

# Financial sector policy package unveiled



By Eugene V Flynn

As part of its ongoing programme to improve the business climate in Indonesia, the Government has issued a joint decree with Bank Indonesia in the form of a Financial Sector Policy Package (FSPP). Its stated goal is to improve the coordination between the country's fiscal and monetary authorities and to enhance ongoing reforms affecting the banking industry, non-bank financial institutions and the capital market.

The joint decree complements two earlier policy packages: the Policy Package for Improving the Investment Climate and the Policy Package for the Acceleration of Infrastructure Development. Like the policy packages preceding it, the FSPP is a mix of policy statements (14), programme announcements (34) and action items (55).

The five components of the FSPP may be briefly summarised as follows:

**Financial System Stability:** This component of the FSPP seeks to improve coordination between fiscal and monetary authorities by, among other things, launching the so-called Financial System Stability Forum. Members of the forum include representatives of various financial supervisory and regulatory agencies. The Forum will have responsibility for implementing the Indonesian Financial System Architecture (ASKI) and the Financial Sector Assessment Program (FSAP). It will also oversee the drafting of new legislation on a 'Financial Sector Safety Net'.

**Banking Institutions:** This component embraces two principal policies, one aimed at strengthening banking institutions in general and the other aimed at improving the performance of state-owned banks in particular.

Bank Indonesia is committed to issuing a new regulation to encourage further consolidation of the fragmented banking sector by simplifying the tax administration in mergers, acquisitions and consolidations. Bank mergers are already a main component of Bank Indonesia's 10-year master plan introduced in 2004 to improve corporate governance practices.

Additional regulatory changes are promised to boost the ability of state-owned banks to recover non-performing loans. Current regulations classify state-owned banks' loan portfolios as state assets, thereby impeding the banks' ability to both negotiate workouts with debtors and remove bad debts from their books.

**Non-Bank Financial Institutions:** Non-bank financial institutions (NBFIs), including insurance companies, pension funds, finance companies and venture capital firms, continue to be a focus of the Government's attention. New measures will improve capital structures for insurance companies, finance companies and venture capital firms, and enhance implementation of 'know-your-customer' principles in support of the Government's efforts to stifle money laundering.

The insurance industry will also be subject to new regulations dealing with handling unhealthy and insolvent institutions, consumer protection measures, improving the quality of directors and commissioners and development of regulations for Syariah-based insurance and re-insurance products.

**Capital Markets:** The principal thrust of this component is to expand and improve the liquidity, efficiency and integrity of Indonesian capital markets. Improved efficiency will be sought by merging the Jakarta and Surabaya Stock Exchanges, implementing a remote trading facility, increasing the use of information technology and expanding the secondary market of debt instruments. Plans also call for the diversification of market instruments, such as retail obligations, Syariah-based securities and others.

**Privatisation and Export Enhancement:** Lumped together in the 'Other' category are two potentially important components, privatisation and export financing.

The FSPP calls for the formation of a Privatisation Committee to draw up a priority list of privatisation of state-owned firms. It is anticipated that this list will be ready in time for the Indonesia Infrastructure Summit scheduled for the beginning of November.

The FSPP also calls for new legislation to create the National Export Financing Agency.

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