THE EFFECT OF TWO CRISES TOWARDS THE ISLAMIC BANK IN INDONESIA: AN ASIAN FINANCIAL CRISIS FROM 1997 TO 1998 AND A GLOBAL FINANCIAL CRISIS IN 2008.

An assignment to be fulfilled from the Monetary Policy and Islamic Banking subject
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Abstract

Asian Crisis from 1997 to 1998 and global financial crisis in 2008 gave an impact to the national economy. Many government policies had been implemented, trough BI policy towards banking industry to avoid the liquidity harm which led to bad economic condition. The impact of BI policy towards Islamic bank at a time of financial crisis can be explained by looking at bank indicators, which are funding growth, DPK , FDR, NPF, ROA ratio, ROE ratio and BOPO. As a result, both periods of financial crisis happened in Indonesia led to Islamic banking industry with different characteristic. Such difference was placed in Islamic banking system and financial crisis effect towards the real domestic economic sector.

keyword: financial crisis, islamic banking, liquidity, funding, third-party fund

1. Introduction

Financial crisis that happened in Thailand from March to June 1997, started expanding to some East Asian countries such as Indonesia, Malaysia, and the Republic of Korea or usually called South Korea in early of July 1997. The spread of financial crisis left the burden to the economy of those countries, specifically Indonesia's economy growth declined dramatically to 13,7 % at 1998. As the consequence, it forced Indonesian Bank (BI) to discharge exchange value of Indonesian currency (*rupiah*) to us dollar and other foreign exchange in the market of foreign exchange. That resulted to the free floating of Indonesian currency exchange rate, also it fell drastically from Rp 2.350,- to Rp 16.000,- per USD, or it depreciated at almost 600 % in the beginning of 1998 but rebounded in May of 1999 at about Rp. 8000 (Tarmidi, 1999). The sharp decline of Indonesian currency exchange rate towards us dollar, followed by the overshooting which was very far from the real value, and next arresting seven banks by the government and the restructuring of bank with the help of Indonesian bank liquidity (BLBI) that assumed having full of manipulation so that it increased the government debt, was the cause of continuous financial crisis.

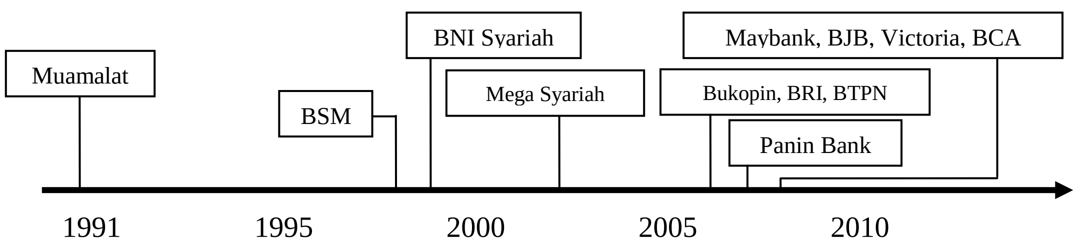
Recently, continuous effort of government to stabilize Indonesian currency exchange rate to better exchange rate, in 2008 or 10 years later, financial crisis happened in the United States of America (USA) that affected the big countries in Europe such as England, French, German, Russia, Netherlands, Iceland, and some countries in the Asia Pacific such as China, Singapore, Japan, Australia, Philippines, and Taiwan. Even though Indonesia was not one of those countries who suffered financial crisis directly, still the impact can be felt. Because some banks and non-banks industry in Indonesia invested through stock buying and bound at American financial institutions. Other effects were that the liquidity drop, the increase of bank interest, the decline of commodity price, the weakening of exchange Indonesian currency rate and capital market because of the decline from investor source of funds.

The government through Indonesian Bank (BI) had gone through some several steps, strengthening the liquidity of banking sector as a prevention to the declining of global liquidity, keeping credit growth in the stability for achieving economic growth, and the wisdom related to balance of trade. Beside of that, the deposit insurance agency affirmed the protocol implementation of financial safety net and the lender role of the last resort but still paid attention to governance aspect followed by acceleration of government in the discussion of sector of financial safety law (JPSK). The government also issued rules and regulations (Perpu) about a second amendment of law number 25, 2004 concerning LPS. Another policy of BI was that simplification from the requirement rule of minimum giro (GWM) as a banking support towards the condition of banking liquidity which caused by a global financial crisis (Sudarsono, 2009).

BI support towards banking industry in the crisis times was one of government policies aimed to keep the national economy. Those crises gave the lesson to all entrepreneurs in the banking industry to be more careful in managing finance related to bank function as an intermediary sector in the society. The total of 16 banks in liquidity (BDL) on 1 November 1997 affected to the loss of public trust towards the bank. However, the conventional bank obtained BLBI from the government, Muamalat Bank was the only Islamic bank in a financial crisis that happened from 1997 to 1998 also had many difficulties. In addition, it did not obtain BLBI from the government in the time of non-performing finance (NPF) reached more than 60 %, on the other hand it was able to succeed in only three years after the crisis and achieved the status of foreign exchange bank which rebounded the first Islamic bank corporation in Indonesia (Wijaya, 2015).

The successful of Islamic bank in facing Asian financial crisis between 1997 and 1998 attracted the attentions from foreign investors and entrepreneurs towards banking system with the Islamic system. It can be seen from graphic 1, the increasing of Islamic bank year by year in Indonesia.

Graphic 1.1 the Years when Islamic Bank Established in Indonesia



Source: The website of 12 Islamic Banks in Indonesia

Besides 12 Islamic public banks (BUS), there were also 22 Islamic business groups (UUS), 163 Islamic public funding banks (BPRS), with the total of 2934 offices (OJK, 2015). However, based on the data from graphic 1, can be known clearly that only one Islamic bank that had established in the Asian financial crisis between 1997 and 1998, Indonesia Muamalat Bank (BM). Ten years later, in global financial crisis in indonesia at 2008, the total of Islamic bank had increased to 7 units.

2. Problem Statement

Two periods of financial crisis happened in the past decade in Indonesia had a great effect to national economic growth. One of the factors was the disruption of the banking industry because of those crises. How is the impact of a financial crisis in 1997 and 1998 and global financial crisis in 2008 towards Islamic banking industry? And what is the respond of Islamic bank to face and solve those crises?

3. Research Methodology

3.1 Approach and Type of Research

This research has been written with a qualitative approach. This has been used to review the effect of both Asian financial crisis in 1997 and 1998 and global financial crisis in 2008 towards Islamic bank and also what is the respond of Islamic bank to face and solve both crises. The type of this research is qualitative descriptive studying the problems and the applied working procedures aimed to describe what is happening by recording and analyzing and interpreting the condition of Islamic bank in the crisis time.

3.2 Data Collection

The research data has been collected from several trusted sources through library research, to study written texts in both hard-copy and soft-copy edition such as the written books based on the result of research and scientific thought, scientific journal, thesis, scientific article that had been presented in the scientific meeting, textbook, report book with the organization and writer name, the book of laws, articles in printed newspaper, the entry in both encyclopedia and dictionary, and another secondary data to obtain a theory as the basis for this research.

3.3 Data Analysis

The researcher has collected and analyzed obtained data and concluded it to answer the main problem. In analyzing the data, the researcher used analysis technique of both Miles model and Huberman through 3 ways, which are data reduction, data display, and conclusion drawing or verification (Emzir, 2010).

4. Literature Review

Basri (2013) in his research concerning Asian respond in facing financial crisis in 1997 and 1998 and global financial crisis in 2008 with the title “ A tale of two crises: Indonesia’s political economy” and Tambunan (2010) in “ the Indonesian experience with two big economic crises” discussing fundamental difference of both crises in Indonesia and how was government reaction in solving those crises. The conclusion from this research explains that Indonesia was more able to survive in global economic crisis in 2008 compared to Asian economic crisis from 1997 to 1998. Indonesia’s successful to survive in global economic crisis explained in four categories. First is a source of the crisis, the second is the condition of foreign exchange rates, the third is government’s economy policies in solving a crisis, and fourth is the direction of economic policy which happened in both crises. Moreover, the great factor led Indonesia to survive in global financial crisis in 2008 was good luck.

Sudarsono (2009) also explained the impact of the global financial crisis in 2008 towards Indonesian banking system. The research focus is the condition of Indonesian financial sector in crisis time, and the impact towards Islamic banking industry and conventional bank. The result reveals that the impact of global financial crisis affected the economic condition in Indonesia and banking industry indirectly. However, Islamic bank was more stable compared to conventional bank in the running crisis period. Another conclusion is that Islamic bank had consistent and efficient financial condition to face global financial crisis.

Masahiro Kawai et al (2013) in “financial crises: nine lessons from East Asia” studied the economic crisis happened in Asia in 1997 and 1998. This study had been more focused on the finding of policy model, management, crisis resolution, and the finding of new international financial framework with regionally-based that able to prevent and detect or minimize if financial crisis recur in future. The ideology and politic differences underlying a country must fully support in regulating management and good economic system. Especially by strengthening the weak macro economy policy, which are fiscal and monetary policy.

Another finding is (Raz et al 2012) in “Global Financial Crises and Economic Growth: Evidence from East Asian Economics” discussing the impact of financial crisis in 19997 and 1998 and 2008 towards East Asian economy revealed that both crises gave the negative impact towards East Asia economic growth. Yet, the magnitude of 2008 crisis’s impact was smaller compared to 1997 crisis. Many crises that are happening recently were the effect of the liberal economy, so it will spread fast and be a global financial disaster in a short time. The researcher suggests and recommends to build a nation’s defense to counter the global crisis with strong economic fundamental. Mishkin (1999), Chowdry and Goyal (2000) also stated that that the crisis did not only emerge from an economic problem, but more to unethical economic actors which affected a nation's economic stability.

Another case with small and medium enterprise (UKM), Fuabashi (2013) clarified that the financial crisis in 2008 did not give a big impact to UKM. With the happening of the crisis, the UKM resulting products increased in the market. On the other hand, imported products decreased because of that crisis, till foreign entrepreneurs were not able to export their products to Indonesia. However, a good respond of UKM products from the public is expected so that it can compete with imported products in goods quality and the public will not turn back from local products when the crisis passes.

Based on the above study, some researchers have not discussed directly and in detail about the effect of both financial crisis in 1997, 1998 and 2008 towards Islamic bank industry. A researcher tries to analyze the effect of two financial crises towards Islamic banking industry and to find a new lesson to be taken and applied in deciding Islamic banking industry's policy to face future's economic crisis, and how should Islamic bank address such crisis based on Islamic principle as the operational basis.

5. The History of Financial Crises

5.1 Asian Financial Crisis 1997-1998

A crisis which originated from the decline in the exchange rate of the baht Thailand in 2 of July 1997, like a snowball that kept sliding as out of control, like a kite which lose its cord. Immediately in the weeks spreading to Indonesia, Malaysia, Philippine, and after that South Korea in November 1997 (Sundaram, 2008). In just one year, the economic achievement capsized and sank. Indonesian economic growth's mean in the last year of 1967 to 1996 reached to 7,6 % dashed away (Basri,2013). It had been a tragic economic tragedy in Indonesian economic history. Undeniably, six months of a crisis caused economy getting worse in a short time and felt by the public in real. Even it was continued with the social and political crises at a time when other nations fanfare to welcome the third millennium.

For banking, this crisis created the great difficulty of liquidity caused by the collapse of the interbank money market (PUAB). Indonesian Bank (BI) tried to help by maintaining the stability of banking and payment systems for the sake of the national economy. The government tightened Indonesian currency by increasing the interest and diversion of BUMN funds/ the foundation from banks to Indonesian bank certificate (SBI). The impact led to the increasing of money interest market and banking liquidity drought. The society as the owner of the third-party funds panicked and lost their trusts towards the bank. Therefore, there was a massive withdrawal that added the difficulty of banking liquidity. Because of that, the payment was threatened and the national economic process was shaken. To solve this problem, IMF as invited by Indonesia, participated in helping through the first LOI (Letter of Intent) in 31 of October 1997, which is the program of crisis recovery with guarantying the repayment of depositors' money. Followed by the second LOI in 15 of January 1998 after the collapse of Indonesian currency exchange rate towards US dollar that gave an impact to the weakening trade world, another factor was the riots in May 1998 which damaged trade center in many capital cities. Next was the third LOI in 8 of April 1998 with Indonesian currency stabilization program, and the fourth LOI in 25 of June 1998 with revising economic targets and supplying social safety (BI, 2007).

5.2 Global Financial Crisis in 2008

The emerging of a global financial crisis had been caused from a subprime mortgage in US with low interest during 2001 to 2005. That encouraged American society to invest in the property sector by relying on low bank loans. Finally, the distribution of subprime mortgage experienced a large increase from USD 200 billion in 2002 to USD 500 billion in 2005.

Subprime mortgage that could be traded with interest system to another party, then resale in the form of portfolio mortgage, and traded in the form of mortgage-backed securities (MBS) which can be derived to collateral debt obligation (CDO) with double rate from the real rate of housing as a guarantee, would affect to bubble that was so harmful and evoking economic fluctuation (Sudarsono, 2009). That matter had been proved at a time when central increased the interest in 2004, all costumers underwent default so that the seizure happened which led to the increasing of bank non-performing loans and affected the stability of bank liquidity. The matter had been worse with the decreasing of public trust by third party debit in the big of sum and led to the collapse of world-class companies as the investor as the result of inability to fulfill the bank liquidity needs. Some of those companies are Fannie Mae and Freddie Mac house loans company , Lehman Brothers as the biggest and oldest investment company which was established in 1844 in Alabama, US and was one of the biggest investment bank in the New York also collapsed. Followed by Washington Mutual (WaMu), Merril Lynch and insurance company of American International Group (AIG) collapsed as the consequence of that crisis. The bankruptcy statement by Lehman Brothers in September 2008 was the beginning of crisis spreading of subprime mortgage in the global economy including Indonesia.

6. Discussion

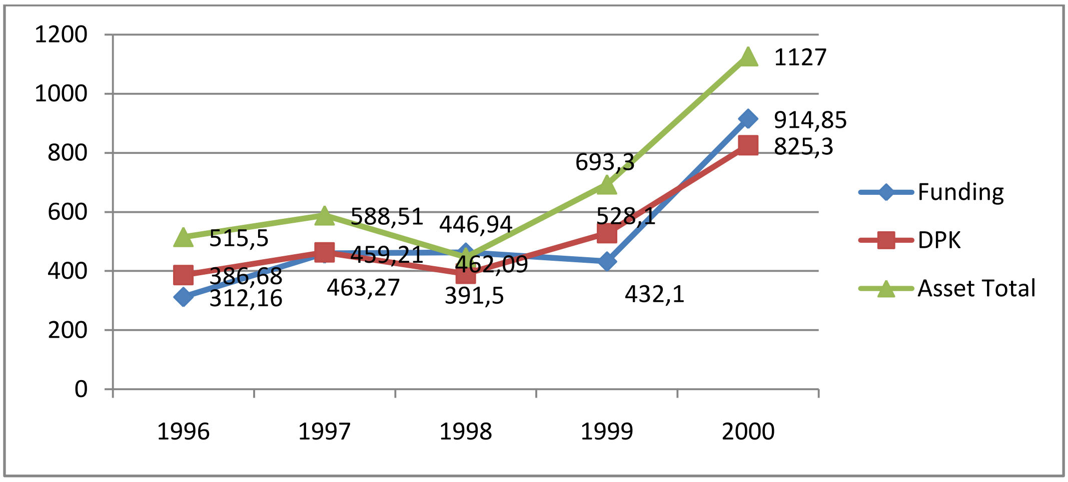
6.1 The Effect of Asian Financial Crisis from 1997 to 1998 towards Islamic Bank

Bank function in the eyes of the public is a board of assembly and fund distribution, also monetary policy implementer and an institution that actively participates in helping the growth and equalization of the economy. Build upon that function, it can be explained broadly that the bank is a company engaging in a financial matter. So if a financial crisis happens, more or less it will affect bank industry.

Two financial crises 1997 to 1998 and 2008 forced BI to issue a policy by increasing SBI and BI interest rate, which 70,8 % in July 1998, and 9,5 % in October 2008, as a step to curb inflation caused by the decline of Rupiah rate towards US dollar. In one case, that policy was so effective in minimizing money supply, but on the other side the increase of SBI from 1997 to 1998 and BI rate in 2008 affected the increase of credit and deposit interest in bank industry. The consequence to the real sector was the decline of public productivity because of the emerging of cost-push inflation from the interest rate-price spiral. In addition, if the bank deposit was too high, productive public funds also absorbed to the bank and this led to the emerge of stagnation and decline of production output. Moreover, it was more dangerous if negative spread happened in banking industry sector itself (Atmadja, 1999). But it was not entirely the case for Islamic banking industry that applied trade system (*bai'*) with margin pattern based on fixed-rate assigned in the beginning of contract so that it cannot be changed anytime like interest system.

Otherwise, Islamic bank is a good news for all investors at a time of financial crisis because the imposed margin is lower compared to the interest that soar. This condition leads to the increase of fund distribution for Islamic bank. As noted in funding growth, DPK and Muamalat Bank's asset (BM) from 1996 to 2000, stated that the funding continuously increased from RP 312,16 billion in 1996 to Rp 462,09 billion or 32% in 1998. As for DPK moved with fluctuation in rate, starting from Rp 386,68 billion in 1996 to Rp 463,27 billion in 2007, and declined 15% in the next year to Rp 391,5 billion. This decline caused by unstable trade world, and not a conducive social politic condition as the impact of broadening of unemployment and poverty because of the weakening of investment and production activities in almost all economic sectors.

Graphic 6.1.1 Funding Growth, Third-Party Fund, and Islamic Bank Asset from 1996 to 2000 (Billion Rupiah)

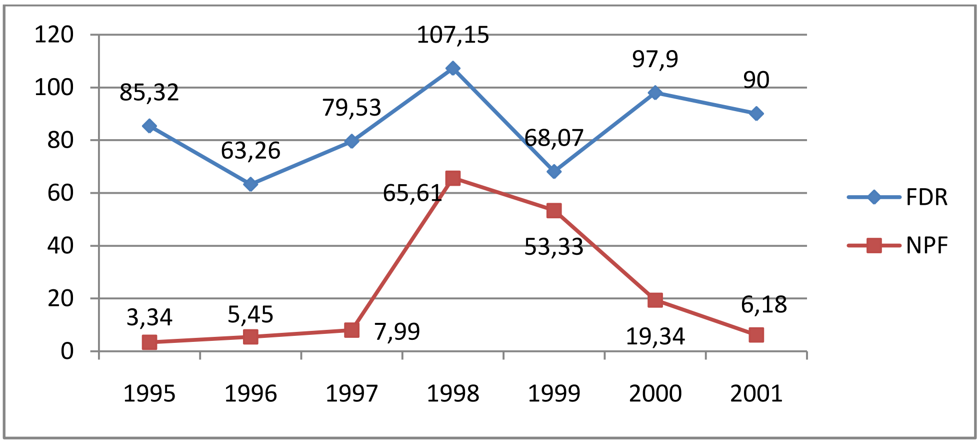


Source: data obtained from Muamalat Bank Report 1996-2000

Because of high volume of funding which distributed BM in 1998, on the other side third-party fund (DPK) declined as a result of weakening of trade world also fluctuated social and political issues in the financial crisis time, led the increase financing ratio to deposit ratio (FDR). The higher FDR meant the more BM funding expansion, it could be seen that BM in 1998 increased by 107,15% that reached the decided maximum by BI, 100%. However, if it was not accompanied with DPK collection, or in other word DPK decreased, therefore it gave less good to the position of BM liquidity. Because the increasing of FDR besides of the decreasing of DPK and bank capital caused by the establishment of productive asset allowance (PPAP).

The position of that BM liquidity got worsened by the high Non-Performing Financing ratio that reached to 65,61% in 1998. The bigger NPF, The bigger the decline of obtained income. That increase was sourced from non-performing funding resulted to systemic financial crisis damaging the national economic order. The BM losses that were recorded reached to Rp 105 billion. The equity reached to the lowest dot and even less than third of the first paid up capital, which was Rp 39,3 billion. However, with the help of Islamic Development Bank (IDB) in 21 of July 1999, BM could survive and succeed in facing those challenging periods (BM, 2003). In the next three years, in 2001, NPF BM reached back 6,18%.

Graphic 6.1.2 the Quality Growth of Islamic Bank Funding during 1995 to 2001 (percent).

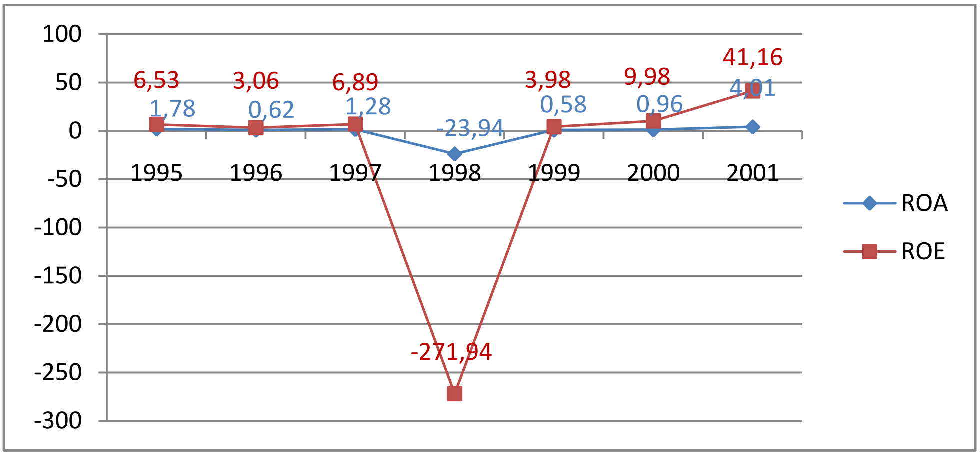


Source: data obtained from muamalat bank from 1995 to 2001

Next impact was the decline of Return on Assets (ROA) BM, that is the ratio which explains the magnitude of the profit level of the bank and proper asset using. The higher the level of a ratio of ROA BM, the better BM performance caused by the magnitude of own capital profitability. At a time of crisis, ROA BM declined drastically from 1,28% in 1997 to -23,94% in 1998. Yet, if it was compared with the mean of national banking at the same time, BM was still the best in 1998. The post-margin income from profit sharing remained good at Rp 2,557 billion. BM was still able to leave the net income from funding products in 0,55% from the total of distributed fund. Such income was still good compared to bank conventional income undergoing losses with the total of 13,63% caused by a financial crisis in Indonesia (Sahara et al, 2008). Here is the justice of margin principle or profit sharing as the operational fundamental of Islamic banking products. There was no bubble as another bank who applied interest system.

Moreover, Return on Equity (ROE), the ratio that draws the magnitude of profit level of a bank and how far that bank from the problematic probability, the higher ROE the higher profit level reached by a bank until it is confirmed far from the problematic condition. ROE BM at a time of financial crisis since 1997 to 1998 decreased dramatically throughout the history of BM establishment, at about -271,94%. The collapse of BM In a crisis was resolved in the next year, 1999, reached positive rate to 3,98%. At a time where conventional bank underwent negative spread, Islamic bank was able to show the stability of its performance by achieving the profit in the financial crisis time.

Graphic 6.1.3 BM Profitability Growth from 1995 to 2001 (percent)

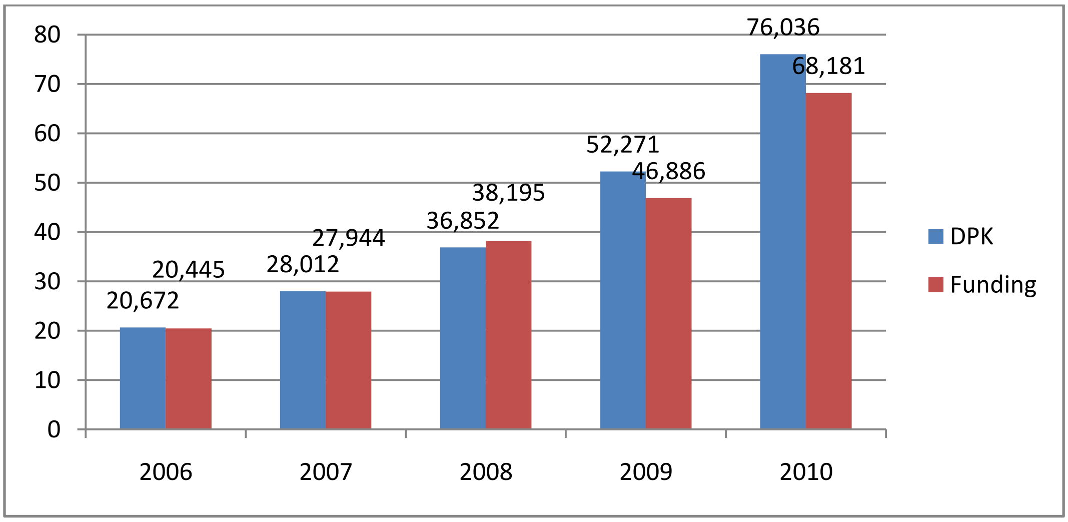


Source: data obtained from muamalat bank report 1995 to 2001.

6.2 The Effect of Global Financial Crisis in 2008 towards Islamic Bank

In the global financial crisis at 2008, the total of funding and DPK of Islamic banking showed growth rate, even though it was slow in the last quarters in 2008. The distribution of consistently funding improved continuously from Rp 27,944 billion in 2007 to Rp 38,195 billion in 2008. Although, Islamic bank tried to press the funding growth by tightening approval requirement of disbursal costs. Also, DPK throughout 2008 still showed high growth rate with the total of 31,56%. DPK source undergoing the decline happened to the corporate consumer, which decrease in the third quarter of 2008 to 3,99% from 18,47% in the third quarter of 2007. Even though undergoing DPK growth deceleration in the third quarter of 2008, generally DPK growth placed in the high rate.

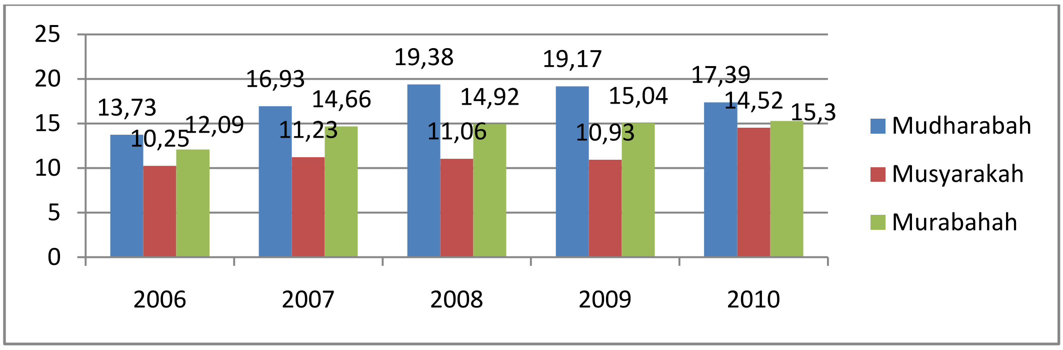
Graphic 6.2.1 DPK Growth and Islamic Bank Funding 2006 to 2010



Source: statistical report of Islamic banking in 2010

Such increase was the Islamic bank effort that had improved the DPK profit sharing margin for murabahah product from 16.93% in 2007 to 19.38 in 2008, as an effort to escape from the liquidity caused by global financial crisis and to maintain the depositor loyalty.

Graphic 6.2.2 Margin Level of Islamic Bank Funding from 2006 to 2010 (Percent)



Source: statistical report of Islamic banking in December 2011

With the magnitude of profit sharing level that was given from Islamic bank, proven able to absorb public fund as the funding source of the Islamic bank.

It can be seen from 2006 to 2010, a public fund which had been absorbed by Islamic bank was a deposit, as the highest order, followed by saving and giro. Which means that society was attracted by the high-profit sharing system in the Islamic bank, so in addition to security factor, high level of profit sharing was able to help Islamic bank to absorb DPK.

Table 6.2.1 Deposit Funds of Islamic Bank from 2006 to 2010 (Billion Rupiah)

Islamic Bank (BUS) and Islamic Business Unit (UUS)						
		2006	2007	2008	2009	2010
Deposit Funds	Giro	3,416	3,750	4,238	6,202	9,056
	Saving	6,430	9,454	12,471	16,475	22,908
	Deposit	10,826	14,807	20,143	29,595	44,072
	Total	**20,672**	**28,012**	**36,852**	**52,271**	**76,036**

Source: statistical report of Islamic banking in 2011

The magnitude of profit sharing level as an effort to maintain Islamic bank liquidity even though it was not as high with conventional bank's interest. This step could minimize the DPK issuing and turning back to the conventional bank.

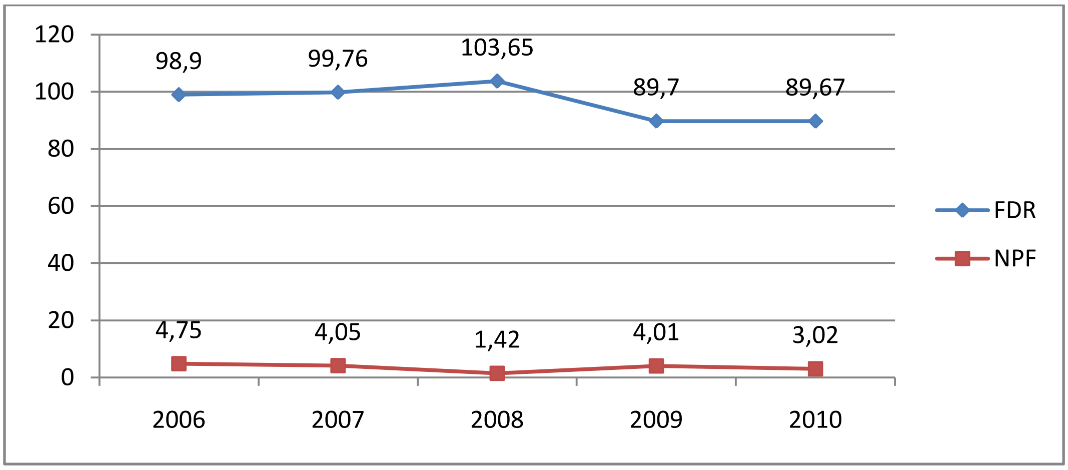
Table 6.2.2 the Reward Level of Profit sharing/Fee/Giro Bonus/ Islamic bank Saving and Deposit and the Interest Level of Conventional Bank

Type		2005		2006		2007		2008	
		BS	**BK**	**BS**	**BK**	**BS**	**BK**	**BS**	**BK**
Giro		1.16	-	1.27	-	1.07	-	1.18	2.90
Saving		3,96	4,85	3,72	4,38	3,32	3,48	3,61	3,33
Deposit	1 month	7,86	11,98	8,96	8,96	7,63	7,19	8,22	10,75
	3 months	8,03	11,73	9,81	9,71	7,93	7,42	9,10	11,16
	6 months	8,82	10,17	9,57	10,7	8,25	7,65	8,36	10,34
	12 months	9,35	10,95	9,99	11,63	8,34	8,24	8,34	10,43

Source: Indonesian Bank (BI) in 2009

Because of the growth of funding total that was not supported with significant DPK growth caused FDR reaching to 103,65%. Moreover, the magnitude of FDR ratio also could be interpreted to the profit expectation of Islamic bank bigger than the funding product. Compared with the crisis happened in 1997 to 1998, only one Islamic bank at that time had been found, that was Muamalat Bank, reaching FDR ratio with the total of 107,15%, however NPF ratio also reached more than 60%. The different case happened to an Islamic bank in the 2008 global financial crisis, where the improvement of funding, the quality of bank funding from portfolio funding in 2008 also increased. That increase could be seen from the percentage decline of non-performing finance (NPF) in Islamic Banking from 4.05% in 2007 to 1.42% in 2008.

Graphic 6.2.3 the Quality Growth of Islamic Bank Funding from 2006 to 2010 (percent)



Source: statistical report of Islamic banking in 2010

Generally, the financial crisis led to the decrease of the funding return level. However, it was not the same with the Islamic banking, the funding performance could be seen from FDR and NPF ratio that relatively was not affected by the happening global financial crisis. Which means, the ability of entrepreneurs to oblige in Islamic bank relatively not problematic.

In the 2008 global financial crisis also led to the decline of an export rate in Indonesia. Indonesia as one of Asian countries that did not depend on developed country such as America, Europe, Japan, but still the biggest portion of Asian export aimed to US with the total of 63% (Sihono, 2009). The magnitude of Indonesian export rate to America was 12.5% after Japan. In January to August 2008, Indonesian export rate besides oil reached to 73,54 billion US dollar, 8,5 billion dollars or 11,54% obtained by US. However after the financial crisis that happened to US gave an impact to Indonesian export rate to America. From many kinds of exported industrial products to US, the ten biggest export rate had been declined. The biggest decline was rubber in 48%, chemicals in 32%, followed by steel, machine and automotive in 30%, and lastly food and beverage in 29%.

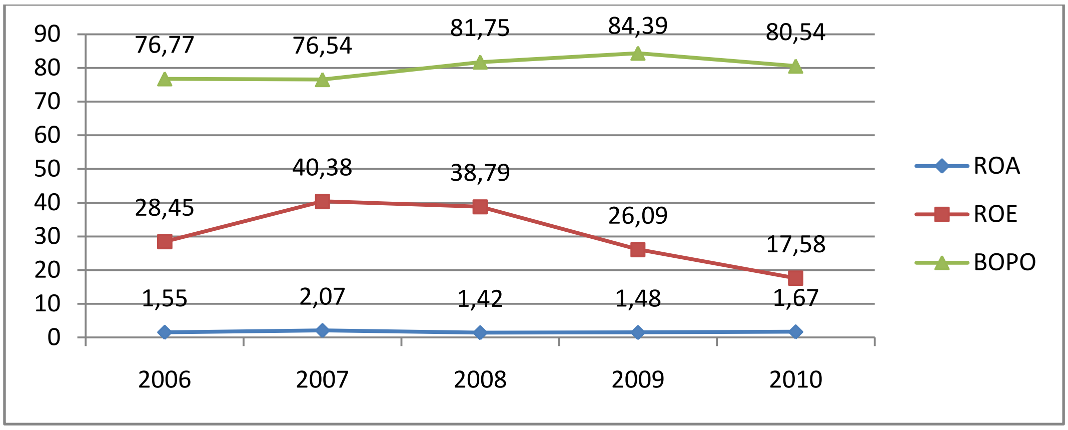
Table 6.2.3 Export Rate of Indonesian non-oil products to US (in USD)

Number	Industrial Products	2008	2009
1	Textiles	3.796.091.942	3.479.813.510
2	Rubber	2.004.467.508	1.035.554.826
3	Electronic	887.062.790	1.211.149.986
4	Food and Beverage	787.837.932	562.396.564
5	Leather , Leather goods and Shoes	459.434.010	452.560.405
6	Woods Making	692.505.133	585.852.323
7	Steel , Machine dan Automotive	576.768.110	401.568.196
8	Power Tool	277.998.278	223.843.765
9	chemicals	306.149.254	207.279.763
10	Pen and paper	285.515.628	270.285.814

Source: industrial statistic from the Ministry of Industry of Republic Indonesia 2008 to 2009

With the decline of such export rate, affected to national export companies' income which engaged in the fulfillment of exported goods. The impact caused the decrease of optimality of banking industry funding. That matter could be viewed from the percentage decline of return on assets (ROA) and return on equity (ROE) in 2008. ROA industry of Islamic bank reached only 1,42% and ROE with the total of 38,79% compared to 20027 where ROA reached 2.07% and ROE AT 40,38%. This caused to the profitability difficult towards Islamic bank and led to the performance decrease that could be seen from operational funding ratio towards operational income (BOPO), which increase in 2008 at 81,75% from 76.54% in 2007. But this number still placed below compared to a conventional bank that reached 88.9% in 2008. Among another causes the increase of Islamic bank BOPO rate was the magnitude of Islamic bank operational fund that held the expansion of office network so need bigger investment (BI,2008).

Graphic 6.2.4 Islamic Bank Profitability Growth from 2006 to 2010



Source: statistical report of Islamic banking in 2010

From the internal side, Islamic bank had also anticipated the liquidity risk by seeking the increase of capital from stakeholder. Principally, all Islamic banks had fulfilled minimum capital with the total of Rp 80 billion. Moreover, at December 2008, the minimum capital mean for each bank reached to Rp 200 billion, a target aim of more than double from the requirement of bank minimum capital at sum of Rp 100 billion that must be fulfilled in 2010 (BI, 2008).

7. Conclusion

Asian financial crisis in 1997 and 1998 and global financial crisis in 2008 affected the indicators of Indonesian macro economy, such as exchange rate, interest, and the activity of the domestic real economy. Both crisis periods also affected to Islamic bank industry. Asian financial crisis from 1997 to 1998 impacted to the funding growth that was not balanced by DPK and NPF growth reaching high ratio so that the level of funding stability worse, moreover with the decrease of ROA and ROE in the very low rate led to the liquidity harmful. The different matter happened in the time of global financial crisis in 2008, the magnitude of funding growth towards Islamic bank in that time followed by the stability level of funding that still be kept properly. Although in 2008 DPK suffered from deceleration, but still at the relatively high rate. Also ROA and ROE level underwent the percentage decline, but still at the safe level.

From the differences of Islamic bank cases in both financial crises above, could be explained that exchange rate and interest changing gave an impact to Islamic banking, with the funding growth of Islamic bank in two happened crises. Islamic bank which applied margin system did not undergo the changes every time as like the fluctuation of interest rate. Another proof, the financial crisis did not impact to customer ability to oblige in an Islamic bank, with the decline of Islamic bank NPF in the 2008 financial crisis. It was different with Islamic bank NPF in the financial crisis of 1997 and 1998. The higher NPF was caused by crisis the real activity of domestic economy because of a financial crisis that evoked to political and social instability, resulted to trusted crisis of public and investor towards banking world. In the other words, the financial crisis gave an impact to Islamic bank industry if that crisis had a great effect to the real sector.

8. Recommendation

Deriving lessons from Islamic bank case in the financial crisis in 1997 and 1998 and global financial crisis in 2008, several steps that have to be taken by Islamic bank industry are:

1. Keeping up an effort to improve public's understanding and liking to use Islamic banking product so that Indonesian society who are majority Muslim are not only using Islamic bank, more than that loving with the Islamic bank. Thus, the motto of Islamic bank can be achieved (beyond banking). In addition, the stability of Islamic bank will be formed and participated to support the stability system of national finance significantly.
2. Improving the exploration ability and supervising in real economic sectors in both domestic and national, so it can predict economic direction as a consideration for funding policy and the collection of funds in the right target.
3. The financial crisis in an Islamic context is the emerging disaster because of gharar practice, maisir, and riba that prohibited. The more far Islamic bank from those practices, the nearer Islamic bank from its target.

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