

FLASH NOTE: Update on KUR Micro Lending Rate

Yesterday, on June 16 2015, Indonesian Finance Minister, Bambang Brodjonegoro, has publicly stated that the government plans to remove the electricity subsidies for households that use between 450 and 900W and allocate it to KUR (Kredit Usaha Rakyat). President Joko Widodo has confirmed it this morning and reasoned that it will be better to use the funding for Micro rather than using it for middle class power subsidy via PT Perusahaan Listrik Negara.

While last week the government was still unclear as how big will the subsidy be for KUR following the 12% cap, this morning the government stated that it will be somewhere around 3%, depending on the size of the collateral and the outstanding KUR loans.

Banks' margins will still be compressed as the lending rate for the sector is ranging from 19.25% to 20% and will be downsized to 12% plus subsidy, however, the KUR lending rate cap will not be as immensed as it sounded compared to when the government placed the 12% cap.

We maintain our neutral stance on the matter as this could be tricky for banks, given banks with big exposure in KUR will get more subsidy, while at the same time, more credits are impacted from the rate cap.

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