

PRESS RELEASE

FINANCIAL SERVICES COMPANIES PERFORM MORE INTERMEDIARY ACTIVITIES DESPITE DOMESTIC ECONOMY'S DOWNSIDE RISKS

Jakarta, March 15, 2017 — The meeting of the Board of Commissioners of the Financial Services Authority (OJK) saw that Indonesia's financial services sectors remained stable.

In the beginning of 2017, developed countries, especially the United States, enjoyed solid economic recovery. This has led to stronger expectations that Fed Funds Rate will rise sooner. On the contrary, emerging markets have been facing challenges in their roads to recovery.

However, the sentiment that indicates faster increase of FFR has yet to show any significant impacts on both global and domestic financial markets. The Jakarta Composite Index (JCI) posted a month-on-month increase of 1.75 percent and closed at 5,386.69 at the end of February 2017. Selling pressure from foreign investors was seen to have waned, since net sells were down to IDR 805.1 billion from IDR 966.8 billion in the previous month. While government debt papers have maintained relatively stable yields and foreign investors posted net buys worth IDR 6.4 trillion for February 2017 and booked a total of IDR 26.1 trillion year to date.

In line with this development, financial services companies have achieved growth in their intermediary activities. In January 2017, third-party funds rose 10.04 percent year on year (compared to 9.60 percent yoy in December 2016) and the total amount of loans distributed by banks climbed 8.28 percent yoy (compared to 7.87 percent yoy in December 2016). In the same period, financing receivables booked an increase of 6.67 percent yoy, in line with its upward trend. Funds raised by 12 issuers from the capital market for January – February 2017 period reached IDR 17.2 trillion. As much as 73.22 percent of the amount was raised by issuers from the banking and financing sectors.

This expansion of intermediary activities took place without hurting the quality of the funds distributed. In terms of credit risks, as of January 2017, gross and net non-performing loans (NPL) ratios stood at 3.09 percent and 1.35 percent, respectively whereas financing companies recorded a non-performing financing ratio of 3.17 percent. Also, financial services companies have managed to sustain adequate capitalization. As of January 2017, the banking sector posted a high capital adequacy ratio (CAR) of 23.21 percent.

The OJK believes that in 2017, Indonesian economy can grow higher. However, the country needs to be cautious about some downside risks that include possible higher inflation due to electricity tariff increase and the weather and the prospect of external sectors' performance, which are exposed to major export commodities' declining prices.

Amid efforts to increase contribution from the financial services sectors in order to promote growth, the OJK will continue monitoring developments that take place, both at global and national levels, and prepare the necessary mitigation steps to prevent any pressures against financial system stability.

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