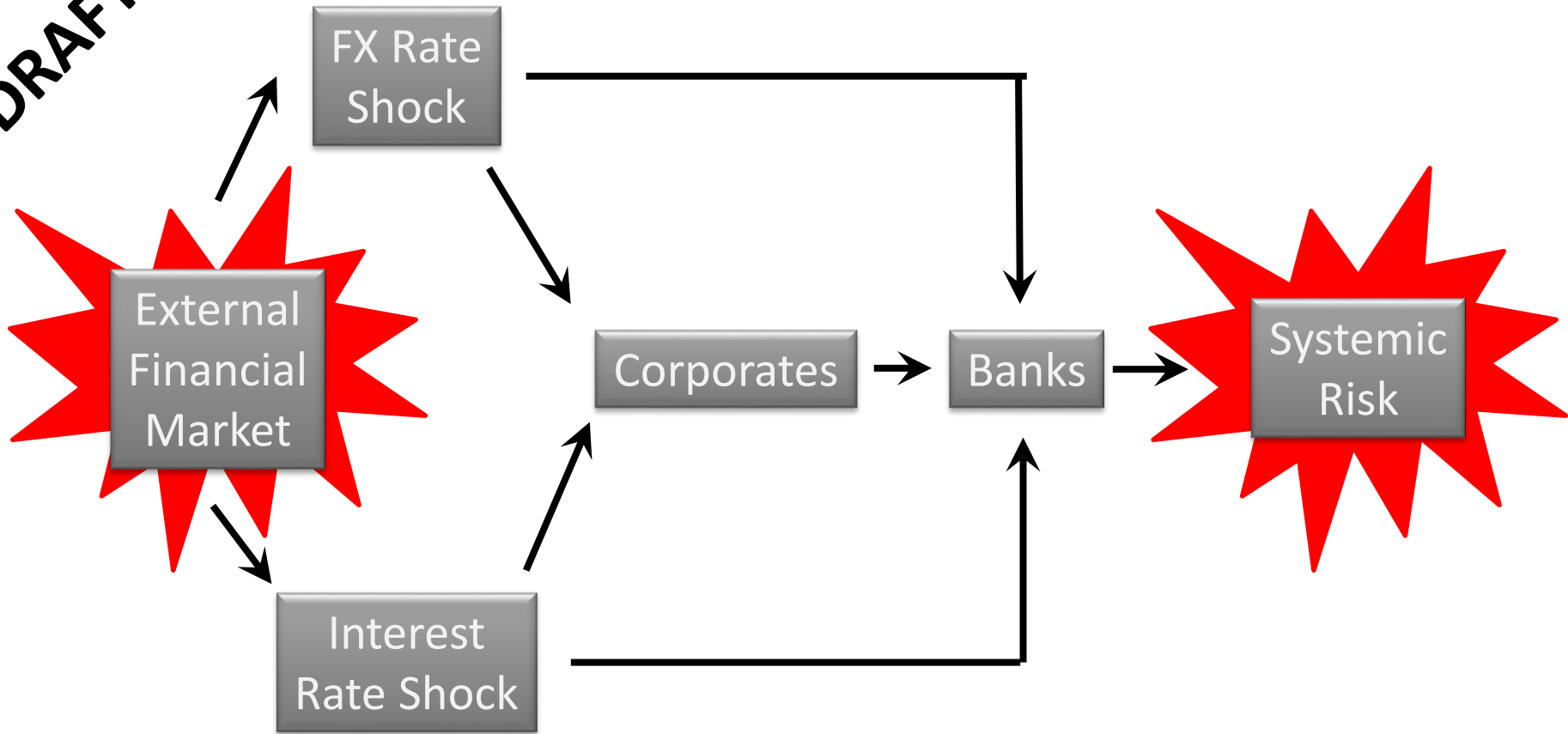


The Importance of Managing External Perception in Minimizing Systemic Risk

Rizal B. Prasetijo
OJK-ADB, Nusa Dua, Bali
July 13, 2017

We know that...

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We also know that managing...

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- Macro fundamental
 - External balance
 - Fiscal balance
 - Sustainable debts
- Micro fundamental
 - Banking CAR
 - Corporate gearing
 - FX loans hedging

ARE IMPORTANT

But...

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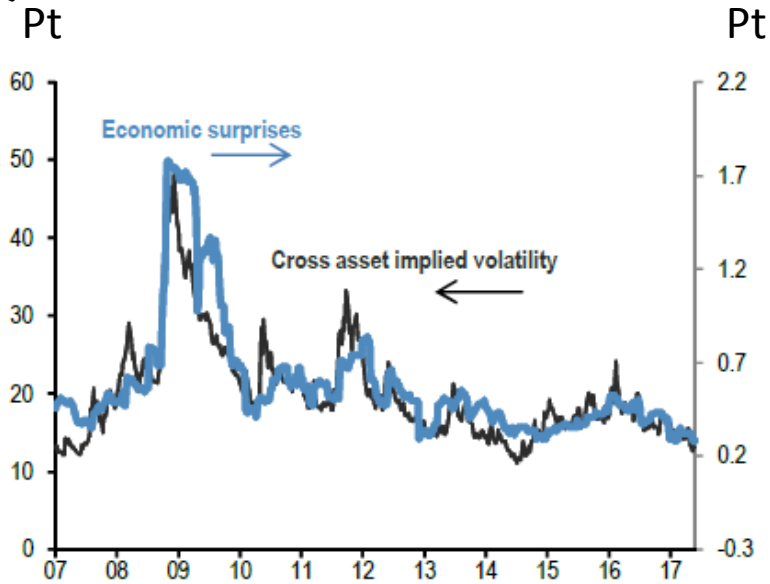
- Realizing peers'/relative fundamental strength
- Managing perception among foreign companies, creditors, and portfolio investors

ARE EQUALLY IMPORTANT

Beware, calm water could drown you

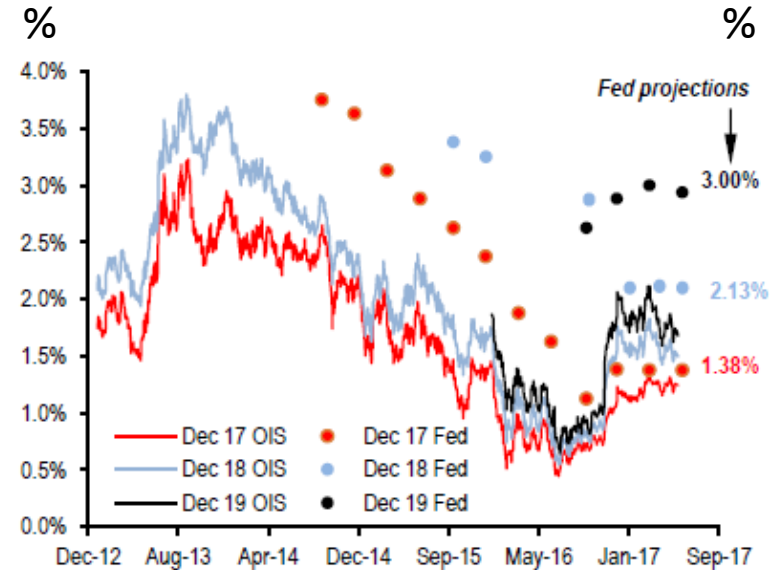
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Global volatility has dropped



Source: J.P. Morgan.

US FOMC est. are challenged

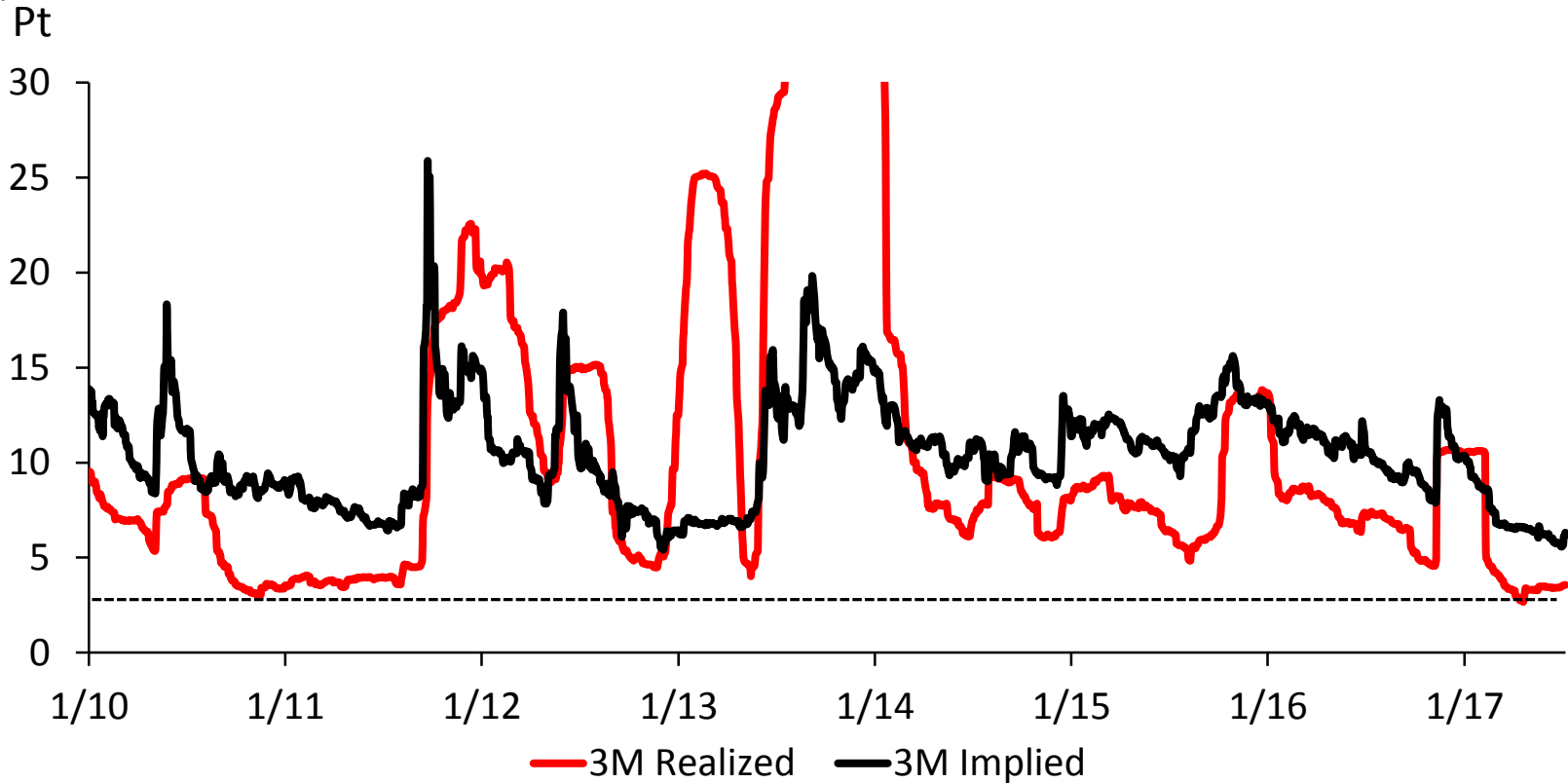


Source: J.P. Morgan.

IDR volatility has also decreased...

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USD/IDR 3-mth realized and implied volatilities

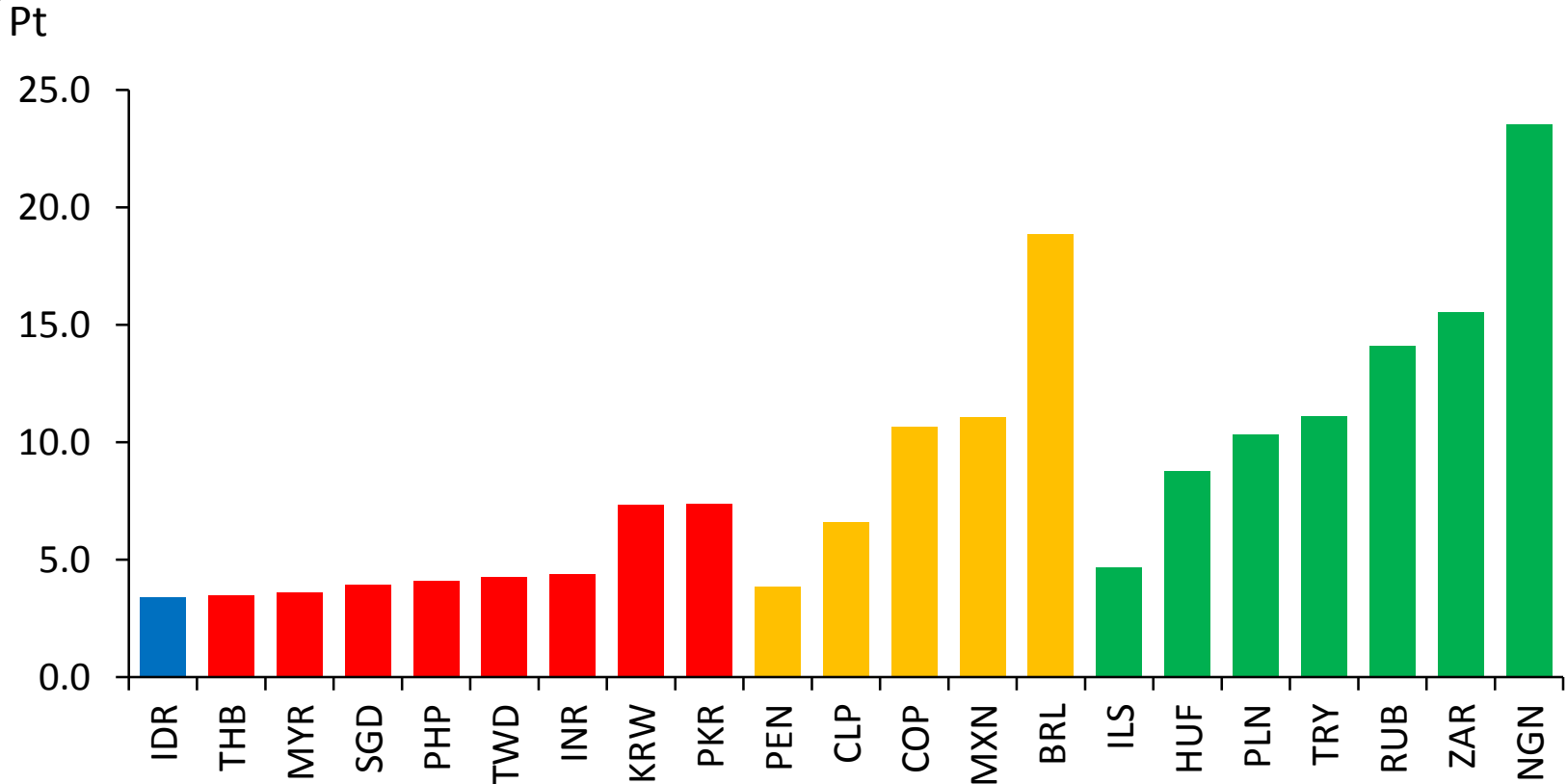


Source: Bloomberg.

...and is now of the lowest in EM

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USD/EM FX 3-mth realized volatility



Source: Bloomberg.

Our capital flow is dominated by portfolio flow...

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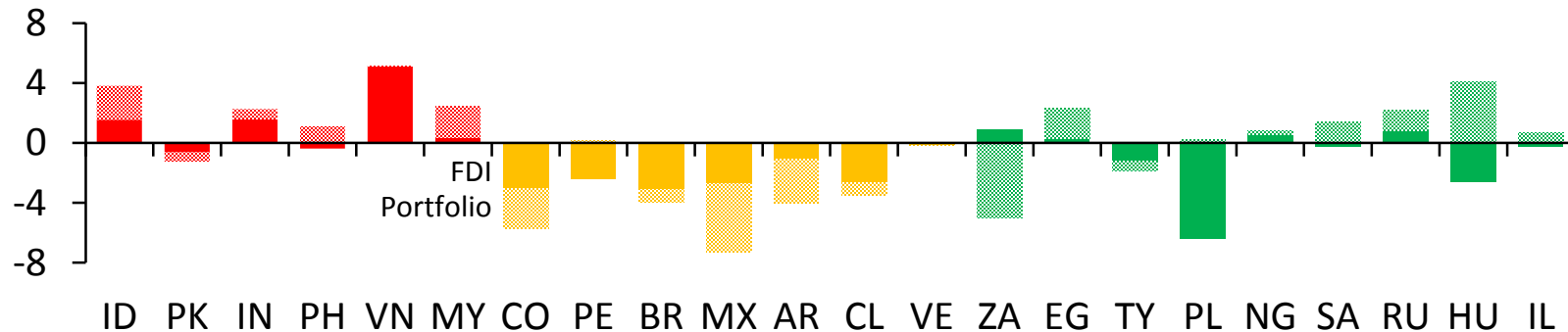
Average CA, 2014-2016

% of GDP



Average FDI and portfolio flows, 2014-2016

% of GDP

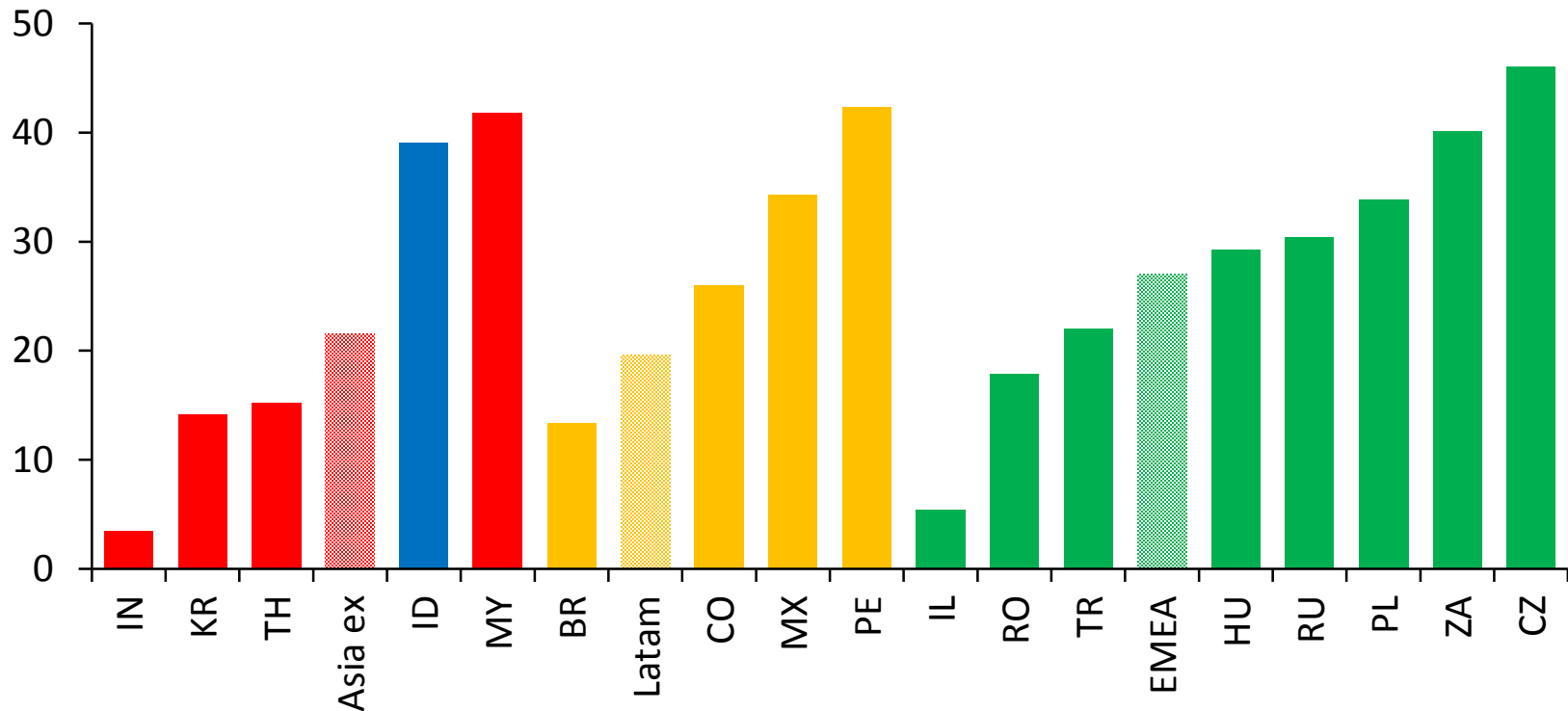


Source: CEIC.

... and because foreign ownership in our tradable public debts is relatively high

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Foreign ownership in tradable public debts
% of total tradable public debts



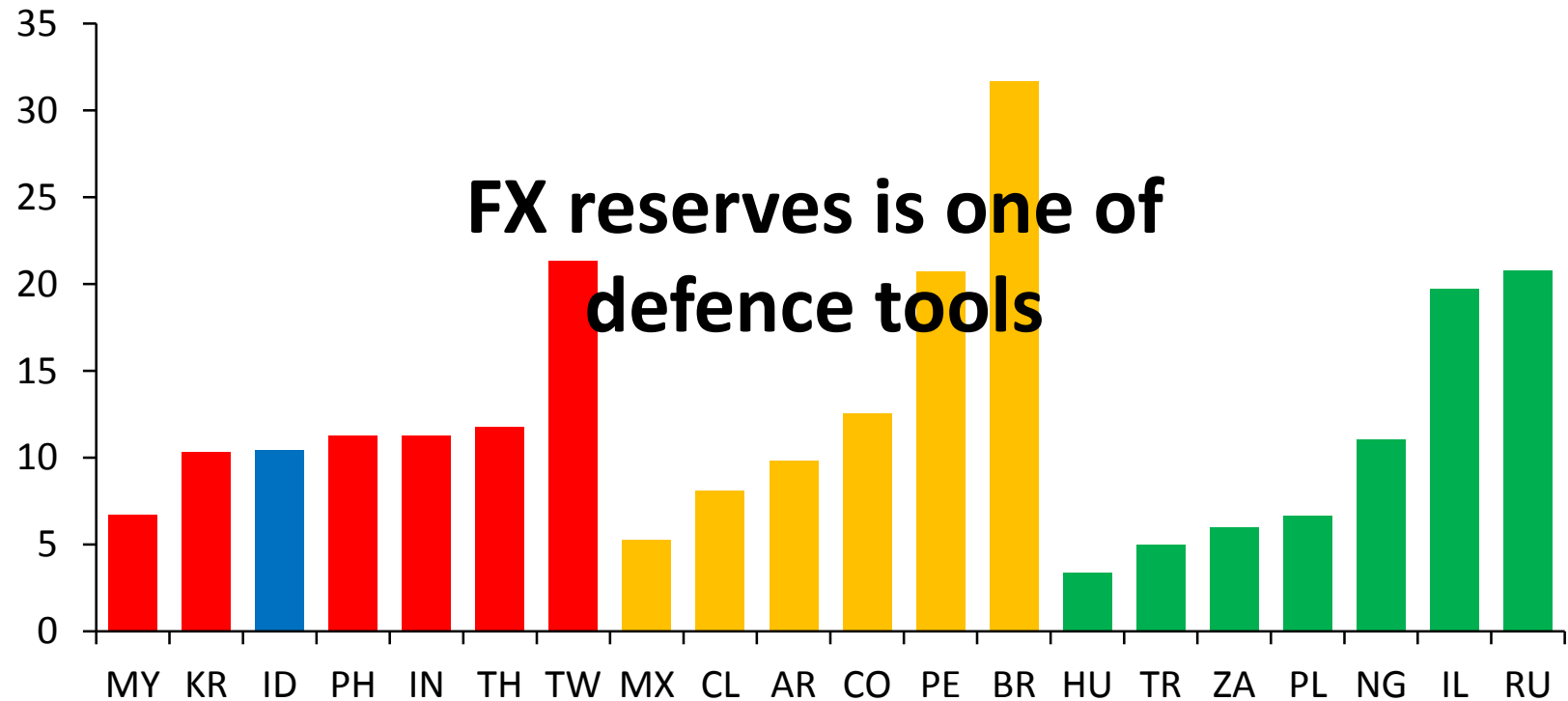
Source: Deutsche Bank.

Our FX reserves-to-import coverage is relatively strong

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FX reserves-to-import coverage ratio

Month

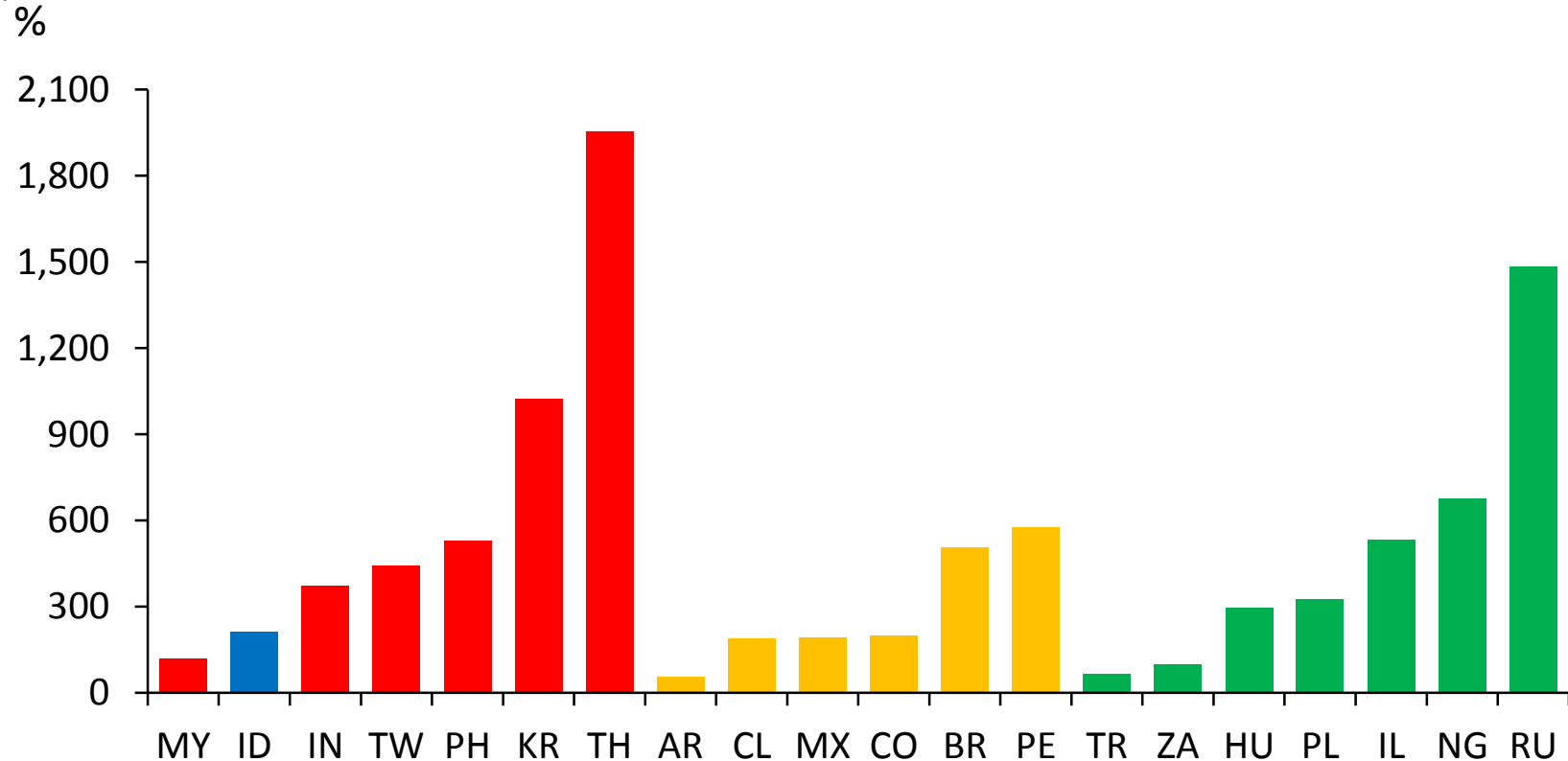


Source: CEIC.

But our FX reserves-to-short term external liabilities is slightly below our peers...

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FX reserves-to-short term external liabilities ratio

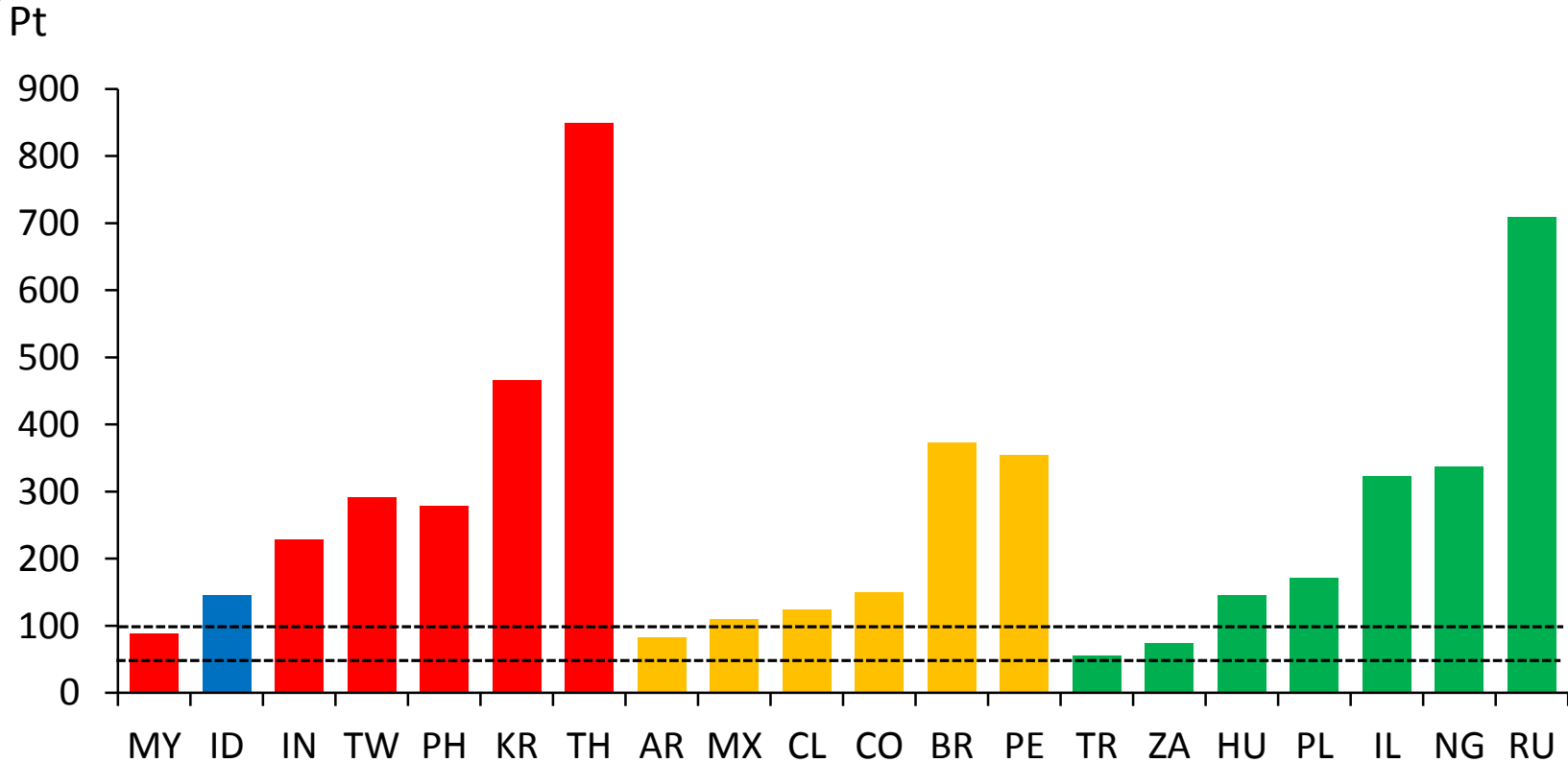


Source: CEIC.

...as well as our FX reserves against IMF risk-weighted metrics

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FX reserves against IMF risk-weighted metrics*



Source: CEIC, IMF

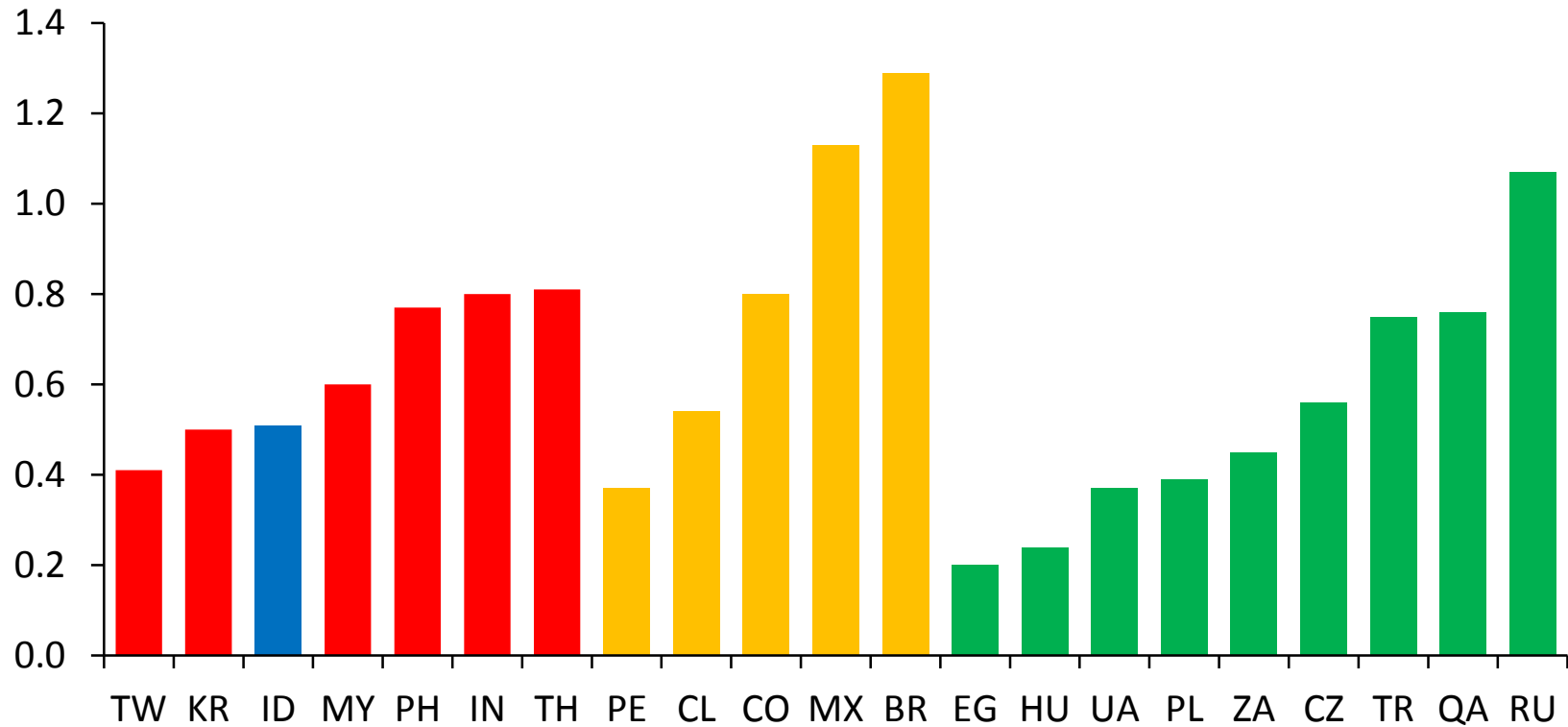
* Reza Mogadham, Jonathan D. Ostry, Robert Sheehy, *Assessing Reserve Adequacy*, (IMF, 2011).

Our large corporate gearing ratio is relatively low

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Debt-to-equity

X



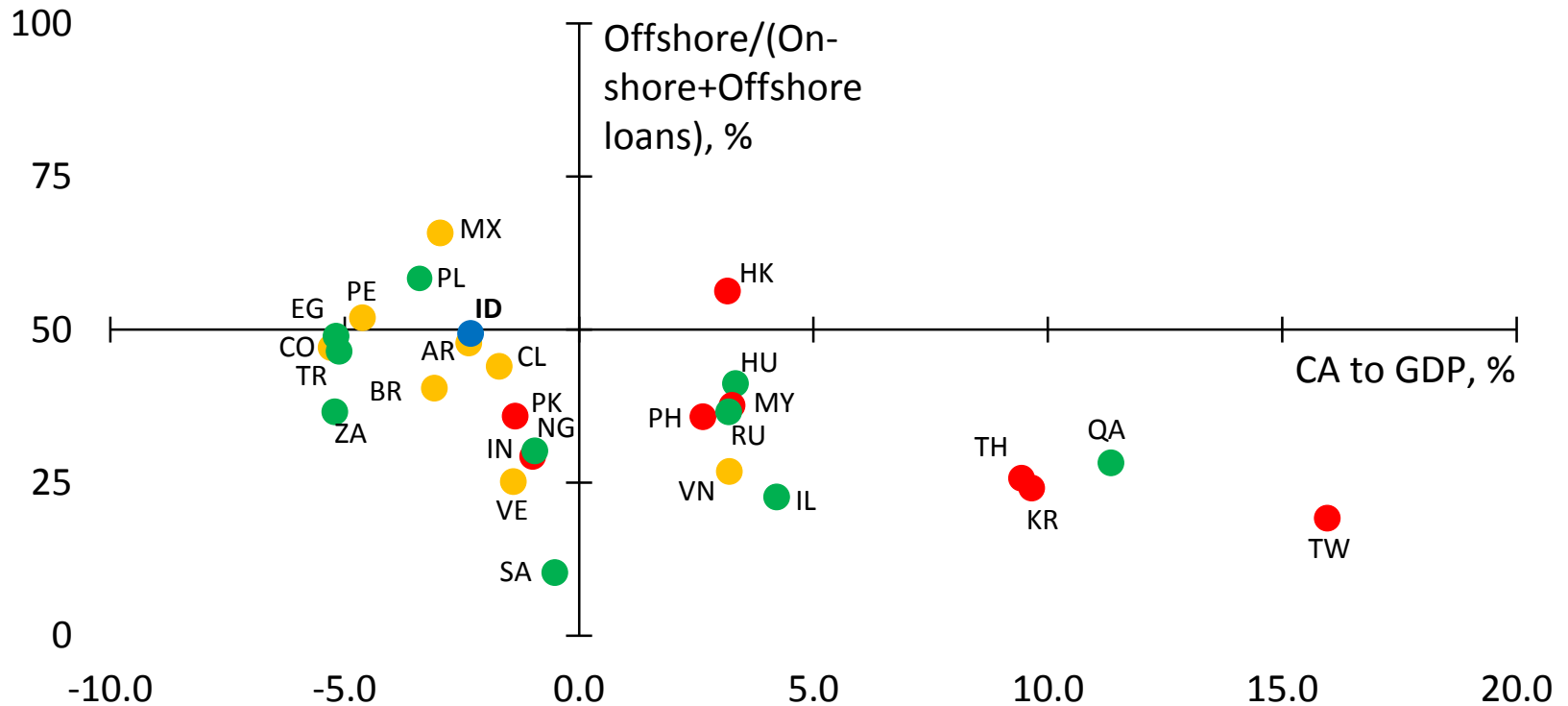
Source: J.P. Morgan.

But our corporates relatively rely on foreign creditors

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How did EMs raise their debts?

Offshore loans to total loans (onshore + offshore loans) ratio

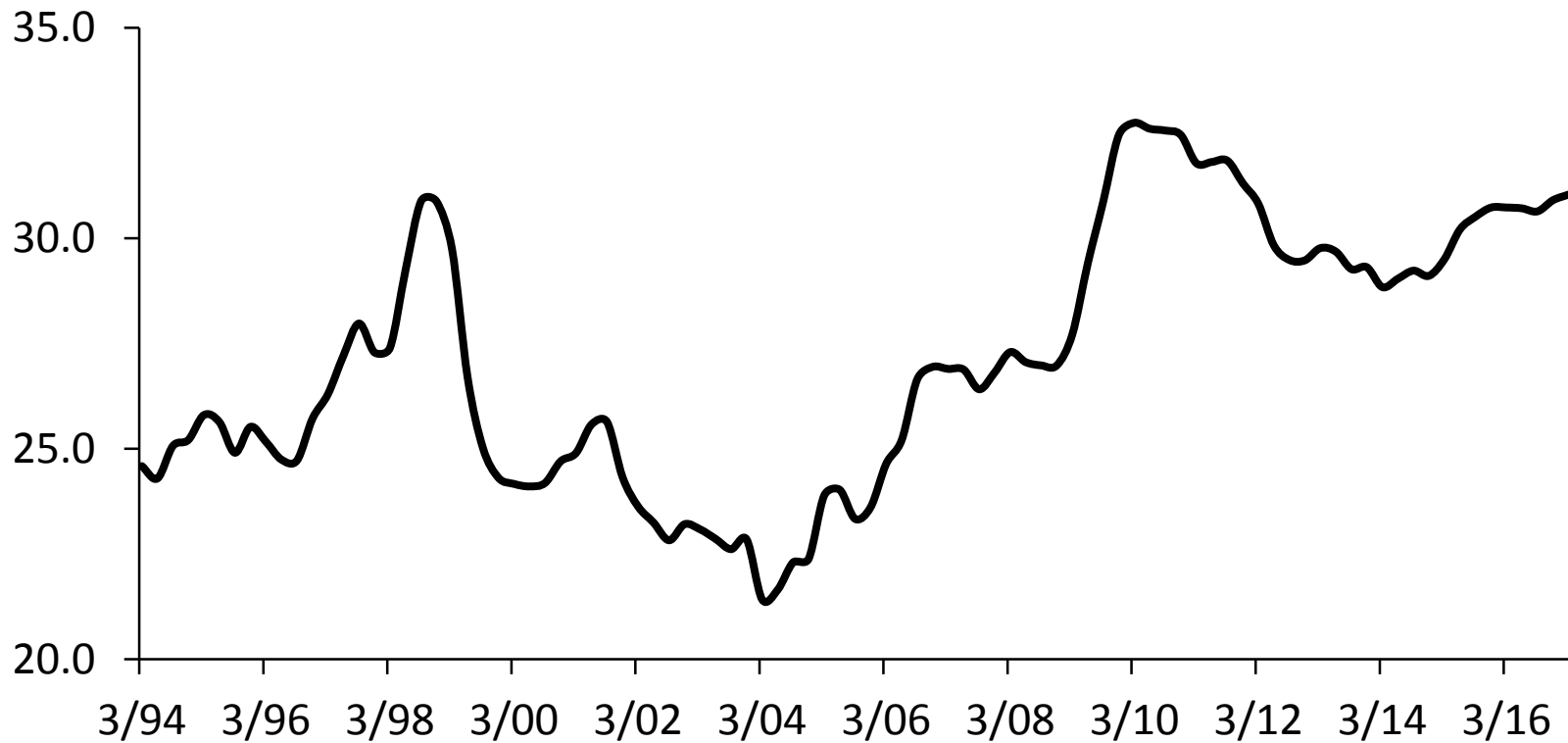


Source: CEIC.

Good news is higher DSR can be used to reduce reliance on external financing

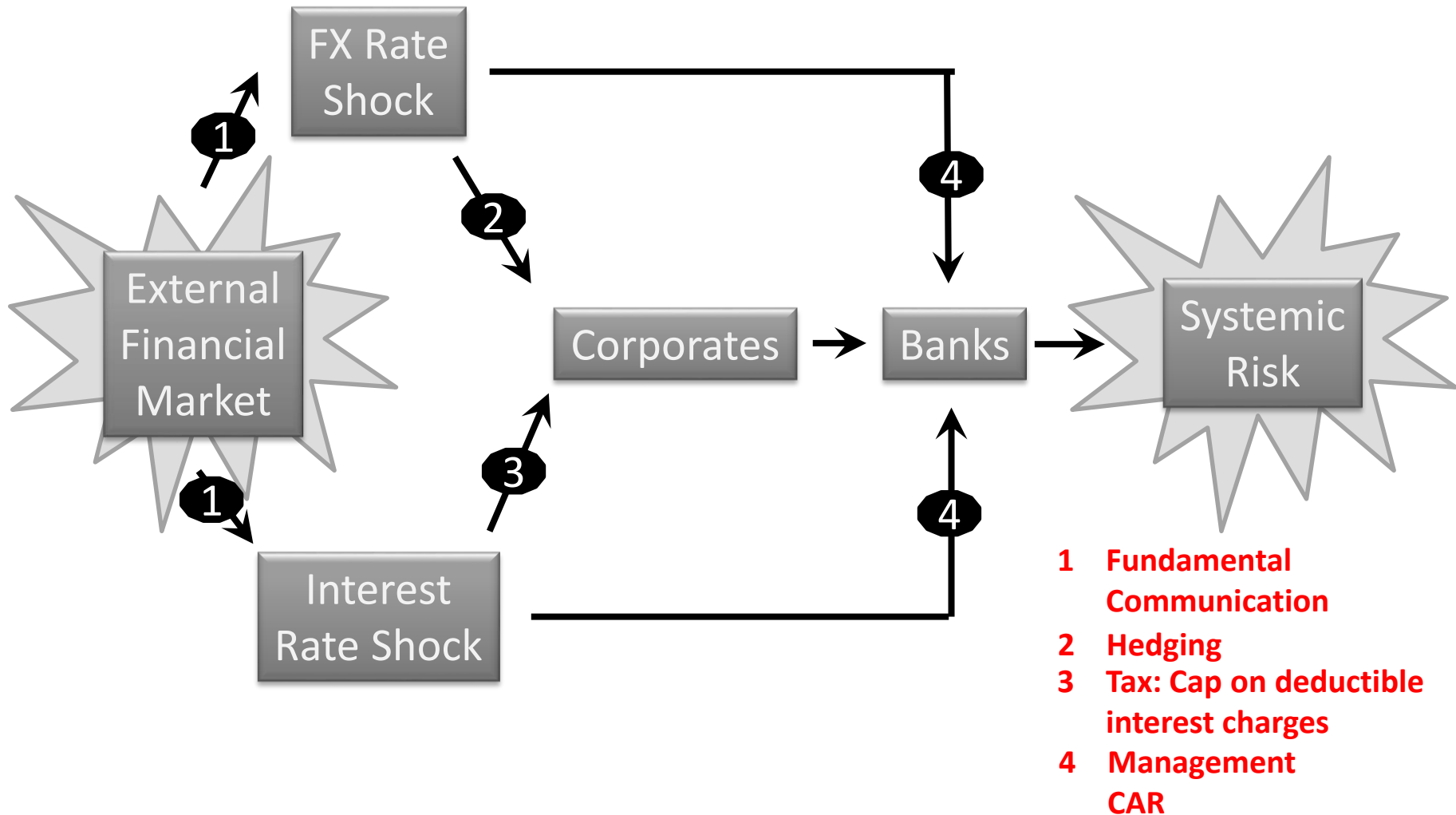
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Domestic saving ratio
Sum of 4Q, % of GDP



Source: CEIC.

How do we avoid systemic risk from external financial market?



Rizal Bambang Prasetijo



Rizal Bambang Prasetijo is the chairman of Trimegah Securities, the parent company of Trimegah Assets Management, one of the largest local fund management houses. He is also one of Bank Indonesia Institute faculty members. Before joining Trimegah Securities in February 2015, he was one of the member of the Indonesian Deposits Insurance Corporation (IDIC) Board Commissioner as well as the chairman of the IDIC Information Committee and the Risk Management Committee, where he was responsible for building and overseeing the implementation of the IDIC's banking industry Early Warning Signals (EWS), macroeconomic research, and IDIC's Enterprise Risk Management (ERM). His term ended in November 2014.

Prior to his appointment by the President of Republic of Indonesia at IDIC in late 2012, Mr. Prasetijo spent 23 years in the investment banking industry. He has been working at Jardine Fleming, Chase Fleming, and J.P. Morgan Chase (JPM). Mr. Prasetijo was one of JPM Asia Pacific's Managing Directors (MD), responsible for managing the JPM Indonesia equity business (2010-2012) and was JPM Indonesia's Country Manager (2008-2010).

Prior becoming a MD at JPM, Mr. Prasetijo spent 18 years (1989-2008) of his professional career as an equity strategist and banking analyst, covering the Indonesian, Thai, and Philippines markets. He was consistently named as one of top five best Indonesian equity analysts as well as voted as the number one Indonesian equity analyst several times by the Institutional Investor survey for 15 consecutive years during the 1993 to 2008 period.

Before turning himself as a sell side analyst, Mr. Prasetijo taught business mathematic and statistic at his almamater, the Faculty of Economy of University of Indonesia, where he obtained his undergraduate degree.

Mr. Prasetijo is also one of the founders of Karya Salemba Empat (www.karyasalemba4.org), a non-profit organization providing scholarship to the needy in a number of leading state universities. Since its humble inception in 1995, the foundation has provided scholarship to almost 13,000 university students, mainly from poor families. In his leisure time, Mr. Prasetijo is an audiophile, cyclist, golfer, swimmer, and long distance runner. He has completed four out of six World Major Marathons and an Olympic distance triathlon race.