

Enhancing the Role of Capital Market in Long-Term Financing: Case of Indonesia

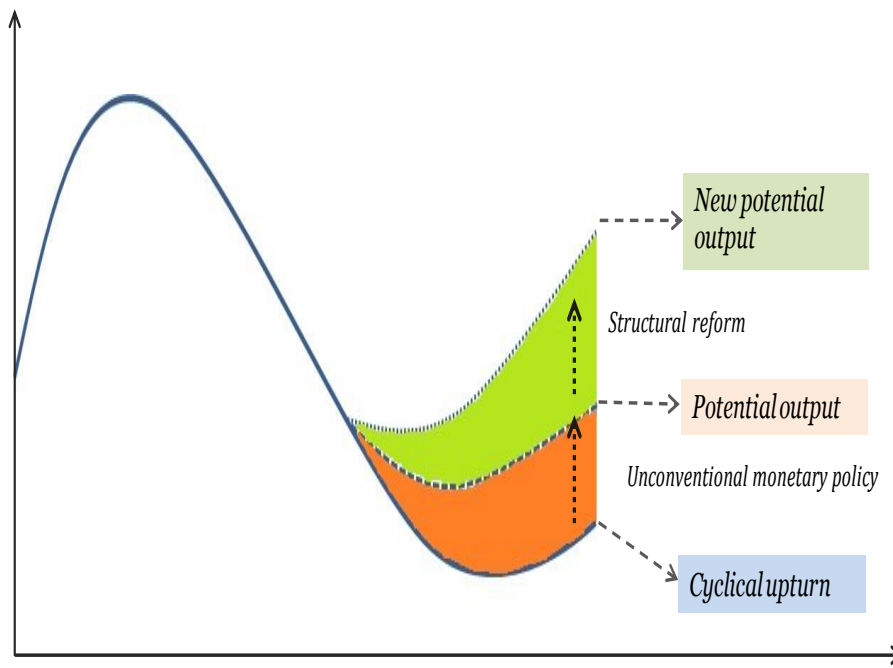
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■ ■ Structural reforms to reverse the recent economic slowdown

Economic growth moderation in recent years confirms the importance of countercyclical policies to reverse the declining cycle. The domestic growth needs to be directed to move towards its potential output, or even to a new, higher potential output.



The Indonesian Government undertakes structural reform measures to boost domestic growth, among others:

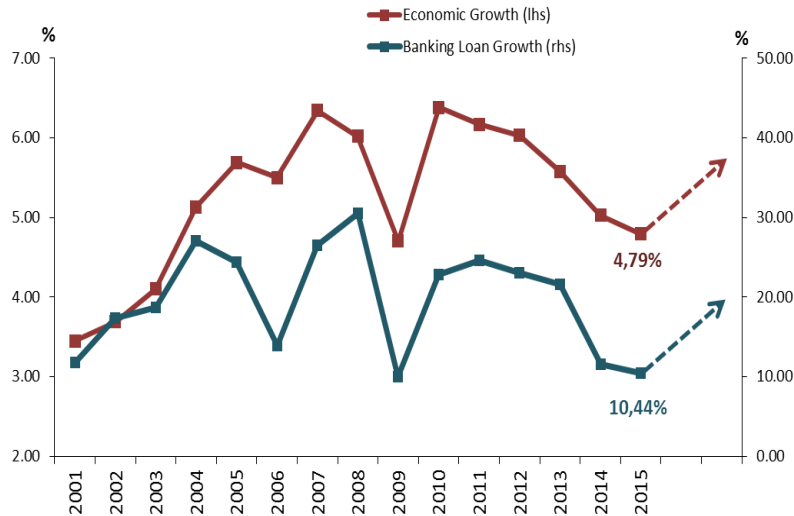
- **Development of infrastructure**



- **Focus on priority economic sectors**



Financial sector plays an important role in catalyzing growth



Indonesia's financial sector plays an important catalytic role in facilitating the growth of the domestic economy.

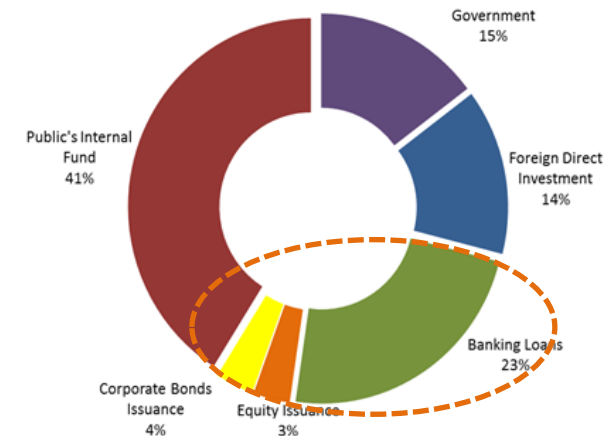
As targeted in the 2015-2019 National Medium-Term Development Plan, financial sector is expected to provide 30% of total funding needs (IDR 26,809 trillion or USD 2,1 trillion).

Stylized Facts

In the period 2009-2014, Indonesia's financial sector provided financing of IDR 3,050 trillion (USD 234 billion).

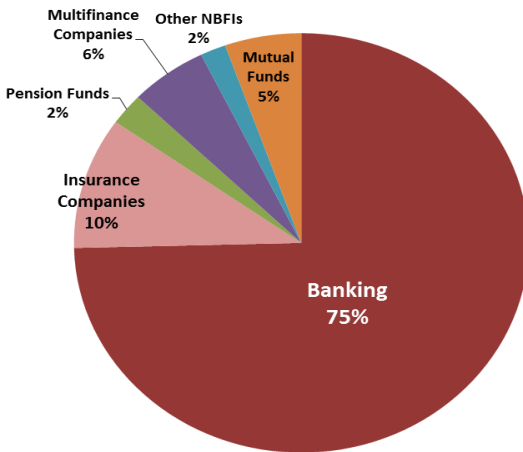
Banking: USD 175 billion
Capital Market: USD 42 billion
Multifinance: USD 17 billion

Funding Needs



Banking predominates in the domestic financial sector, while the need for long-term financing is growing

Composition of Assets of the Indonesian Financial Services Sector



Dominance of banking in the financial sector of most EMs

In fact, banks have a short-term fund structure and are exposed to mismatch risks

Shifting to market-based financing as a long-term source

Market-based financing has a great potential as a long-term source, but its utilization in most EMs, including Indonesia, is relatively low...

At the same time...



Most EMs are lacking in basic infrastructures

There is an ever-growing need for long-term financing

Indonesian Financial Services Sector Master Plan 2015-2019

OJK has launched the “*Indonesian Financial Services Sector Master Plan 2015-2019*”, which sets out three directions to develop the domestic financial sector in the medium-term. From each direction, key priorities and programs are derived.



Contributive

In ongoing efforts to achieve a robust and sustainable economic growth, the domestic financial sector is directed to play a more vital role in terms of accelerating domestic growth.



Stable

To support the sustainability of economic development, financial stability plays an important role. To that end, financial sector must maintain its resilience to confront possible shocks that could emerge from the domestic or external environments.



Inclusive

Financial sector has the opportunity to play an increasingly significant role in improving financial well-being of the public as well as overcoming inequality that may arise. Initiatives undertaken by OJK include promoting financial inclusion and catalyzing local economy.

Capital market deepening in Indonesia

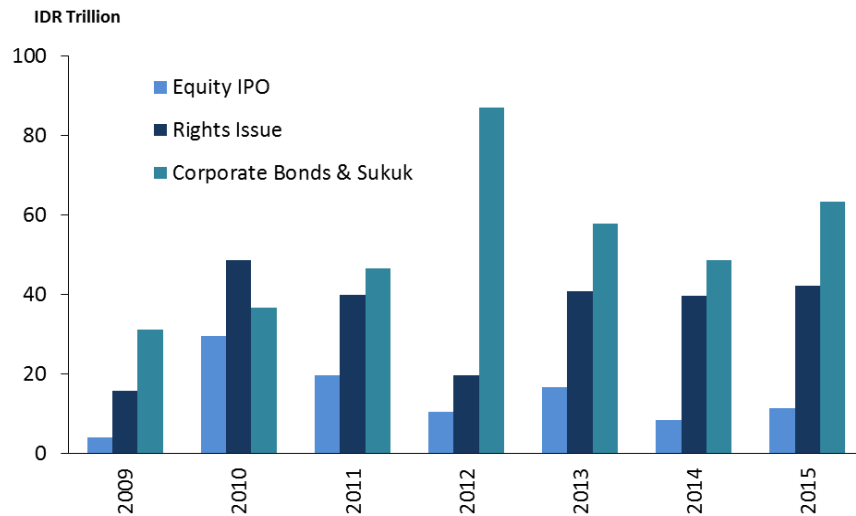
OJK is in ongoing efforts to deepen the domestic capital market. The market deepening programs are expected to enhance the role of the domestic capital market as an important source of long-term financing.

Primary Market	Secondary Market	Bond Market
<ul style="list-style-type: none"> ▪ Simplifying regulations/ procedures to attract potential issuers ▪ Expanding investment product alternatives & distribution channels 	<ul style="list-style-type: none"> ▪ Enhancing market infrastructure as well as transaction efficiency ▪ Expanding single investor identification (SID) to mutual funds & government debt securities investors 	<ul style="list-style-type: none"> ▪ Developing electronic trading platform; establishing regulation of GMRA implementation ▪ Developing bond market supporting infrastructure & products
Islamic Capital Market	Reporting & Supervision	Capital Market Literacy
<ul style="list-style-type: none"> ▪ Enhancing regulations on Islamic capital market products & players ▪ Increasing the supply & demand of Islamic capital market products 	<ul style="list-style-type: none"> ▪ Developing reporting standards (XBRL) for issuers ▪ Improving data warehouse & supervision dashboard ▪ Developing e-registration, e-licensing & e-monitoring 	<ul style="list-style-type: none"> ▪ Conducting education & promotion on capital markets, utilizing various channels & cooperation with relevant institutions

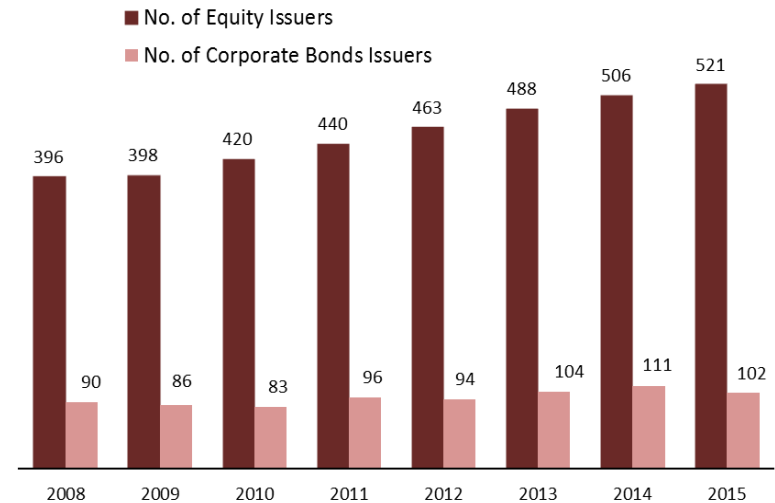
Enhancing the supply-side: Broadening the participation of businesses in the capital market

Capital raising through IPOs, rights issues, and corporate bonds issuance in the Indonesian capital market demonstrated an increasing trend. Through cooperation with the Indonesia Stock Exchange and other stakeholders, education and socialization to potential issuers are continuously undertaken.

Capital Raising by Private Sector in the Indonesian Capital Market



Number of Issuers In the Indonesian Capital Market



Initiatives to enhance the supply-side



Diversifying capital market products to provide long-term financing:

- Private equity funds (“RDPT”)
- Asset-backed securities in the form of participatory notes for secondary mortgages (“EBA-SP”)
- Real estate investment trusts (REITs)

Developing more accessible and affordable capital market products:

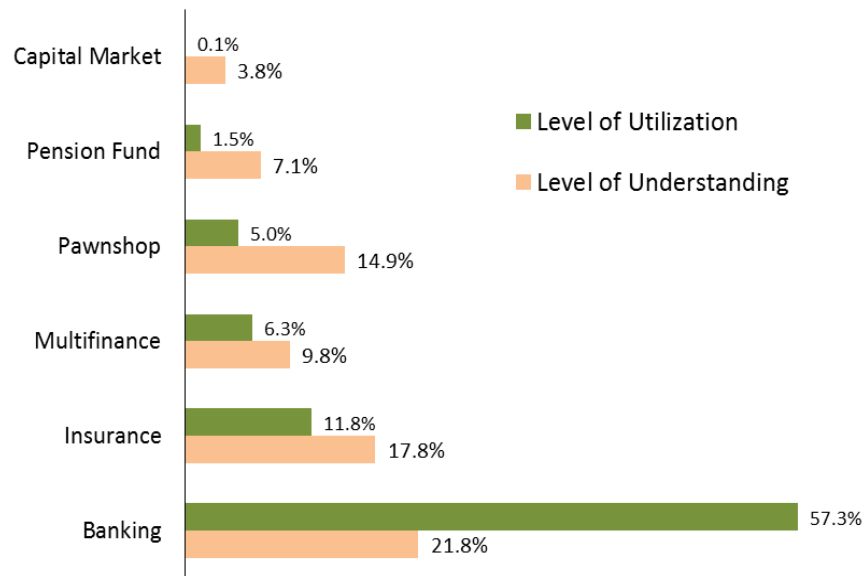
- Expanding distribution channel of mutual funds (previously only investment managers and banks)
- Developing micro financial products/services, including capital market products
- Opening opportunities for other parties (including banks) to become securities marketing agents
- Developing an integrated micro financial services (“*Laku Mikro*”)



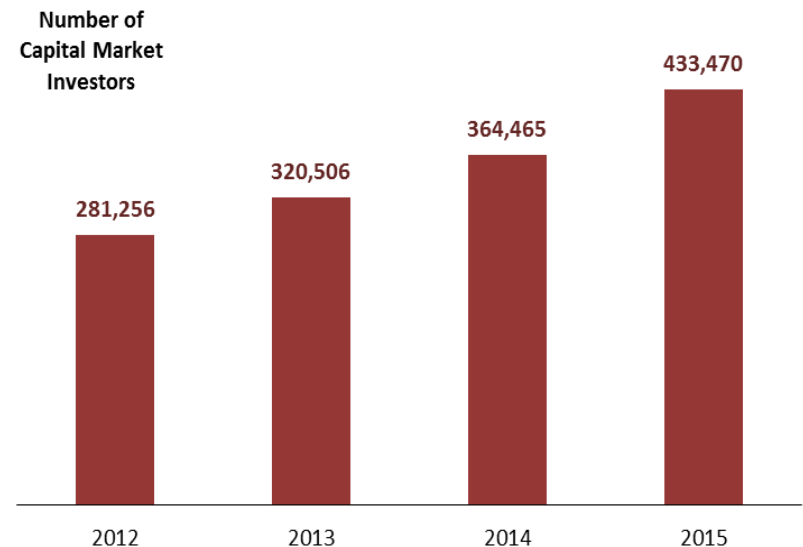
Addressing the demand-side: Need for a gradual shifting to longer-term investment products

As in many other emerging markets—where banks predominate in the financial sector, public savings in Indonesia are mostly accumulated in short-term saving products. Participation of the public in the capital market is relatively low, but continuously growing.

Findings from OJK's 2013 Financial Literacy National Survey



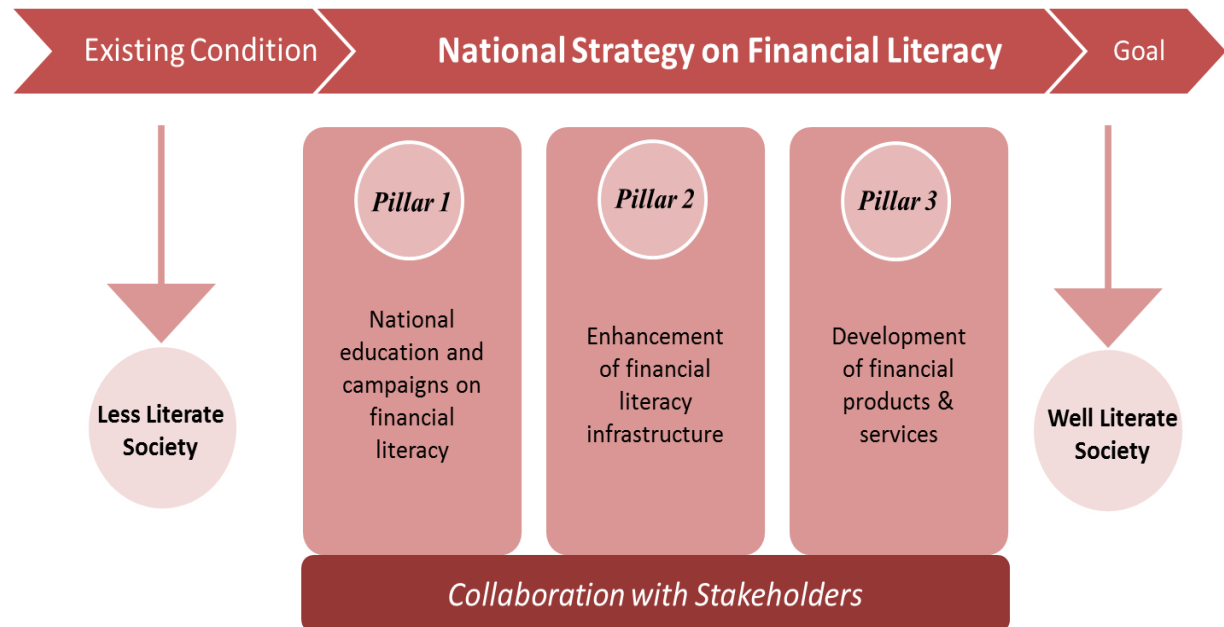
Number of Capital Market Investors
(not including government debt securities & mutual fund investors)



Towards financially-literate Indonesians: Accumulating public savings in long-term investment products

National Strategy on Financial Literacy (launched in 2013)

Vision: Creating a financially-literate society and increasing the utilization of financial products to improve public welfare



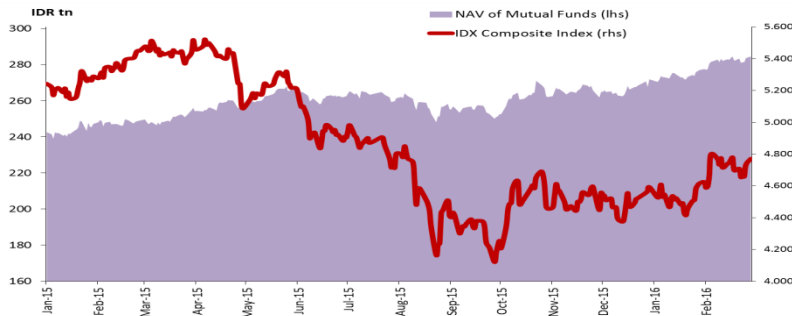
OJK is undertaking a wide array of initiatives and programs to educate the public on saving and investing; thus improving personal finance skills and accelerating financial well-being of the public.



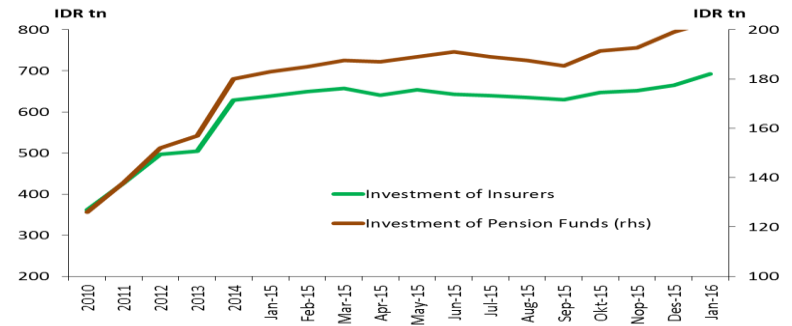
- Inclusion of financial literacy skills in formal education curricula
- Financial literacy campaigns through various media
- Enhancement of infrastructure, including financial consumer care & consumer protection regulations

Institutional investors: Directed to focus on longer-term investments...

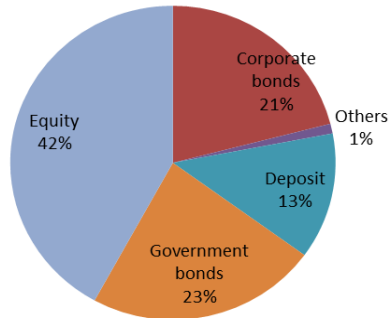
The movement of mutual funds' net asset value (NAV) is in line with that of market index, but with much lower volatility...



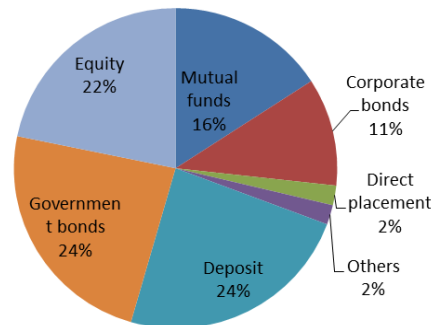
Amidst the fluctuating market, the investment value of insurers & pension funds is relatively stable...



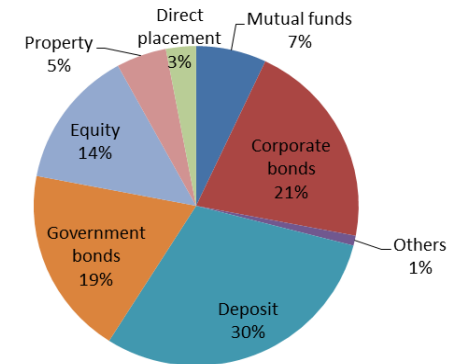
Composition of mutual funds investment portfolio (Feb-16)



Composition of insurance industry investment portfolio (Jan-16)



Composition of pension funds investment portfolio (Jan-16)



- Supporting regulatory frameworks are required to make insurers and pension funds more focused on long-term investments. In January 2016, OJK issued a regulation requiring insurers and pension funds to place a minimum of 20-30% of their investment portfolio in government debt securities.

End of Presentation

