

## Hendar: Indonesia's recent economic and financial sector challenges

Remarks by Mr Hendar, Deputy Governor of Bank Indonesia, at the Graduation of the STIE Indonesia Banking School Year 2015, Jakarta, 14 November 2015.

\* \* \*

*Honorable,*

- Chairman of Commissioners of Financial Services Authority, Dr. *Muliaman D, Hadad*;
- Head of STIE Indonesia Banking School (IBS), Dr. Subarjo Joyosumarto;
- Coordinator of Kopertis Wilayah III, Dr. Ir. Illah Sailah;
- Honorable faculty of STIE IBS:
  - *Drs. Rachmat Saleh*
  - *Prof. Adrianus Mooy*
  - *Dr. Darmin Nasution*
  - *Dr. KH. (HC) Ma'ruf Amin*
  - *Drs. Binhadi*
  - *Prof. Dr. H. Djokosantoso Moeljono*;
- Members of Academic Senate of STIE IBS;
- Founders of STIE IBS;
- Managing Director of LPPI, Dr. Hartadi A. Sarwono and the Board of Directors of LPPI;
- Chairman of YPPI – Mr. Abdul Aziz;
- The Academic Community of STIE IBS, Lecturers, and Students;
- Attendees and Invitees,

**Assalamualaikum Wr. Wb.**

1. To start the remarks, please allow me to ask you all to praise and thank God the Almighty, as only for His blessing we are able to gather here in the good atmosphere, attending and witnessing the **Graduation of STIE Indonesia Banking School (IBS) Year 2015**. On behalf of the Board of Governor of Bank Indonesia and I personally, we would like to congratulate the graduates of STIE IBS and the parents attending today's graduation ceremony.
2. Before I read the remarks of the Governor of Bank Indonesia as the Chairman of the Board of Curators, allow me to convey the Governor of Bank Indonesia, Bapak Agus Martowardojo's apology for not being able to attend today's graduation of STIE IBS. Since last Thursday up to Sunday, tomorrow, all Members of the Board of Governors of Bank Indonesia have been and are in Yogyakarta in a series of activities of the Board Seminar on Regional Financial and Economic Study and coordination between Bank Indonesia-Central Government-Regional Government in Yogyakarta. Such activities are a routine agenda since the beginning of 2015 as a part of Bank Indonesia efforts to promote structural reformation both at the central level and regional level.

**Ladies and Gentlemen, and attendees,**

***Latest economic challenges***

3. Imperceptibly soon, we will leave year 2015 behind, a year that was full of challenges for Indonesian economy. I noted there were at least 4 challenges faced by Indonesian economy in this year 2015. *First, it was the uncertainties of the global economy.* The global economic conditions this year, in reality was not as bright as originally forecasted. Recovery of the global economy indeed continued in the various major economics of the world, although not in the speed according to our expectation and also uneven. This was indicated by several downward revisions of the world economic growth projections by various international institutions. The world commodity prices also continued to decline due to the weak demand, especially from China. As a country with open financial system and economy, Indonesia could not be separated from the global economic constellation. Moreover in the midst of divergence of the world monetary policy and the change of external risk perception causing the US Dollar on the global scale continued to strengthen. Such various external pressures, in turn caused instability on the domestic economy, among others the weakening of Rupiah, the outflows of capital both in the capital market and stock market, as well as the increase of returns or yield of SBN (Government securities).
4. *Second, the slowdown of economic growth.* As we all know, up to the end of Quarter III-2015, Indonesia economy grew below 5%. In Quarter I it grew 4.71%, in Quarter II grew 4.67%, while in Quarter III, that has just been announced last week, it slightly increased to 4.73%. This deceleration was due to the decline of export performance resulted from the continuing decline in prices of some major primary commodities such as CPO, rubber, coal and petroleum. The decrease in prices caused the economic growth in most provinces, which economy based on natural resources, especially in Sumatra and Kalimantan, dropped drastically. And even some provinces experienced negative growth such as in the Provinces of Kaltim-Kaltara, Riau, and Aceh. This economic slowdown started to have an impact on the increase of unemployment rate. The rate of Open Unemployment of August 2015 released on 5 November 2015 indicated an increase from 5.9% to 6.2% due to the decrease in the number of labors in the sector of agriculture, industry, and services. Even, this increase of open unemployment rate in Riau and Kaltim-Kaltara rose above 7%.
5. *The third challenge is the implementation of ASEAN Economic Community (Masyarakat Ekonomi ASEAN-MEA) that should be started by end of December 2015.* On one hand the MEA commitment will open market opportunities with freer flows of goods, services, investments, workforce and capital. But on the other hand, this will provide consequences of higher competition in the domestic market of the respective country. With the massive market potentials, I see the most fundamental tough challenge of the MEA commitment is our ability to create competitiveness that is competitive. *Can we utilize MEA as an opportunity to act as the major actor of the global production chain, or will we only be the target market and spectator?* In my opinion, at this point our capability to read and anticipate the economic movement ahead is getting tested.
6. *The fourth challenge was the normalization of the Fed interest rate.* This issue dominated the dynamics of the financial markets, both in the advanced economy and emerging markets since May 2013. This normalization of interest rate caused uncertainties that often changed the behavior of risk on-risk off rapidly from the investors. Post data release of the US labor which was improving in the month of October 2015, the Bloomberg survey indicated market expectation to the increase of

the Fed interest rate, Fed Fund Rate, in December 2015 increasing from 56% to 68%.

**Ladies and Gentlemen, and attendees,**

***Latest policy of Bank Indonesia***

7. To face the quite tough challenge in economy, various policies have been carried out. *In the field of monetary, BI remains maintaining a tight bias monetary policy in order to maintain market confidence and suppress the current account deficit.* Although the pressure toward macro stability started to decline, so that there is a space for easing the monetary policy, we still need to observe the high risk of global uncertainties, in particular due to the plan of Fed Fund Rate increase in December and the preparedness in mitigating its risk.
8. In line with the said matter, *the focus of BI policy in the short run remains directed to the measures of stabilization of the exchange rate, strengthening rupiah liquidity management, and also strengthening foreign exchange supply-demand management.* Bank Indonesia also welcome and appreciate the series of the Government and OJK policy packages in supporting economic growth and structural reformation needed to strengthen the foundation of Indonesia economy. The various measures of policies are expected to create investment climate that increasingly conducive, which in turn can improve the outlook of the Indonesia economy.
9. *These several measures of policies have provided positive impacts, although not yet fully up to the expectation.* The good news issued just last week, stating that Fitch Rating has given affirmation for Indonesia sovereign rating with a stable outlook (BBB-). We should be grateful for that, it in the midst of global volatility that increases again. Nevertheless, the pressure against rupiah is still not abating, although Bank Indonesia has done quite a lot in stabilizing the foreign exchange market. Aware of the complexity of the challenge faced, we will continue what we are doing and strengthen policy coordination between institutions.

***Confidence and positive perception***

10. We are aware that it is not easy for us to go through the variety of challenges faced by the economy. However, we must remain optimistic, as history proves that we had good experiences in running the economic reformation. ***First, at the era pre the old order, Indonesia has ever been recorded in the book of Economics Development written by Benjamin Higgins in 1963 as “the chronic drop out”*** and declared as the example of failure in managing economy. However, within 30 years, IMF and the World Bank declared that Indonesia was one of the “Asian Miracle”, with a high and stable economic growth, a successful structural transformation, and a controlled inflation.
11. ***Second, at the time of Asia financial crisis in 1997, Indonesia along with Thailand and Korea became the countries experiencing the worst impacts,*** so that it ended in political crisis and change of power. Nonetheless, with the various reformation we conducted, in 2008 global financial crisis, Indonesia together with China and India became the few countries surviving the vortex of the largest world economic crisis after the 1930 economic crisis, with economic growth above 4%.
12. ***Such experiences conveyed a message to us all that we can get through any tough challenge provided that we remain maintaining confidence and deliver positive perception that we have, are, and will conduct structural reformation. This requires synergy of Indonesia Incorporated, whether the government, central bank, OJK and the business world including the banking and financial sector.***

**Ladies and Gentlemen, invitees and attendees,**

13. *In facing this challenge, in particular to face MEA 2015, actors in the financial sector must prepare themselves well so as to have competitiveness and high professionalism in order to be first class bankers. We must be able to show that the banking people and professionals of Indonesia's financial sector are the best in ASEAN.*
14. *The following matters need to be prepared to enhance the competitiveness of professionals in the financial sector. First, standardization of HR quality which is link and match with the market need. Academic education is required to have a curriculum and teaching method that can generate ready-to-use graduates. Therefore, the academic world needs to continue updating itself with the current development in the financial world that continues to develop. A special time requires to be provided to the students to have discussions with the professionals and policy makers in the financial field.*
15. *Second, the existence of competency certification in the financial sector is inevitability. In order to compete with the skilled workforce from other ASEAN countries, college degree solely is not enough. Nowadays, there are many new professions that have not been touched and require certifications, both globally and nationally. Degrees in accounting and management may become financial, management, and operational auditors, but they might not be able to audit information system, software, and application system. Whereas in the next 5 years, we must compete with HR from members of MEA countries.*
16. *Third, the importance of sharpening the competitiveness of HR in sharia financial and banking. Post issuance of Law No. 21 year 2008 concerning Sharia Banking and the proliferation of sharia financial instruments such as sukuk and sharia capital market has triggered the need of a large workforce. Apart from having skills in the field of finance, sharia financial HR is required to have an understanding in sharia principles. Although the ratio of sharia banking asset to banking asset currently is still below 5%, the supply of HR in the field of sharia financial and banking is still quite limited. To face MEA 2015, moreover with the superiority of the neighboring countries in sharia financial and banking, it feels that we need to sit together to overcome this issue.*
17. *Last but not least, as the foundation of the abovementioned three things, I would like to underline the importance of education to integrity. I believe that education and skills realized by mastering the standard of competency and professional expertise will not have any meaning without good integrity, as the business in the financial sector is a business of trust.*

**Ladies and Gentlemen, invitees and attendees,**

18. Finally, we congratulate the STIE IBS that has successfully graduated around 120 alumni in this 2015 graduation. Hopefully this will be a better motivation to give birth to other better STIE IBS graduates in the coming year. I also would like to congratulate the STIE IBS graduates. The bachelor and master degrees that you have earned today are the equipment of you all to enter the new world. After being equipped with knowledge in banking and finance in this STIE IBS campus, now it is the time of you to create value. I always remember Einstein's words, ***"Try not to become a man of success, but rather try to become a man of value."***
19. Hopefully, our good intention to build a nation and state through the development of banking human resources and financial sector that has quality and integrity always be blessed by Allah SWT, the God Almighty. Thank you.

**Wassalamualaikum Wr. Wb.**