

New Rules Tighten Reins on Short-Term Offshore Loans for Indonesian Banks

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It has been over 25 years since Indonesia was hit by a devastating financial crisis that changed the country forever, largely due to banks in Indonesia borrowing too heavily from abroad. Since then, banking regulations for banks obtaining offshore loans have improved significantly. This includes Bank Indonesia is tightening prudential requirements to mitigate risks associated with short-term offshore loans and ensure financial stability.

Recently, Bank Indonesia Regulation No. 7 of 2024 (“**PBI 7/2024**”), issued on 1 August 2024 enforces stricter controls on the Offshore Funding Ratio (*Rasio Pendanaan Luar Negeri Bank* – “**RPLN**”) and other prudential indicators.

This advisory explains the key changes, such as the new RPLN limits, prudential indicators for capital capacity, credit risk and market risk, and the administrative sanctions for non-compliance.

What's New

Under Bank Indonesia Regulation No. 21/1/PBI/2019 on Bank Offshore Loans and other Bank Obligations in Foreign Currency (“**PBI 21/1/2019**”), offshore loans are classified by tenor into short-term (maturity of up to one year) and long-term (maturity over one year). This differentiation determines the prudential principle requirements for banks.

The newly issued PBI 7/2024 updates parts of PBI 21/1/2019, especially in relation to short-term loan limits. The new regulation defines RPLN as the ratio of Short-Term Liabilities^[1] to Bank Capital, ^[2] with a maximum limitation of 30% on a daily basis, subject to countercyclical adjustments by Bank Indonesia. For the calculation of the RPLN, Short-Term Liabilities include only short-term offshore loans, short-term domestic debt securities in foreign currency, and/or short-term risk participation. Any bank's offshore loans, domestic debt securities in foreign currency, or risk participation transactions whose maturity is shortened to be a maximum of one year will be classified as Short-Term Liabilities for the RPLN calculation.

Compliance and Sanctions

To comply with the new prudential requirements under PBI 7/2024, banks must meet specific indicators set by Bank Indonesia.

Under its implementing regulation, Board of Governors Regulation No. 7 of 2024 on the Implementing Regulation of the Offshore Funding Ratio for Banks ("**PADG 7/2024**"), the indicators that must be satisfied by banks with Short-Term Liabilities are:

- a. Maintain minimum capital obligations based on the bank's risk profile.
- b. Ensure non-performing loan ratios are less than 5%.
- c. Compliance with market risk regulations on net foreign exchange positions.

If a bank does not implement these prudential principles, Bank Indonesia may adjust the RPLN limits and/or impose any additional supervisory measures deemed necessary. Furthermore, banks that fail to comply with the RPLN limits may incur administrative sanctions, such as a written warning and a financial penalty of 0.01% of the amount exceeding the RPLN limit, multiplied by any Short-Term Liabilities calculated in the RPLN on a daily basis. The penalty payment ranges from a minimum of IDR10 million to a maximum of IDR1 billion per day.

Long-term offshore loans

For long-term offshore loans, they remain subject to PBI 21/1/2019. Bank Indonesia requires banks in Indonesia to obtain market entry plan approval before acquiring any long-term offshore loan or extending the maturity of a short-term offshore loan to more than one year.

Before seeking this approval, banks must first include the market entry plan in their business plan. However, this requirement does not apply to long-term offshore loans in the form of subordinated loans recommended by the Financial Services Authority (*Otoritas Jasa Keuangan* – "**OJK**"), or to long-term offshore loans needed to overcome urgent problem of the

bank or meet certain requirements set by institutions.

The market entry plan approval issued by Bank Indonesia is valid for three years from its date of issuance. Banks must not exceed the total amount of long-term offshore loans specified in the approved market entry plan. They are required to report the market entry within seven business days of the entry date for offshore loans in the form of loan agreements, private placement notes, or risk participation transactions. For offshore loans issued through the public market, banks must report within seven business days of the settlement transaction date.

Conclusion

The newly issued prudential principle requirements for banks in Indonesia seeking short-term offshore loans mark a significant regulatory shift. Banks must adapt to these requirements to ensure they remain in compliance. At the time of this advisory's publication, the prudential principles for banks seeking long-term offshore loans remain unchanged from those stated in PBI 21/1/2019.

As Indonesia prepares to enter a new political era with potential economic implications, Bank Indonesia appears committed to maintaining a steady course by tightening controls on short-term foreign loans to support macroeconomic stability and resilience.

[1] A Short-Term Liabilities is defined as any bank liabilities in the form of short-term offshore loans and any other bank obligations with a maturity of up to one year. Short-Term Liabilities include short-term offshore loans based on loan agreement, short-term offshore loan based on debt securities, short term offshore loan in the form of check, deposit, saving and call money, short term offshore loan in other form as determined by Bank Indonesia, short-term domestic debt securities in foreign currency, and/or short-term risk participation transaction

[2] Bank Capital refers to bank capital as set out in Financial Services Authority (OJK) regulations on minimum capital obligations for general banks and sharia banks.

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