

Indonesia: An Untapped Market!



The benchmark 383-share Jakarta Composite index has gained approximately 50% this year, Southeast Asia's top performer and the fifth-best worldwide, according to data compiled by Bloomberg. Amid the optimism over the economic growth around the globe, the gauge rose after the victory by President Susilo Bambang Yudhoyono's party in parliamentary elections in April, which bolstered his reelection chances in July. Yudhoyono presided over reforms that led the economy to expand more than 6% in the past two years, the fastest since the 1997 Asian financial crisis. The Indonesia Stock Exchange aims to double the market's value in three years by luring local units of companies such as Freeport-McMoRan Copper & Gold Inc. and Newmont Mining Corp., according to Bloomberg. The exchange also will try to entice more state-run companies to list shares on the Jakarta exchange so as to attract foreign

investors. Although asset value held by foreign investors declined by 45.7 percent to Rp 646 trillion (US\$60.07 billion) by the end of last year, from Rp 1,191 trillion in 2007, as impacts of the global financial downturn impacted stock value, a year-end report from the Indonesia Central Securities Depository (KSEI) reveals that foreign investors accounted for the largest portion of investment in the Indonesian stock market last year, with a 67% share up from 66% in 2007. The figures showed that foreign investors had confidence in the Indonesian market as liquidity problems in their home countries had forced them to invest in emerging markets. In fact, foreign investors had left the Indonesian market during the October collapse, but had now started to return and this trend is likely to continue this year. In fact, the US\$433

billion Indonesian economy, the biggest in Southeast Asia, is forecast to expand 4.6% in the second half from an estimated 4.1% in the first six months of 2009, Finance Minister Sri Mulyani Indrawati said June 30. Bank Indonesia reduced the key rate at the beginning of July for an eighth straight month, bringing the cumulative easing to 275 basis points since December to stoke growth before faster inflation next year prompts policy makers to raise borrowing costs. As a result, it is expected Indonesia could have a significant jump in investment, in particular coming from overseas. According to the Investment Coordinating Board (BKPM), foreign direct investment amounted to US\$1.97 billion between January and February, a 105.9% increase from the \$957.2 million posted in the same period last year. **B**

Microscope

Indonesia has a market-based economy in which the government plays a significant role. Indonesia government now runs 139 state-owned enterprises, and the government administers prices on several basic goods, including fuel, rice, and electricity. In response to the financial tsunami during 2008, the government moved quickly to improve liquidity, secure alternative financing to fund an expansionary budget and secure passage of a fiscal stimulus program worth more than US\$6 billion. Key actions to stabilize financial markets included increasing the deposit insurance guarantee twentyfold, to Rp 2 billion (about US \$174,000); reducing bank reserve requirements; and introducing new foreign exchange regulations requiring documentation for foreign exchange purchases exceeding U.S. \$100,000/month. As a G-20 member, Indonesia has taken an active role in the G-20 coordinated response to the global economic crisis. In addition, Indonesia has a wide range of mineral deposits and production, including bauxite, silver, and tin, copper, nickel, gold, and coal. All these pave the way for sustainable growth in coming years amid the global infrastructural demand. **B**

MARKET BRIEFING

YTD % (local curr)

US DJ	8,146 (-7.2%)
Nasdaq	1,756 (11.4%)
Euro Stoxx 50	2,281 (-6.9%)
HSI	17,708 (23.1%)
Japan NK225	9,287 (4.8%)
China Shanghai Composite	3,113 (71.0%)
Singapore	2,307 (31.0%)
India BSE30	13,504 (40.0%)
Brazil BOVESPA	49,220 (31.1%)
Aus All Ord	3,790 (3.6%)
US-10yr Bond	Yield 3.30%

As at 10/07/09

Insight: "Family Trust Planning"

The main purpose of a family trust is to protect the assets of the settler against financial disaster which may be caused by excessive death duties, a spendthrift family member, marital or family breakdown, mismanagement of family business and contingent creditors. You usually consider transferring appreciating assets into the trust before depreciating assets (such as motor vehicles). But this depends on your age, how you intend the trust to be used, and your personal circumstances. Once the trust has been formed, you may choose the asset to be transferred to the trust. This would usually first be the family

home. You can also transfer holiday homes, boats, vehicles or paintings – indeed any assets that you personally own. Or, you may transfer the ownership of the assets in exchange for a debt. Typically, you would make an agreement for sale and purchase of the asset to the trust. The trust must pay you, the seller, the full value of the asset - if the family home is worth \$10,000, the trust must give you a cheque for \$10,000. But usually a family trust will have been set up with only nominal assets, and cannot afford to buy the home. So you the seller will lend the trust \$10,000 as an interest-free loan. This is effectively a paper transaction - the loan and the payment cancel each other out, and so you do not need to borrow any money from your bank. The debt to you is secured by, a Deed of Acknowledgement of Debt, made by the trustees. **B**

A-Z Financial Tools

Baltic Dry Index (BDI) is a number issued daily by the London-based Baltic Exchange. The Index tracks worldwide international shipping prices of various dry bulk cargoes, taking in 26 shipping routes measured on a timecharter and voyage basis into account. The index covers Panamax dry bulk carriers carrying a range of commodities including coal, iron ore and grain. **B**



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