

**COORDINATING MINISTRY FOR ECONOMIC AFFAIRS
REPUBLIC OF INDONESIA**

Press Release

**The Government and Bank Indonesia issue
Financial Sector Policy Package**

Wednesday, July 5th 2006, -- The Government and Bank Indonesia today signed a joint decree (SKB) on the Financial Sector Policy Package, which aims at improving coordination between the Government and Bank Indonesia in their capacity as fiscal and monetary authorities, and to continue reform steps to strengthen the banking industry, non-bank financial institutions and the capital market. The joint decree signed by Coordinating Minister for Economic Affairs, Governor of Bank Indonesia, Minister of Finance and State Minister of State-Owned Enterprises, complements two previously issued policy packages early this year – i.e. the Policy Package for Improving the Investment Climate and the Policy Package for the Acceleration of Infrastructure Development.

The three policy packages have been issued in order to accelerate economic growth. The Policy Package for Improving the Investment Climate is intended to improve Indonesia's economic competitiveness in an increasingly competitive global environment. The Policy Package for the Acceleration of Infrastructure Development has been an effort to upgrade Indonesia's infrastructure condition and improving its capacity. Meanwhile, the Financial Sector Policy Package is aimed at improving financial market and institutional infrastructure, enhancing businesses' access to capital and establishing a stronger, more balanced and stable structure of the financial market. This way, the country's improving macroeconomic stability in recent months is expected to be maintained and becoming a solid basis for the real sector recovery through adequate financing support from financial institutions and the capital market.

In preparing this package, the Government and BI conducted a series of consultations with businesses, financial institutions, and other related parties and stakeholders. Details of this package show the strong commitment from all of the institutions responsible for implementing and taking initiatives to produce clear outputs in a time-bound manner.

In general, the Financial Sector Package consists of 5 policy package components, namely;

1. Financial System Stability

The financial system stability package, seeks to strengthen the coordination between fiscal and monetary authorities which has improved

following a mini-crisis in the fourth quarter of last year. This can be done through the formulation of a Law on the Financial Sector Safety Net and operationalization of the Financial System Stability Forum. This Forum, which has members from the financial supervisory and regulatory agencies, is tasked to deliver a number of important decisions in the next few months, including the Indonesian Financial System Architecture (ASKI) and planning the implementation of the Financial Sector Assessment Program (FSAP).

2. Banking Institutions

This policy package component comprises two principal policies, namely the Policy on Strengthening Banking Institutions and Policy on Improving the Performance of State-Owned Banks. The objective of these policies is to strengthen an on-going banking reform which is implemented through the six pillars of the Indonesian Banking Architecture (API). This is to be achieved among others through regulatory changes pertaining to the resolution of non-performing loans at the state-owned banks, together with the steps to secure its implementation.

3. Non-Bank Financial Institutions

Strengthening non-bank financial institutions, which include insurance, pension funds, finance companies and venture capital firms has been a focus of the government's attention and this will continue. Concrete steps which will soon be taken by the Government to strengthen the NBFIs sector will involve institutional and prudential measures, such as strengthening of capital structure for insurance firms, finance companies and venture capital firms, handling of insolvent insurance companies and firm measures against insolvent institutions, as well as the adoption of good governance principles for pension fund establishments. In addition, consumer protection measures in the insurance industry will be taken through operationalising the Indonesian Insurance Mediation Agency, tax treatments and improvement in the quality and effectiveness of supervision of NBFIs, as well as development of regulations for syariah-based insurance and re-insurance business.

4. Capital Market

This package component is targeted at improving the liquidity, efficiency and integrity of the capital market, in order to allow it to grow sustainably. Concrete steps to be taken include strengthening of the market structure, enhancement of consumer and investor protection and improvement of the regulatory and legal framework to support the supervisory and legal enforcement function, as well as upgrading the set of regulations in accordance with international standards. The development of the market infrastructure is targeted at improving price transparency and trading

system into a more credible, efficient, effective and useable system, along with a mechanism to safeguard the liquidity and stability of the secondary market. Furthermore, concrete steps will be taken for widening the investor basis through the diversification of market instruments, such as retail obligations, syariah-based securities, Exchange Traded Fund and others, as well as increased participation of the people in the capital market and improving the investing culture.

5. Others

This Policy Package will also clarify the Government's privatization policy direction, with the formation of the Privatization Committee and development of the Privatization Strategy blue print. In addition, export financing development will be enhanced through the submission of a draft Law on the National Export Financing Agency (LPEI) to the Parliament as the legal basis for the establishment of the institution.

Financial Sector Package

Policy Package	Policy	Program	Action
1. Financial System Stability	2	3	7
2. Banking Institutions	2	7	16
3. Non-Bank Financial Institutions	4	11	14
4. Capital Market	3	10	19
5. Others	2	2	3
Total	13	33	59

Implementation and Monitoring

Implementation of the policy package as a whole will be coordinated by a Team led by the Coordinating Minister for Economic Affairs, with members including Bank Indonesia Governor, Finance Minister and the State Minister for State-Owned Enterprises. Implementation results will be reported to the President and the public periodically. Accountability of the Team's performance and responsibility in the implementation of each program will be made clear through these progress reports. This monitoring process will be strengthened with the formation of an independent monitoring team in the near future.

The government realizes that development of the Indonesian financial sector to world class standards will be a dynamic process requiring successive stages. Accordingly, follow-up financial sector policy packages will be developed in 2007 and beyond to further enhance the financial sector's role in supporting the real sector.

Note: You could find details of the policy package at the homepage of the Coordinating Ministry for Economic Affairs on 6 July 2006 by clicking <http://www.ekon.go.id/v3/>