

INDONESIA

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Bank Indonesia new regulation package

In early October, Bank Indonesia (BI) issued a package of 14 new regulations for the banking industry, aimed at boosting the economy and encouraging consolidation within the industry itself.

Under the new rules, lending limits have been relaxed, as have minimum capital requirements for surviving commercial banks as a result of mergers.

The new regulations are a response to complaints that stringent regulations have impeded banks from extending loans, a factor often cited by commercial banks for placing a substantial portion of their portfolios in central bank debt paper instead of providing financing to corporate borrowers.

One of the most significant new rules is the prohibition against investors controlling more than one commercial bank. According to Bank Indonesia Governor Burhanuddin Abdullah, joint-venture banks and branches of foreign banks would not be subject to this rule. Moreover, investors will be allowed to have controlling interests in two banks, provided one is conventional and the other is a Sharia-based bank.

The policy is expected to impact foreign investors, such as the Singaporean government's Temasek Holdings and the Malaysian government's Khazanah Nasional Berhad, both of which have controlling stakes in more than one private Indonesian bank.

BI has required all banks to submit their compliance action plans by 2010. Compliance alternatives include mergers and acquisitions, establishment of a holding company or divestment of a majority stake to other parties. Special allowances may be made for state-controlled banks and private banks whose merger plans are technically complicated.

Other noteworthy features of the new package include:

- Four regulations strengthening the foundation for Islamic banking products;
- Five regulations promoting the development of rural credit banks (BPR);
- Special treatment of debtors in areas affected by natural disasters in Indonesia;

- Relaxed requirements for foreign exchange bank status for surviving banks resulting from mergers; and
- Improving corporate governance rules by imposing 'revolving-door' limitations on former bank directors and executives from becoming commissioners.

Indonesia elected to UN Security Council

In mid-October, Indonesia was elected to a non-permanent seat on the United Nations Security Council (UNSC), easily achieving the required two-thirds majority by a 158 to 28 vote over its closest rival, Nepal.

On 1 January 2007, Indonesia will begin a two-year term on the 15-member UNSC, which is composed of five permanent members with the right of veto (Britain, China, France, Russia and the United States) and 10 non-permanent members.

Non-permanent members are elected according to an agreed geographic allocation, which awards two seats to African and Asian countries, two to Western European and Other States, and one to Latin America and the Caribbean during this year's round of elections.

Belgium and Italy were the only contenders in the Western European and Other States category, and they received 180 and 186 votes respectively. South Africa, the only candidate in the African group, was elected with 186 votes.

The UNSC's five other non-permanent members, whose terms end on 31 December 2007, are Congo, Ghana, Peru, Qatar and Slovakia. The outgoing non-permanent members are Argentina, Denmark, Greece, Japan and Tanzania.

Indonesia has the world's largest Muslim population, and under President Susilo Bambang Yudhoyono has been seeking to raise its international stature. A long-standing proponent of Palestinian independence, Indonesia is generally regarded as being moderate in its international views. The government has publicly announced its intent to play a role in the resolution of the Middle East crisis and to offer assistance in defusing the nuclear standoffs involving Iran and North Korea.

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