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PRESS RELEASE

INDONESIA BANKING SURVEILLANCE REPORT (LSPI) QUARTER I- 2024

Jakarta, August 7, 2024. Indonesia Financial Services Authority (OJK) releases Indonesia Banking Surveillance Report (LSPI) Quarter I-2024. The report presented the overview and analysis of the global and domestic economic condition and their relation to banking performance, credit and or financing distribution, and risk profiles.

The report includes the banking regulations established by OJK during the reporting period, the development of banking institutions, and coordination between banking institutions. Additionally, there is a specific discussion on “The Bank’s Intermediary Function Roles in Managing Risks from Global Economy Turmoil and High Interest Rate to Corporative Performance”.

In the reporting period, the global economic condition gets better in several diverging nations. In align with the several nations’ quite resilient conditions, particularly in the US and emerging markets nations, IMF during the World Economic Outlook (WEO) in April 2024 projected the global economic in 2024 grew by 3.2 percent (yoy), a stable growth from the estimation in WEO January 2024 at 3.1 percent (yoy). Meanwhile, the world economic growth estimation in 2025 remained the same from the previous estimation, at 3.2 percent (yoy).

Global financial market movements and conditions during the quarter I-2024 are influenced by central bank’s monetary policy stance to maintain high for longer reference interest rate in align with the flattening inflation rate despite not reaching the target. However, there are risk factors to consider, such as the Middle Eastern and Ukraine geopolitical conflict developments as well as the Red Sea trade route that might increase future commodity prices and inflation.

Amid the global developments, the domestic economy in the first quarter of 2024 grew strongly by 5.11 percent (yoy) from the fourth quarter of 2023 at 5.04 percent (yoy). The growth was factored by the strong domestic consumption and investment trend, as well as the increasing export activities and government’s expenses. Additionally, the growth was also due to the investment and ongoing infrastructure development related to the Nusantara Capital City (“IKN”), and the increasing governmental expenses, which aligns with the goods spending increases realization especially during the General Elections 2024.

Domestic economy’s strength is nurtured, as reflected in the bank indicator, where commercial banks’ credit growth is considered relatively good at 12.40 percent (yoy) and has increased from the same period in the previous year (9.93 percent yoy).

The credit growth was also driven by the improving economic growth from solid demand on consumption and investment growth as well as the government’s expenses. Third party funds (DPK) still increased by 7.44 percent (yoy), a rise from the previous year at 7.00 percent (yoy) and a factor of maintained bank liquidity.

In this situation, common bank liquidity remained adequate as shown by AL/NCD and AL/DPK ratio at 121.05 percent and 27.18 percent, far above the threshold. Capital rate is solid with 25.96 percent CAR despite a decrease from the previous year (27.09 percent). The decline of CAR is mainly due to the increase of Credit and Market RWA which aligns with high credit distribution and RWA calculation adjustments in the Credit RWA provisions implementation as of 2024.

Credit risk was improving with decreasing gross NPL ratio and relatively stable net NPL ratio to 2.25 percent and 0.77 percent respectively. Conventional Rural Banks and Sharia Rural Banks' (BPR and BPRS) performance were quite well with credit/financing and DPK experience high growth compared to the previous year. Capital ratio is rather strong with BPR and BPRS CAR at 32.60 percent and 23.57 percent respectively.

Banking risks in the future shall be considered and observed, particularly market and liquidity risks amid global uncertainties such as high global interest rate, China's economy development, and the increasing geopolitical tensions that may potentially pressure domestic economy.

Credit risk potential also increases as COVID-19 credit restructuration relaxation period is ending by the end of March 2024 with generally mitigatable condition. Banks have also built adequate reserves, and Covid-19 related credit restructuration exposure have climbed down. To measure bank resilience, OJK requested banks to periodically conduct stress test on its capital ability in absorbing credit restructuration quality degradation potentials.

During the reporting period, OJK has also enforced regulations by issuing three OJK Regulations ("POJK") regarding banking provisions: Conventional Rural Banks Asset Quality Development; Sharia Governance Implementation for Sharia Commercial Banks and Sharia Business Units; and Supervisory Status Determination on Commercial Bank Issue Management.

Moreover, OJK also actively coordinates with the Government and related Authorities in maintaining financial system stability. In this reporting period, OJK also carried out the first mission of Financial Sector Assessment Program (FSAP) Review Indonesia 2023/2024, a joint program by IMF and World Bank for comprehensive and in-depth analysis on a nation's financial sector.

Chief Executive of Banking Supervision of OJK Dian Ediana Rae stated that OJK continuously observes the global economic volatility development and its impact to the domestic economy and banking in Indonesia. This observation will be carried out through intensive and continuous individual bank supervision and is expected to maintain Indonesia's current and future financial system stability and banking.

OJK furthermore advised banks to pay attention to prudential banking, professionalism, innovativeness, as well as to uphold integrity to achieve high and healthy growth.

The complete Indonesia Banking Surveillance Report (LSPI) Quarter I-2024 is accessible on OJK website (https://www.ojk.go.id/id/kanal/perbankan/data-dan-statistik/laporan-profil-industri-perbankan/Default.aspx).

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