INDONESIA FINANCIAL SERVICES AUTHORITY

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PRESS RELEASE

REFLECTION 2024: INDONESIAN BANKING REMAINS SOLID AND OPTIMISTIC AMID GLOBAL ECONOMIC UNCERTAINTY

Jakarta, 31 December 2024. Closing the year 2024, Indonesian banking sector has once again demonstrated resilience amid global uncertainty and domestic economic challenges. Through innovative and responsive strategies, the banking industry has successfully maintained the stability of the financial system, supported economic activities, and strengthened trust from various parties as one of the main pillars in the recovery and growth of the national economy.

The global economic conditions have remained stable in line with the easing of pressures in global financial markets, especially after the certainty of Trump's re-election as President of the United States, as well as the monetary policy easing in various major countries in response to slowing inflation pressures. The continued decline in global inflation, particularly in developed countries like the U.S., has prompted several central banks to cut interest rates. Throughout 2024, the Fed has cut its Federal Funds Rate (FFR) by 100 basis points since September 2024. However, it is also important to consider risk factors such as the developments in geopolitical conflicts in the Middle East and Ukraine, as well as the "Trump Effect," which could potentially trigger increases in commodity prices and inflation in the future.

Amid the dynamics of the global economy, domestic economic growth has been moderate, supported by exports and government spending, although investment and consumption have tended to slow down. Generally, the slowdown in domestic consumption is attributed to a decrease in the middle class, followed by weakened purchasing power due to layoffs in various industrial sectors. As a consequence, the public tends to hold back on consumption as a precautionary measure to avoid uncertainties arising from current geopolitical, social, and economic turmoil.

Based on data from October 2024, the performance of banking intermediation remains strong, reflected in good credit growth (commercial banks) of 10.92 percent (yoy), an increase from the same period last year (8.99 percent, yoy). This credit growth is influenced by increased demand from the corporate segment, which is in line with good sales and strong payment capabilities. Meanwhile, credit disbursement for MSMEs continues to grow at 4.76 percent (yoy), dominated by the wholesale and retail trade and agriculture sectors. On the other hand, Third Party Funds (DPK) also grew by 6.74 percent (yoy), up from the previous year (3.43 percent, yoy), making it one of the factors supporting the maintenance of banking liquidity. The liquidity condition of commercial banks is also observed to be adequate, as reflected in the LA/NCD and LA/DPK ratios of 113.64 percent and 25.58 percent, respectively, well above the thresholds of 50 percent and 10 percent. Capital levels are also solid with a Capital Adequacy Ratio (CAR) of 27.02 percent, although it has decreased from the previous year due to a 9.44 percent (yoy) growth in Risk-Weighted Assets (ATMR), in line with credit growth, and exceeding capital growth. Credit risk has also improved, with the gross Non-Performing Loan (NPL) ratio decreasing to 2.20 percent and the net NPL remaining stable at 0.77 percent.

Islamic banking industry has also recorded good performance, reflected in Islamic banking assets growing by 12.50 percent (yoy), higher than the previous year's 10.49 percent (yoy). Additionally, financing disbursement grew by 13.24 percent (yoy), higher than last year (12.22 percent, yoy), followed by DPK growing by 10.43 percent (yoy). The good performance of Islamic banking is also supported by strong capital conditions, reflected in a CAR of 25.59 percent, well above the threshold. It is expected that Islamic banking will experience positive dynamics related to the implementation of the spin-off of Sharia Business Units (UUS) and the consolidation of Islamic banking in accordance with the Roadmap for the Development and Strengthening of Islamic Banking in Indonesia (RP3SI) 2023-2027.

Furthermore, Regional Development Bank (BPD) have also shown good development as seen from their intermediation function, with credit growing by 7.55 percent (yoy) and DPK growing by 4.35 percent (yoy), supported by high capital conditions with a CAR ratio reaching 24.86 percent.

In line with the performance of commercial banks, the performance of Rural Bank (BPR) and Sharia Rural Bank (BPRS) is also good, although credit/financing growth and DPK have slowed compared to the previous year. The capital ratios are also solid, with CAR for BPR and BPRS at 31.16 percent and 22.46 percent, respectively. The number of BPR/S shows a declining trend due to mergers to meet minimum core.

OJK continues to encourage ease of access to credit/financing for MSMEs through the issuance of a series of regulations and policies regarding financing analysis, risk management, and the resolution of financing/credit, as well as programs aimed at promoting access to MSME financing such as National Movement to support Indonesian product and Indonesian tourism (Gernas BBI-BBWI), national movement against loan sharks (K/PMR), and loans/credits prioritizing MSMEs (KPSP) as efforts to enhance resilience and growth of the national economy through MSME empowerment. Indonesia Financial Services Authority (OJK) also urges banks to pay attention to the public's need for small-scale consumer credit such as Buy Now Pay Later (BNPL), while still adhering to the principles of prudence and consumer protection.

In addition, OJK consistently calls on banks to maintain an optimal funding composition by increasing the proportion of low-cost funds, expanding products to deepen the financial market, and strategically managing liquidity while considering future economic projections to ensure a balance between assets and liabilities, and to avoid mismatches between short-term funding and long-term financing. Regarding regulatory strengthening, OJK has issued various banking provisions in the form of Regulations and Circular Letters aimed at strengthening the performance of the banking industry so that intermediation functions continue to grow positively, followed by liquidity strengthening. In terms of banking liquidity strengthening, OJK has issued regulations establishing comparable and reliable short-term liquidity ratios for all Conventional Commercial Banks (including Non-Foreign Core Capital Group Banks (KBMI) 1) and in line with international standards (Basel), namely OJK Regulation (POJK) Number 19 of 2024 concerning Amendments to POJK Number 42/POJK.03/2015 concerning the Obligation to Fulfill the Liquidity Coverage Ratio (LCR) for Commercial Banks and POJK Number 20 of 2024 concerning Amendments to POJK Number 50/POJK.03/2017 concerning the Obligation to Fulfill the Net Stable Funding Ratio for Commercial Banks.

To encourage the banking sector to have strong capital, since the issuance of POJK on the Consolidation of Commercial Banks, the number of banks meeting the minimum core capital has increased significantly each year. According to the POJK, the fulfilment of the Minimum Core Capital for BPD can be achieved by meeting the minimum core capital of IDR 3 trillion or by forming a Bank Business Group (KUB) for BPDs that have not yet reached IDR 3 trillion in core capital. Currently, for BPDs that have reached IDR 1 trillion but have not yet reached IDR 3 trillion, five BPDs have formed KUBs, and the rest are in the process of completing the KUB administrative process.

Furthermore, OJK continuously encourages the strengthening of banking governance to uphold the integrity of the financial system through a series of POJK issuances, including POJK Number 12 of 2024 concerning the Implementation of Anti-Fraud Strategies for Financial Service Institutions (LJK). The guidelines for implementing the Anti-Fraud Strategy in this provision are intended to guide LJK in controlling fraud through prevention, detection, investigation, and system improvement efforts. OJK has also issued POJK Number 15 of 2024 concerning the Integrity of Bank Financial Reporting, emphasizing to all bank stakeholders the importance of upholding integrity in financial reporting. Accurate reports will enable OJK's off-site supervision to detect potential issues more quickly and take immediate and effective corrective actions.

In the context of combating online gambling, which has widespread impacts on the economy and financial sector, OJK continuously coordinates with other Regulatory Supervisory Institutions (LPP), including Law Enforcement Agencies, as OJK is also part of the Online Gambling Eradication Task Force established through Presidential Decree (Peraturan Presiden) Number 21 of 2024 dated June 14, 2024. OJK has also requested banks to block approximately 8,500 accounts based on data provided by the Ministry of Communication and Digital, and to develop reports by asking banks to close accounts that match the Identity Number, conduct Enhanced Due Diligence (EDD), and report Suspicious Financial Transactions to the Financial Transaction Reports and Analysis Center (PPATK).

As part of OJK's supervisory actions to continue maintaining and strengthening the banking industry, OJK has issued a guidance letter to banks to pay attention to and consider the developments in global and domestic situations in preparing the Bank Business Plan (RBB) for 2025-2027, including formulating strategies to improve the quantity and quality of credit distribution in the MSME segment. OJK has also issued a guidance letter to banks to enhance the quality of risk management and governance in collaboration with peer-to-peer lending financial technology companies.

OJK Executive Head of Banking Supervision, Dian Ediana Rae, stated that OJK continues to monitor the developments in global economic volatility and its impact on the domestic economy as well as Indonesian banking. OJK also consistently encourages banks to look towards 2025 with confidence and optimism while continuing to strengthen risk management, one of which is through capital enhancement and maintaining adequate loan loss coverage (CKPN). Furthermore, OJK requests that banks continue to pay attention to aspects of prudence (prudential banking), professionalism, innovation, and always uphold integrity in order to achieve high, healthy, and sustainable growth.

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For more information:

Acting Head of the Literacy, Financial Inclusion and Communication Department – M. Ismail Riyadi;

Tel. (021) 29600000; E-mail: humas@ojk.go.id