

Member Reports

Indonesian

2010 Asia Securities Forum
September 28-29, 2010
Beijing, China





I. Economic Performance, Trends and Projections

1. Overview

Indonesia economy in 2010 is projected to grow at 6.0% or higher than the previously projected at 5.0% - 5.5%.

Entering 2010, Indonesia economy continued to show strong sign of recovery. In the first quarter, the economic growth reached 5.7% (y-o-y), higher than the initially projected 4.8%. In the second quarter, the economic growth reached 6.2% (y-o-y). The growth was mainly contributed by the improvement in export and private consumption. At the same time, the funds inflows to emerging markets, including Indonesia, resulted in the appreciation of the Rupiah exchange rate and also contributed to the low inflation rate.

The balance of payment was also solid. Current transactions up to the first quarter 2010 experienced a surplus of USD 1.8 billion due to the increase in export, especially export related to natural resources-based commodities. Capital and financial transactions also recorded surplus, in line with the capital inflows and the issuance of foreign currency Government bond.

The risk indicator as demonstrated by Credit Default Swap (CDS) was at the lowest level. Reserve at the end of the first quarter 2010 reached USD 71.8 billion or equal to 5.8 months import and Government foreign debt repayment.

The flow of funds to emerging markets, including Indonesia, resulted in the appreciation of Indonesia Rupiah. The Rupiah exchange rate strengthened 3.7% to 9,090 against USD at the end of the first quarter 2010, compared to 9,425 against USD at the end of 2009. It further strengthened to 8,938 against USD at the end of July 2010.

Up to July 2010, the Central Bank of Indonesia still maintained the Central Bank (BI) rate at 6.50%. The BI rate level was seen to be appropriate to allow the climate necessary for the economy recovery process, to achieve target inflation of 5+/-1% in 2010 and 2011. Inflation in July 2010 has reached 6.22% y-o-y, higher than that projected by the Government. The increase in inflation in July 2010 was due to the increase of food prices entering the Ramadhan holy month and the Government plan to increase electricity basic price.

The Government set 2010 Budget as follows: Revenue and Grant IDR 992.4 trillion and Expenditure IDR 1,126.1 trillion, resulting in Budget Deficit of IDR 133.7 trillion or equivalent to 2.1% of GDP. Up to July 2010, the Government debt reached USD 181.59 billion or IDR 1,625.63 trillion or equivalent to 26% of GDP.

Government Debt Position

	2007	2008	2009	July 2010
Debt (USD billion)	62.25	66.69	65.02	65.22
Bi-lateral	41.03	44.28	41.27	40.77
Multi-lateral	19.05	20.34	21.53	21.41
Commercial	2.08	1.98	2.15	2.98
Suppliers	0.08	0.09	0.07	0.06
Government Securities (USD billion)	85.26	82.78	104.20	116.37
Total Central Government Debt (USD billion)	147.51	149.47	169.22	181.59
Total Government Debt – IDR equivalent (IDR trillion)	1,389.41	1,636.74	1,590.66	1,625.63
GDP (IDR trillion)	3,949.32	4,954.03	5,613.44	6,253.79
Debt to GDP Ratio	35%	33%	28%	26%

Source: Ditjen Pengelolaan Utang

Indonesia economic recovery was also marked by the increase in the IDX Composite Price Index. As a result of global economic and financial crisis, at the end of 2008, the IDX Composite Index was dropped to 1,355.41. At the end of 2009, the IDX Composite Index bounced back to 2,534.36. On 21 July 2010, the IDX Composite Index has reached 3,013.40, a new record high in Indonesia capital markets history.

Other economic indicators are as follows:

Indicator	2007	2008	2009	1Q-2010
Population – Million	224.0	229.03	231.83	237.6
GDP based on current price - IDR trillion	3,949.32	4,954.03	5,613.44	6,253.79*
GDP Growth Rate-% (y-o-y)	6.3	6.0	4.5	5.7
Export – USD million	114,100.9	137,020.4	116,510.0	12,774.4
Import - USD million	74,473.4	129,197.3	96,829.2	10,972.6
Surplus - USD million	39,627.5	7,823.1	19,680.8	1,801.7
Exchange Rate (IDR/USD) – end of period	9,419	10,950	9,425	9,090
Foreign Exchange Reserve - USD million	56,920	51,639	66,105	71,823
Unemployment Rate - %	11.1	8.39	7.87	7.41

*July 2010. Source: BPS, BI, Ditjen Pengelolaan Utang

2. Saving and Investment

Indonesia banking conditions showed improvement in 2009 compared to the previous year. The banking industry has proven to be capable of managing the risks it faces, be it credit risk, liquidity risk or market risk. The profitability also improved, as marked by the increase in operating profit and non-operating profit in 2009 compared to 2008, and continued into early 2010. Bank capital was still very adequate to face future potential risk due to CAR was at the level much higher than the required level of minimum 8%.

Credit channeling experienced decrease in 2009 and early 2010 compared to 2008. Risk consideration and the slowing down of the real sector were still the considering factors for banks to channel funds to the real sector. As a result, the Indonesian banking was having excess liquidity reaching IDR 472 trillion. Out of third party funds of IDR 1,931.6 trillion, only IDR 1,459.7 trillion was channeled as banking credit. Non Performing Loan (NPL) was still at safe level, which was below 5%, even though it increased slightly in early 2010.



Indonesia Banking Indicators

Year	2008	2009	February 2010
Fund – IDR Trillion	1,939.20	2,144.10	
Loan Obligation	12.90	21.60	
Issued Securities	14.30	14.90	
Third Party Fund	1,753.30	1,973.00	1,931.6
Money Market Borrowing	158.60	134.50	
Loan-able Fund - IDR Trillion	1,824.30	2,042.55	
BI Certificate	166.50	212.10	
Other Securities	83.70	88.10	
Money Market Lending	213.80	261.50	
Equity Participation	6.60	10.00	
Credits	1,353.60	1,470.80	1,459.7
Asset - IDR Trillion	2,310.60	2,534.10	
Capital - IDR Trillion	219.20	349.60	
Performance			
NPL Ratio to Credits (%)	3.80	3.80	4.2
Profit (Operational) - IDR Trillion	29.90	39.90	
Profit (Non Operational) - IDR Trillion	18.20	21.90	
Net Interest Margin – IDR Trillion	10.80	11.90	
LDR (%)	77.2	74.5	75.6
CAR (%)	16.2	17.4	19.3
Interest Rate (%)			
BI Rate	9.25	6.50	6.50
SBI 1-mth	10.83	6.46	6.27
PUAB (overnight)	9.40	6.28	6.17
Deposit 1-mth (weighted average)	10.75	6.87	6.93
Working Capital Credit	15.22	13.69	13.68
Investment Credit	14.40	12.96	13.21
Number of Banks	124	121	121

Source: BI

As part of the efforts to improve monetary operations that has been in place since the implementation of inflation targeting framework (ITF) in 2005, effective March 2010, the Central Bank also lengthened the due dates of the Central Bank Securities (SBI) to increase the effectiveness of the Rupiah excess liquidity control in the money market. The policy was done through the reduction of auction frequency and step by step reduction of the issuance of 1-mth SBI to 3-mth and 6-mth SBI. The Central Bank policy with regards to the SBI reduced the Rupiah speculation. As a result, the Rupiah is expected to be at the range of IDR 9,035 – IDR 9,095 against the USD.

In January 2010, Fitch Ratings increased Indonesia credit rating from BB* to BB+ which represents the highest rating for non-investment grade. Meanwhile, in March 2010, Standard & Poor's also improved Indonesia rating from BB-*** to BB, and in June 2010 Moody's Investor Service increased the rating from Ba2 to Ba2***. Recently, in July 2010, Japan Credit Rating Agency increased Indonesia credit rating from BB+ to investment grade BBB-.

In the first quarter 2010, Direct Investment, both foreign and domestic, recorded at IDR 42.1 trillion for 574 projects. Domestic Direct Investment reached investment value of IDR 6.7 trillion for 150 projects and Foreign Direct Investment reached IDR 35.4 trillion or equivalent to USD 3.8 billion for 424 projects.

Direct Investment realization of IDR 42.1 trillion in the first quarter of 2010 represents increase of 24.56% compared to direct investment realization for the same period in 2009 which reached IDR 33.8 trillion. Projects that attracted Domestic Direct Investment among others were



transportation, warehousing and communication, trade and reparations, electricity, gas and water and other services, metal machinery and electronics industry. Projects that attracted Foreign Direct Investment among others were transportation, warehousing and communications, mining, electricity, gas and water, housing, industrial zone and office building and motorcycle industry and other transportation devices.

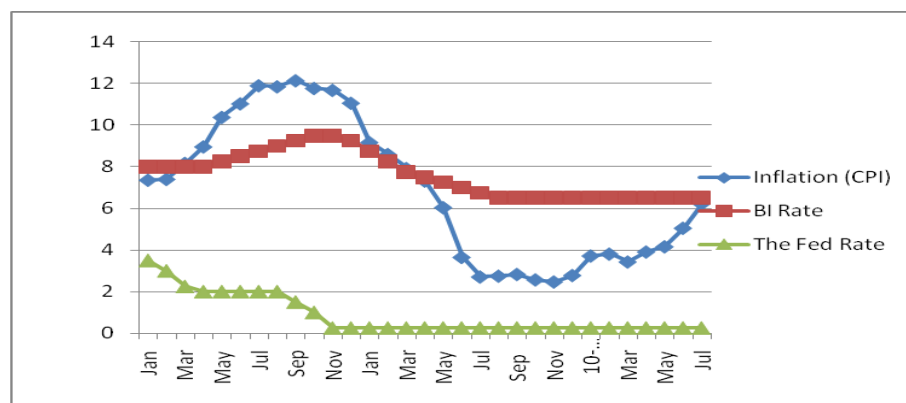
3. Trends in Inflation and Interest Rate

Throughout 2009, the inflation rate has been declining steadily. The inflation in January was still at the level of 9.17% (y-o-y), then it decreased to 2.47% (y-o-y) in November, and experienced increase again at the end of 2009 to 2.78% (y-o-y).

Entering 2010, the inflation rate continued to increase to 4.16% (y-o-y) in May, and to 6.22% in July 2010.

Up to July 2010, the Central Bank of Indonesia (BI) still maintained BI rate at 6.5% level, which was the highest interest rate among the countries in the Asia region. The rate, however, was still unable to influence the credit interest rate for working capital and investment which stood at 13.68% and 13.21%, respectively. Rate for 1-month deposit was around 6.93% and Government Bond (SUN) coupon was in the range of 13.15% -15.575%.

Inflation Rate, BI Rate and the Fed Rate 2008, 2009 and 2010



Note: since 16 December 2008 the Fed Rate range 0% -0.25%

II. Capital Market Performance

Stock Market

Another indicator of the Indonesia economic recovery was the improvement in the capital market performance. While at the beginning of 2009, the IDX Composite Index was at 1,332.67, at the end of 2009, the Composite Index was closed at 2,534.36. In 2009, the average stock transactions per day reached IDR 4,046 billion and the market capitalization at the end of the year reached IDR 2,019,375 billion or increased compared to market capitalization at the end of 2008 of IDR 1,076,491 billion.



Association of Indonesian securities companies

Entering 2010, the Composite Index increased to 2,610.79 and at the end of June the Composite Index was already at 2,913.68 with average stock market transactions per day of IDR 4,291 billion and the market capitalization reached IDR 2,400,976 billion.

Stock Market	2008	2009	June 2010
Total Trading Value (IDR billion)	1,064,528	975,135	527,813
Average Trading Value per day (IDR billion)	4,436	4,046	4,291
Composite Index			
High	2,830.26	2,534.36	2,955.73
Low	1,111.39	1,256.11	2,475.57
Close	1,355.41	2,534.36	2,913.68
Listed Issuers	396	398	402
Market Capitalization (IDR billion)	1,076,491	2,019,375	2,400,976

On 21 July 2010, the Composite Index was at 3,013.40, reaching a record high of above 3,000. The positive performance of the Indonesian capital market was also caused by the introduction of online trading and Direct Market Access (DMA) facilities. Out of 120 members of the Indonesia Stock Exchange, 33 members are now using online trading facility and 7 members are using DMA facility. In the meantime, 14 members are in the queue for the technical testing for online trading and 3 members for DMA. The introduction of online trading system has no doubt brought positive impact for the investing community in Indonesia in terms of trading access. The facility also encouraged securities companies to open branches in areas to reach investors. However, the online trading has also brought along a negative excess, i.e. the worsening of the fee war among securities companies.

As shown in the financial statements of 322 Issuers, the net profit of Issuers in the first semester of 2010 in aggregate increased by 36.94% from IDR 39.36 trillion to IDR 53.90 trillion. However, there were 122 Issuers whose profit experienced decrease. Issuers who performed well were the natural resources- and agriculture-based Issuers, especially with export, consumer product, banking and automotive orientation.

Per March 2010 financial statements, the Average PER was 12.24/Weighted Average PER was 11.65 and Average PBV was 2.20/Weighted Average was PBV 2.02.

Throughout the first semester 2010, 5 companies listed their shares on the Indonesia Stock Exchange. Twelve more companies are expected to list their shares in the second semester of 2010. The 12 companies have not taken into account the state-owned enterprises. IDX targeted 25 companies list their shares on the Exchange in 2010.

Total funds raised from IPO in the first semester 2010 reached IDR 2.86 trillion or increased 1,806% from IPO in the first semester 2009 which was only reached IDR 150.75 billion. Total funds raised by Issuers through IPO and Right Issues in the first semester 2010 reached IDR 18.93 trillion or increased 352% compared to IPO and Right Issues in the first semester 2009 which reached only IDR 4.18 trillion.

Financial Ratios – Financial Statements - March 2010

Industry Groups	PER (X)	PBV (X)	DER (X)	Annualized			
				ROA (X)	ROE (X)	NPM (X)	OPM (X)
Agriculture	18.60	1.88	-1.59	3.9	89.7	28.6	36.4
Mining	11.33	2.51	1.12	6.6	13.7	-0.3	30.1
Basic Industry and Chemicals	6.77	1.28	1.23	8.2	12.3	-25.6	-37.1
Miscellaneous Industry	4.02	1.32	2.84	71.9	8.9	5.4	-3.3



Consumer Goods Industry	14.69	3.60	1.18	14.3	26.2	31.8	40.6
Property, Real Estate & Building Construction	20.56	1.36	1.10	2.9	7.4	-23.2	19.2
Infrastructure, Utilities & Transportation	16.29	2.82	1.52	2.5	7.3	-7.8	2.5
Finance	17.44	2.76	5.09	4.6	14.0	428.1	56.5
Trade, Services & Investment	8.40	2.60	1.72	4.4	1.9	47.0	17.8

Source: IDX

Bond Market

The conventional corporate bond, syariah bond, corporate sukuk and ETF outstanding value as at the end of 2008 was IDR 73 trillion, with total transactions amounting to IDR 53 trillion. In June 2010 the outstanding value increased to IDR 93 trillion, with total transactions amounting to IDR 43 trillion.

Corporate Bond, Syariah Bond, Corporate Sukuk & ETF via CTP-PLTE up to June 2010

Period	2008	2009	2010
Issuers	178	183	185
Outstanding Value (IDR billion)	73,010	88,897	93,476
Outstanding Value (USD million)	100	-	-
Trading Value which were reported to IDX (IDR billion)	53,181	38,861	43,394
Trading Value which were reported to IDX (USD million)	18	-	-
Average Trading Value (IDR billion)	217	160	353
Average Trading Value (USD million)	0.0735	-	-

Source: Bapepam-LK, BEI

Government Securities that was outstanding in 2008 amounting to IDR 34 trillion and the transactions value reached IDR 51 trillion. In June 2010, the outstanding Government Securities reached IDR 621 trillion and the transaction value reached IDR 746 trillion.

Government Securities via CTP-PLTE up to June 2010

	2008	2009	2010
Outstanding Value (IDR billion)	34,633	581,748	621,226
Trading Value which reported to IDX (IDR billion)	51,511	799,894	746,386
Average Trading Value per day (IDR billion)	210	3,305	6,068

Note: Data includes Government Bond, ORI, SPN, SBSN and Retail Sukuk

In 2010, IDX target to list 34 new bonds. In the first semester 2010, 15 bonds, conventional and sukuk, totaling IDR 12.9 trillion were listed. In the second semester 2010, a number of companies in the financial services industry will list their bonds with total value of IDR 24.45 trillion. Half of the companies are already in the registration process with Bapepam-LK and IDX.

Foreign investors continued to show interest in the Government Bond, as indicated in the following table:

Foreign Ownership in SUN (IDR trillion) 2010

Date	30/4	3/5	14/6	15/6	18/6
Foreign Ownership	148.13	147.67	148.13	149.32	151.68
Outstanding SUN	603.28	603.28	614.03	614.03	614.5
Foreign Ownership (%)	24.55	24.53	24.12	24.31	24.68

Source: Ditjen Pengelolaan Utang, Kementerian Keuangan RI



Mutual Fund

The mutual fund also experienced significant development. While in 2008 the NAV was at the level IDR 74 trillion with 567 mutual funds, in April 2010, the NAV has reached IDR 122 trillion with 614 mutual funds.

Mutual Fund up to April 2010

	2007	2008	2009	2010
Total Mutual Funds	473	567	610	614
Total Investors	325,224	352,429	357,192	351,465
NAV (IDR billion)	92,190.6	74,065.8	112,983.3	121,628.2
No. of Investment Manager	95	94	99	99

Source: Bapepam-LK

Net Asset Value of Mutual Fund up to April 2010 – IDR Billion

Stock	Money Market	Mixed	Fixed Income	Protect-ed	Index	ETF Stock	ETF Fixed Income	Syari-ah	Total
38,229	7,678	15,442	20,548	35,279	208	40	415	3,789	121,628

Source: Bapepam-LK

Throughout the first semester 2010, stock mutual fund has given return of 7.21%, higher than other mutual funds. Mixed mutual fund has return of 4.79% and fixed income mutual fund has return of 5.81%.

III. Regulatory Developments and Prospect for the Securities Industry

Regulatory Developments

a. Establishment of Financial Services Authority

The establishment of Financial Services Authority is targeted to be completed by the end of 2010, as directed by the Law on Central Bank. This Authority will oversee the supervision of banking, capital market, and other non-bank industries. Currently, the banking supervision was under the Central Bank and the capital markets and non-bank financial institutions supervision are under Bapepam-LK. While the Ministry of Finance seems to be fully committed to the establishment of the Authority, it still sees some challenges from the Central Bank.

b. Convergence of PSAK to IFRS

Bapepam-LK has also been driving for the convergence of the Indonesia Statement of Financial Accounting Standard (PSAK) to IFRS.

c. Continuous Settlement

In preparation for the Straight-Through-Processing (STP), the Indonesia Clearing and Guarantee Corporation (KPEI) has signed intraday facility with three main banks. The intraday facility allows continuous settlement, versus the current twice a day settlement.



d. Single Investor ID and Straight Through Processing

Bapepam-LK, together with the SROs (IDX, KPEI, KSEI) are currently working on projects introducing Single Investor ID and Straight Through Processing.

e. Change in Rule regarding Adjusted Net Working Capital

In an effort to improve the quality of Adjusted Net Working Capital, Bapepam-LK has introduced ranking liabilities, which are off balance sheet, as an addition to the liabilities. Various haircuts on portfolios are also applied, versus the current 10% haircut across all portfolios. The required minimum ANWC is also increased from minimum IDR 25 billion to minimum IDR 25 billion or 6.25% of total liabilities (including ranking liabilities), whichever is higher. The revised rule has yet to be issued, with certain transition period for implementation

f. AKSes for Securities Monitoring by Investor

The Indonesia Central Securities Depository has launched a facility whereby investors can monitor the securities movements and position in the securities sub-account maintained with securities companies. The facility can be accessed electronically via AKSes card. The facility is to be enhanced to include also funds movements and position monitoring.

g. Investor Protection Fund

In addition to the Guarantee Fund, to further protect the investing public, the Regulators are planning to introduce Investor Protection Fund. Similar to Guarantee Fund, securities companies are expected to contribute to the IPF.

h. Issuance of SPEI

The IDX is in the process of preparing rules for the listing of Indonesia Depository Receipt (SPEI), with underlying offshore securities. Currently, there are 2 issuers who have shown interest to list their shares in SPEI.

i. Brokerage and Underwriting Fees

For the past few years, the fee war has been a serious issue for securities firms in Indonesia. The introduction of online trading with very minimum fee has worsened the fee war. The Association is trying to find a solution to the situation. Bapepam-LK is supportive of the initiative and willing to pass regulation, if necessary, to normalize the situation, for a healthy industry.

Prospect for Securities Industry

The political situation in Indonesia is relatively stable. We expect President Susilo Bambang Yudhoyono to finish his second 5-year terms in 2014 without significant challenges.

The Indonesia economic growth is expected to reach around 6% in 2010. The economy growth is expected to accelerate and reach 6.5% - 7.5% (y-o-y) in 2014.

In the securities industry, the IDX Composite Index performance and the increase of 36.94% in aggregate net profit of issuers in the first semester 2010 indicate that the Indonesia capital markets are still an attractive venue for investment.

The implementation of online trading and DMA facilities is expected to increase trading value and fasten the growth of domestic investors significantly.



Association of Indonesian securities companies

The introduction of continuous settlement, Single Investor ID and Straight-Through-Processing will also enhance trading and settlement efficiency of the capital market activities.

The Regulator's focus on client asset protection will continue to strengthen the confidence of the general investing public. ***