

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

IN THE NAME OF ALLAH THE  
MOST GRACIOUS AND  
MOST MERCIFUL





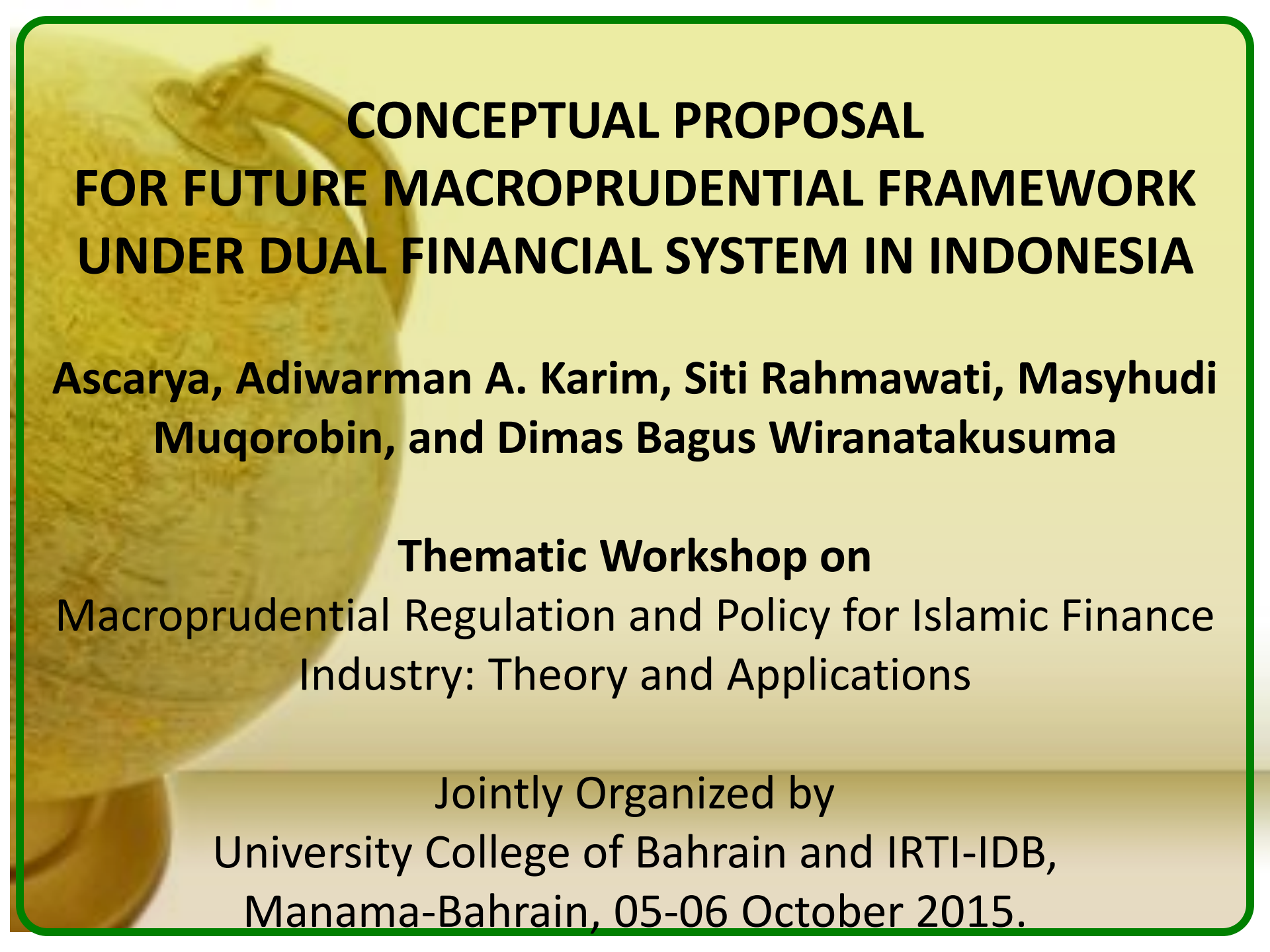
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The background of the slide features a faint, stylized image of a globe, showing the outlines of continents and oceans in a light yellow or beige tone. The globe is positioned on the left side of the slide, with its top and bottom edges visible.

# **CONCEPTUAL PROPOSAL FOR FUTURE MACROPRUDENTIAL FRAMEWORK UNDER DUAL FINANCIAL SYSTEM IN INDONESIA**

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# BACKGROUND

Repeated financial crises and money markets instability have transmitted some shocks to financial institutions including those of islamic one due to an increased interconnectedness. The call for macroprudential policy is highly needed to restore and preserve financial system stability.

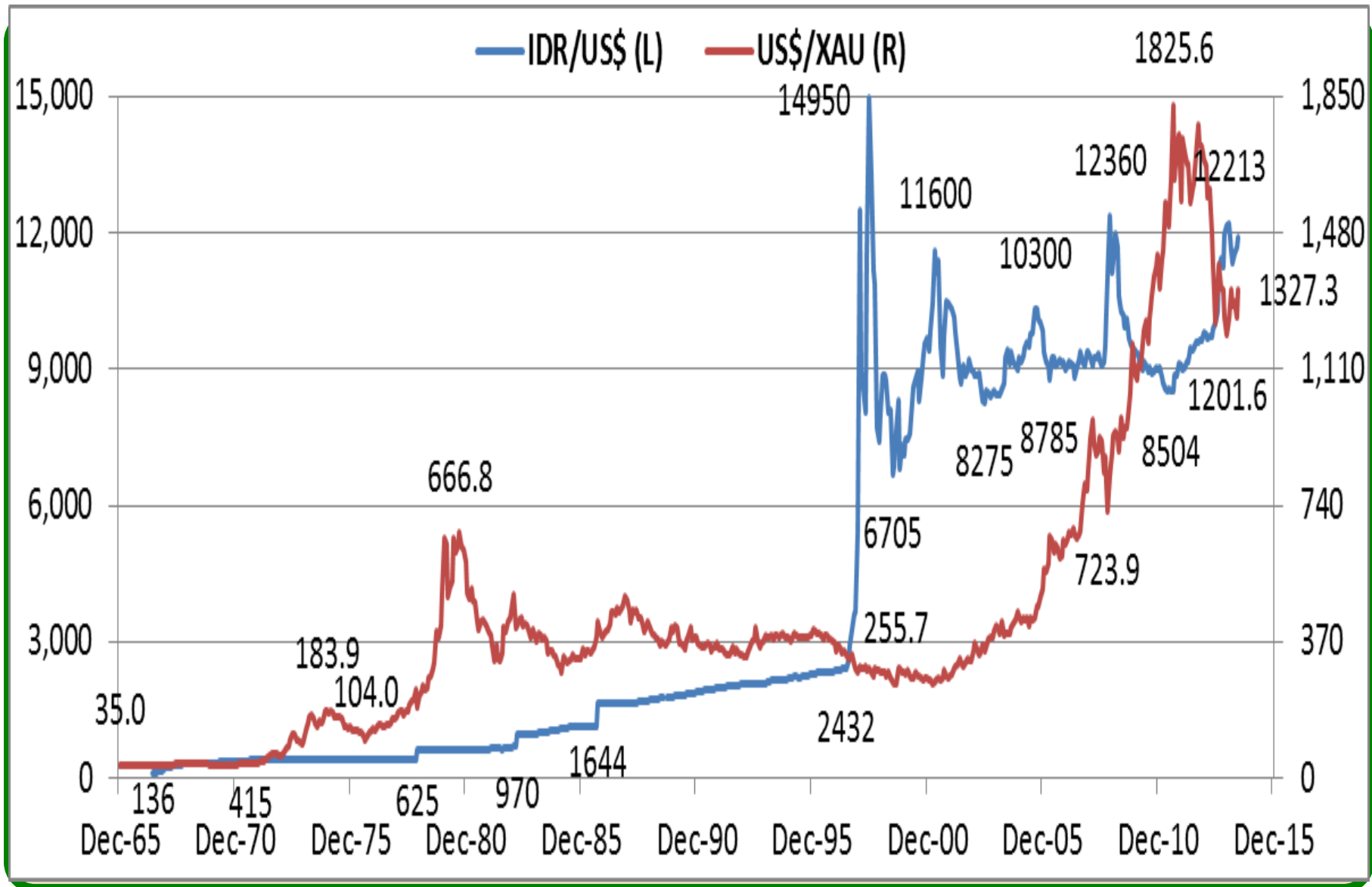
# FOCUS OF THE STUDY

The study is focused on several aspects, such as (1) the risks exposed in Islamic banks in Indonesia; (2) the way(s) to develop criteria to design macroprudential policy under dual financial system in Indonesia; and (3) implementation of macroprudential policy in countries adopting dual financial system

# METHODOLOGY

Elaboration of the issues by intensifying and exploring the literary study related to macroprudential is of concerned. The Gap analysis is used to further propose the future macroprudential design under dual financial system in Indonesia

**Fig. 1.1** Instability and Decline in Value of US\$ and Rupiah Post Bretton Woods System



# COMPONENTS OF MACROPRUDENTIAL POLICY

## Components of Macroprudential Policy as defined by G30

Macroprudential policy seeks to develop, oversee, and deliver appropriate policy response to the financial system as a whole

Macroprudential policy aims to enhance the resilience of the financial system and to dampen systemic risks

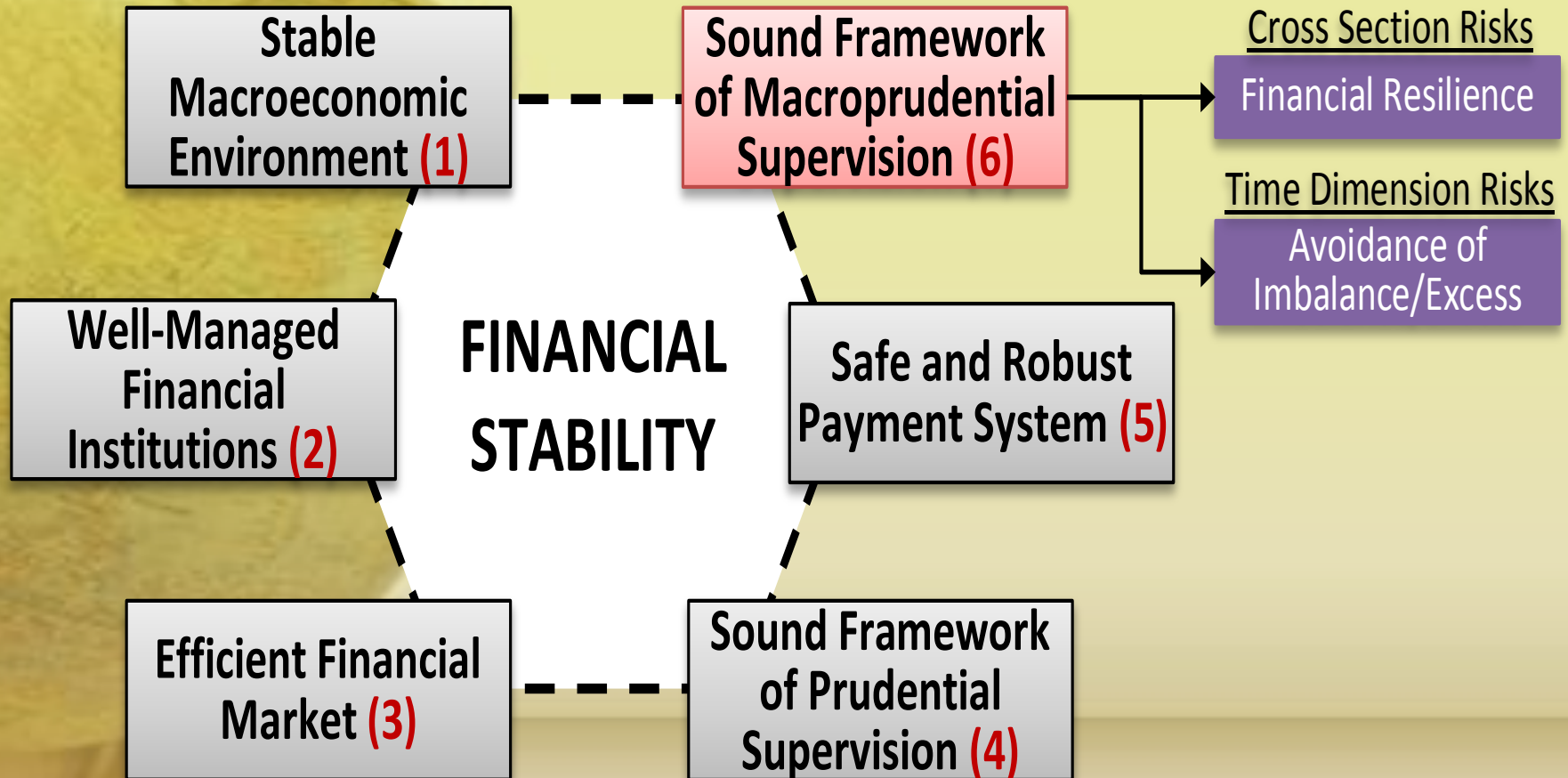
Macroprudential policy should use variable and fixed tools and to reduce systemic risk

The institutions involved must inform and be informed by policies, and give due regard to the primary responsibilities of other agencies.



**Fig. 2.1**

# Main Pillars/Elements of Financial System Stability



# Fig. 2.2

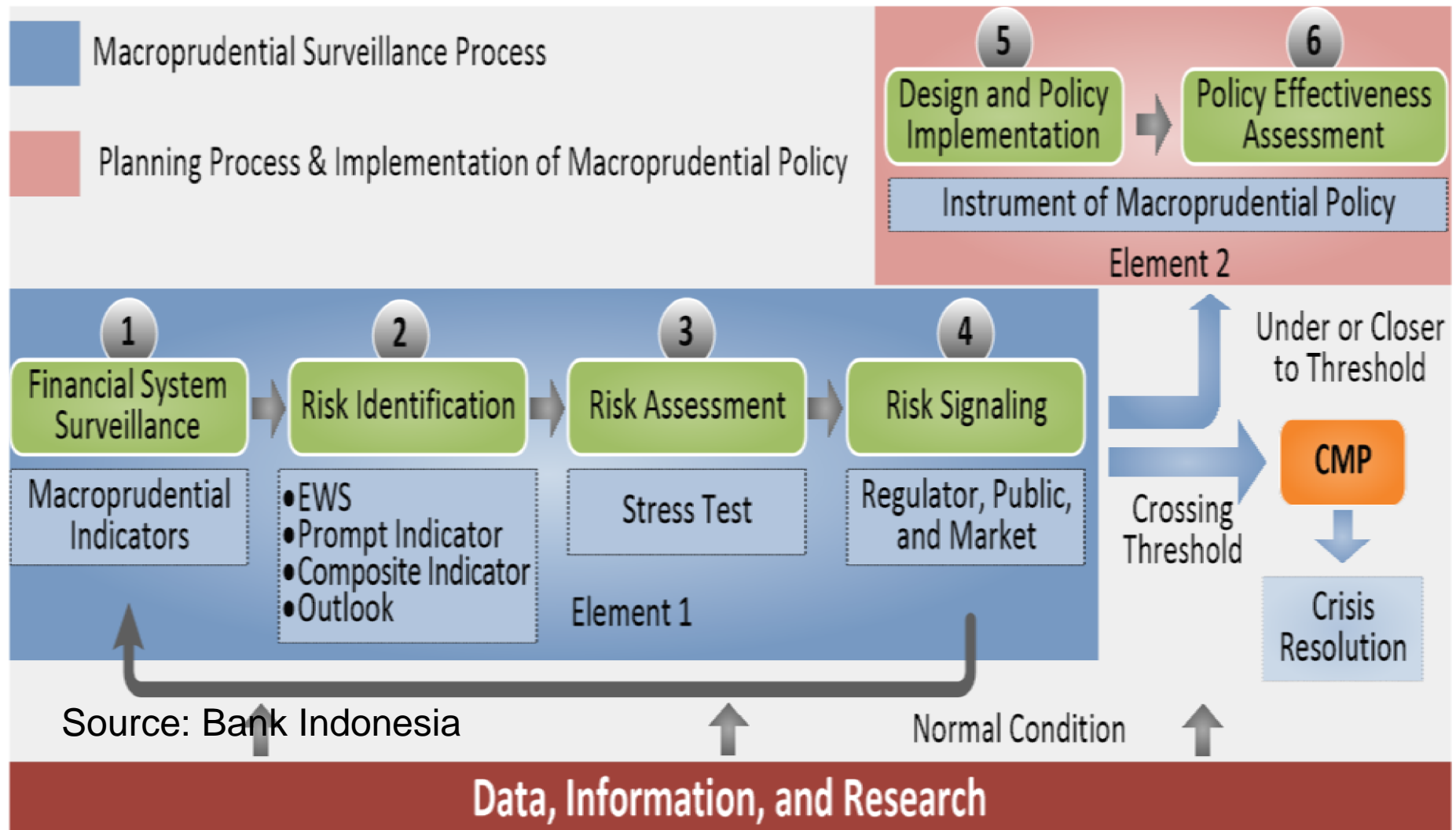
## Macro-Micro Econ'c Policy Framework Stability



Source: Kremers and Schoenmaker (2010), modified by Authors

**Fig. 3.1**

# Conv'l Macroprudential Framework in Indonesia





# Table 3.1

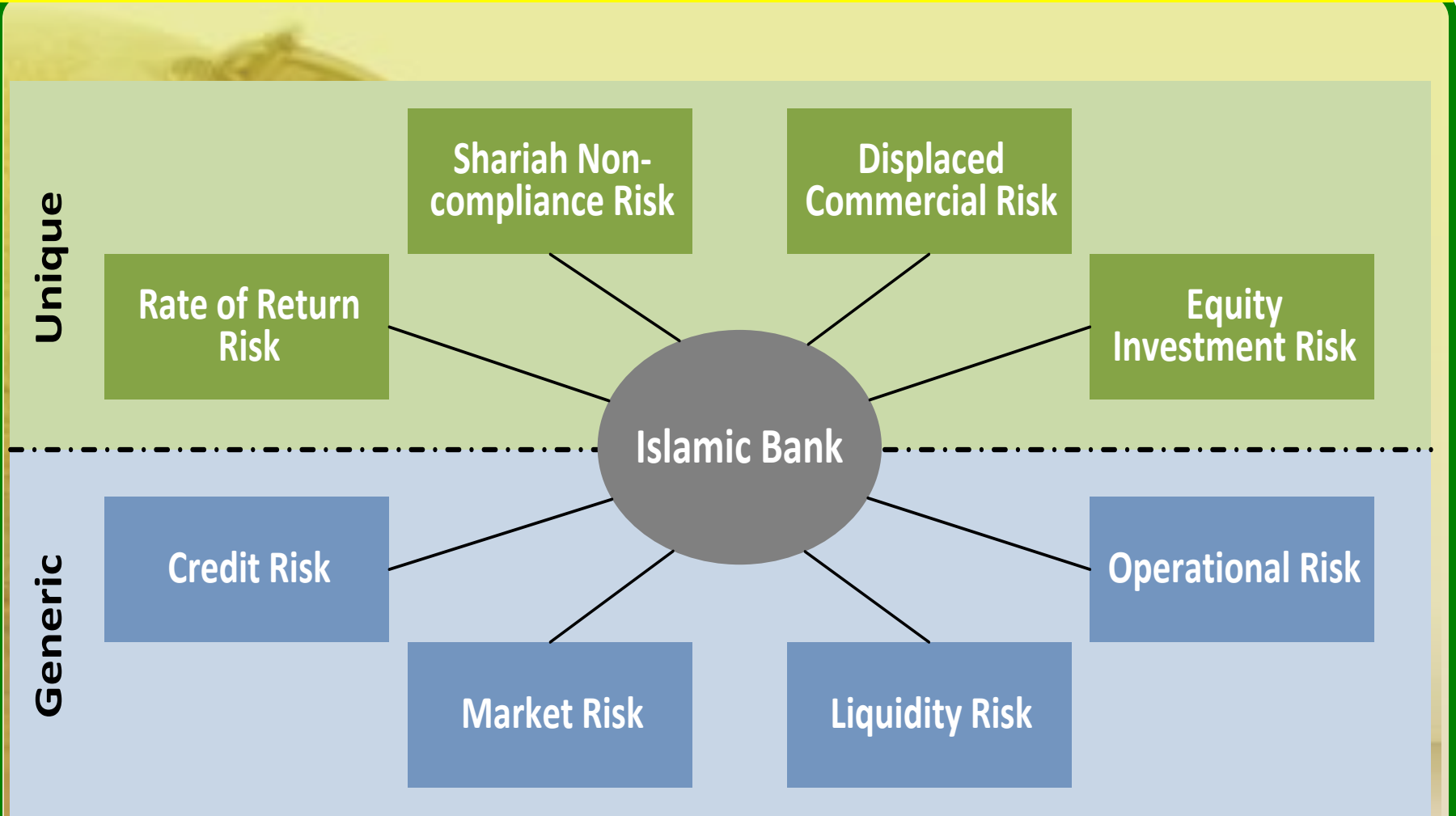
## Macroprudential Policy Instruments

INSTRUMENT		LTV	GWM LDR	CBRT Transp'cy	NOP	CCB	Capital Surchg.
OBJECTIVE		Credit-related	Credit, Liq.- related	Credit, Gov.- related	Liquidity- related	Capital- related	Capital- related
RULES	Single/Multiple	Single	Multiple	Single	Single	Single	Single
	Broad-based/ Targeted	Targeted	Targeted	Broad-based	Targeted	Broad-based	Targeted
	Fixed/ Time- varying	Fixed	Time-varying	Fixed	Fixed	Time-varying	Fixed
	Rule/ Discretion	Rule	Rule	Rule	Rule	Rule/ Discretion	Rule
Category of instrument		Need repeated calibration	Developed to mitigate systemic risk	Developed to mitigate systemic risk	Need repeated calibration	Developed to mitigate systemic risk	Developed to mitigate systemic risk

Source: Bank Indonesia

**Fig. 3.2**

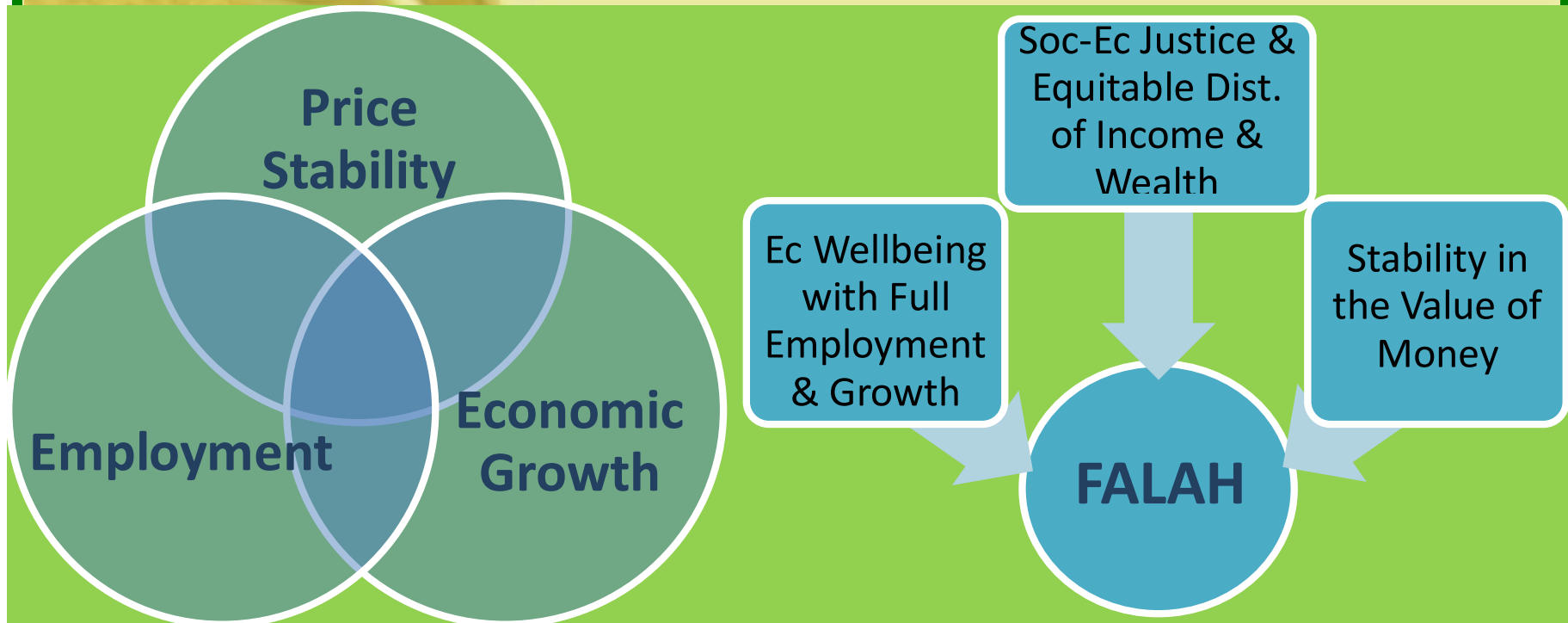
# Contemporary Islamic Banking Risks Profile



Source: Taman (2014)

**Fig. 3.3**

# Objectives of Conventional and Islamic Macroeconomic Policy



Source: Bank Indonesia (2014)



# THE ROLE OF CENTRAL BANK

## Objectives

Current:  
Maintaining Price  
Stability

Future:  
Maintaining price and  
financial stability & socio-  
economic welfare and  
equitable distribution

Gap:  
Has not able to maintain  
purchasing power of  
money, new role in financial  
stability, and new role for  
new sector fasilitator

## Roles & Functions

Current:  
Monetary and payment  
system authority, and  
macroprudential  
responsibility

Future:  
Monetary, micro&macro-  
prudential, and payment  
system authority; and real  
sector fasilitator

Gap:  
Access to the real sector

Source: Bank Indonesia

# THE ROLE OF MACROPRUDENTIAL

## Objectives

### Current:

Prevent and reduce Systemic Risks, balanced and sustainable intermediation, and efficiency of financial system and access

### Future:

Eliminate and reduce systemic risks and financial crises, balanced sustainable intermediation, and financial system and access efficiency

### Gap:

Structural gap, imbalances both sectoral, spacial, and asset-liability side, absence of inter-related channels to microfinance sector, and interest rate anomaly.

## Scope

### Current:

Financial system surveillance, bank and relevant institution needed

### Future:

Financial system surveillance, bank and relevant institution needed

### Gap:

Credible leading indicators and Financial Stability Index, Strong and comprehensive legal foundation.

## Instrument

### Current:

Strengthening capital, financial infrastructure, preventing excessive leverage, managing intermediation, improving efficiency and limiting exposure concentration.

### Future:

Instrument affecting financial and real sector, including conventional and islamic macroprudential

### Gap:

Improving financial sector under dual system and Instrument in dual system affecting the real sector.

## Authority

### Current:

Financial System Stability Forum (FKSSK), chaired by Minister of Finance, and Bank Indonesia as macroprudential policy

### Future:

Financial System Stability Forum, chaired by Governor Bank Indonesia and Bank Indonesia as macro and micro authority

### Gap:

Amendment of Regulation on FKSSK and regulation on micro and macroprudential authority

# POLICY RECOMMENDATIONS

- 1. The need to fulfill some precondition towards effective macroprudential framework under dual financial system, including low economic liquidity M2/GDP, sector liquidity imbalances, interest rate structure, and understanding the root of financial crises*
- 2. The need to establish new institutional arrangement, including clear responsibilities within Financial System Stability Coordination Forum (FKSSK), an enhanced coordination in normal and crisis period among related parties, and establishing a division on islamic macro and micro prudential*
- 3. The need to establish new instrumental arrangement, including developing instrument affecting real sector, and accurate financial stability indicators.*
- 4. The need to promote some substantial elements in strengthening macroprudential policy under dual system, including increasing the share of Islamic finance, increasing holding of gold reserves by Central Bank, credit/financing incentive to reduce sectoral, and spacial imbalances, as well as empowering Small Medium Enterprises, and productive – consuptive imbalances , and broading access to necessary data*



# END OF PRESENTATION

**THANK YOU FOR YOUR PRECIOUS TIME**

**MAY ALLAH BLESS US WITH KNOWLEDGE AND WISDOM**

**WASSALAM**

