

CHAPTER I

INTRODUCTION

1.1. Background of the Study

In macroeconomics investment¹ plays a significant role. It plays dual roles; first, because it is a large and volatile component of spending, sharp changes in investment can have a major impact on aggregate demand. This, in turn, affects output and employment. Second, an investment leads to capital accumulation. Adding the stock of building and equipment increases the nation's potential output and promotes economic growth in the long run (Samuelson and Nordhaus, 1995: 433). Actually investment has a broad understanding; it is not only building a new factory or house considered as investment. Many people think of investments in a narrow sense. They consider buildings or savings accounts as investments but may not view their stocks and bonds as such. Any assets – tangible or intangible – that have the potential to provide a periodic return and/or to increase in value are called investment (Winger, Frasca and Ralph, 1995: 10).

In economic life there are many investment vehicles, the following table 1.1 shows kinds of investment vehicles as alternative choices for people

¹ Macroeconomists use the term “investment” to mean additions to the stock of productive assets like capital goods – capital goods being equipment, structures, or inventories. When PT Indofood Tbk. builds a new factory or when Mr. Udin builds a new house, these actions represent investments.

who want to invest their idle fund in order to get appreciation in term of profit or benefit (Winger, Frasca and Ralph, 1995: 11).

Table 1.1
Kinds of Investment Vehicles

No	Investment Vehicles	Examples	Reasons for Holding
1	DEBT INSTRUMENTS Short-terms Intermediate terms Long-terms	Treasury bills, saving accounts, money market accounts. Treasury notes, some government agencies issues. Treasury and corporate bonds, municipal bonds	Liquidity, temporary "parking place" Some liquidity, mostly earnings. Earnings with safety of principal
2	COMMON STOCKS Low-risks High risks	TLKM, ISAT MREI, MYRX	Moderate growth, safety of principal. Rapid growth
3	PREFERRED STOCKS	Some Go Public Companies issue preferred stocks at same time with the common stocks; BYSP, CNTX	Income, safety of principal
4	LEVERAGE-INHERENT SECURITIES Convertibles Warrants Put and Call Options Futures contracts	Only limited Go Public Companies issue these kinds of securities. UNIT-W, KARK-W, PTBA-W Individual stocks, market indexes, bonds, commodities. Gold, corn, foreign currencies.	Moderate income, growth, with the common stock, quick capital, appreciation. Quick capital, hedging, appreciation. Quick capital, hedging, appreciation. Appreciation.
5	POOLING ARRANGEMENTS	Mutual Funds, investments trust.	Various

6	TANGIBLES	Real estates, collectibles, gold, precious gems.	Hedge inflation
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Investment in financial assets, especially in capital market, is a potential investment vehicle. Investment in capital market has its own characteristics where the term of *high risk; high return* occurs. More fund and knowledge are needed in order to achieve good investment which results in terms of return or profit. Both fund and knowledge are becoming barrier for some people to invest their fund in capital market, beside the lack of time to watch the market regularly. Some rich men do not have enough time to watch regularly the growth of market in which continuous analysis of stock prices in capital market is significantly needed. Meanwhile some people delay their investment in capital market caused by minimum fund they have to buy shares of a go public company. These cases actually are not a problem anymore since 1996. The year of 1996 is legitimated as the Year of Mutual Fund (Tahun Reksa Dana) by our government. Since this year people able to invest their small amount of money in capital market indirectly.

Mutual fund is a coordinating institution which pools fund from society (investor society) to be invested on securities portfolio by a fund manager (UUPM article no 1 verse 27). It is an alternative investment chosen by people who pool their money to buy stocks, bonds, and other securities selected

by professional managers who work for an investment company. (Kapoor, Dlabay, Hughes, 1996: 499).

Mutual fund has become a popular investment choice for the latest three years. The booming of mutual fund is showed in table 1.2 in which in 2001 the value of managed fund by fund managers in mutual fund industry is only Rp. 8 quintillion, and amazingly increased at amount of Rp. 46, 61 quintillion in the end of 2002. It means that in one year the value of fund collected from the society and managed in the Mutual Fund investment vehicle raised as much as 482 %.

The growth of Mutual Fund significantly continues in the year of 2003, the value of which raised 31,4 % or Rp. 61,25 quintillion until April 2003. This amount could be reached only in the first four month in 2003. More information of mutual fund growth is shown in table 1.2 below:

Table 1.2
The growth of Mutual Fund 1996 – 2003

YEAR	QUANTITY OF MUTUAL FUND	VALUE OF FUND MANAGED BY FUND MANAGERS IN MUTUAL FUND (In quintillion.)	AMOUNT OF MUTUAL FUND ACCOUNT
1996	25	2.78	2.441
1997	77	4.92	20.234
1998	81	2.99	15.482
1999	81	4.97	24.127
2000	94	5.52	39.487
2001	108	8.00	51.723
2002	131	46.61	125.820
2003 (April 2003)	154	61.25	158.879

Source: Statistical Report of Stock Exchange of BAPEPAM May 2003

There are many factors affecting the booming of Mutual Fund during the latest three years. First, *the decrease of the Interest Rate of Bank Indonesia Certificates (Sertifikat Bank Indonesia)*. The decrease trend of SBI interest rate pushes the commercial banks to decrease the depository interest rate. This phenomenon moves the society to find the alternative investment vehicles that able to give more profit. Mutual Fund becoming the popular alternative investment since it can give minimum return 11 % compared with 9 % of deposit return. Second, *the role of banking parties to be sales agents for Mutual Fund product*. This role has a significant and strategic part since the banking industry spread in many regions profitable for the mutual fund marketing (Manurung, 2003: 26)

Beside those 2 factors, other factors that can influence the growth of Mutual Fund in Indonesia are the *exchange rate of US\$ to Rupiah* and the *value of GDP* which represents the income of society affecting the tendency to buy Mutual Fund products (Boentoro, 2003: 75). The number of mutual fund's investors also impact on the growth of mutual fund in Indonesia.

The rapid growth of mutual fund in Indonesia will be an interesting topic to be discussed in this thesis entitled **ANALYSIS OF FACTORS AFFECTING MUTUAL FUND IN INDONESIA IN 1996:2 – 2003:3**.

1.2. Problem Identification

In order to have a clear and bright framework, it is important to identify the main problem of this research as the basis framework to write this thesis. Problem identification is an important and first step in solving the problem discussed in this thesis.

The problem identification in this research is analyzing factors that affect the growth of mutual fund in Indonesia in 1996:2 - 2003:3.

1.3. Problem Formulation

Based on the study background and the significant analysis on factors influencing the growth of mutual fund in Indonesia, the writer formulates the following problems:

1. How does the interest rate of Bank Indonesia Certificates affect the growth of Mutual fund in Indonesia?
2. How does the Gross Domestic Product affect the growth of mutual fund in Indonesia?
3. How does the exchange rate of US\$ to Rupiah affect the growth of mutual fund in Indonesia?
4. How does the number of investors who invest their fund in mutual fund affect the growth of mutual fund in Indonesia?

1.4. Problem Limitation

In order to have an effective and focused writing, writer restricts the research variables on the following problem limitations:

1. The growth value of mutual fund in Indonesia is the amount of managed fund in mutual fund investment vehicle since 1996:2 until 2003:3.
2. The Interest Rate of Bank Indonesia Certificate is the percentage rate of 3 Months Interest Rate of Bank Indonesia Certificate since 1996:2 until 2003:3.
3. The value of gross domestic product is the amount of Indonesia's GDP since 1996:2 until 2003:3.
4. The exchange rate is the rate of exchange of US\$ toward Rupiah since 1996:2 until 2003:3.
5. The number of investors is the number of investors who invest their fund on mutual fund since 1996:2 until 2003:3.

1.5. Research Objectives

This research is aimed to:

1. Analyze factors that influence the growth of mutual fund in Indonesia in 1996:2 until 2003:3.
2. Explore and measure the impact of interest rate of Bank Indonesia Certificates, gross domestic product value, exchange rate and number of investors on the growth of mutual fund in Indonesia.

3. Improve our understanding and knowledge in investment specifically in mutual fund.

1.6. Research Contribution

The final result of this research is expected to be useful and contributive for the following parties:

1. Academicians. This research can expectedly be used as academic reference specifically in mutual fund problem. Like other writing, hopefully this research will be able to develop knowledge and give information for the next research.
2. Public. Hopefully this research spreads broadly and is read by society especially for those parties who concern on capital market and mutual fund as additional information to determine their investment decision.

This research can expectedly describe some explanation about factors that influence the growth of mutual fund in Indonesia.

1.7. Definition of Terms

This part describes the definition of terms used in this research and title of thesis linguistically in order to have clear understanding.

1. The interest rate of Bank Indonesia Certificates. It is the rate of interest Bank Indonesia's Certificates issued by Bank Indonesia.

2. Gross Domestic Product. It is the measure of the market value of all final goods and services produced in a country during a year (Samuelson and Nordhaus, 1995: 385).
3. The Foreign Exchange Rate. It is the price at which one country's currency exchanges for the currency of another country (Samuelson and Nordhaus, 1995: 469).
4. The Number of Investors. It is the quantity of investors who invest their money in mutual fund investment vehicle.
5. Mutual Fund
 - a. Mutual fund is an investment alternative chosen by people who pool their money to buy stocks, bonds, and other securities selected by professional managers who work for an investment company. (Kapoor, Dlabay, Hughes, 1996: 499) It is a coordinating institution that pools fund from society to be invested on securities portfolio by a fund manager (UUPM article no 1 verse 27).
 - b. A company or corporation formed to invest ordinarily in diversified securities; the funds which it obtains from its shareholders (Webster's new world College Dictionary: 1996).