

Country Report

Indonesia 2009



I. Economic Performance, Trends and Projections

1. Overview

Indonesia economy in 2008 was colored by a very dynamic development. The economy was full of challenges due to drastic change in the world economy. Even though the economy grew in the 3rd Quarter 2008, but it slowed down in the 4th Quarter 2008, in line with the slowing down of the world economy. The slowing down in growth occurred in all aggregate demand components, especially export, which declined sharply due to decline in the commodity prices and worsening of the trade partner countries economy.

Despite of the slowing down in the 4th Quarter 2008, as a whole, the economic growth in Indonesia still reached 6.1%, almost the same as the economic growth in the previous year, which reached 6.3%.

In addition to the pressure in the Indonesia Balance of Payment caused by decline in export as a result of decline in commodity prices and decline in trade partner countries economy activities, the increase in global risk triggered heavy selling-off of foreign investment portfolio in the domestic financial markets. Such situation caused the Indonesian Rupiah currency depressed to 12,150 against the US Dollar in November 2008, with increased volatility reaching 4.6%. In average, the Rupiah currency depreciated by 16.25% from Rp9,419 in 2007 to Rp10,950 in 2008.

At the same time, the increase in world oil and food commodity prices also affected the level of inflation in Indonesia, which reached 11.06% in 2008.

In respond to the potential increase in macro economy instability in connection with the increase in oil prices and global economy crisis, the Government of the Republic of Indonesia and the Central Bank of Indonesia undertook several macro economic stabilization steps. The step, among others, was: the Central Bank of Indonesia kept the Central Bank Rate at 8% level up to end of the 1st Quarter 2008, then periodically increased it up to 9.5% in October 2008.

In October 2008, the Central Bank issued Foreign Currency Stabilization Policy Package, with the purpose of managing the foreign currency supply. The Policy includes Foreign Exchange Swap, Foreign Currency Minimum Account, etc. At the same time, the Government issued regulations related to Financial System Safety Net (In Indonesian: JPSK), increased the level of guaranteed customer deposit to Rp2 billion, managed certain commodities import, reduced CPO Export Tax, obliged State-Owned Enterprises to place their foreign currency in the domestic banks, bought back State-Owned Enterprises'

shares and Government Bond (SUN) to avoid sharp price decline on the Exchange, and temporarily prohibited securities short-selling, etc.

Entering 2009, in addition to the still felt impact from the world economy crisis, other factor that influenced the national economy was the General Elections which was participated by 44 parties in 2 rounds: the Parliamentary Election on 9 April 2009 and the Presidential Election on 8 July 2009. According to the Central Statistics Bureau, the cumulative GDP in the 1st Semester 2009 reached 4.2%. In the 2nd Quarter 2009, the quarterly GDP rate marked positive 2.3%, and year-on-year, it reached 4.2%, or exceeding original expectation of 3.7%. This shows that Indonesia was among the few countries with a positive GDP growth. In 2009, both the Government and the business community projected Indonesia economy grow at 4.3%.

2. Saving and Investment

In the banking industry, up to May 2009, the total assets reached Rp2,309.8 trillion, slightly decrease compared to Rp2,310.6 trillion as at end of 2008. Meanwhile, on the funding side, the Third Party Fund absorbed by the banking industry up to end of May 2009 reached Rp1,783.6 trillion, increase compared to Rp1,753.3 trillion as at end of 2008. Total credit channeled up to May 2009 reached Rp1,339.2 trillion, decrease compared to Rp1,353.6 trillion as at end of 2008. Non-performing loan up to May 2009 reached Rp63.1 trillion, or 4.7% of total loan. Profit up to May 2009 reached Rp26.2 trillion. Loan to Deposit Ratio as calculated from channeled Credit against Loan-able Fund reached over 70% for the past three years.

Overall, the banking industry in Indonesia is portrayed as follows:

Year	2007	2008	2009 (up May-09)
Fund – IDR Trillion	1,680.20	1,939.20	1,949.20
Loan Obligation	14.30	12.90	10.40
Issued Securities	17.30	14.30	15.30
Third Party Fund	1,510.70	1,753.30	1,783.60
Money Market Borrowing	137.80	158.60	139.90
Loan-able Fund - IDR Trillion	1,480.10	1,824.30	1,848.64
BI Certificate	203.90	166.50	195.40
Other Securities	85.20	83.70	73.60
Money Market Lending	139.80	213.80	223.80
Equity Participation	5.60	6.60	6.90
Credits	1,045.70	1,353.60	1,339.20
Asset - IDR Trillion	1,986.50	2,310.60	2,309.80
Capital - IDR Trillion	193.70	219.20	319.40
Performance			
Non Performing Loan			
a. Amount - IDR Trillion	48.60	50.90	63.10
b. NPL Ratio to Credits - %	4.60	3.80	4.70
Profit (Loss)	49.86	48.10	26.20
Net Interest Margin	8.90	10.80	10.80
Loan to Deposit Ratio - %	70.65	74.20	72.44
Number of Banks	130	124	122

Although it experienced slow-down in the 2nd Semester 2008, the investment growth for overall 2008 still reached 12.6% year-on-year, increase compared to the previous year. The increase was mainly due to response on the increase in export commodity prices up to the first half 2008. Based on the components, the investment growth in 2008 was mainly due to non-property investment which grew 28.9% year-on-year, increased sharply compared to growth in 2007. Meanwhile, property investment recorded at 7.6% year-on-year, decrease compared to the previous year. The high investment growth realization during January to November 2008 was dominated by growth in the Foreign Investment, as opposed to the Domestic Investment which slowed down. The biggest share on Foreign Investment realization was absorbed by transportation and telecommunication sectors, while the Domestic Investment realization mostly was directed to processing industry.

Entering 2009, export and import experienced contraction at -19.1% and -24.1% respectively.

Economic Growth and Its Components in %

	2008				2009
	Q1	Q2	Q3	Q4	Q1
Household Consumption	5.67	5.52	5.33	4.84	5.84
Government Consumption	3.62	5.26	14.06	16.35	19.35
Investment	13.73	12.01	12.15	9.14	3.51
Export	13.64	12.36	10.63	1.82	-19.1
Import	17.99	16.11	10.97	-3.53	-24.1
Economy Growth	6.25	6.24	6.4	5.18	4.37

Direct Investment Realization: 2005 – February 28, 2009

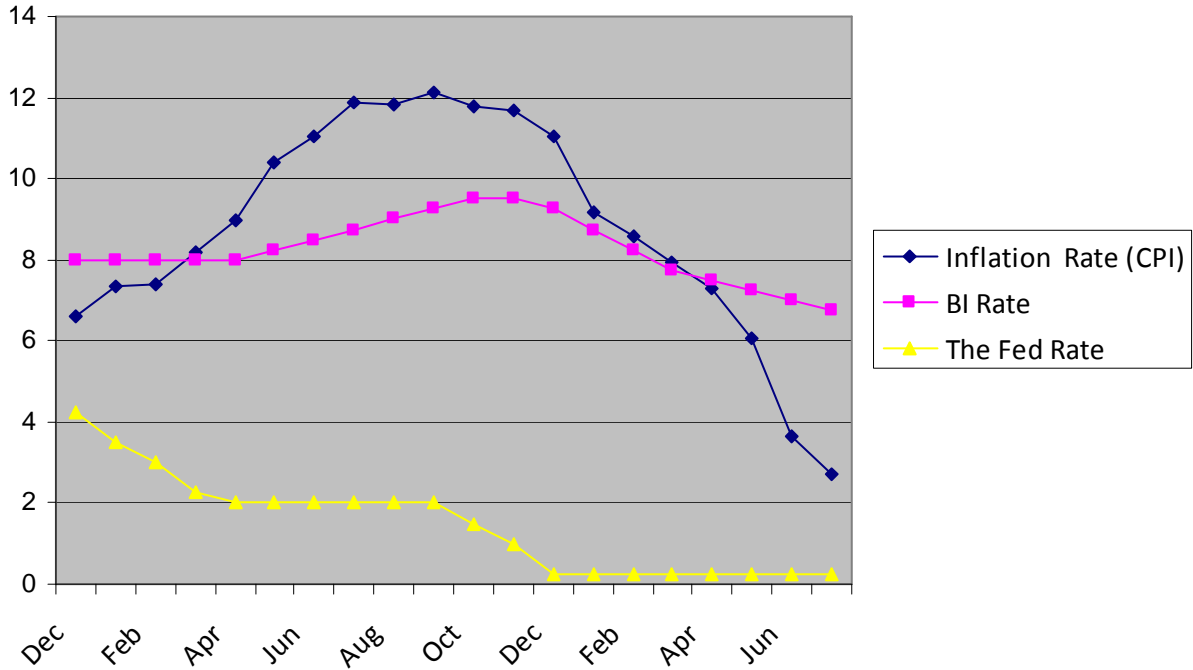
Year	Domestic Direct Investment		Foreign Direct Investment	
	Project	Value IDR Billion	Project	Value USD Million
2005	215	30,724.2	907	8,911.0
2006	162	20,649.0	869	5,991.7
2007	159	34,878.7	982	10,341.4
2008	239	20,363.4	1,138	14,871.4
2009	29	2,628.3	176	1,970.9

3. Trends in Inflation and Interest Rate

Entering 2009, the inflation rate continuously decreased from 11.06% year-on-year at the end of 2008 to 9.17% in January 2009 and 2.71% in July 2009. Within the Inflation Targeting Framework (ITF), the Central Bank of Indonesia, in an effort to reduce inflation, and at the same time to stimulate the decrease in the banking interest rate, to push investment climate in Indonesia, consistently has cut the interest rate, from 9.25% at the end of 2008 to 8.75% in January 2009 and 6.50% in August 2009.

However, in order to defend the fund at the safety net level, so that the interest cut did not result in heavy funds movement, the effort of the Central Bank has not been successful to reduce the credit interest rate, which still stood at 13% in August 2009.

Overall, the inflation and interest rates in Indonesia are shown as follows:



4. Other Economic Indicators

Indicator	2007	2008	June 2009
Population – Million	225.6	228.5	231.4
GDP Growth Rate - %	6.3	6.1	4.2
Export - USD Billion	118.01	139.29	50.02
Import - USD Billion	85.26	115.98	41.40
Surplus - USD Billion	32.75	23.31	8.62
Exchange Rate (IDR/USD)	9,419	10,950	10,225
Foreign Exchange Reserve – USD Billion	56.9	51.6	57.6
Unemployment Rate - %	11.10	9.11	n/a

II. Capital Market Performance, Trends and Projections

The Indonesian capital markets experienced heavy impact in 2008 due to world economy and financial crisis. The movement and relocation of capital from investors in a big and simultaneous way resulted in the decline in shares prices and composite index on the Indonesia Stock Exchange.

After reaching its peak at 2,830.26 early January 2008, the Indonesia Stock Exchange Composite Price Index (IHSG) continued to decline to 1,355.408 at the close of 2008, a decrease of 50.6% compared to 2,745.826 at the close of 2007. The IDX market capitalization shrank by 45.9% from Rp1,988.33 trillion at the end of 2007 to Rp1,076.49 trillion at the end of 2008. The Mutual Fund industry also suffered the impact. The Net Asset Value of the Mutual Fund industry declined 19.7% from Rp92.19 trillion in as at end of 2007 to Rp74.06 trillion as at end of 2008.

Entering 2009, the recovery of the Indonesia economy was marked by the IHSG performance and the increase in shares transaction value on the Indonesia Stock Exchange. The signs of the economic recovery started in April 2009, when the IHSG reached 1,722.766 or increased significantly compared to 1,332.667 in January 2009. The average trading value increased from Rp1.65 trillion in January 2009 to Rp3.97 trillion in April 2009. Up to August 2009, the average trading value on the Exchange has reached Rp4.07 trillion, matching the average trading value Rp4.27 trillion in 2007 and Rp4.44 trillion in 2008. The market capitalization also increased. While the market capitalization reached Rp1,988.33 trillion in 2007 and decreased to Rp1,076.49 trillion in 2008 (lower than Rp1,249.07 trillion in 2006!), it increased back to Rp1,847.63 trillion in August 2009.

Similar to the stock markets, the performance of bond markets, both corporate bonds and Government Bond improved. The outstanding corporate bonds in the market reached Rp79.06 trillion in 2007; it decreased to Rp73.01 trillion in 2008, and increased back to Rp79.59 trillion in August 2009. The outstanding Government Bond (SUN) in the market reached Rp477.75 trillion in 2007; it increased to Rp525.69 trillion in 2008, and increased further to Rp564.78 trillion in August 2009.

The Mutual Fund industry also experienced recovery and it even surpassed the previous years' performance. The NAV reached Rp92.19 trillion in 2007; while it decreased to Rp74.07 trillion in 2008, it reached Rp95.42 trillion in August 2009. This is the highest level in 4 years since the massive redemption in the Mutual Fund industry due to rule adjustment by the Regulator that obliged Investment Managers to compute NAV with marked-to-market method.

Overall, the picture of Indonesia capital markets is shown as follows:

Stock Market

	2007	2008	August 2009
Total Trading Value - IDR Billion	1,050,154	1,064,528	666,521
Average Trading Value/Day - IDR Billion	4,269	4,436	4,070
Composite Index			
High	2,810.962	2,830.263	2,399.276
Low	1,678.044	1,111.390	1,256.109
Close	2,745.826	1,355.408	2,341.537
Listed Issuers	383	396	401
Market Capitalization - IDR Billion	1,988,326	1,076,491	1,847,633

Stock Market	Dec-08	Jan-09	Apr-09	Aug-09
Average Trading Value/Day – IDR Trillion	1.84	1.65	3.97	4.07
Composite Index	1,355.41	1,332.67	1,722.77	2,341.54
Market Capitalization – IDR Trillion	1,076.49	1,071.53	1,370.39	1,847.63

Stock Market	2007	2008	August 2009
Total Trading Value - IDR Trillion	1,050.2	1,064.5	666.5
Average Trading Value/Day - IDR Trillion	4.27	4.44	4.07
Total Trading Value [Buy + Sell] – IDR Trillion	2,100.4	2,129.0	1,333.0
- Local	1,244.4	1,163.5	773.3
- Foreign	856.0	965.5	559.7
- Local %	59.25	54.65	58.01
- Foreign %	40.75	45.35	41.99
Number of Securities Firms	122	121	119
- Local	99	98	96
- Foreign	23	23	23
Top-20 Trading Value [Buy + Sell] – IDR Trillion	1,244.5	1,326.9	775.8
- Local	531.7	499.0	316.3
- Foreign	712.8	827.9	459.5
Top-20 % of Total Trading Value	59.25	62.33	58.20
- Local	42.73	37.61	40.77
- Foreign	57.27	62.39	59.23
Top-20 Securities Firms	20	20	20
- Local	10	9	9
- Foreign	10	11	11

Bond Market

	2007	2008	August 2009
Corporate Bond			
Issuers	102	90	86
Bond Issued Value - IDR Billion	30,200.00	12,858.50	17,438.00
Outstanding Value - IDR Billion	79,063.11	73,009.62	79,588.19
Trading Value reported to IDX - IDR Billion	68,578.75	53,180.58	23,375.67
Average Trading Value/Day - IDR Billion	278.78	221.59	144.29
Government Bond			
Outstanding Value - IDR Billion	477,746.56	525,694.73	564,775.89
Trading Value reported to IDX - IDR Billion	1,074,812.17	953,165.39	489,059.85
Average Trading Value/Day - IDR Billion	4,389.16	3,971.48	3,018.89

Exchange-Traded Fund

	2007	2008	August 2009
Trading Value – IDR Million	10.88	100.84	1.68
Average Trading Value/Day – IDR Million	2.72	0.42	0.01

Mutual Fund

	2007	2008	August 2009
Total Mutual Funds	473	567	575
Total Investors	325,224	352,429	356,783
NAV - IDR Billion	92,190.6	74,065.8	95,420.3

III. Major Market and Regulatory Developments, and Prospects for the Securities Industry

As a result of the sharp decline in the capital markets, many securities firms experienced losses and difficulties in liquidity, as reflected in the significant drop in the daily Adjusted Net Working Capital. A number of frauds related to misuse of clients' securities and funds were uncovered.

Early 2009, Indonesia capital markets saw one of its largest retail securities firm experienced serious problem due to misuse of clients assets by the securities firm's owner. This was a major blow to the investor confidence in the securities industry. **Client Asset Protection** hence becomes the main theme of the regulatory focus in 2009.

In respond to the situation, the Indonesia Clearing and Guarantee Corporation (KPEI) has strengthened its risk management through **Trading Limit** close monitoring, and has applied prudent discretion in granting trading limit to securities firms from time to time.

Earlier in 2008, the Indonesia Central Securities Depository (KSEI) has developed a facility, namely **Investor Area**, to facilitate investors to check and monitor their securities position. The Investor Area was launched in June 2009. Since the launch, there are only a small number of investors (5,000 out of 350,000 registered investors) who have accessed the System. Hence, more efforts are still required to socialize the Investor Area to the investors and the general public. The Association of Indonesian Securities Companies (APEI) is working closely with KSEI in the socialization efforts, through routine seminars and public announcements.

APEI has also submitted a draft proposal to the Regulator, recommending development of a **system that will allow investors to check and monitor the funds** that they place with the securities firms. This System is similar to Investor Area that has been developed for securities checking and monitoring. One of the appointed Payment Banks is currently developing the System. Ideally, eventually, KSEI, which is currently administering/keeping securities, is expected to function fully to administer/keep funds as well, so both securities and funds can be placed in Securities Account/Sub-Account maintained with KSEI.

APEI has also proposed a standard **Account Opening Form** that complies with **Know-Your-Client** rules issued by the Capital Markets and Financial Institutions Supervisory Agency (Bapepam-LK) and the Indonesian Financial Transactions Reports and Analysis Centre (PPATK). This is important to assist in the client due diligence process. It also facilitates audits by the Regulators, as there will be uniformity across the industry as to what information is required in the Account Opening Form. Admittedly, different information requirements by different securities firms have been "blamed" to be one of the factors behind the lacking of the implementation of the **Anti-Money Laundering** regime in the securities industry in Indonesia.

The Regulator is currently also looking into the possibility to implement **Single Investor ID**, with direct interface from front (Exchange) to end (Clearing and Settlement), which eventually will allow **Straight-Through Processing**.

At the same time, the Indonesia Stock Exchange (IDX) is working on the initiative to develop **Investor Protection Fund** for the industry. The main open issue, among others, is how to finance the Fund. APEI, while welcoming the initiative very much, is of the opinion that, one way to finance the Fund is, a fraction of the transaction levy that is paid to the Exchange is channeled as a routine contribution to the Fund. APEI is hopeful that the initiative will not create extra financial burden to the securities firms.

Recently, in the 2nd Semester of 2009, APEI and IDX have launched **Client/Employee Database** facility that allows securities firms to enter information on clients and/or employees with whom they are encountering (legal, financial, disciplinary, etc.) issues. In view of the legal exposure, APEI are still discussing with the IDX as to the ownership and the operations of the System.

Post the Jakarta Stock Exchange and the Surabaya Stock Exchange merger at the end of 2007, the new Exchange - Indonesia Stock Exchange - has been focusing its resources to develop more products and to efficient its trading platform. Remote trading has been successfully implemented. The System allows orders entry by remote terminals, on-shore and/or off-shore. This is almost similar to "**Direct Market Access**", except that IDX still requires the trading server to be kept on-shore with licensed Members of the IDX.

After a sharp decline in the average trading value in the 4th Quarter 2008 and the 1st Quarter 2009, the IDX average trading value started to pick up significantly in the 2nd Quarter 2009. In 2009, the IDX trading activities are heavily dominated by securities firms, mainly local houses, via **On-line Trading**. Local houses with on-line trading facility started to color Top-20 brokers on the IDX starting the 2nd Quarter 2009. The development of on-line trading also promotes the number of domestic investors, which currently recorded at 350 thousand [0.15%!] as opposed to total population of 230 million.

In the 2nd Quarter 2009, the IDX issued the long-awaited revised **Margin Trading and Short-Selling** regulations. As with the rest of the world, short-selling, which was "blamed" as the main contributor to the decline in the stock market in 2008, was also temporarily suspended in the 4th Quarter 2008. While there has been relatively no major issue with the implementation of the revised short-selling regulation, APEI have been working closely with the IDX and the Regulator to further refine the Margin Trading regulation for an ideal and prudent margin-able shares list.

KPEI also is pushing ahead with the **Securities Lending and Borrowing** initiative. Currently, the Securities Lending and Borrowing facility as provided/managed by KPEI is mainly used for handling failures in securities settlement. With the covered short-selling regulation in place, more business transactions related to Securities Lending and Borrowing is expected.

In order to reduce the market risk and to increase efficiency, the Regulator has issued revised rules on **Underwriting**. The main feature, among others, is the revision on the Offering Period, from minimum 3 days to a period of 1 - 5 days. The 1 – 5 days Offering Period provides flexibility to reduce the Offering Period to only 1 day.

The Regulator will be issuing revised regulation on **Adjusted Net Working Capital**. The revised regulation places heavier working capital requirement on the securities firms. In addition to higher capital liquidity ratio, 4% increased to 6.25%, and heavier hair-cut on portfolios, it also introduces “ranking liabilities”, i.e. off-balance sheet contingent liabilities, which is to be included in the new Adjusted Net Working Capital calculation.

After delays for over 5 years, the draft **Revised Capital Markets Law** is now in the agenda to be discussed and approved by the Parliament. One of the key revisions in the Law is the segregation of **Investment Manager** activity from Broker-Dealer and Underwriting activities in separate legal entities.

While Indonesia economic performance is very much influenced by the world economy which has not yet completely recovered to normal, domestically, there are a number of factors that shall bring Indonesia economy heading for fast recovery and improvement in the near future:

The election of President Susilo Bambang Yudhoyono for the 2nd time in the 2nd direct presidential election is seen to be positive to the economy. It is a sign of recognition and support for the upcoming Government from the domestic public and the overseas. The newly elected Government of SBY will be inaugurated in October 2009.

The statistics show that up to the 1st Semester 2009, Indonesia has proven to be one of the few countries with positive growth.

The mutual commitment of the Central Bank, the Government, the Parliament, and the banking industry players to reduce the deposit interest rate to the Central Bank Rate, in order to push down the credit interest rate so to stimulate investment in Indonesia, will push growth in investment, and growth in the capital markets.

The Securities Lending and Borrowing and the semi-“Direct Market Access” facilities, and the development of on-line trading system in Indonesia will increase trading value and fasten the growth of domestic investors.

The Regulator’s renewed focus on client asset protection will recover the confidence of the general investing public. ***