FREQUENTLY ASKED QUESTIONS (FAQ)
RUPIAH STATUTORY RESERVE REQUIREMENT
(3 September 2010)

1. **What is the background and objective of the rupiah statutory reserve requirement?**
   a. The Indonesian economy is improving overall, but inflationary pressure is on the rise. At the same time, the banking sector has persistently high levels of excess liquidity.
   b. The excess liquidity needs to be managed on an optimum basis that reflects Bank Indonesia's concerns in responding to inflationary pressure, but without reducing the capacity for credit expansion in keeping with bank business plans.

2. **What are the key points of the rupiah statutory reserve requrement?**
   The rupiah reserve requirement = **8% primary reserves + 2.5% secondary reserves + LDR-based reserves**
   a. Primary Reserves at 8% of rupiah depositor funds:
      - The rupiah primary reserve requirement has been raised from 5% to 8% of rupiah depositor funds.
      - The additional 3% in rupiah primary reserves against rupiah depositor funds will earn interest at 2.5% p.a.
      - Interest will not be paid to banks holding primary reserves below 8%.
   b. The secondary reserve requirement at 2.5% of rupiah depositor funds is unchanged.
   c. The LDR-based reserve requirement is established with a range that will promote the banking intermediation function while upholding prudential banking principles. To achieve this, the key provisions for the LDR-based reserve requirement are as follows:
      - The LDR targeting range is set with a lower limit at 78% and an 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 rupiah depositor funds representing each 1% increment 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 rupiah depositor funds 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 above LDR target and parameters for disincentives will be regularly evaluated by Bank Indonesia as necessary.

3. When will the rupiah statutory reserve requirement become effective?

a. The new primary reserve requirement becomes effective on 1 November 2010, allowing a transition period of about 2 months.

b. The statutory reserves at 2.5% of rupiah depositor funds remain unchanged.

c. The new LDR-based reserve requirement comes into force on 1 March 2011, allowing a transition period of 6 months.

4. Why do the primary reserves and LDR-based reserves have different transition periods?

a. The primary reserve requirement is allowed an approximately 2 month transition period to allow banks time for adjustment of their liquidity portfolios. At this time, bank liquidity conditions are marked by high liquidity demand over the Eid-ul-Fitr festive season. After the end of the fasting month and Eid-ul-Fitr festivities, banking liquidity will return to normal. In addition, banking liquidity is set to climb further in keeping with rapid expansion in the Government Account during the fourth quarter.

b. The 6-month transition period for the LDR-based reserve requirement, longer than for the primary reserve requirements, is intended to allow banks to make adjustments to their asset-liability management (ALMA) to comply with the new reserve requirement.

5. Will the increased primary reserve requirement operate counter to the LDR-based reserve requirement and efforts to promote credit expansion?

a. Under the present conditions, the two reserve requirements are not contrary to each other. Instead, they operate side-by-side to strengthen monetary stability and financial sector stability.

b. The change in the primary reserve requirement will result in absorption of some of the excess banking liquidity not absorbed by the real sector and previously held in monetary instruments, such as Bank Indonesia Certificates (SBIs).
c. Given the high levels of excess liquidity in the banking system, the change in the primary reserve requirement is not expected to impact bank credit expansion.
d. At the same time, the introduction of the LDR-based reserve requirement is to encourage banks to optimise lending to the real sector within the limits established by prudential banking principles.

6. **What is the likely impact of the new rupiah reserve requirement on bank lending rates?**
   a. The new reserve requirement will have minimal impact on the base lending rate (BLR).
   b. Past observations show that changes in the statutory reserves requirement (2004 until 2008) did not always produce a linear response. Rather, the relaxation of the statutory reserves requirement in 2008 was not followed by lower interest rates. This is also related to the high levels of excess bank liquidity.
   c. The current spread between deposit and lending rates remains high at about 5% to 8%.

7. **What is the difference between the present LDR-based reserve requirement and the previous LDR-based requirement (October 2008)?**
   a. The previous LDR-based statutory reserve requirement served only as an incentive for banks to raise their LDR, but did not include any mechanism to apply a disincentive if the LDR was regarded excessively high.
   b. The present LDR-based reserve requirement applies a targeting range (with lower limit and upper limit). If a bank's LDR is below target, the bank will have an incentive to increase its LDR. If the LDR is above target, there will be an incentive for the bank to manage liquidity risk by adjusting the LDR. This means that banks will operate under a self-correction mechanism that will discourage excessive expansion in lending and thus reinforce micro-prudential principles. Banks will be encouraged to keep the LDR within the targeted range.

8. **How is the LDR-based reserve requirement calculated?**

a. If LDR < lower limit (78%), the bank is subject to an added reserve requirement at 0.1 x (78 - LDR)% x rupiah depositor funds
b. If LDR > upper limit (100%) & CAR < 14%, the bank is subject to an added reserve requirement at 0.2 x (100 - LDR)% x rupiah depositor funds
c. If LDR > upper limit (100%) and CAR >= 14%, the bank is not subject to an additional reserve requirement.

9. How is the LDR target determined?

a. The LDR target is determined by macroeconomic and micro banking objectives.
b. At the macro level, the LDR target reflects the need for credit to achieve the targeted rate of economic growth.
c. At the micro level, the LDR target takes account of liquidity conditions and LDR in the banking system.

10. Why is a limit set on the LDR (for the upper limit of the LDR target)?

a. To safeguard the capital resilience and liquidity of the banking system.
b. Nevertheless, banks may increase their lending above the upper LDR limit as long as they maintain adequate capital resilience.

11. What is the mechanism for calculating the rupiah reserve requirement?

a. The primary reserve, secondary reserve and LDR-based reserve are calculated daily.
b. The primary reserve requirement is calculated at 8% of the daily reported depositor funds for 1 (one) reporting period 2 (two) reporting periods previously.
c. The secondary reserve requirement is calculated at 2.5% of the daily reported depositor funds for 1 (one) reporting period 2 (two) reporting periods previously.
d. The LDR-based reserve requirement is calculated at the level of the bank LDR subtracted by the LDR target and multiplied by the disincentive parameter at the end of each day within 1 (one) reporting period against daily average depositor funds within 1 (one) reporting period 2 (two) reporting periods previously.

12. How does a bank comply with the rupiah reserve requirement?

a. To comply with the primary reserve requirement and the LDR-based reserve requirement in rupiahs, a bank may draw only on the balance of its rupiah settlement account at Bank Indonesia.

b. To comply with the secondary reserve requirement, a bank may use holdings of SBIs, Government Securities, Treasury Notes and/or excess reserves (surplus funds in bank settlement accounts at Bank Indonesia, above the primary reserve requirement). Other instruments used in open market operations, such as the Overnight Deposit Facility (formerly FASBI) and Term Deposits (formerly Fine Tune Contractions) may not be used for the secondary reserve requirement.

13. **Do rupiah statutory reserves earn interest?**

a. The additional 3% in rupiah primary reserves against rupiah depositor funds will earn interest at 2.5% p.a.

b. Interest will not be paid to banks holding primary reserves below 8%.

c. However, the Bank Indonesia Certificates (SBIs) and Government Securities used for secondary reserves are interest-bearing assets.

d. Funds for the LDR-based statutory reserves do not earn interest.

e. The interest policy and rate of interest paid on these reserves are subject to change at any time, in keeping with economic conditions.

14. What sanctions are imposed on a bank failing to comply with the rupiah reserve requirement?

Any bank failing to comply with the rupiah statutory reserve requirement is liable to a financial penalty of 125% (one hundred and twenty-five percent) of the average overnight JIBOR (Jakarta Interbank Offered Rate) on rupiah funds on the date of the violation, effective for the shortfall against the rupiah reserve requirement for each day it fails to comply.

15. When will the sanctions for failure to comply with the rupiah reserve requirement come into force?

a. Sanctions pertaining to failure to comply with the primary rupiah reserve requirement shall come into force on 1 November 2010.

b. Sanctions pertaining to the secondary reserve requirement are unchanged.
c. Sanctions pertaining to the LDR-based reserve requirement come into force on 1 March 2011.
d. Sanctions will be waived for banks benefiting from the incentive to relax compliance with the rupiah statutory reserve requirement set forth in the Bank Indonesia regulatory provisions concerning incentives for banking consolidation.

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