

Indonesia Banking Industry Report - H2, 2013

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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,



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.



Contents

1. INDUSTRY PROFILE

- 1.1 Sector overview
- 1.2 Sector size
 - 1.2.1 Assets
 - 1.2.2 Liabilities
- 1.3 Sector performance indicators
 - 1.3.1 Interest rates
 - 1.3.2 Liquidity position of banks
 - 1.3.3 Capital adequacy ratio (CAR)
 - 1.3.4 Loan to deposit ratio (LDR)
 - 1.3.5 Net interest margin (NIM)
 - 1.3.6 Operating ratio
 - 1.3.7 Return on assets (ROA)
 - 1.3.8 Non performing loans (NPL)

2. MARKET TRENDS AND OUTLOOK

- 2.1 Key economic indicators-Indonesia
- 2.2 Environmental scanning
- 2.3 Competitive landscape
- 2.4 Islamic banking
- 2.5 Market outlook

3. LEADING PLAYERS AND COMPARATIVE MATRIX

- 3.1 Leading players
 - 3.1.1 PT Bank Mandiri (Persero) Tbk (BMRI)
 - 3.1.2 PT Bank Rakyat Indonesia (Persero) Tbk (BRI)
 - 3.1.3 PT Bank CIMB Niaga Tbk (BCN)
- 3.2 Comparative matrix
- 3.3 SWOT analysis

4. TABLES AND CHARTS

- Table 1: Types of banking institutions in Indonesia
- Table 2: Major Banks of Indonesia



- Table 3: JIBOR rates in Indonesia
- Table 4: Average deposit rates offered by commercial banks of Indonesia
- Table 5: Average ROA of listed banks of major economies
- Table 6: Key financial ratios of the leading players
- Chart 1: Office network of Indonesian banking institutions
- Chart 2: Market share of banking institutions in terms of asset size
- Chart 3: Number of commercial banks by type
- Chart 4: Total assets of commercial banks in Indonesia
- Chart 5: Asset profile of commercial banks of Indonesia
- Chart 6: Total credit of commercial banks
- Chart 7: Distribution of third party credit by sector and purpose
- Chart 8: Y/Y Bank credit growth in different sectors of economy
- Chart 9: Liability profile of commercial banks of Indonesia
- Chart 10: Total deposits of commercial banks
- Chart 11: Y/Y Bank deposit growth by different segments
- Chart 12: BI rate in Indonesia
- Chart 13: Liquidity assets ratio of banks in Indonesia
- Chart 14: Capital adequacy ratio of banks in Indonesia
- Chart 15: Loan to deposit ratio of banks in Indonesia
- Chart 16: Net interest margin of commercial banks in Indonesia
- Chart 17: Operating ratio of commercial banks in Indonesia
- Chart 18: Return on assets ratio of commercial banks in Indonesia
- Chart 19: NPL ratio of commercial banks in Indonesia
- Chart 20: Distribution of NPL by sector and purpose
- Chart 21: NPL ratio in different sectors of economy
- Chart 22: Y/Y growth in NPL in different sectors of economy
- Chart 23: Quarterly GDP growth rate-Indonesia
- Chart 24: Trade balance of Indonesia
- Chart 25: Average monthly USD to IDR exchange rate
- Chart 26: Government budget deficit
- Chart 27: CPI Inflation during FY13-Indonesia
- Chart 28: Y/Y change in percentage- GDP by sector
- Chart 29: Position of People's Representative Council after 2009 elections
- Chart 30: GNI per capita, Atlas method
- Chart 31: Indonesia's top banks in terms of asset share
- Chart 32: Total assets of Islamic banks in Indonesia
- Chart 33: Distribution of Islamic banking funds in Indonesia
- Chart 34: Loans disbursed by BMRI Annual
- Chart 35: Profitability of BMRI-Annual



Chart 36: NPL ratios of BMRI

Chart 37: Loans disbursed by BRI-Annual

Chart 38: Profitability of BRI-Annual

Chart 39: NPL ratios of BRI

Chart 40: Loans disbursed by BCN-Annual

Chart 41: Profitability of BCN-Annual

Chart 42: Gross NPL ratio of BCN



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