Indonesia Banking Industry Report - H2, 2013

https://marketpublishers.com/r/I5D5FF4D38CEN.html
Date: February 2014
Pages: 37
Price: US$ 475.00 (Single User License)
ID: I5D5FF4D38CEN

Abstracts

This report profiles Indonesia's banking industry, discussing market trends through H2 2013 and outlook for 2014 and in the long term. The report also highlights leading players in the sector including Bank Mandiri, Bank Rakyat Indonesia, and Bank CIMB Niaga.

Indonesian banks have been the most profitable banks among the top 20 global economies in the last few years, as high credit growth coupled with high net interest margins enabled the country's commercial banks to reap enormous profits. However, the good times finally came to a halt in 2013. The trade deficit, a spike in consumer price inflation, and the announcement of a tapering off of US Federal reserve stimulus combined to create a hostile environment for the country's banking sector. The trouble started with massive depreciation in the value of IDR, which eventually led to a huge surge in consumer price inflation during the course of the year. As a result, Bank Indonesia had to raise its benchmark policy rates by 175bps between May and December 2013.

Although state-owned banks, like Bank Mandiri and Bank Rakyat Indonesia, were not much affected as of end 2013, the banks in the private sector have started to feel the heat. The cost of sourcing funds has gone up and rate-sensitive sectors are beginning to report increased non-performing loans (NPLs). As a result, private banks like Bank CIMB Niaga have become more cautious in disbursing credit, negatively affecting the phenomenal credit growth recorded in the past few years. Therefore, the profit growth for these players has also stagnated.

Going forward in 2014, the deterioration in economic fundamentals might also affect the country's state-owned banks. The rising cost of servicing loans may put both household as well as business customers into trouble, hence causing a further increase in NPLs. The banks might be forced to lower the rate differentials that they currently enjoy,

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resulting in a decline of profitability ratios. However, the long-term outlook for the Indonesian banking sector is stable, backed by the sound financial position of its banks. The banks are adequately capitalized to meet minor downturns and the NPL ratio is within the comfortable range.

Key Points:

This report includes loan-performance and financial information for leading Indonesian banks including PT Bank Mandiri (Persero) Tbk (BMRI), PT Bank Rakyat Indonesia (Persero) Tbk (BRI), and PT Bank CIMB Niaga Tbk (BCN).

Commercial banks led the country’s banking sector in terms of asset size as of October 2013, accounting for 98% of the total assets. Rural banks accounted for the remaining 2%. Within the commercial banking industry, state-owned banks accounted for 35% of the total assets.

The asset base of commercial banks in Indonesia grew at a CAGR of 16.6% during 2006–12. Total credit disbursed by commercial banks grew at a CAGR of 26% y/y during 2006–12. It grew by 22.3% on a y/y basis in 10M2013.

Total IDR deposits of commercial banks grew at a CAGR of 16.6% during 2006–12. Meanwhile, the foreign exchange deposits of banks grew at a CAGR of 11% during the same period. In 10M2013, IDR deposits grew by 12.2% y/y while foreign exchange deposits grew by 28.3% y/y to IDR 606tn.

Indonesia’s consumer price inflation spiked up in the second half of 2013. It almost doubled during the course of the year and was much higher than the 4.5% targeted by Bank Indonesia. As a result, Bank Indonesia had to raise its policy rate by 175 basis points within six months, a record increase in a decade.

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