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**PRESS RELEASE**

**EVALUATION ON DEVELOPMENT AND RISK PROFILE**

**OF FINANCIAL SERVICES INDUSTRY IN** **SEPTEMBER**

**Jakarta, September 11, 2014:** Financial Services Authority (OJK) considered that development and risk profile in financial services industry was generally in good condition. That is the conclusion of OJK Board of Commissioners` monthly meeting, which has been held routinely every second week of each month in order to evaluate the development and risk profile in financial services industry.

Globally, economic recovery in developed countries still continued although unevenly. It must be taken into consideration about the continuing side effect of policy normalization in the United States of America (U.S.) on emerging market. Global economic recovery continued with different swiftness. Economic indicators in the US showed a strong recovery, whereas those in Europe, Japan, including China indicated a growth deceleration. Improvement in employment indicator in U.S. has aroused speculation on interest acceleration, which will probably be implemented in first semester of 2015. This shift of policy stance contains spillover implications in the form of investor`s risk off from emerging market, which potentially will inflict inversion of capital flow in financial market in the emerging market, including in Indonesia. Economic deceleration in emerging market is estimated to continue, and this might cause spreading side effect in a global scope.

The impact of global economic deceleration has influenced Indonesia`s domestic economy, i.e. a deceleration of economic growth during second quarter of 2014, which occurred in all components of expenditure. Household consumption and investment still grew although with a slow down. Meanwhile, contraction occurred in government consumption, export and import. Deficit of ongoing transaction in second quarter of 2014 widened, despite that Indonesia`s balance of payment account (NPI) recorded a surplus, backed by capital and financial transactions, and on the other side, inflation was still maintained but there was additional potential pressure.

As for banking condition, capitalization was quite high with capital adequacy ratio (CAR) at 19.39%, dominated by core capital component (Tier 1). Rentability was stable with a slight tendency to decrease, indicated by a relatively stable return on assets (ROA). Whereas operational cost and operational income (BOPO) relatively increased when compared to that of previous period.

Stock exchange condition enhanced, followed by the increasing month-to-month net asset value of mutual fund. The increasing net asset value was originated from an increase in investment portfolio by Rp 289 billion and in net subscription by Rp 721 billion. The biggest net subscription occurred in protected mutual fund with a value of Rp 708 billion, while mutual fund and money market recorded the biggest net redemption, reaching Rp 704 billion.

Investment value of insurance and pension fund as of July 2014 showed an increase compared to previous month, which is in line with market improvement during the month. Investment value of pension fund was at Rp 170.5 trillion, an increase of 1.3% compared to previous month. Investment value of insurance (including BPJS, or Social Security Management Agency) was recorded at Rp 643.7 trillion or an increase of 11.4% compared to previous month.

Finance companies` credit growth experienced a deceleration, which was influenced by the increasing interest rate in banking. Assets of finance companies increased by 11.88% (year-on-year) to Rp 412.84 trillion, and financing credit escalated by 10.61% (yoy) to Rp 363.19 trillion. Year-on-year financing growth as of July was recorded at 10.61% (June: 12.50%), resuming the deceleration that has happened since beginning of 2014. This was influenced by, among other matters, the increasing interest rate in banking, which also influenced financing interest rate.

Liquidity risk in banking was in stable condition and at a relatively low level of risk. Liquidity tools were quite sufficient to anticipate potential withdrawal of third party fund. However, there was potential increase of liquidity risk in accordance with the increasing loan deposit ratio (LDR), dependency to non-core funding, and ratio of core depositors that remained relatively high. In capital market, the value and frequency of stock trading in August decreased when compared to previous month, given the fact that market sentiment was decreasing while bid-ask spread showed a constriction.

Risks in financial services institutions were generally at a relatively low level. Credit risk in banking was reasonably low, credit quality was stable, indicated by non-performing loan (NPL) that was low and stable. However, the portion of low quality credit and credit concentration in core debtors that was relatively high, along with the increasing interest rate, require some attention as they might potentially increase NPL. Another subject that requires attention is about a worsening quality in several kinds of credit that are sensitive to interest rate changes, which brings influence to a hike of credit risk. As for condition in finance companies as of July 2014, financing to asset ratio (FAR) increased, while non-performing financing (NPF) decreased when compared to previous month. Despite the improving conditions, we need to remain cautious over potential increase of interest rate.

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For more information:

**Lucky F.A. Hadibrata**, Deputy Commissioner IB for Strategic Management, OJK.

Phone: 021-3858001, Email: lucky.fathul@ojk.go.id/[www.ojk.go.id](http://www.ojk.go.id)