction. We, naturally, hope that the book on Financial Stability Review – Bank Indonesia could become an increasingly quality reference in the future, and so that this discussion forum also contributes in expanding the insight, in building the understanding, and in encouraging constructive measures in the effort to create the stability of financial system in Indonesia.

In closing, may Allah the God Almighty always bless us and lighten our steps.

Thank you,

Wassalamu'alaikum warahmatullahi wabarakatuh.