

## Key Explanations

### RUPIAH STATUTORY RESERVE REQUIREMENT

*On Friday, 3 September 2010, the Bank Indonesia Board of Governors decided to raise the primary statutory reserve requirement for rupiah funds to 8% and to introduce an LDR-based reserve requirement. This policy is intended to curb mounting inflationary pressure through management of excess banking liquidity. The new reserve requirement has been set in consideration of the present condition of banking liquidity, hence, does not diminish the capacity of banks to pursue credit expansion in line with existing bank business plans while upholding prudential banking principles.*

#### 1. Background:

- 1.1. Indonesia's economic performance has registered steady improvement alongside stability in the financial sector. However, mounting inflationary pressure and persistent levels of excess banking liquidity have necessitated a response to avert a surge in inflation expectations that could disrupt monetary stability.
- 1.2. The financial sector stability maintained so far requires additional support from a strengthening of the banking sector to manage the various emerging risks as well as from improvement in banking intermediation.
- 1.3. Monetary stability and the stability of the financial sector both need to be strengthened through measured actions to manage the excess liquidity in the banking system, among others, through use of statutory reserves.
- 1.4. The existing rupiah statutory reserve requirements require adjustment that takes into account both banking liquidity condition as well as the intermediation function of banks. Hence, the adjustment is still in line with the targeted credit expansion in banks business plans, particularly with regard to lending for productive purposes and expanding the capacity of the economy.

#### 2. New Policies

The rupiah statutory reserve requirement consists of: **8% primary reserves + 2.5% secondary reserves + LDR-based reserves**

- 2.1. Primary Reserves at 8% of bank's third party rupiah deposits:

- The rupiah primary statutory reserve requirement has been raised from 5% to 8% of bank's third party rupiah deposits.
- The additional 3% in rupiah primary statutory reserves requirement against bank's third party rupiah deposits will earn interest at 2.5% p.a.
- Interest will not be paid to banks holding primary statutory reserves below 8%.

## 2.2. Secondary Reserves requirement at 2.5% of bank's third party rupiah deposits:

- The secondary reserve requirement at 2.5% bank's third party rupiah deposits remains unchanged.

## 2.3. LDR Reserves

- The LDR-based reserve requirement is established with a range that will promote the banking intermediation function while upholding prudential banking principles.
- Accordingly, the lower limit of the LDR targeting range is set at 78% and the upper limit at 100%.
- Banks with an LDR outside this range will face the following disincentives:
  - Banks with an LDR below the lower limit of the LDR target face a disincentive of an additional reserve at 0.1 times bank's third party rupiah deposits representing each increment of 1% below the LDR targeting range.
  - Banks with an LDR above the upper limit of the LDR target and with CAR below 14% face a disincentive of an additional reserve at 0.2 times bank's third party rupiah deposits representing each 1% excess in the LDR.
  - Banks holding an LDR above the upper limit of the LDR target but with CAR equal to or greater than 14% are not required to maintain added reserves.
- The abovementioned LDR target and parameters for disincentives will be regularly evaluated by Bank Indonesia as necessary.

## 3. Policy Implementation

The new statutory reserves policy will come into force over the next few months as follows:

No.	Reserve Requirement in Rupiahs	Implementation
1.	Primary Reserves at 8% of bank's third party rupiah deposits	1 November 2010
2.	Secondary Reserves at 2.5% of bank's third party rupiah deposits	Unchanged
3.	LDR Reserves	1 March 2011

The extended grace period is intended to allow banks sufficient time to bring liquidity management into line with the new requirements. The rupiah reserve requirement will be subject to regular evaluation in keeping with economic conditions.

#### 4. Concluding Remarks

The rupiah statutory reserves policy will be stipulated further in a Bank Indonesia Regulation. Inquiries may be addressed to the Directorate of Banking Research and Regulation, the Directorate of Economic Research and Monetary Policy and the Directorate of Monetary Management at:

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