# The 2008 Global Crisis:
# How and why Indonesia survive

**Dr Darmin Nasution**
**Acting Governor**
**Bank Indonesia**

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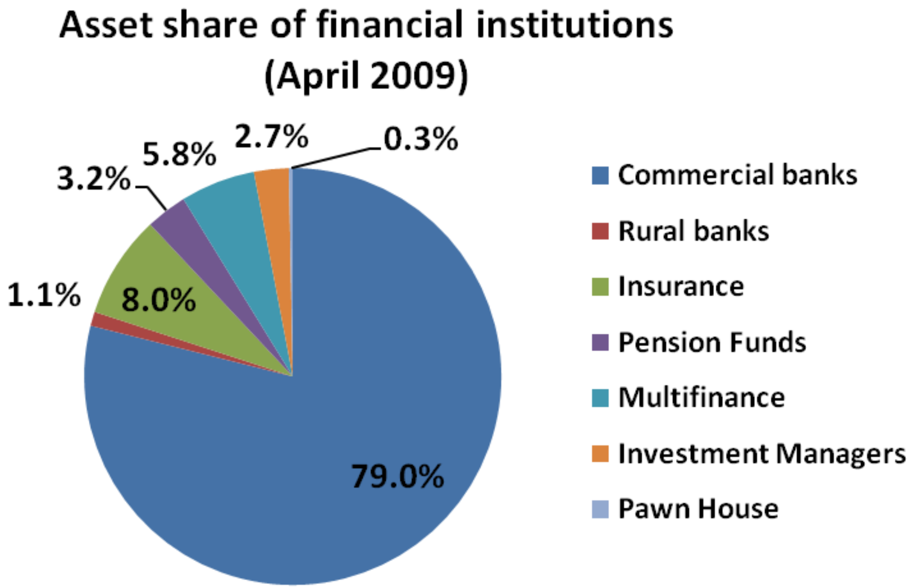
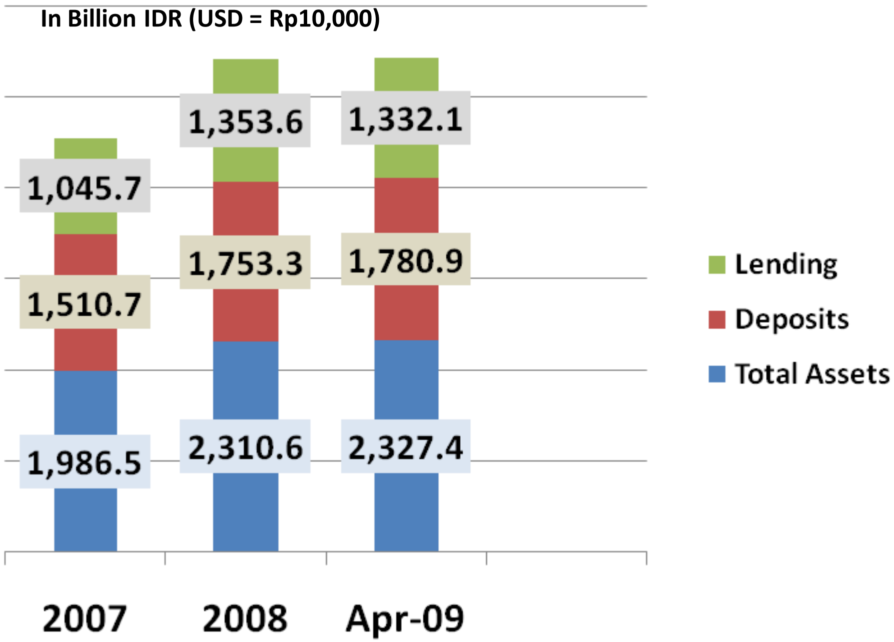
# Indonesia: Some salient facts, despite global crisis of 2008..

- Indonesia's economy was still able to generate a positive growth of 4.4% in Q1-2009 and 4.0% in Q2-2009, a relatively strong growth as compared to regional economies.
- Banking industry has stayed resilient with high level of CAR (17.0%) and NPL (gross) at a subdued level of 4.7% (latest data as of July 2009)
- Indonesia's current account posted a US$3.1 billion surplus in Q2/2009, up from the US$2.9 billion surplus in the previous quarter, brought the overall balance of payments to record a surplus to US$1.1 billion.
- The rupiah exchange rates have been showing an appreciation trend.
- CPI inflation on September 2009 is 1.05% (4.86%, y-o-y). The decline in inflationary pressures was mainly driven by the low administered price and volatile food inflation in line with government policy to adjust the price subsidized fuel at the beginning of the year and the adequacy of supply and smooth distribution.
- Fiscal policy is adopting the need to stimulate the economy and will continue in a slower pace in 2010. Tax policy reform continue with lower tariff and higher compliance. The result is predicted to be taken effect in the next 2 years. The problem remain in the slow disbursement of projects in the central and local government.
- 2010 budget provides fiscal space for next government to implement their priority programs.
- The latest monthly Board of Governors' Meeting convened in September 2009 decided to leave the BI Rate unchanged at the low level of 6,50%, which considered adequate to the economic recovery process. At 6.50%, the BI Rate level is also deemed consistent with achievement of the 2010 inflation target, set at 5%±1%.

# Background: Structure of Indonesian Financial System



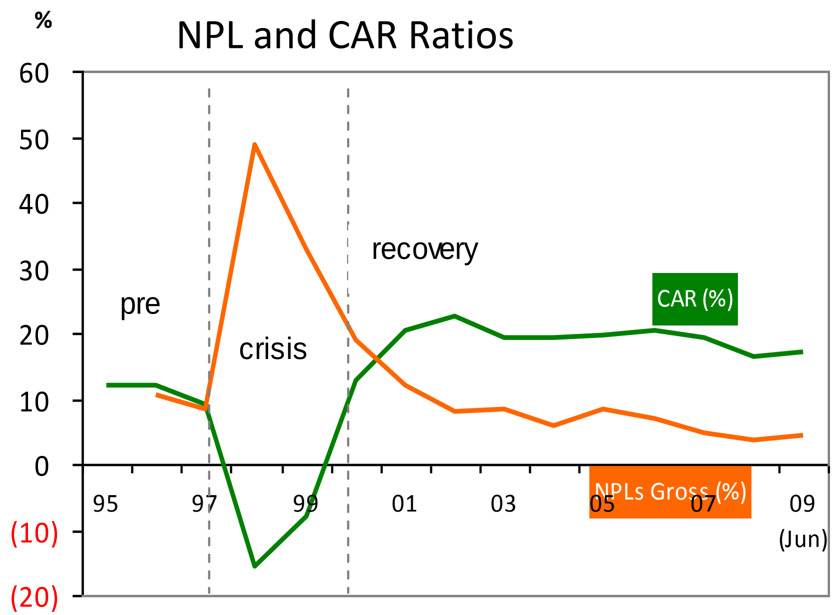

Source: Bank Indonesia, Bapepam-LK

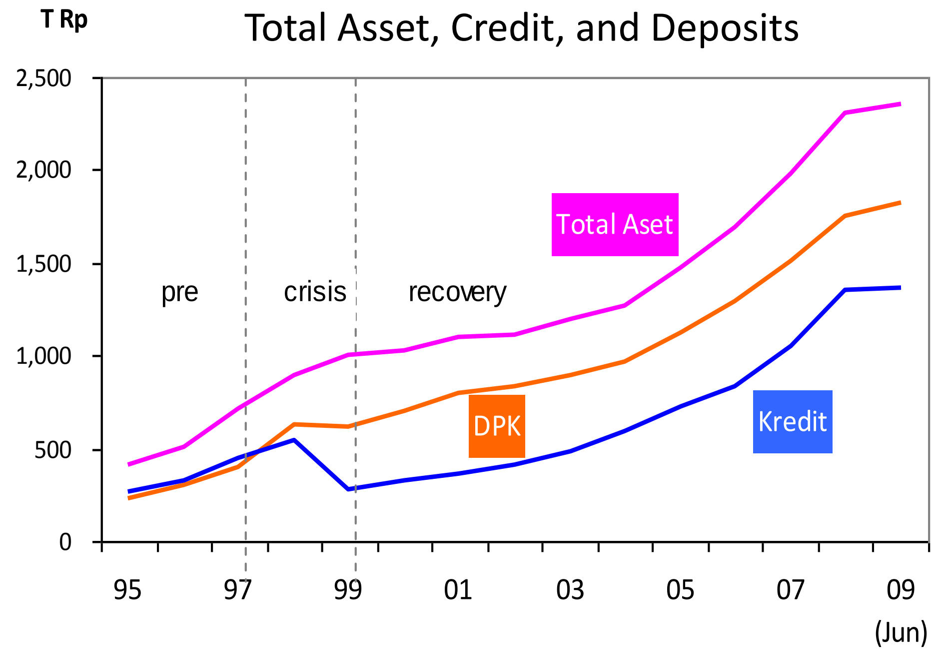



Source: Bank Indonesia, Bapepam-LK

- A Bank-based economy – banks are leading financial institutions.
- Capital market is growing but remain undersized
- Credit growth reached 37% yoy in Oct ’08, during the peak of the crisis and remained strong during difficult times -> result in credit quality deterioration
- However, banking sector was very solid throughout the 2008 crisis. No single sub-prime related problem was reported.

# *What differences does a decade (after the 1998 crisis) make?*

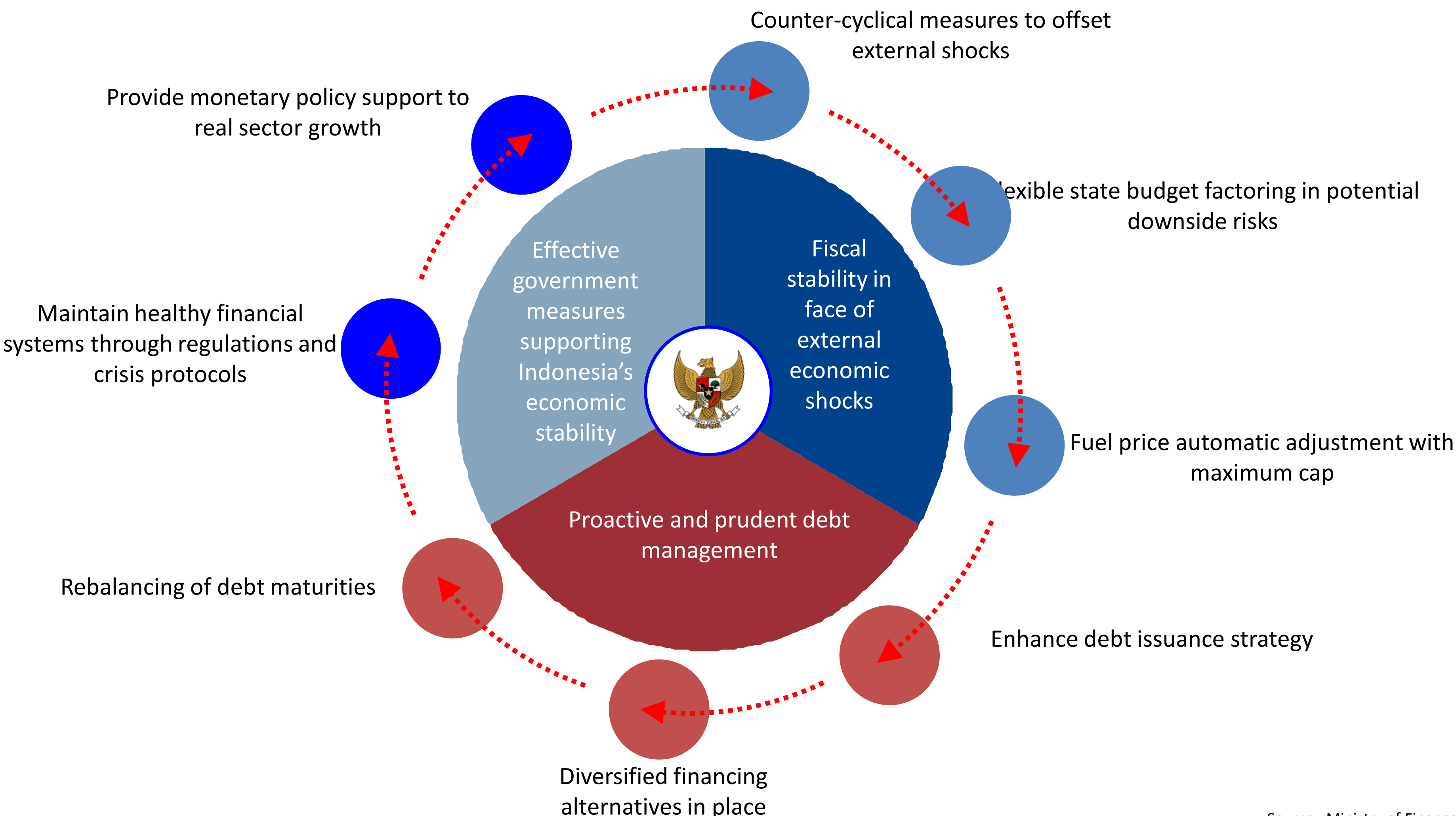



Post crisis, Indonesian banking industry has shown far-reaching performance shift:

- After showing negative solvency during the crisis episode of 1997/1998, the CARs of most banks in Indonesia is high: 16,9% (July 2009)
- Credit risks have significantly been mitigated; with gross NPL (gross) ratios of only 4.6% (gross).
- Growth of assets , loans, and deposits have been continual and persistent.

# *Policies to prevent a full blown crisis...*




Source: Ministry of Finance.

# *Why Islamic financial system can be an alternative…*

- The existence of Islamic financial industry has become more and more significant as indicated by the growth in terms of assets size, deposits and the coverage of the financial services to the customers.
- In some countries, the Islamic financial industry has become additional pillar to sustain the economic development.
- The developments have taken place in many fronts, such as Islamic banking, Islamic capital market, takaful industry, mutual funds and Islamic pawn house.
- Following the trend to be more competitive, the Islamic financial market also follows the path for cross-sectoral integration and globalization.
- None of these developments in the Islamic financial system is impacted by the recent 2008 global financial crisis directly.

# ***The Indonesian policy framework for Islamic banking development…***

At the market level, there are six pillars that need to be strengthened consistently, in our experience:

(1) Level of competence

(2) Good corporate governance and risk management

(3) Information system

(4) Market structure

(5) Regulation and supervision

(6) Customer protection

**Which needs an institutional infrastructure like *the deposit insurance,* and *the reliable payment system***

# *Policy settings needed…*

- **Monetary framework in a dual financial system.**

  The monetary policy is made to provide clear signals to the market by using conventional as well as sharia compliant instruments.

- **Fiscal Policy.**

  The government can also participate in the development of Islamic finance by a regular issuance of Islamic government securities or sukuk locally and internationally.

***The End***