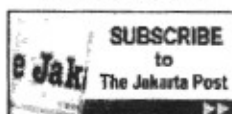




The Jakarta Post.com

Archives

January 16, 2007

[Online News](#)[Latest News](#)[Print Edition](#)[City](#)[Opinion](#)[National](#)[World](#)[Business](#)[Features](#)[Sports](#)[Supplement](#)[Gallery](#)[Weekly Roundup](#)[Past Editions](#)[Resources](#)[Acronyms](#)[Addresses](#)[Indonesian Cabinet](#)[Indonesian History](#)[RI-GAM MOU](#)[State of the Nation](#)[Address 2006](#)[President's](#)[Inauguration](#)[Speech](#)[Tsunami](#)[Declaration](#)[Links](#)[Where to go](#)[Members Area](#)[Change Profile](#)[Logout](#)[Archives](#)[Who's Who](#)[About Us](#)[Company Info](#)[Online Media Kit](#)[Print Media Kit](#)
CLASSIFIED
ads
[Associates](#)

Country's banks slow to adjust to BI interest rates

Thursday, December 28, 2006

Debtors experiencing problems amid the unfavorable economic conditions have contributed to the recent rise in the banking industry's NPLs (non-performing loans), thus discouraging banks from disbursing more loans for fear they will turn bad.

Banks also are worried about the bad debts being difficult to resolve or getting caught up in the anti-graft drive.

Businesses, meanwhile, are reluctant to take on more bank loans due to their high interest rates. Indeed, as the central bank's benchmark BI rate is used as a reference for bank lending rates, besides for bill sales, its rise to 12.75 percent at the beginning of 2006 also pushed up lending rates. Lending rates remained high even after the BI cut its rate to 9.75 percent by December following an easing of inflation. The average lending rate for working capital and investment loans until the third quarter remained some 16 percent, while rates for consumer loans were around 18 percent. (See Table 2) Deposit rates, meanwhile, declined to 10.5 percent from 12 percent, following the Deposit Insurance Agency (LPS)'s lowering of the maximum guaranteed deposit rate to 9.75 percent, on par with the BI rate. This raised questions again whether banks were profiting too much from the rate difference. Indonesian Chamber of Trade and Industry (Kadin) chairman M.S. Hidayat said a reasonable lending rate for businesses and manufacturing industries would be some 12 percent, with a 3 percentage point difference with the BI rate.

Any difference larger than that shows the banking industry is still rife with inefficiency in doing business, he said. But as always, pointing fingers never solves anything, only wasting energy in looking for a scapegoat. The point now is where the banking industry wants to go from here: improve things or stay in the rut. Fortunately, hope appears to be high for the banking industry going ahead. Although most banks are now just waiting out the end of the year, they're already gearing up for 2007, sharing the government and the central bank's optimism of better macroeconomic and business conditions next year. Indonesian Association of National Banks chairman and Mandiri president Agus Martowardojo recently said at a banking seminar that lending growth would return to the 18 percent figure in 2007, with lending rates expected to reach 12.9 percent from an average of 14.9 percent.

Bank Rakyat Indonesia president Sofyan Basir, meanwhile, was upbeat



about increasing lendings and profits by at least 10 percent both for this year and the next, with the bank's success in focusing on loans for small and medium enterprises (SMEs). Indeed, the banking industry is expected -- and encouraged -- to channel more loans to the country's SMEs, which have proven to be more resilient than large businesses in riding out economic turmoil and maintaining a low rate of NPLs. The central bank, meanwhile, has said it is currently considering a stronger "incentive-disincentive" scheme to push more bank lendings in the future. Among the ideas is improving the current tying of a bank's minimum reserve at the central bank (GWM, to curb speculative use of the bank's excess liquidity) with its loan-to-deposit (LDR) ratio. At present, the higher a bank's LDR, the less it has to set aside as minimum reserve, enabling the excess funds to be used for more lendings. There may also be penalties in the future for banks with low LDRs. BI has also committed to improving the banking sector's prudentiality in disbursing loans, handing down policies of good corporate governance, training and certification for bank managements and commissioners, as well as requiring lenders to fully comply with the Basel II international banking best practices by 2010. It has also bettered coordination with the government and related agencies in resolving the possible remaining problems that the banking sector still faces in resolving their NPLs and anti-graft efforts. So with all this optimism and better lending policies in place, it is likely that Indonesia's banking industry will be able to avoid the jinx next year. Banks may also be able to do more in actually providing loans to rural SMEs and the still many financially disadvantaged in the country, rather than just being spectators. They should follow the lead of Muhammad Yunus and his Grameen Bank from Bangladesh, which received the 2006 Nobel Peace Prize for exactly these efforts. -- **Urip Hudiono/The Jakarta Post** -----

Table 1. Banking sector performance 2006

2005 Q1 '06 Q2 '06 Q3 '06 Oct '06

Outstanding loans 730.2 722.7 757.3 787.8 796.1
(Rp trillion)

Lending growth 135.1 -7.5 27.1 57.6 65.9
(Rp trillion)

Lending growth 22.7 -1.0 3.7 7.9 9.0
(%, ytd)

NPL (%, gross) 8.3 9.4 8.8 8.5 8.8

Deposits 1,127.9 1,123.9 1,168.3 1,205.5 1,233.6
(Rp trillion)

LDR (%) 64.7 64.3 64.8 65.3 64.5

Assets 1,469.8 1,465.3 1,519.4 1,578.2 1,605.2
(Rp trillion)

CAR (%) 19.5 21.7 20.5 21.0 n.a.

NIM (%) 0.5 0.5 0.5 0.4 n.a.

----- Source: Bank
Indonesia (BI)

Table 2. Interest rates 2006

2005 Q1 '06 Q2 '06 Q3 '06 Oct '06

→ BI rate (%)	12.75	12.75	12.50	11.25	10.75	} spread 3-5%
Base lending rate (%)	16.20	16.00	15.80	15.50	15.10	
Working capital lending rate (% avg.)	16.20	16.40	16.20	15.80	n.a.	
→ Investment (%) avg.)	15.70	15.90	15.90	15.70	n.a.	
Consumer lending rate (% avg.)	16.80	17.50	17.80	17.90	n.a.	
Deposit guarantee rate (% 1-mo.)	13.00	12.50	12.50	11.25	10.75	
Deposit rate (% 1-mo., avg.)	12.00	11.60	11.30	10.50	n.a.	

----- Source: Bank
Indonesia (BI) -----

printer friendly