



Indonesia

INDONESIA

The capital city of Indonesia is Jakarta and the official language is Bahasa Indonesia. Covering an area of 1,887,093 square kilometres, Indonesia's total population was 229 million in 2008 (est). The official monetary unit is the rupiah (Rp). The average exchange rate in 2009 stood at Rp 10,404 per US dollar.

BANK INDONESIA

BANK INDONESIA is the central bank of the Republic of Indonesia. It was established in 1953 as a result of the nationalisation of the Javasche Bank NV established in 1828 and was further regulated under the Central Bank Act Number 13 of 1968. The said Act was replaced with Act Number 23 of 1999, which later was amended with Act Number 3 of 2004 on January 15, 2004. The head office of Bank Indonesia is in Jakarta. It has 41 regional offices and four representative offices abroad. The total number of staff at the end of December 2007 is 6,248.

Policy-Making Board

The Board of Governors of Bank Indonesia consists of a Governor, a senior Deputy Governor, and at least 4 (four) or the maximum of 7 (seven) Deputy Governors. The Governor, Senior Deputy Governor, and Deputy Governors should be nominated and appointed by the President of the Republic of Indonesia upon the approval of the Parliament for a term of five years and may be reappointed to the same position for no more than one subsequent term. Candidates for Deputy Governor are proposed by the President pursuant to a recommendation of the Governor. The Board of Governors is fully responsible for implementing the tasks and authorities of Bank Indonesia.

Degree of Independence

Bank Indonesia is a public entity that is independent in carrying out its duties and authority, free from government intervention and/or other parties, except for matters explicitly regulated in the Central Bank Act. After the amendment of the Central Bank Act of 1999, the new act in early 2004 states that the inflation target is set by the Government, in consultation with Bank Indonesia. This stipulation implies that in conducting monetary policy, Bank Indonesia has only instrument independence and no longer goal independence.

MONETARY POLICY STRATEGY

In July 2005, Bank Indonesia implemented new and enhanced monetary policy measures within the Inflation Targeting Framework (ITF) which encompasses four main areas: the use of the BI rate as an operational target, enhanced decision making process, more transparent communications strategy, and strengthened policy coordination with the Government. The move is intended to strengthen the effectiveness and to provide good governance to its monetary policy making to achieve price stability needed to support sustainable economic growth and attain social welfare.

Basic Principles With the ITF, the inflation target is the overriding objective and nominal anchor of monetary policy. In this regard, Bank Indonesia will apply a forward-looking strategy to steer present monetary policy towards achievement of the medium term inflation target. Application of the ITF does not mean that monetary policy will not take account of economic growth. This policy will retain the fundamental paradigm of monetary policy in striking an optimal balance between inflation and economic growth in both the establishment of the inflation target and in monetary policy response, which will be targeted towards low, stable inflation in the medium and long-term.

The Inflation Target The inflation targets are set by the Government after coordinating with Bank Indonesia. For 2009 and 2010, the Government set CPI inflation targets at 4.5% and 4.0% respectively with deviation of $\pm 1\%$. These inflation targets are consistent with the process of gradual disinflation towards a medium to long-term inflation target of about 3%, competitive with other countries.

Instruments and Monetary Operations The BI Rate is the policy rate which is used to convey the monetary policy stance and announced periodically to the public on a specific time frame. Since June 2008, the BI rate is implemented through open market operations (OMO), and as such, the overnight inter-bank money market rate (PUAB O/N) hovers around the BI rate. Instruments of open market operations consist of weekly auction of Bank Indonesia's certificate (SBI) both in conventional and sharia terms, fine tuning operations and establishment of explicit standing facilities. Eligible assets for repo transactions are SBI and Government securities (SBN).

Policymaking Process The BI Rate is determined by monthly meetings of the Board of Governors. In case of unexpected development, monetary policy stance can also be decided by weekly meetings of Board of Governors. The change in the BI Rate basically shows the monetary policy response in achieving and maintaining the macroeconomic stability.

FINANCIAL STABILITY

Authorities Responsible for Financial Stability and Supervision of the Financial Sector Three authorities are the prominent safeguards of financial system stability in Indonesia: Bank Indonesia, Ministry of Finance (through the Capital Market Supervision Body and Financial Institutions or Bapepam -LK) and the Indonesia Deposit Insurance Corporation (LPS - as the deposit insurer). The three authorities have joint cooperation and coordination schemes for promoting domestic financial system stability via a forum, namely, the Financial System Stability Forum (FSSF). The FSSF meets regularly to craft policy recommendations dealing with financial stability issues, in particular to prevent and to mitigate systemic crisis.

Institutional Coverage of the Financial Supervisory Authorities

In the supervisory and regulatory arena, Bank Indonesia and the Ministry of Finance are two prominent authorities responsible for supervising and regulating financial institutions in Indonesia. Bank Indonesia is responsible for supervising and regulating banks, whereas Bapepam-LK is responsible for supervising and regulating capital markets, non-bank financial institutions, general and life insurers, and pension funds.

Strategy for Supervision and Monitoring of Financial Stability

To promote financial system stability, Bank Indonesia implements four major strategies: (i) implementing regulations and standards including fostering market discipline; (ii) intensifying research and surveillance on financial system; (iii) improving effective coordination and cooperation with relevant institutions; and (iv) establishing crisis resolutions and financial safety nets.

The strategies could be briefly described as follows:

- (a) Implementing regulations and standards. Consistent implementation of international prudential regulations and standards are required by the regulator and market players as a sound foundation in conducting their activities. In addition, consistent disciplines of the market players need to be fostered.
- (b) Intensifying research and surveillance. Development of the financial system in the relevant aspects affecting its stability should be assessed and monitored. Risks which may endanger financial system stability are measured and monitored by incorporating an early warning system which is composed of micro-prudential and macro-prudential indicators. Research and surveillance are aimed at producing a policy recommendation for maintaining financial system stability.
- (c) Establishing safety net and crisis resolutions framework. Financial safety net has played a critical role in eliminating bank runs, assuaging financial crises, and reducing the number amplitude of economic contractions during crises. Therefore, safety net and crisis resolution frameworks are the vital pillars for safeguarding financial system stability. Indonesia has incorporated the Indonesian Deposit Insurance Corporation (IDIC) and more recently Financial System Safety Net (JPSK).
- (d) Improving coordination and cooperation. Coordination and cooperation with related agencies is very crucial especially in crisis times. The coordination amongst financial safety nets players was usually achieved through forming a committee which is composed of the central bank, Financial Supervisory Agency and Ministry of Finance.

Steps Taken in Response to the Global Crisis

With the global financial turbulence as a backdrop, Indonesia has issued three critical regulations in the form of government regulations in lieu of laws concerning the financial system safety net, the central bank, and the deposit insurance agency in October 2008. Those regulations complement each other and were aimed at promoting and maintaining financial stability.

Establishment of a Financial System Safety Net (JPSK)

Under the current condition, the need for an effective inter-agency coordination and decision making mechanism which would also provide solid legal foundation in preventing and managing a crisis has increased greatly. As such, the Indonesian government issued a government regulation in lieu of the law concerning the financial system safety net (JPSK) in October 2008.

In general, the JPSK aims at promoting and maintaining financial stability through the regulation and supervision of financial institutions and payment system, the provision of short-term funding facilities, the establishment of a deposit guarantee agency, and other efforts in preventing and managing crisis. The law on JPSK covers efforts in preventing and managing crisis related to the resolution of liquidity and/or solvability issues of systemic banks and the resolution of liquidity and/or solvability issues of systemic non-bank financial institutions.

Increased Access of Short-term Funding Facilities to Banks

Also issued in October 2008, the government regulation in lieu of the law concerning the central bank has enabled Bank Indonesia to increase access of its short-term funding facilities to banks. The increased access is expected to assist banks in managing their liquidity and thus mitigating potential liquidity issues and therefore contributing to maintaining stability.

Increased Deposit Guarantee Nominal Coverage

Under the government regulation in lieu of law concerning the Deposit Guarantee Agency, the nominal coverage of deposit guarantee has been increased from Rp100 million per customer per bank to Rp2 billion per customer per bank. Such increase in coverage is expected to support confidence in the banking system.

Regarding JPSK, the Indonesian Parliament has recently decided that JPSK should be backed by a stronger legal foundation, namely, a law. Therefore, a legal process is expected to take place to accommodate the Parliament's decision. However, the Parliament's decision and forthcoming legal process concerning JPSK will have no adverse effects to the increased access of short term funding facilities to banks and the increased nominal coverage of the deposit insurance agency already in place.

Risk Based Supervision by Bank Indonesia:

The Risk Based Supervision (RBS) approach represents forward-looking approach to supervision by using risk based strategy and methodology which enable Supervisors to early detect significant risks and to take appropriate and timely supervisory actions. Bank Indonesia conducts RBS both as solo and consolidated basis through off-site supervision and on-site supervision. Off-site supervision is a supervisory activity through research, analysis, and evaluation of reports sent in by banks and/or other relevant data/information obtained by

Bank Indonesia from external sources. On-site supervision is examination of banks conducted periodically and when it is needed.

The RBS framework consists of six inter-related cycles as follows:

1. Know Your Bank; a crucial process that requires supervisor to have a deep knowledge and understanding about internal and external factors which could influence bank's performance and risk profile. Know Your Bank process enable supervisors to determine key business lines and key supporting activities and risks faced by the bank in order to sharpen supervisory focus;
2. Risk Assessment Process; a process that include assessment of inherent, risk control system, and risk profile rating as an integral part of bank soundness rating. Bank Indonesia assesses eight major risks namely credit risk, market risk, operational risk, liquidity risk, compliance risk, reputation risk, strategic risk, and legal risk both at bank wide level and at key business lines and key supporting activities which are identified through the Know Your Bank phase;
3. Supervisory Plan; a process to establish annual supervisory strategy consists of off-site supervision strategy and on-site supervision, the latter detailed by audit working plan;
4. Risk Based Examination; a set of examination techniques and procedures focusing on significant risks as addressed therein the Supervisory Plan. By law, BI is required to do a once a year examination, however, BI has authority to examine banks at any time under certain circumstances.
5. Periodically update risk profile and bank soundness rating based on regular supervisory activities or in the occurrence of significant external events;
6. Supervisory Action & Monitoring; a set of actions taken by supervisors in order to ameliorate weaknesses or problems and to monitor the accomplishment of afore mentioned actions.

Since 2009, Bank Indonesia has formalized the RBS Panel Forum as a significant complimentary of above mentioned cycles. RBS Panel Forum functions as part of quality assurance to ensure the quality of information, analysis, procedures, and governance upon input, process, and output of supervisory activities. RBS Panel Forum is conducted at two phases: first, at the Risk Assessment Process, and second, at the Supervisory Action and Monitoring stage. RBS Panel Forum can be categorized into 4 types of panel: 1) RBS Panel Forum Inter-directorates at Bank Indonesia Head Office; 2) RBS Panel Forum at Remedial Unit¹; 3) RBS Panel Forum Intra-directorates at Bank Indonesia Head Office; and 4) RBS Panel Forum at Bank Indonesia Regional Offices. Each type of Panel has its own mechanism and reporting responsibilities.

¹ Remedial Unit is a separate directorate which handles banks with rating 4 and 5, or banks under Special Surveillance.

In addition, supervision is conducted to monitor bank compliance and detect any unsound practices that could endanger the survival of the bank. The bank risk profile is then updated quarterly or at more frequent intervals if the bank is distressed or the risk profile analysis for the quarter indicates the need for more frequent updating of the risk profile. In conducting risk profile valuation, a bank is obligated to consider the inherent risk that sticks in the bank's major business lines. Valuation on inherent risk produces some predicates/ratings, such as: low, moderate and high. The bank is also obligated to conduct risk control system covering policy valuation, procedure and limit, observation and bank's risk management information system. Valuation on risk control system produces some predicates/ratings, such as: strong, acceptable and weak. Examination will take place in the event of any indications requiring Bank Indonesia to reassess the bank risk profile and to instruct the bank to take remedial actions, or if Bank Indonesia launches stricter supervisory actions.

Bank supervision status is then grouped into three levels as follows: a) Normal Supervision; b) Intensive Supervision; and c) Special Surveillance. Designation of Bank Under Intensive Supervision is based on the following criteria: (i) bank rating is Poor (PK-4) or Unsound (PK-5); (ii) there are excess of the Legal Lending Limit (LLL) and in the opinion of Bank Indonesia, the corrective actions proposed by the bank are unacceptable or impossible to achieve; (iii) there are fundamental problems with profitability; (iv) non-performing loans (net) exceeding 5% of total credit; and the bank has actual and/or potential problems, based on assessment of composite risk. Intensive supervision takes place by asking the bank to take corrective actions that may include the following: a) prepare action plans and progress reports appropriate for the problems faced; b) report specific information to Bank Indonesia (including the daily liquidity report); c) increase the frequency of updating and assessment of the business plan with adjustments to the targets to be achieved; and d) prevent the bank from engaging in equity participation in other institutions. To assess progress in actions taken by a bank under intensive supervision, Bank Indonesia may conduct on-site examination and monitor the actions taken by the bank to resolve its problems. Bank Indonesia will then urge the bank to complete work on its action plan for correction of its problems so that its status may be restored to normal supervision. Intensive supervision is a tightened process of oversight of a bank with the objective of preventing the bank from being placed under special surveillance. A bank is placed under Special Surveillance if the CAR falls below 8% and it has violated the statutory reserves requirement. These preventive actions require a range of timely corrective actions for bank soundness to be restored as quickly as possible.

Plan and Progress for the Implementation of Basel II

Basel II has been adopted as a project at the initiative of Bank Indonesia and will be phased in for all banks during 2010. It will commence with the least sophisticated approaches, i.e. the Standardized Approach for credit risk and the Basic Indicator Approach for operational risk. For market risk exposures, bank can adopt the Standard Model or the Internal Model Approach with the latter is subject to supervisors' approval. All pillars of Basel II are expected to be fully implemented by 2012.

Bank Indonesia has given significant efforts in preparing the implementation of Basel II, among others include the following:

- (1) Organizational preparations, including HR and budgeting.
- (2) Completion of the gap analysis to ascertain bank compliance with the Basel II requirements.
- (3) Completion of the first consultative paper (CP – I), which specifies various national discretions for credit risk that need to be adapted to actual conditions in the national banking system. In addition, some issues on market risk, including matters concerning the trading book, operational risks for the definition of gross income and key aspects related to market discipline are discussed in the CP.
- (4) Completion self assessment of the 25 Basel Core Principles (BCP) for Effective Banking Supervision as the fundamental to enhance risk-based supervision and Pillar 2.
- (5) Issuance of revised regulation on capital requirement, in particular the capital definition to meet Basel II requirements.
- (6) Issuance of revised regulation on market risk capital requirement using the Standard Model and the Internal Model Approach.
- (7) Issuance of regulation on operational risk using the Basic Indicator Approach.
- (8) Issuance of revised regulation on liquidity risk.
- (9) Drafting regulation of credit risk capital requirements using the Standardized Approach.
- (10) Conducting studies as well as formulating recommendations on Pillar 2 framework and other risks, i.e. interest rate risk in the banking book and credit concentration risk.
- (11) Improvement of risk-based supervision, including risk profile assessment and bank rating system both on solo and consolidated basis.
- (12) Improvement of the bank reporting system facilitating the new accounting standards and Basel II requirements.
- (13) Completion of banking accounting guidance to converge to IAS 32 and IAS 39.
- (14) Drafting revised regulation on financial reporting transparency to incorporate Pillar 3 and IFRS 7 requirements.

The Implementation of the Indonesian Statements of Financial Accounting Standards (PSAK) No. 50 and No. 55

The establishment of the Indonesian Statements of Financial Accounting Standards (PSAK) No. 50 concerning Reporting and Disclosure of Financial Instruments and PSAK No. 55 concerning the Recognition and Measurement of Financial Instruments reflects the full adoption of International Accounting Standard (IAS) 32 and 39 by the Accounting Standard Body of the Indonesian Accounting Association.

The establishment of PSAK 50 and 55 also aims at eliminating weaknesses found in the current accounting standards, pertaining issues such as reclassification of debt securities and de-recognition (such as for repo transactions and asset securitization). PSAK 50 and 55 works towards the compliance of Core Principle 22 of the 25 Basel Core Principles for Effective Banking Supervision and is in line with Pillar 3 of Basel II concerning disclosure requirements for market disclosure.

At present, Indonesian Accounting Association and Bank Indonesia is completing the Indonesian Banking Accounting Guidance and going over IFRS 7 concerning Disclosure of Financial Instruments as well as current amendment of IAS 39.

CURRENT OFFICIALS
(as of 31 December 2009)

Governor -

Senior Deputy Governor Dr. Darmin Nasution

Deputy Governors Dr. Hartadi A. Sarwono
Mrs. Siti Ch. Fadjrijah
Mr. S. Budi Rochadi
Dr. Muliaman D. Hadad
Mr. Ardhayadi
Mr. Budi Mulya

Directors/Heads of Departments Mr. Perry Warjiyo
Directorate of Economic Research & Monetary Policy
Mr. Triono Widodo
Directorate of Economic & Monetary Statistics
Mr. Hendar
Directorate of Monetary Management
Mr. Rasmu Samiun
Directorate of Reserve Management
Mr. Nelson Tampubolon
Directorate of International Affairs
Mr. Halim Alamsyah S
Directorate of Banking Research & Regulation
Mr. Joni Swastanto
Directorate of Banking Licensing & Information
Mr. Boedi Armanto
Directorate of Bank Supervision 1
Ms. Endang Sedyadi
Directorate of Bank Supervision 2
Mr. Erwin Riyanto
Directorate of Bank Supervision 3
Mrs. Ratna E. Amiaty
Directorate of Rural Bank Supervision

Directors/Heads of Departments	Mr. Ramzi A. Zuhdi Directorate of Shariah Banking
	Mrs. Purwantari Budiman Directorate of Banking Investigation
	Mr. Edi Siswanto Directorate of Currency Circulation
	Mrs. SWD Murniastuti Directorate of Accounting & Payment System
	Mr. Lukman Boenjamin Directorate of Logistic & Security
	Mr. Jalaluddin Soe'oad Directorate of Information Technology
	Mrs. Kusumaningtuti Directorate of Human Resource
	Mrs. Harti Haryani Directorate of Internal Financial Management
	Mr. Ahmad Fuad Directorate of Legal Affairs
	Mr. Wahyu Directorate of Internal Audit
	Mrs. Dyah N.K. Makhijani Directorate of Strategic Planning and Public Relations
	Mr. Rizal A. Djaafara Center of Education and Central Banking Studies
	Ms. Libraliana Bodilangoe Office of the Secretarial Affairs
	Mr. Chandra Murniadi Special Unit for Asset Management
	Mr. Didy Laksmono R. Special Unit for Information Management
	Mr. Purnomo Special Unit for Bank Indonesia Museum

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