Landscape and Strategy for Improving Mortgage Distribution Performance

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After the education and health sectors, housing is a sector closely tied to the development of quality human resources. Studies have shown that access to decent housing can lead to increased productivity (Maclennan & Long, 2021) and improved mental health (Pevalin et al., 2017). Alongside the growth of a new middle class, access to decent housing will become one of the key determinants of economic development success.

Owning a decent home through a mortgage (KPR) scheme is a common practice, but in Indonesia, only 31.9% of families use this scheme, while the remainder pay in cash or use non-mortgage schemes (BPS, 2019). This indicates that mortgages are either a costly financial product or that banking intermediation has not reached all levels of society.

From the onset of the Covid-19 pandemic until the end of 2022, mortgage distribution has continued to grow positively, albeit with some slowdown. Mortgages grew by 7.82% (yoy) in December 2022, compared to 7.86% in November. The slowdown is likely to continue in line with the increase in Bank Indonesia's 7-day Reverse Repo Rate (BI7DRRR) to curb core inflation to 3%. Throughout 2022, BI raised the BI7DRRR by 200 basis points, and core inflation decreased to 3.09% in February 2023. Based on observations of various macroeconomic indicators, it is possible that the BI7DRRR will rise by another 125 basis points throughout 2023.

Mortgage growth plays a crucial role in sustaining economic growth. Internal studies from PT SMF show that the housing sector in Indonesia has a multiplier effect on 167 other sectors. Despite its critical role, the mortgage-to-GDP ratio in Indonesia in 2022 was only 2.99%. Compared to Malaysia at 38.48%, Thailand at 27.61%, and India at 6.58%, it is clear that Indonesia's mortgage distribution performance is significantly lagging.

In addition to the BI7DRRR increase, mortgage distribution is dominated by state-owned banks. As of November 2022, state-owned banks controlled 56.9% of the market, followed by national private banks with 38.1%, and the remainder divided among regional development banks (BPD), rural banks (BPR), and foreign private banks. To boost the mortgage-to-GDP ratio, strengthening the role of BPDs and BPRs in distributing mortgages, especially to serve the informal worker segment, is critical.

The government can take six steps to improve mortgage distribution performance. First, develop an integrated data system for credit scoring, with all financial institutions required to provide the necessary data. This database will streamline the know-your-customer (KYC) process and extend financial services to informal workers considered "unbankable." Second, require banks to allocate credit to priority sectors, including housing, separate from infrastructure. Third, create a regulatory framework that protects and disciplines all stakeholders in the housing sector: developers, credit distributors, mortgage consumers, and real estate agents. Fourth, mandate that fixed interest rates should not be lower than floating rates, providing certainty for consumers regarding mortgage interest costs. Fifth, foster healthy competition within the banking industry to reduce mortgage interest rates and broaden mortgage distribution. Finally, minimize maturity mismatches and promote asset recycling through mortgage securitization.