Overview

- The regulation to publish the prime lending rate aims to: (i) increase the transparency of banking products, including their benefits, costs and risks, in order to provide an explanation to the customers; and (ii) bolster good governance and promote healthy competition in the banking industry through the creation of better market discipline.

- The interest rate borne by the borrower (lending rate) is the prime lending rate plus a risk premium. The prime lending rate consists of three components, namely the cost of funds, the overhead costs borne by the bank in the process of extending credit, and the profit margin. Therefore, the interest rate offered to the borrower is not necessarily the same as the prime lending rate. The risk premium represents the bank’s assessment of the potential borrower’s credit worthiness based on, among others, the financial condition of the potential borrower, the loan period, and the prospects of the business to be financed.

- At the preliminary stage, banks with total assets of Rp10 trillion or more according to their monthly statement on and/or subsequent to 28th February 2011 are obliged to publish their prime lending rate in rupiah. The types of loans covered by this new regulation are: (1) corporate loans; (2) retail loans; and (3) consumption
loans (mortgages and non-mortgages). Non-mortgage consumption loans do not include the provision of funds through credit cards and uncollaterised loans.

- The prime lending rate may be published through: (1) noticeboards at each bank branch; (2) the main page on the bank’s website; and (3) an announcement in a newspaper accompanying the corresponding quarterly financial statement in March, June, September and December. However, for surveillance purposes, Bank Indonesia may also request a bank to submit its prime lending rate information periodically or as necessary outside of this time frame.

**Frequently Asked Questions – FAQ**

1. **When Bank Indonesia issued the new Prime Lending Rate policy, the central bank was perceived to be interfering with the banks’ operational activities. How can this be explained?**

   Bank Indonesia does not specify nor regulate the size of a bank’s margin or the calculation of interest rates. Bank Indonesia is focused on factors of information transparency with the hope that this will be utilized by the banks and their customers to improve market discipline. As an example, banks have always widely published their deposit rates, which boosted bank competitiveness while providing diverse options for the customer. A similar scenario is expected through the publication of transparent prime lending rate information. Therefore, the introduction of this new policy to publish prime lending rates does not in any way imply that Bank Indonesia wishes to interfere with the operational activities of the banks.

2. **Is Bank Indonesia regulating the mechanism to calculate interest rates?**
Bank Indonesia regulates the transparency of prime lending rates by providing guidance to ensure the standard grouping of components when calculating the prime lending rate to be published and reported to Bank Indonesia. From the published prime lending rate, potential borrowers can estimate the interest rate applicable to them before the bank charges its risk premium according to the respective individual/group of borrowers.

3. **After announcing the prime lending rate, how much lower will lending rates be compared to now?**
   - The overriding objective of this new policy is information transparency and increased market discipline. One positive impact of this policy is that the market will tend towards more competitive lending rates.
   - In addition, the prime lending rate is not the same as the lending rates charged to the customer because the prime lending rate only illustrates the structure that forms the respective bank’s prime rate. The publication of prime rate information will be effective in reducing lending rates through increased efficiency due to tighter competition.

4. **Does the prime lending rate have to be announced for all types of credit?**
   At the preliminary stage, banks are only obliged to announce their prime rates for three types of credit: (1) corporate loans; (2) retail loans; and (3) consumption loans (mortgages and non-mortgages). Non-mortgage consumption loans do not include the provision of funds through credit cards and uncollateralised loans.

5. **Why are prime lending rates not published for microloans?**
At the preliminary stage, Bank Indonesia has not obligated banks to specifically publish their prime rates for microloans. However, banks have been temporarily requested to include their calculations for microloans in retail loans.

6. **Which components are included in the calculation of prime lending rates?** The calculation of prime rates appears a complicated process for banks to undertake. The components included in the calculation of prime lending rates are the cost of funds, overhead costs and profit margin. Calculating prime rates is not a complicated procedure for the banks to undertake because the banks already have the method to calculate interest rates, and furthermore the banks have access to all the components required to formulate prime lending rates.

<table>
<thead>
<tr>
<th>No.</th>
<th>Komponen (%)</th>
<th>Kredit</th>
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<tbody>
<tr>
<td>1</td>
<td>Harga Pokok Dana untuk Kredit</td>
<td>5.75</td>
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<tr>
<td>2</td>
<td>Biaya Overhead</td>
<td>1.25</td>
</tr>
<tr>
<td>3</td>
<td>Profit Margin</td>
<td>1.74</td>
</tr>
</tbody>
</table>

In the example above, 9.74% is the only prime rate data that must be published to the public.

7. **What criteria are used to ascertain whether a bank is obliged to publish prime lending rate information and in what format will the information be published?**

   - At the preliminary stage, banks with total assets of Rp10 trillion or more according to their monthly statement on and/or subsequent to 28th February 2011 are obligated to publish their prime lending rate. A bank is still required to publish prime lending rate data even if its assets subsequently drop below the Rp10 trillion threshold.
• The obligatory publication format is as follows:

<table>
<thead>
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<th>(Prime Lending Rate)*</th>
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<tbody>
<tr>
<td>Berdasarkan Segmen Bisnis</td>
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<tr>
<td>Kredit Korporasi</td>
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<td></td>
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</tbody>
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(prime lending rate)

*) Description:

a) The prime lending rate does not take into account the risk premium, for which the value depends upon the bank’s risk assessment of each respective borrower. Therefore, the lending rate offered to the potential borrower may not be the same as the prime lending rate (*applicable to information published through bank noticeboards, websites and national newspapers*).

b) Non-mortgage consumption loans do not include the provision of funds through credit cards and uncollaterised loans (*applicable to information published through bank noticeboards, websites and national newspapers*).

c) Prevailing prime lending rate information is available at each bank branch and/or bank website in the event the bank maintains a website (*applicable only to information published in newspapers*).

8. Technically, how will banks publish this information to the public for the first time?
• The first publication through bank noticeboards and websites (if the bank maintains a website) will take place on 31st March 2011 and will be updated daily. Meanwhile, the first publication in newspapers will be accompanied by the announcement of the quarterly financial statement for the final position in March 2011.

• However, for surveillance purposes, Bank Indonesia may request a bank to submit its prime lending rate information periodically as necessary.

9. With the publication of prime lending rates, will existing borrowers receive a rate adjustment from the bank?

The publication of prime lending rates does not automatically precipitate a rate adjustment for existing borrowers. Rate adjustments fully depend on the agreement between the bank and the borrower contained within in the credit agreement. In other words, borrowers can discuss with their banks the extent to which a rate adjustment is possible within the parameters of the existing credit agreement.

10. Does the published prime lending rate represent the effective rate or the flat rate?

The Bank Indonesia Regulation does not control whether the rate that is published is the effective rate or flat rate considering that this is bank policy. What the banks must report is their calculation for their annual prime lending rate in rupiah. It is important to note that the prime rate is only a reference rate to help the public/potential borrower gain access to information regarding the interest rate policy of each bank. Considering that the prime rate published may not be the actual rate offered to the
customer/potential borrower, the customer/potential borrower should seek additional
direct communication/discussion with the bank.