


Indonesia: Economic Civilization



Microscope

Recently, Indonesia Finance Minister has expressed optimism the domestic economy in 2010 will grow at a faster pace than 2009. But she also express that it will depend also on Indonesia banks' soundness and credit channelling. In fact, Indonesia is the member of G-20 major economies, being the largest economy in Southeast Asia. It has a market-based economy in which the government plays a significant role by owning more than 160 state-owned enterprises and administers prices on several basic goods, including fuel, rice, and electricity. After the financial and economic crisis that began in mid-1997, the government took custody of a significant portion of private sector assets through acquisition of nonperforming bank loans and corporate assets through the debt restructuring process. However, according to the Ministry, there are several challenges that need to be careful in the year 2010 would, among other global risks and the reversal of global capital flows, rising prices of primary commodities, especially crude oil, and rising budget deficits in developed countries and high debt burden. 

Indonesian stockmarket outperformed other Asian bourses on optimism that the economy would remain robust. In fact, Indonesia's economy has returned back on track following a period of lower growth last year due to the global economic crisis. World Bank economist said recently that the country's economy was almost ready to return to the boom conditions prior to the 1998 financial crisis, when GDP growth often reached between 7% and 8%. The World Bank estimates the growth rate would increase to 5.6% this year, and to 6% in 2011 up from 4.5% in 2009. The bank is also upbeat that the country's anticipated export volume is expected to return to pre-crisis levels during 2010, as the world economy gradually recovers and commodity prices rise. Together with the improving outcomes in agriculture and manufacturing sectors throughout last year, Indonesia would have undoubtedly strong stepping

stone to enter 2010. In addition, Indonesia creates a more conducive investment climate to attract both foreign and local investors, so that investment activities could contribute more significantly to the country's economic growth. With regard to infrastructure, Indonesia is ready for and needs breakthroughs like easing transport and logistic bottlenecks and connecting Indonesia's domestic market and the regions. Similar to other Asian countries, there is concern over tightening monetary policy. However, Rupiah's value may remain strong in 1H of 2010, easing the importing inflation. Indonesia saw inflation rate below 5 percent last year. For these reasons, Indonesia would be no longer vulnerable to the impacts of capital outflows like before. Sectorwise, with lending rate benchmark estimated to be at 8% later this year, Indonesian

banks' loans would grow by 18% in 2010, largely contributed by increasing government's spending and infrastructure development. With regard to trade, the Jan. 1 implementation of a China-ASEAN free trade agreement that requires a reduction or elimination of import tariffs across 7,000 product lines, including most garments and textiles, may hurt garment traders in Indonesia in short run. However, it will allow the rest of Asia to benefit from China's growth by opening up large markets for ASEAN exports, while giving China greater access to Southeast Asia's raw materials. Worth \$200 billion, the pact is the third largest by trade volume after the European Economic Area and the North American Free Trade Zone. Some say the agreement could pave the way for a larger bloc, including Japan, South Korea and the US. 

MARKET BRIEFING


YTD % (local curr)

US DJ	10,012 (-4.0%)
Nasdaq	2,141 (-5.6%)
Euro Stoxx 50	2,631 (-11.3%)
HSI	19,665 (-10.1%)
Japan NK225	10,057 (-4.6%)
China Shanghai Composite	2,939 (-10.3%)
Singapore	2,683 (-7.4%)
India BSE30	15,790 (-9.6%)
Brazil BOVESPA	62,762 (-8.5%)
Aus All Ord	4,532 (-7.2%)
US-10yr Bond	Yield 3.57%

As at 05/02/10


Insight: "Currency-linked Investment"

Currency-linked investment is a short-term investment tool which is linked with the performance of currency. The tool is structured according to each customer's needs, based on the customer's view of the exchange rate movement of a pair of currencies. In addition, there is a range of currencies, tenor and strike rates to choose from. One kind of currency-linked investment is Dual Currency Investment. This instrument is an investment product, instead of a deposit. As such, there is the chance of making a higher return, compared to a deposit, and suffering a loss on the original investment. Usually the

principal sum and returns are repayable on maturity in the base currency, that is, in which the investment is made or the linked currency, whichever is the lower. As the investment is denominated in a foreign currency, the investor has to consider the impact of any foreign exchange risk on the net return of the investment. If the proceeds at maturity are paid in the linked currency, the investor may suffer a loss on the principal sum. Investor should also note that early withdrawal of the investment may not be permitted. The investment is inherently speculative in nature and carries risks. In particular, foreign currency market movements are unpredictable, especially when foreign exchange controls may be imposed by the country issuing the foreign currency from time to time and may delay or prevent the repayment of principal amount. 

Financial "In & Out"

IN: German bond may be buoyed by the recent worries about the rising fiscal deficit in Portugal, Italy, Ireland, Greece and Spain (PIIGS). Investors look for safe haven in Europe.

OUT: PIIGS will face capital outflow on concern that the borrowing cost may rise soon when the price of credit default swap, that is the "insurance premium" jumped to the recent highs. 



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