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PRESS RELEASE

FINANCIAL SERVICES SECTOR ENJOYS NORMAL STABILITY

Jakarta, August 23, 2017. The meeting of Financial Services Authority's (OJK) Board of Commissioners held on August 23, 2017, saw that Indonesia's financial services sector had been enjoying normal stability until July 2017.

The financial services industry's risk profiles in general were under control. This was evident from financial services companies' credit, market, and liquidity risks that stood at manageable levels. The industry's capital was also recorded at a satisfactory level.

Financial services companies' credit risks were relatively stable in July 2017. The banks' gross non-performing loan (NPL) and financing companies' non-performing financing (NPF) ratios stood at 3.00 percent and 3.45 percent, respectively, as of July 2017. While as of June 2017, the NPL and NPF ratios reached 2.96 percent and 3.47 percent, respectively. The banks had put up adequate reserves that enabled them to achieve a low net NPL ratio of 1.32 percent (compared to June 2017's figure of 1.35 percent).

The financial services industry's market risk remained low. The Jakarta Composite Index (JCI) and Rupiah's exchange rates were seen stable during the month of July 2017. Both slightly gained 0.2 percent and 0.01 percent, respectively, month-on-month, and closed at 5,840.93 and IDR 13,324 per US Dollar. In terms of bid-ask spreads in the stock market, the average spread narrowed again to 3.3 percent, from 3.4 percent in June 2017. On the other hand, the sovereign bonds market booked a mixed movement with yields of short-term government bonds fell by 0.3 basis point, but those of medium and long-term government bonds rose by 12 and 2 basis points, respectively.

Liquidity risk of the financial services industry stayed at a manageable level. Although the capital market recorded that in July 2017, foreign investors made a net sell of IDR 5.6 trillion (from their net buy of IDR 5 trillion in the sovereign bonds market and net sell in the stock market that amounted to IDR 10.6 trillion), bank liquidity indicators, both liquid assets to non-core deposits (LA/NCD) and liquid assets to third-party funds (LA/TPF) ratios were still relatively high. The LA/NCD and LA/TPF ratios stood at 103.84 percent (against a threshold of 50 percent) and 21.56 percent (against a threshold of 10 percent), respectively.

Financing companies posted a relatively stable gearing ratio (a ratio of corporate debt to equity capital) of 2.99 times in July 2017 (compared to 3.05 times in June 2017). At the industry level, both general and life insurance industries' capital adequacy ratios remained well above the 100-percent threshold.

The financial services industry had been supported by adequate capital. Its capital adequacy ratio (CAR) continued enjoying an upward trend and in July 2017, it rose to 23.37 percent (from 22.74 percent in June 2017). Similarly, as of July 2017, insurance companies' risk-based capital (RBC) ratios were still above the 120-percent threshold. Life and general insurance companies recorded RBC ratios of 277 percent and 500 percent, respectively (compared to 279 percent and 491 percent in June 2017).

In the meantime, the intermediary services of financial services companies posted moderate growth. In July 2017, banking credit was up 8.20 percent year-on-year (compared to 7.75 percent yoy in June 2017). Financing receivables' growth had not slowed down either, as reflected by a 9.57 percent yoy growth in July 2017 (from 8.95 percent yoy in June 2017).

At the same time, the banking sector delivered a 9.76-percent yoy growth (compared to 10.30 percent yoy in June 2017) in the amount of third-party funds that it raised. For the same month, life insurance premium income soared by 26.07 percent yoy (up from 20.63 percent in June 2017).

The capital market also managed to collect more funds and it is expected to exceed the 2016's figure by the end of the year. For the period of January – August 18, 2017, it had amassed IDR 159 trillion (compared to 2016's year-to-date figure of IDR 101 trillion). Likewise, more and more issuers made corporate actions. So far, 24 companies have done so versus 13 in the corresponding period last year.

Looking ahead, the OJK will continue promoting the utilization of capital market in order to encourage financing for national development, especially for the government's strategic programs. Also, the Authority will keep monitoring the climbing credit risks and formulate the right steps to mitigate the risks' fluctuation, given that the financial services sector still needs to deal with moderate economic growth and relatively low commodity prices.

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