

DEVELOPMENT OF FINANCIAL SECTOR IN INDONESIA

Indonesia's Economic Development and Its Potential:
Comparison with China and India - RCAPS

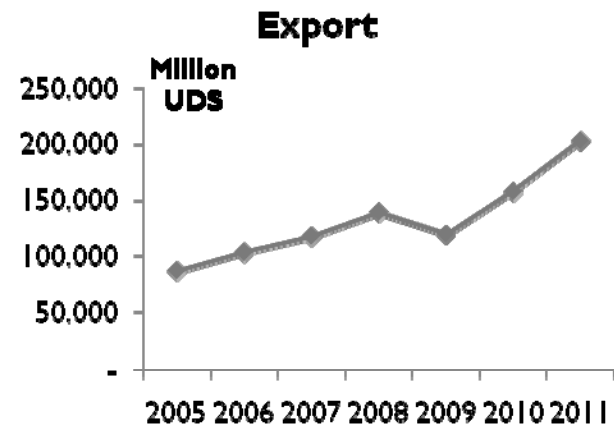
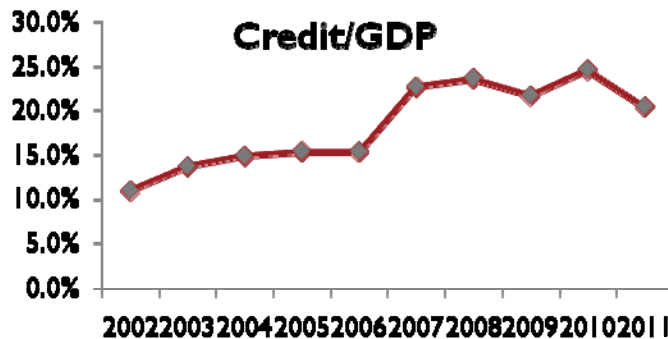
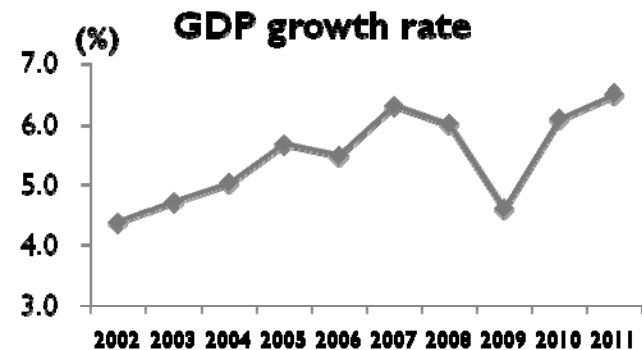
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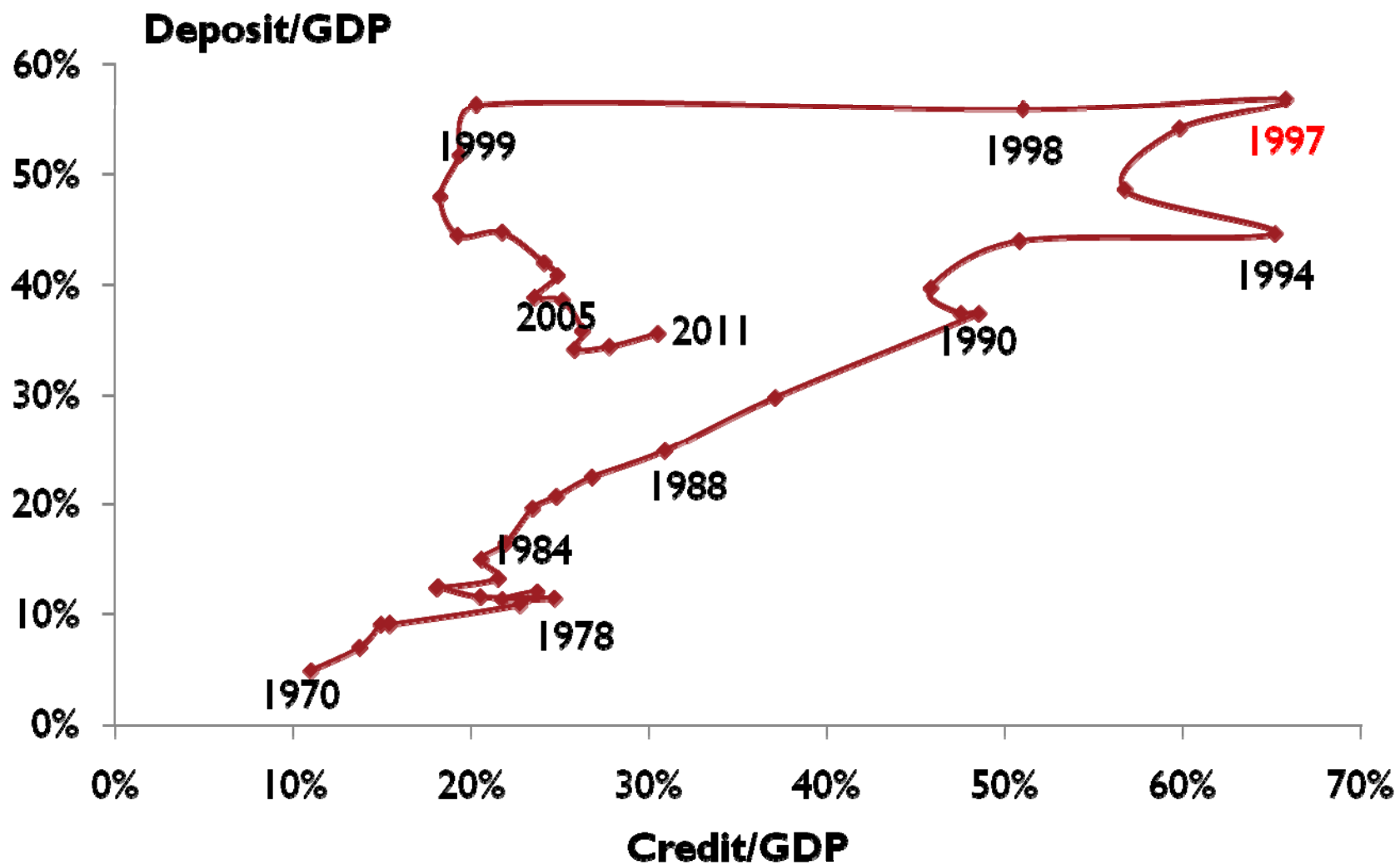
Strong Economic Growth , but gradual growth of Financial

Sector

- Recent Indonesian Economy
 - Strong economic growth
 - Export Expansion
 - Strong demand for consumption
- Recovery of financial sector
 - Sound banking sector
 - Rising stock index
- Less financial intermediation function



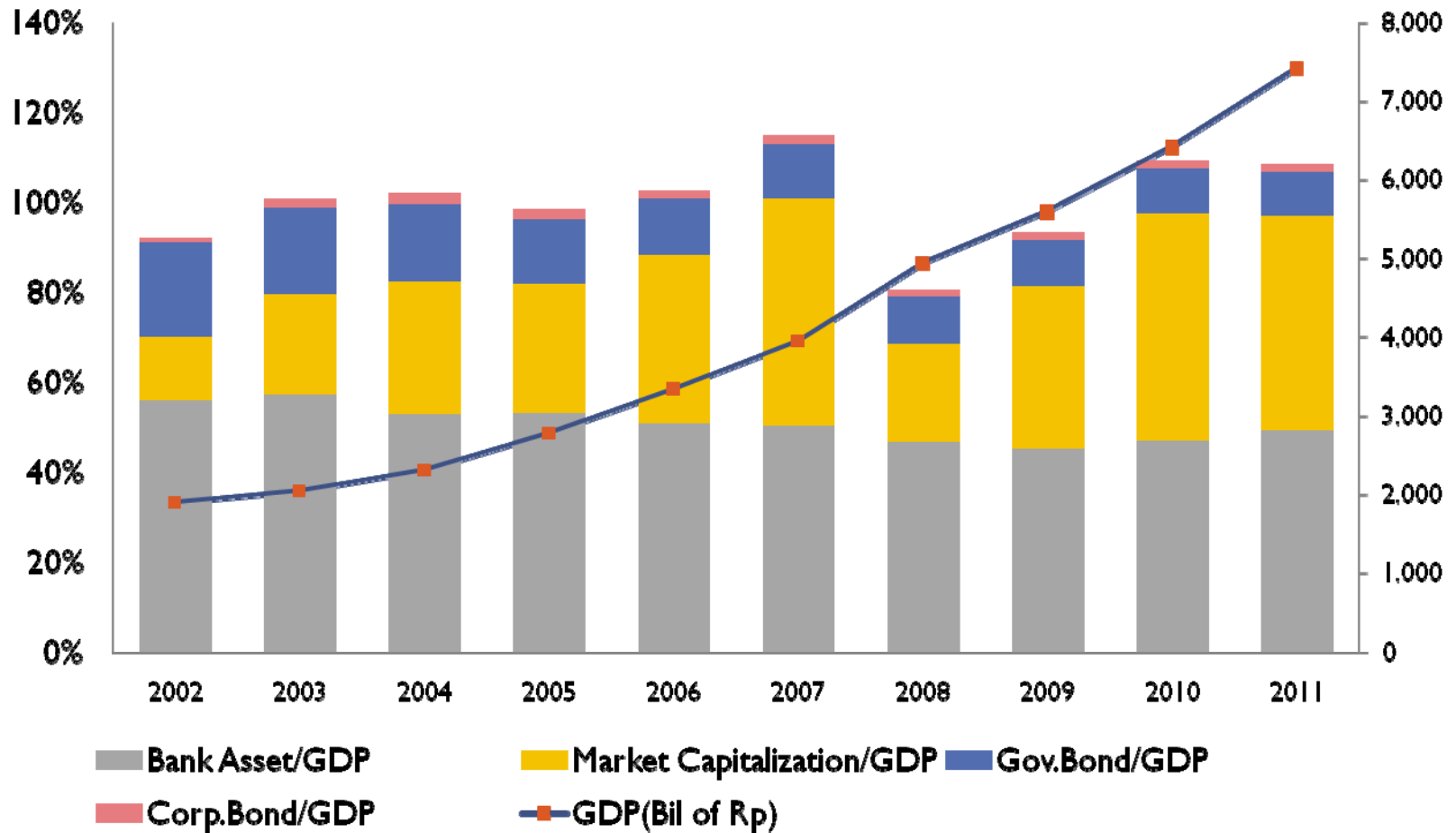
Financial Development



Indonesian Financial Sector

- Bank based market.
- Small Financial sector relative to the real economy.
- Small capital market.
 - 440 listed companies.
 - Just beginning of bond markets
- Commercialized microfinance.
 - BRI, BPR, Cooperation, NGOs are not so much in Indonesia.
- Promising market for Islamic finance, but small.
- Less developed, but developing insurance industry.

Size of Financial Sector



Source: Bank Indonesia, Indonesia Stock Exchange

BANKING SECTOR DEVELOPMENT

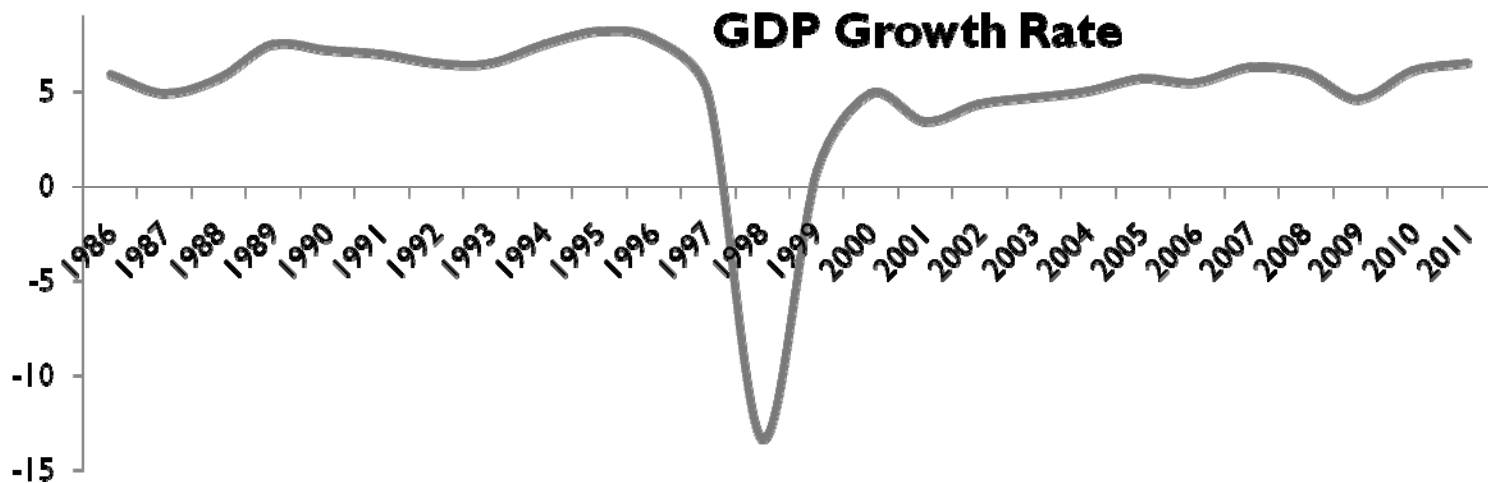
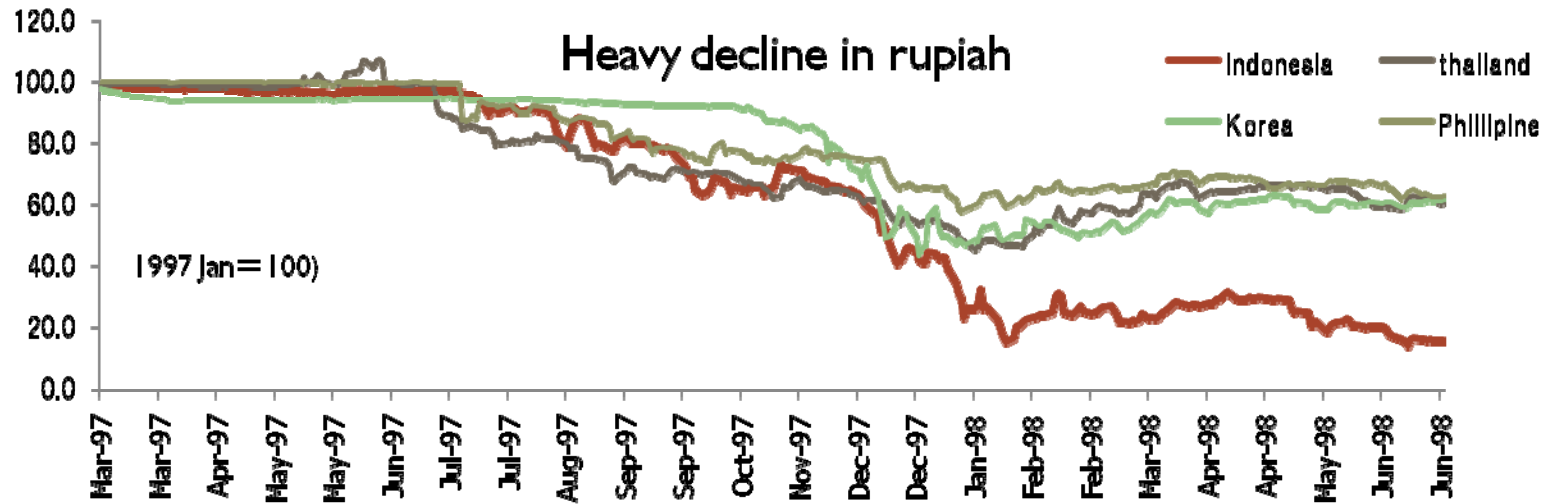
Much Healthier, More Conservative

Number of banks / Asset by bank types

	2006	2007	2008	2009	2010	2011
State Banks	5	5	5	4	4	4
Regional Government Banks	26	26	26	26	26	26
Private National Banks	71	71	68	65	67	66
Joint and Foreign Banks	28	28	25	26	25	24
Total	130	130	124	121	122	120
BPR	1880	1817	1772	1733	1706	1669

	2006	2007	2008	2009	2010	2011
State Banks	36.3%	35.5%	36.0%	37.8%	36.5%	35.3%
Regional Government Banks	7.1%	7.2%	7.4%	8.4%	8.2%	8.0%
Private National Forex Banks	39.8%	40.7%	40.1%	38.6%	40.8%	41.9%
Private National Non Forex Banks	2.4%	2.4%	2.1%	2.5%	2.8%	3.1%
Joint Banks	5.2%	5.8%	5.8%	5.9%	5.4%	5.5%
Foreign Banks	9.2%	8.4%	8.7%	6.8%	6.4%	6.2%

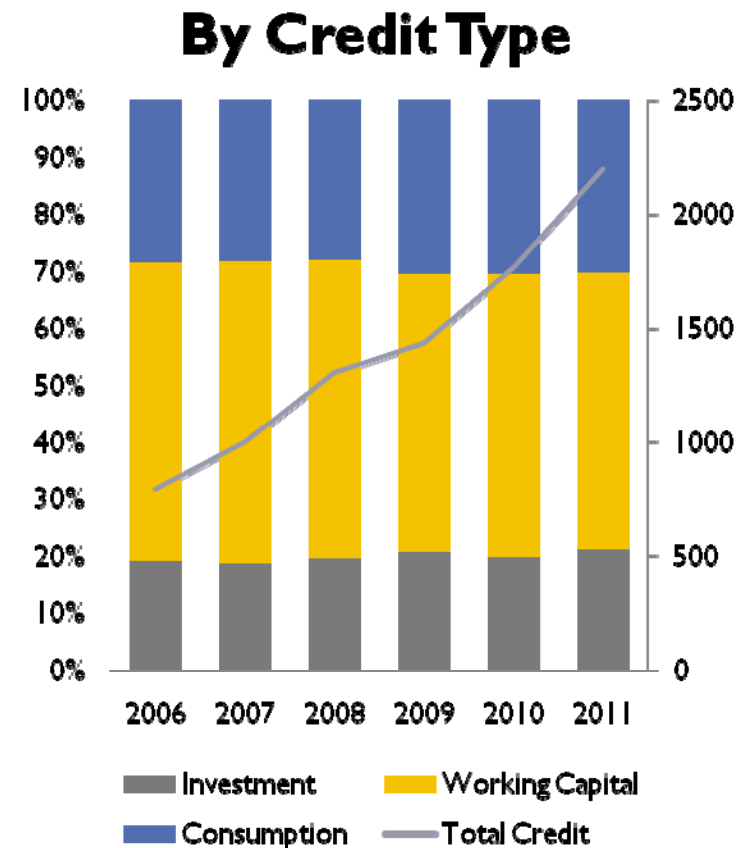
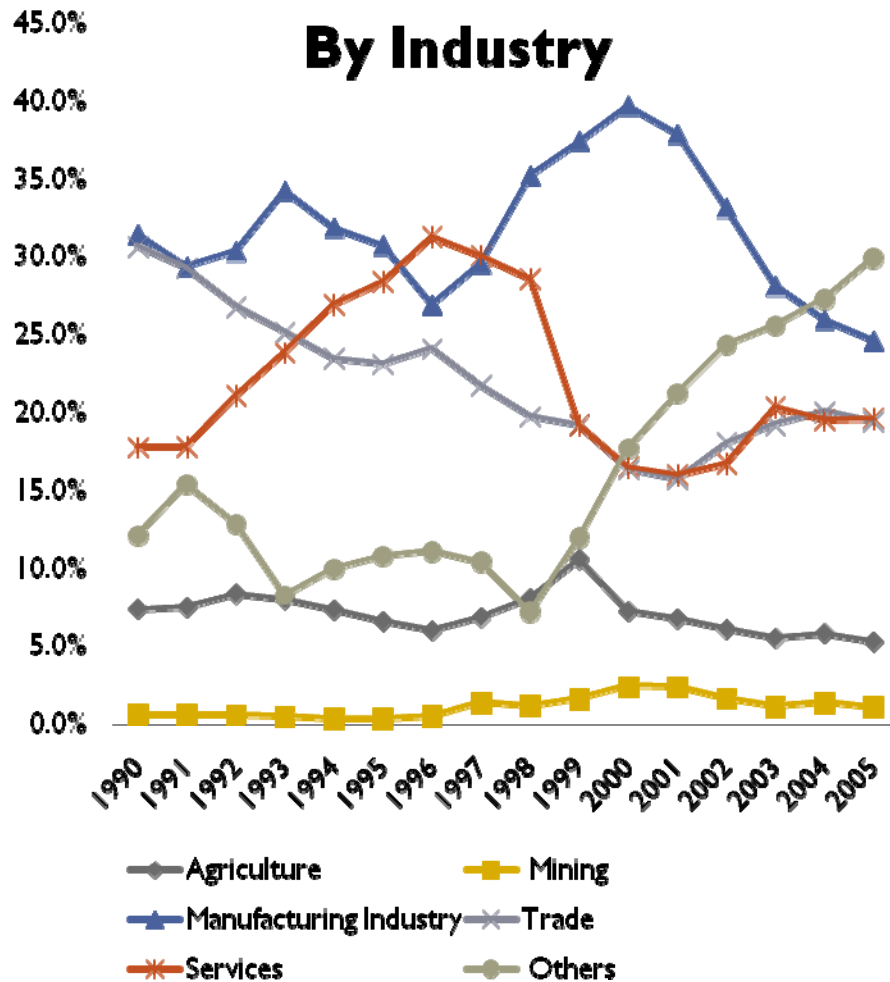
Recovery from the Asian financial crisis



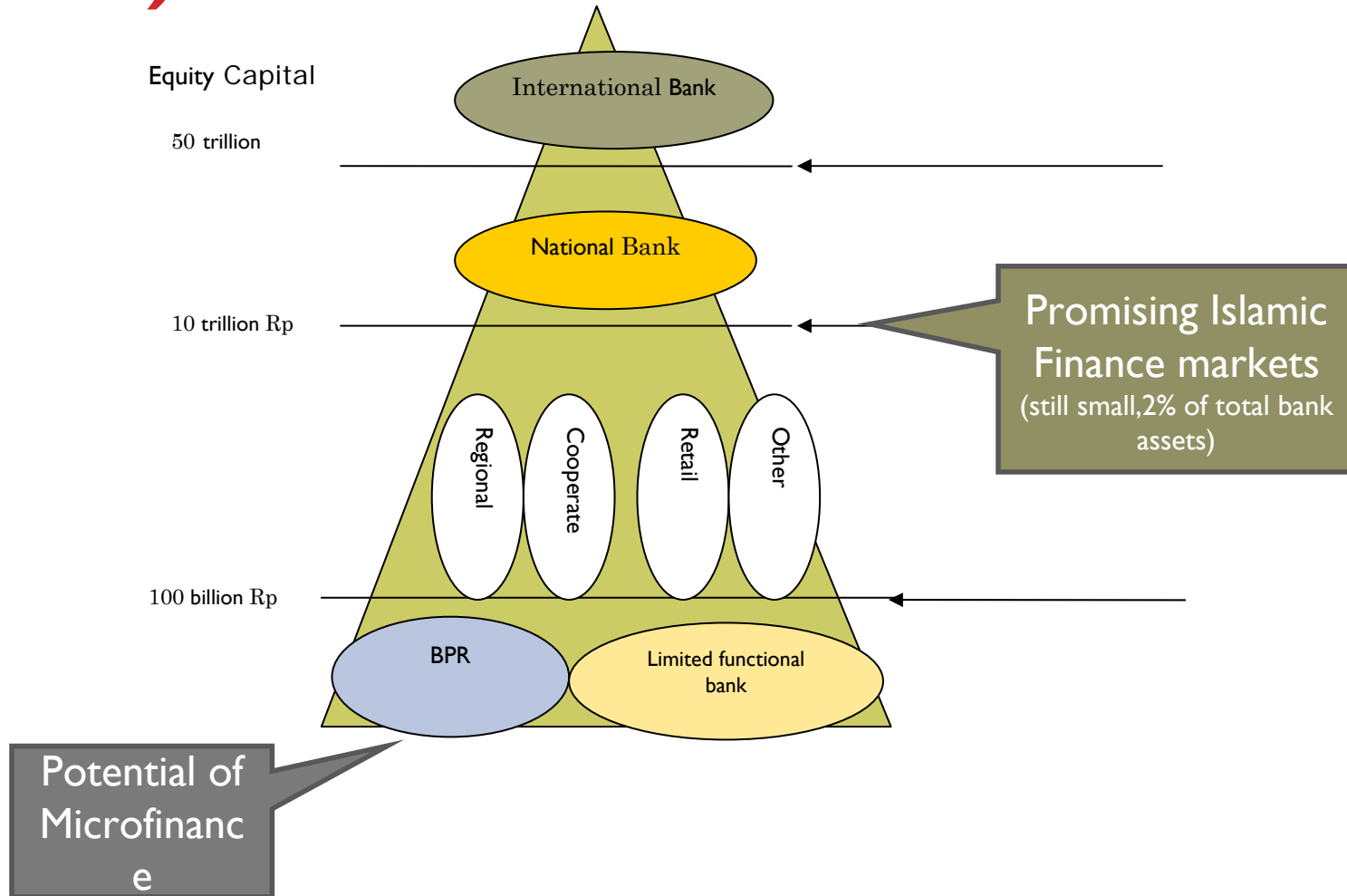
Improving Bank's performance

	1999	2000	2006	2007	2008	2009	2010	2011
CAR	-24.6	12.5	21.2	17.85	14.31	13.81	15.36	15.04
ROA		1.02	2.21	2.39	2.61	3.08	3.16	3.32
ROE		19.6	19.25	20.98	22.67	25.08	26.71	29.46
LDR		33.2	87.37	80.03	82.54	79.61	79.02	78.54
NPL	58.7	18.8	9.73	7.98	9.88	6.9	6.12	5.22

Bank Credit Outstanding



Arsitektur Perbankan Indonesia (API)



DEVELOPMENT OF CAPITAL MARKETS

Slow Development

Asset Size of Financial Institutions

	Year	Assets (Trillion of Rp)	Percent of GDP
Banks	2011	3,652.8	49.2%
Multifinance Company	2010	230.3	3.6%
Insurance companies	2010	399.7	6.2%
Pension funds	2010	130.5	2.0%
Mutual funds	2010	149.1	2.3%
Securities companies	2011/6	51.5	0.8%
Venture capital companies	2010	4.0	0.1%
Outstanding corporate bonds	2011	147.0	2.0%
Equity market capitalization	2011	3,537.3	47.6%
Listed companies (excluded financial firms)	2011/6	1850.0	24.9%

Recent rapid surge in share prices

Indonesia Stock INDEX



Source: Factiva

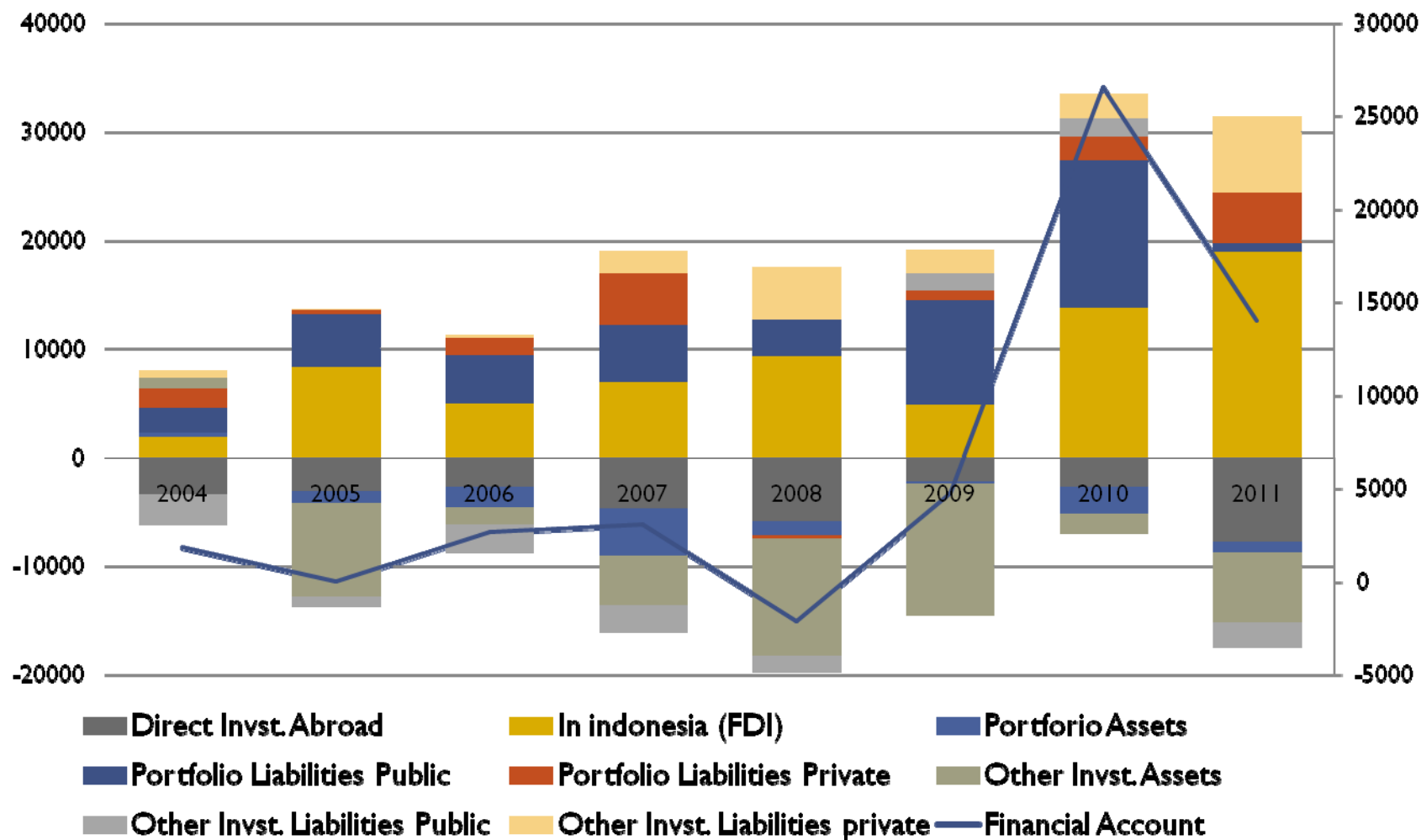
Fund Raising from Capital Markets

	2007		2008		2009		2010		2011 Sep	
	Trillion of Rp	No	Trillion of Rp	No	Trillion of Rp	No	Trillion of Rp	No	Trillion of Rp	No
IPO	17.18	24	23.48	17	4.08	13	29.56	23	11.23	13
Stock Offering	29.8	25	55.46	25	15.67	15	48.67	31	31.99	17
Corporate Bond	31.28	39	14.1	29	31.09	29	36.6	26	28.21	25
Private Total	78.26	88	93.04	71	50.84	57	114.83	80	71.43	55
Government Bond	86.4		86.9		101.7		136.6		101.15	
Total	164.66		179.94		152.54		251.43		172.58	
Source: Indonesia Stock Exchange, Fact Book 2011.										

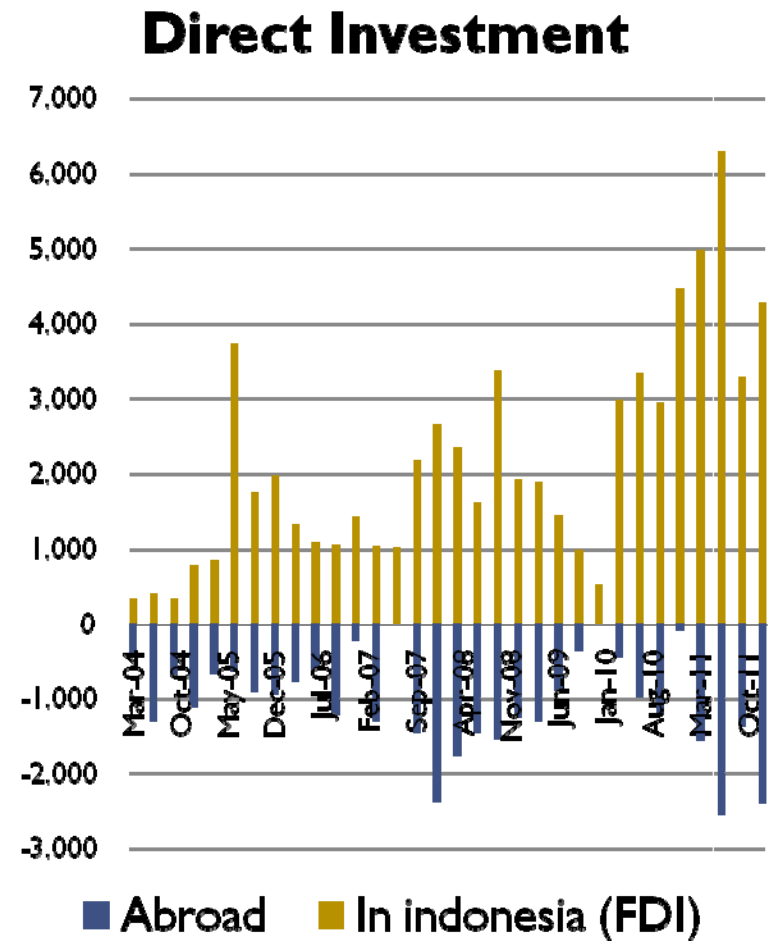
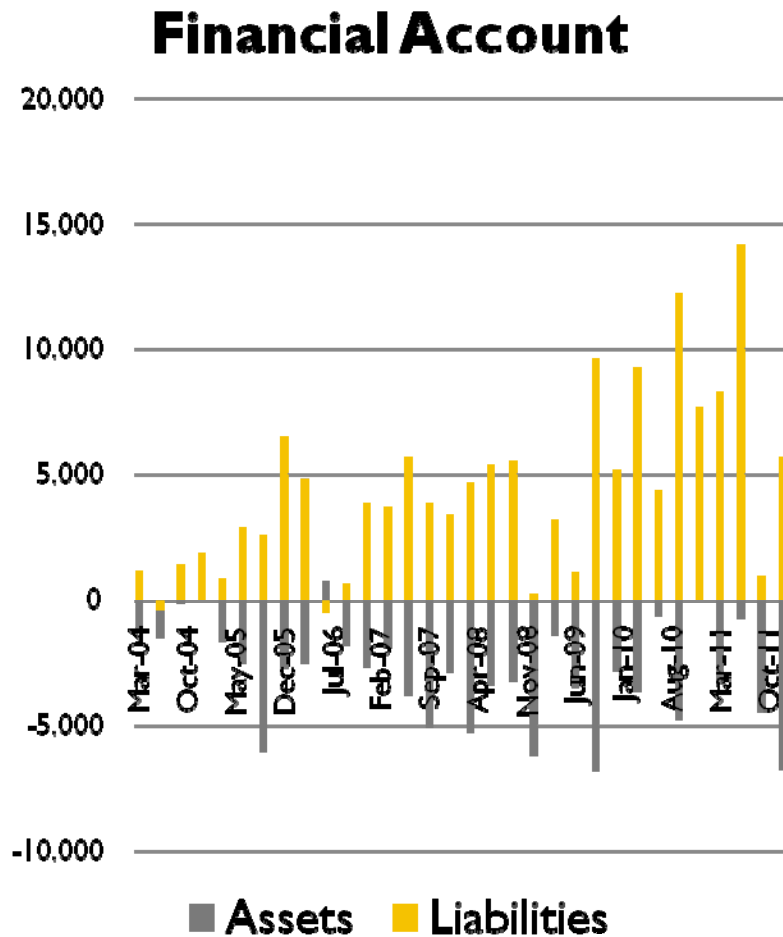
FINANCING FROM ABROAD

Dependence on Foreign Direct Investment (FDI)

Inflow and Outflow of Foreign Capital



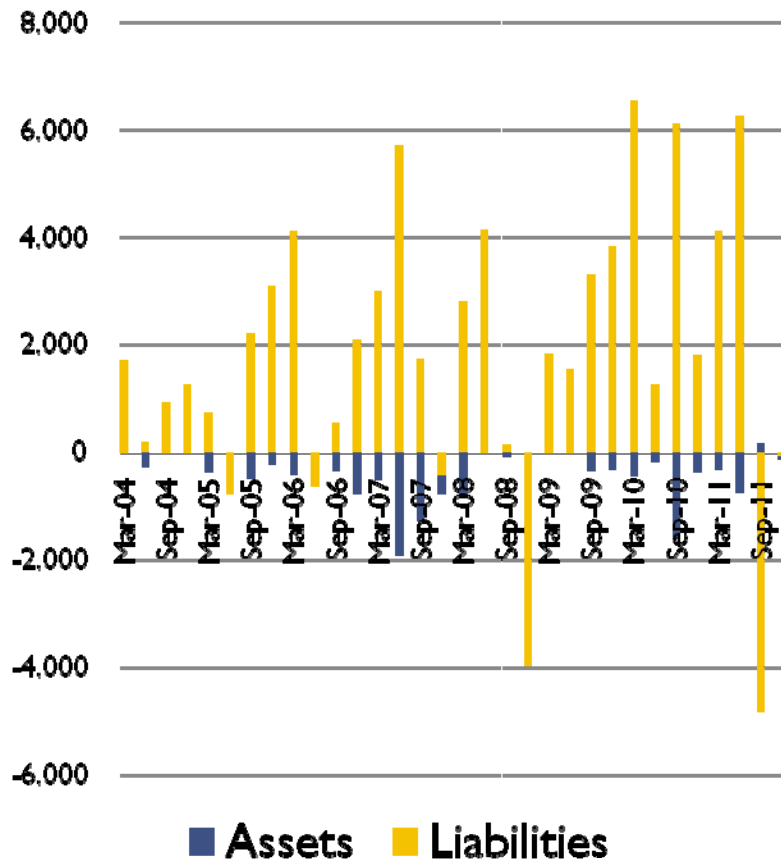
Financial account



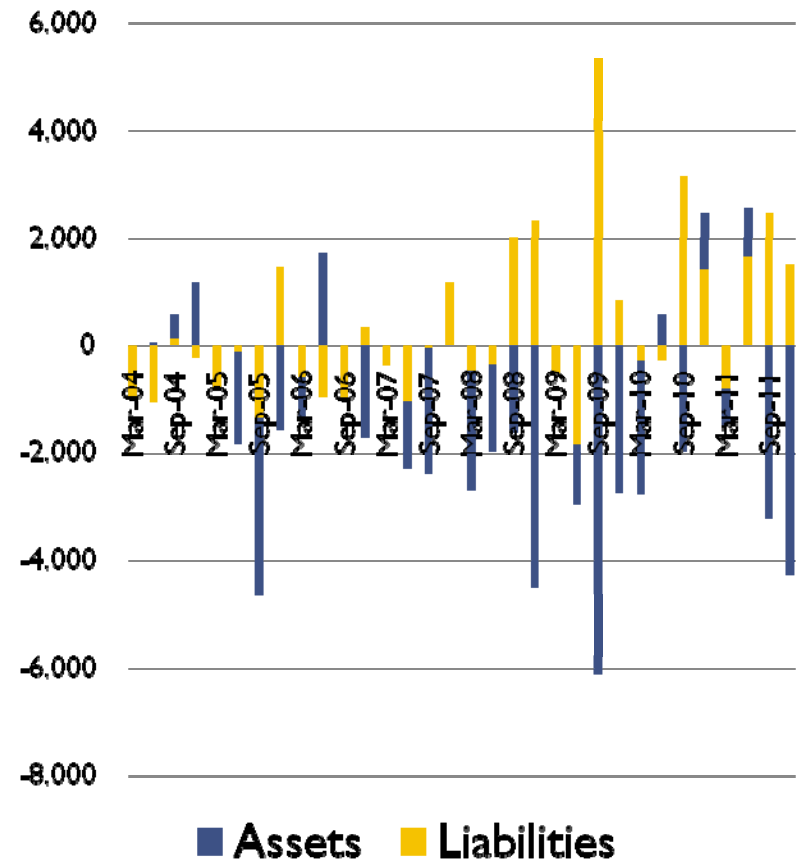
Source: Bank Indonesia

Financial account

Portfolio Investment



Other Investment



LIBERALIZATION IN FINANCIAL SECTOR

Does Liberalization increase competition?

Liberalization in Financial Sector in Indonesia

- 1970- The liberalization of the capital account.
- June 1983 -Financial reform package
- **October 1988** -Banking sector reform policy package
 - Removal of restriction on the establishment of new private banks.
 - Deregulation in nationwide opening of new branches of existing banks.
 - Easing of terms of for foreign-exchange banks operation.
 - **Permission of foreign bank entry** into the Indonesian banking business. Newly-admitted banks had to form a partnership with a domestic private bank, and they had to extend their credit to the export-credit equivalent of 50% of the total outstanding credit.
- 1999- Bank-ownership was liberalized with foreign investors permitted to own up to 99% of bank shares listed on the capital market.

Foreign Ownership in Financial Institutions

- **Bank** -Allows foreign entities to hold up to 99% of local banks. (Presidential Regulation, No29 of1999)
- **Securities company**-Foreign entities may only acquire up to 85% of a securities company's shares. If the securities company is a public company, the foreign acquirer may own 99% of the shares.(2003)
- **Insurance**- the direct investment of a foreign party in a joint venture insurance company may not exceed 80%.(1992)
- **Mutual Fund**- Allows foreign entities to hold up to 100%.(1992)
- **Financial company** -Up to 85% of the paid-up capital is allowed to be held by foreign owners.(2006)

Emergence of foreign capital in Indonesian banking sector

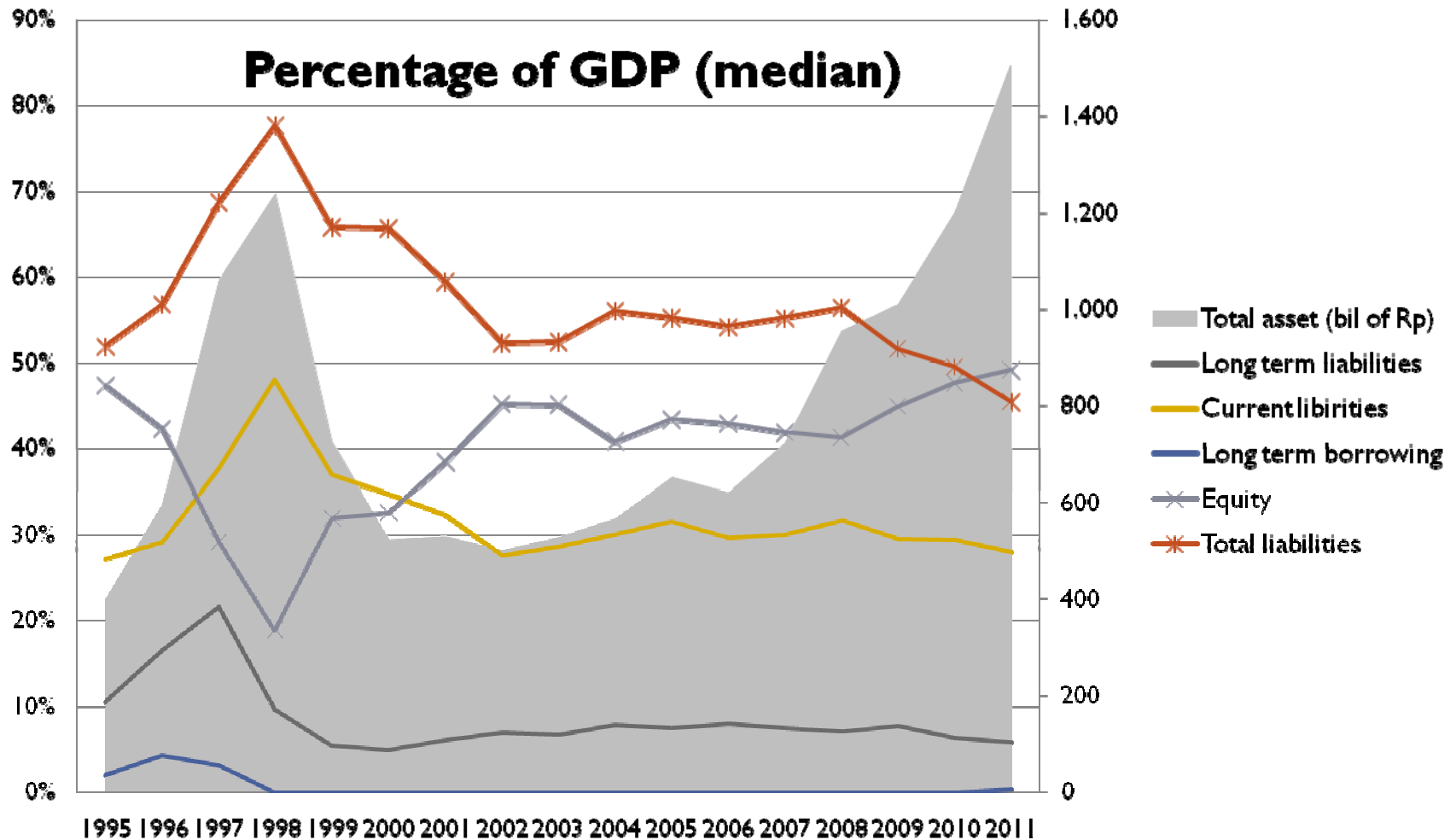
Name	Ownership	Foreign ownership	Asset(mil of USD)	Share of assets(%)
1 Bank Mandiri	State		39,378	14.7
2 Bank Rakyat Indonesia	State		33,469	12.5
3 Bank Central Asia (BCA)	Private	US -> Domestic	29,861	11.2
4 Bank Negara Indonesia	State		23,984	9.0
5 Bank CIMB - Niaga	Private	Malaysia(93.88%)	11,357	4.2
6 Bank Danamon Indonesia	Private	Singapore(67.76%)	10,275	3.8
7 Bank Panin	Private	Australia(39%)	8,090	3.0
8 Bank Internasional Indonesia	Private	Malaysia(97.5%)	6,242	2.3
9 Bank Tabungan Negara (BTN)	State		6,222	2.3
10 Bank Permata	Private	UK(44.5%)	5,944	2.2
11 Citibank	Foreign		5,284	2.0
12 Bank Mega	Private		4,220	1.6
13 Hong Kong Shanghai Bank	Foreign		4,156	1.6
14 Standard Chartered Bank	Foreign		4,105	1.5
15 Bank OCBC - NISP	Private	Singapore(75%)	3,940	1.5

FINANCING FROM CORPORATE SIDE

Independence from Banks

Capital Structure of Listed Companies

(Excluded Financial Industry)



Source: Datastream