

Financial service sector essential to mitigate global economic slowdown: seminar



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Former President of the European Central Bank Jean Claude Trichet speaks about current economic challenges and its effect on the global economy at the Challenges to Global Economy seminar in Jakarta on Sept. 22. (Photos courtesy of JP/Arief Suhardiman)

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Indonesia's financial service sector plays an essential role in mitigating the effects of global economic slowdown on the domestic level, a recent seminar has concluded.

"Credit dynamics analysis and banking surveillance are essential to prevent systemic bank failure, which could exacerbate effects of the global economic slowdown, while confining bank failures to ones related to individual entity risk only," said Jean-Claude Trichet, former President of the European Central Bank from 2003–2011, sharing insight from his experience managing the global crisis during an international seminar called *Challenges to Global Economy*, organized by the Indonesian Deposit Insurance Company (LPS) to mark its 11th anniversary on Sept. 22 at the Ritz-Carlton hotel Pacific Place shopping center in Jakarta.

According to him, financial risks could worsen a situation already marked by an increasing uncertainty in the global economy, affected by a decline in vital sectors such as manufacturing, trading and services, coupled with the Brexit negotiation that has not been done yet and the rising tendency of protectionism in many countries in response to the crisis.



Finance Minister Sri Mulyani Indrawati delivers a keynote speech at the Challenges to Global Economy seminar in Jakarta (Photos courtesy of JP/Arief Suhardiman)

According to Indonesia finance minister Sri Mulyani Indrawati, in times like this, the role of LPS, along with the Financial Services Authority (OJK) and the Central Bank, is vital to prevent crisis in both banking and non-financial institutions.

“This year, the world has gone through what many economic institutions described as a very disappointing recovery,” Sri Mulyani said during her keynote speech, explaining that the International Monetary Fund (IMF) has estimated a 3.4 percent global growth rate in 2016, only a few percentages up from last year’s value of 3.1 percent, after three times of downgrade revision. The global condition has also hit the domestic economic growth.



Chairman of Indonesia Deposit Insurance Corporation (LPS) Halim Alamsyah delivers welcoming speech on seminar of the Challenges to Global Economy in Jakarta on Sept. 22. (Photos courtesy of JP/Arief Suhardiman)

LPS chairman Halim Alamsyah explained in his opening remarks that there was an increasing uncertainty in the global economy, affected by a decline in vital sectors such as manufacturing, trading and services. In Indonesia itself, economic conditions need serious attention with a decline in economic growth from around five percent in 2012 to around four percent this year.

“Locally, the mining sector is hurt most by the global economic slowdown, with negative domestic growth. It has an important effect not only at the national level but also regionally. Kalimantan and Papua, for instance, which rely on the mining sector, has shown a shrinking in commodity,” Sri Mulyani, who formerly was the managing director of the World Bank from 2010 to 2016, said.

She said the 13 policy packages issued by the government in what she termed ‘ambitious reform’ was to attract more capital to Indonesia.

“The government is trying to get more economic activities turning to Indonesia. We want to attract investors to come and carry out economic activities here and capitalize from our big population, middle class growth and diversified economy,” she said.

“We also work closely with other institutions such as the Central Bank, the Financial Services Authority and LPS to make sure the financial sector is supporting the economy she explained, adding that the role of LPS was vital to achieve the last objective.

Meanwhile, Trichet advised Indonesia to find ways to capitalize from its science and technology sector, which is the frontier of economic growth in the future.



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