



REPUBLIC OF INDONESIA

Recent Economic Developments

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Macroeconomic Highlights

Macroeconomic Highlights

- Indonesia was named the region most active business reformer in East Asia and the Pacific according to Doing Business Index 2010 surveyed by the International Finance Corporation (IFC). Indonesia's rank in the index moved up from 129 to 122.
- Indonesia's rank in *The Global Competitiveness Index (GCI) 2009-2010* moved up from 55 to 54 (score 4.26) which is the third consecutive rank increase since 2007. The increase mainly supported from business establishment factor and innovation factor.
- Indonesia has been one of the few countries leading the economic recovery, with a resilient **growth** over the last 2 years. One of the rare countries which successfully posted a positive growth rate in 2009, the third fastest growing economy in the G20. Even during the worst of the global economic slowdown, the economy was still able to generate a positive growth of 4.4% in Q1-2009, 4.0% in Q2-2009, and 4.2% in Q3-2009. For overall 2009 we expect to record growth within the range of 4 – 4.5%.
- **Banking** industry has stayed resilient with high level of CAR (17.6%) and NPL (gross) at a subdued level of 4.3% and net at 1.2% (latest data as of October 2009)
- By end of the Q3-2009, Indonesia's **overall balance of payments** recorded a surplus of US\$3.5 billion (Q2-2009: US\$1.1 billion), resulted from surpluses in both the current account as well as the capital and financial account.
- **International reserves** reached US\$66.85 billion as of end of November 2009, equivalent to about 6.5 months of imports and official debt service payments.
- The **rupiah exchange rates** have been showing an appreciation trend, mainly supported by continuing of global economic recovery and domestic economic performance. During Q4-2009 (up to end of November) rupiah appreciated from 5.39% to Rp9,463 against USD. Rupiah continues appreciated to Rp9,436 against USD as per December 4th, 2009.

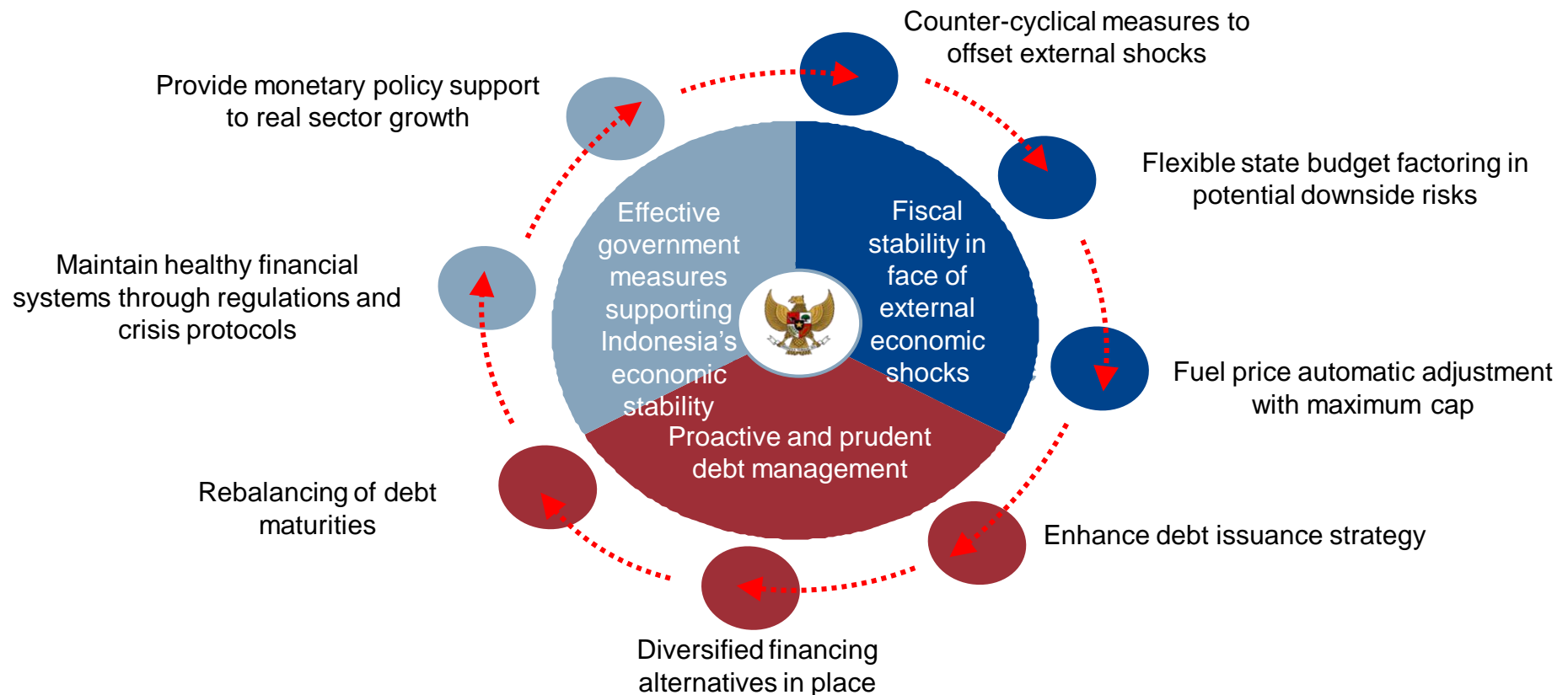
Macroeconomic Highlights

- Up to end of November 2009, the **CPI** recorded 0.03% **deflation** (m-t-m) alongside annual inflation at 2.41% (y-o-y). Accordingly, potential inflation in 2009 to come below the BI inflation target set at 4.5%±1%. The decline in inflationary pressures was mainly driven by the low administered price and volatile food inflation in line with government policy to adjust the price subsidized fuel at the beginning of the year and the adequacy of supply and smooth distribution. Low imported inflation as well as rupiah appreciation had also contributed to maintain CPI inflation at the low level.
- The latest monthly Board of Governors' Meeting convened in **December 2009** decided to leave **BI Rate unchanged** at 6,50%, which is considered adequate to the economic recovery process. the Board of Governors believes that the monetary relaxation brought about by the 300 bps decline in the BI Rate offers ample support for the economic recovery process and bank intermediation. At 6.50%, the BI Rate level is also deemed consistent with the achievement of the 2010 inflation target, set at 5%±1%.
- **Fiscal policy** is taking into account the need to stimulate the economy and will continue at a slower pace in 2010. Tax policy reform continues with lower tariff and higher compliance.
- **2010 Budget** provides fiscal space to implement priority programs of the government.
- Going forward, dramatic slow in world economy pose significant challenges to the economy in 2009

Macroeconomic Highlights

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Indonesia's Policy Responses to Safeguard the Country's Fundamentals Against the Global Financial Crisis



Response to the Crisis: Monetary and Banking

- Maintaining macro-economic stability
- Maintaining confidence in the market
 - Increasing the deposit guarantee coverage (from Rp100 million to Rp2 billion)
- Providing sufficient liquidity for banks
 - Simplifying and reducing the minimum Reserve Requirement
 - Broadening access of Bank Indonesia's Short Term Funding Facility to more banks in need
- Strengthening the Financial Safety Net arrangement
 - Works underway to issue a law on Financial Safety Net
- Maintaining credit growth momentum by issuing several prudential measures:
 - Assessing credit quality only based on 1 pillar (payment punctuality) for SME loans meeting various criteria
 - Gradual implementation of Uniform Classification System and the use of warehouse receipts as collateral
 - Increase in Legal Lending Limit for projects effecting the welfare of many
 - Reduction in Risk Weighted Assets for some SMEs, Home Ownership Loans, and employee and retiree loans
- Increased intensity in foreign bank branch offices and joint venture banks

Real Sector: Indonesia Development Policy

Indonesia Development Policy is based on a 'Triple Track Strategy'

1st

Pro-Growth:
Increase Growth by prioritizing export and investment

2nd

Pro-Job :
Boost up the real sector in order to create jobs

3rd

Pro-Poor:
Revitalize agriculture, forestry, maritime, and rural economy to reduce poverty

Response to the Crisis: Fiscal

Measures Taken to Ensure Sustainability of the 2009 Budget

Indonesia is Moving from a Defensive to Offensive Stance While Maintaining Fiscal Sustainability

Defensive Measures (Existing)

- Earmark expenditure on lower priority projects and imports
- Cutting tax rate by 2% for Corporate and Individual income tax
- Redefine “emergency situation” in State Budget Law 2009 (Article 23) to create stimulus package and contingencies deficit financing
- Increase fiscal risk provision in response to possible economic slow down
- Shift financing sources from marketable securities to contingencies financing facilities
- Prepare crisis protocol through the implementation of the “Financial System Stability Committee”

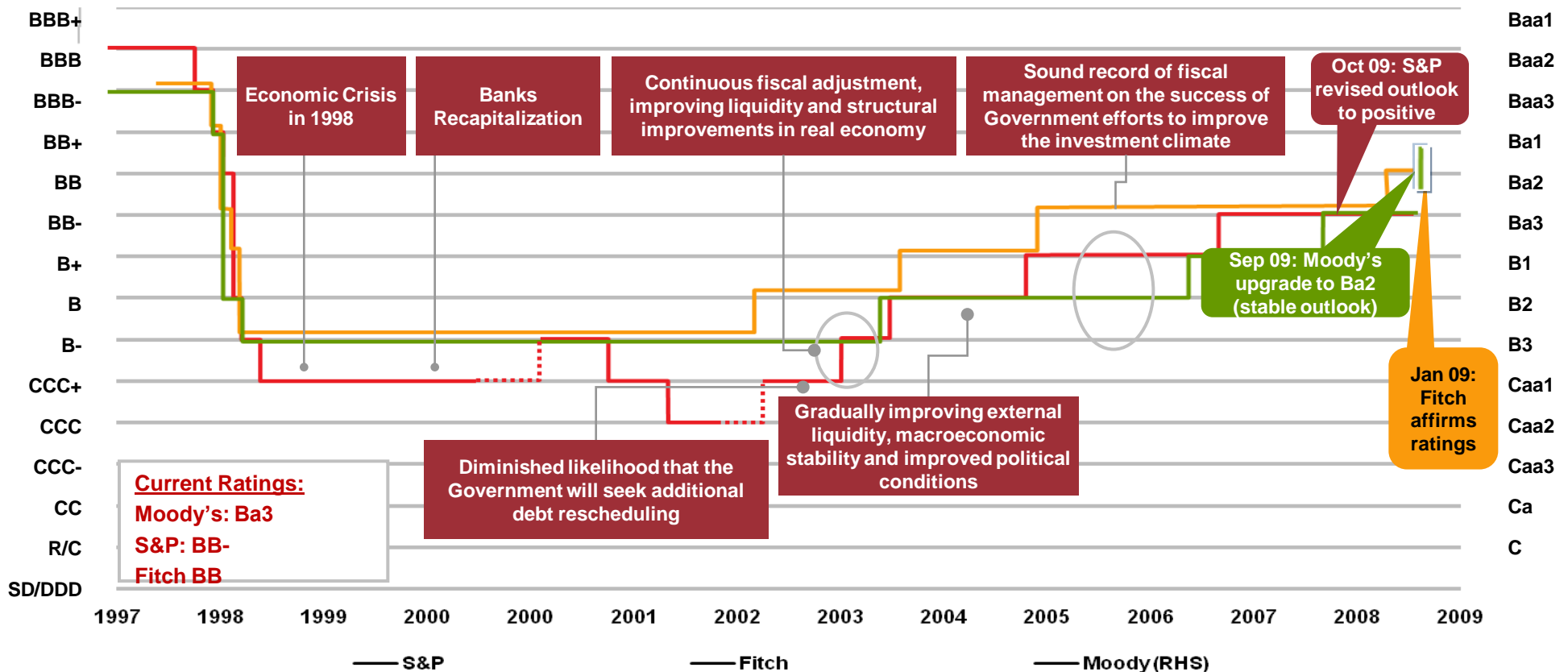
Offensive (Counter-Cyclical) Measures (New Initiatives)

- Provide more direct subsidy for medium and low income households
- Additional expenditure on infrastructure projects which have greater impact on employment creation and poverty reduction
- Introduce Tax Saving measures for Business through:
 - Additional 5% tariff reduction for $\geq 40\%$ listed companies
 - Introduce tax incentives for selected sectors and regions
 - Reduce tariffs for selected sectors e.g. crude palm oil
 - Tax Subsidy on various product & Sectors/industry
- Provide discount on electricity peak-hour charge for industries and reduction of diesel fuel price
- Upsizing budget financing from bilateral and multilateral organisations

Indonesia Story: as Acknowledged by Rating Agencies

Despite of the global crisis, the Republic continued to receive good review from Rating agencies:

- **Moody's Investors Service (16 September 2009):** upgraded Indonesia's foreign and local-currency sovereign debt ratings to Ba2 with stable outlook. The upgrade was prompted by the Indonesian economy's relatively strong resilience to the global recession as well as its healthy medium-term growth prospects.
- **S&P (23 October 2009):** revised the outlook on Indonesia's BB- rating to positive from stable. The outlook change takes into account their expectation that debt reduction and underlying cautious fiscal management will remain key elements of macroeconomic policy. It also incorporates S&P view that a reform-minded leadership with a fresh and increased mandate will continue to pursue microeconomic reforms to increase Indonesia's growth potential, and further strengthen policy coordination and implementation through administrative reforms.

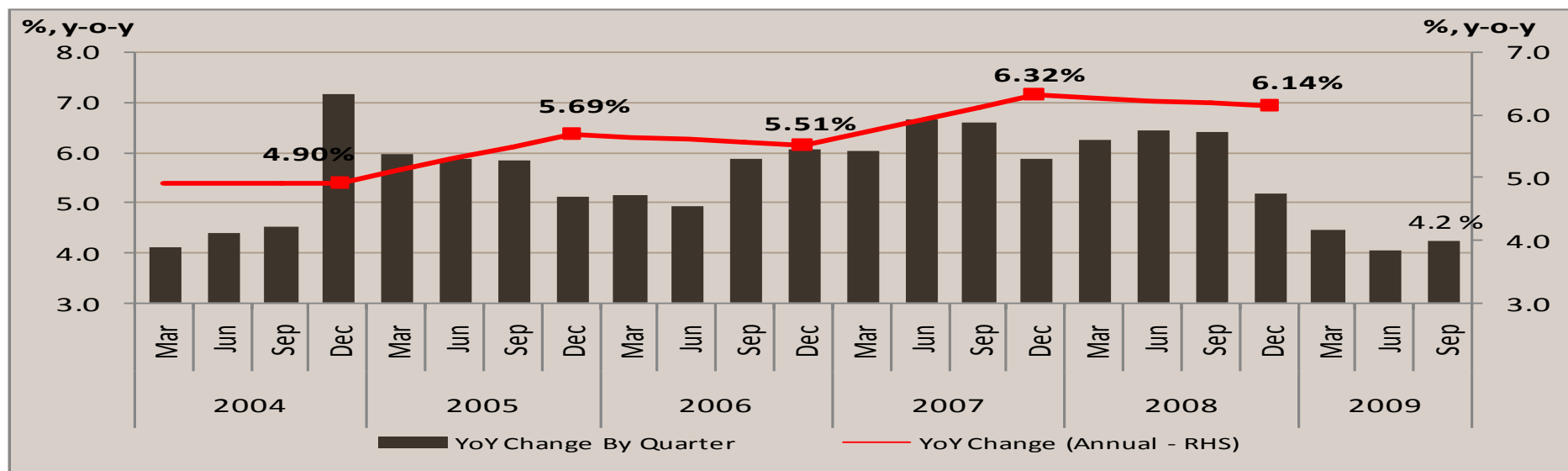


Economic Growth Sustained

The economic growth is relatively strong compared to regional economies.




- During 2007 - 2008, the economy performed steadily at 6,2% in average which was the highest GDP growth after Asian crisis. However, in Q4-2008, Indonesia's economic performance began to moderate as an impact of the global economic downturn.
- Furthermore, GDP growth in Q1-2009 and Q2-2009 were 4,4% and 4,0% (yoy), lower than the preceding year. The softening GDP growth was largely the result of sharp falling in export, commensurate with the deterioration in global economic condition and its impact on purchasing power. Despite this, economic activity fuelled by the national election activities is expected to keep the domestic economy from further decline.
- Entering the third quarter-2009, global economic development showed a more obvious recovery. Various indicators indicate it is even faster than previously thought. This gives confidence that the world GDP will go beyond its lowest point in Q1-2009 and note an increase until the end of 2009. Household consumption remains strong, primarily supported by the maintained household confidence level to the domestic economic performance. As a result, the Indonesian economy in Q3-2009 charted a 4,2% growth (yoy) and showed an upward trend leaving its bottom behind at Q2-2009.
- For 2009 overall, Bank Indonesia forecasts Indonesia's economic growth to reach 4.3%. In 2010, the Indonesian economy is forecasted to grow in the range of 5.0%-5.5%, with growth in 2011 climbing to 6.0%-6.5%. This improving growth trend is predicted alongside more rapid recovery in the world economy, steady improvement on financial and banking markets and the secure condition of domestic fundamentals.

Strong Growth in the Last Two Years



Banking Stability

The Indonesian banking sector continues to maintain financial stability and show positive performance (as of October 2009):

-  Strong solvency, with **CAR** level of 17.6%
-  Controllable credit risk exposure, with **NPL** of 4.3% (gross) and 1.2% (net)
-  Remains to be profitable, with **ROA** of 2.7%

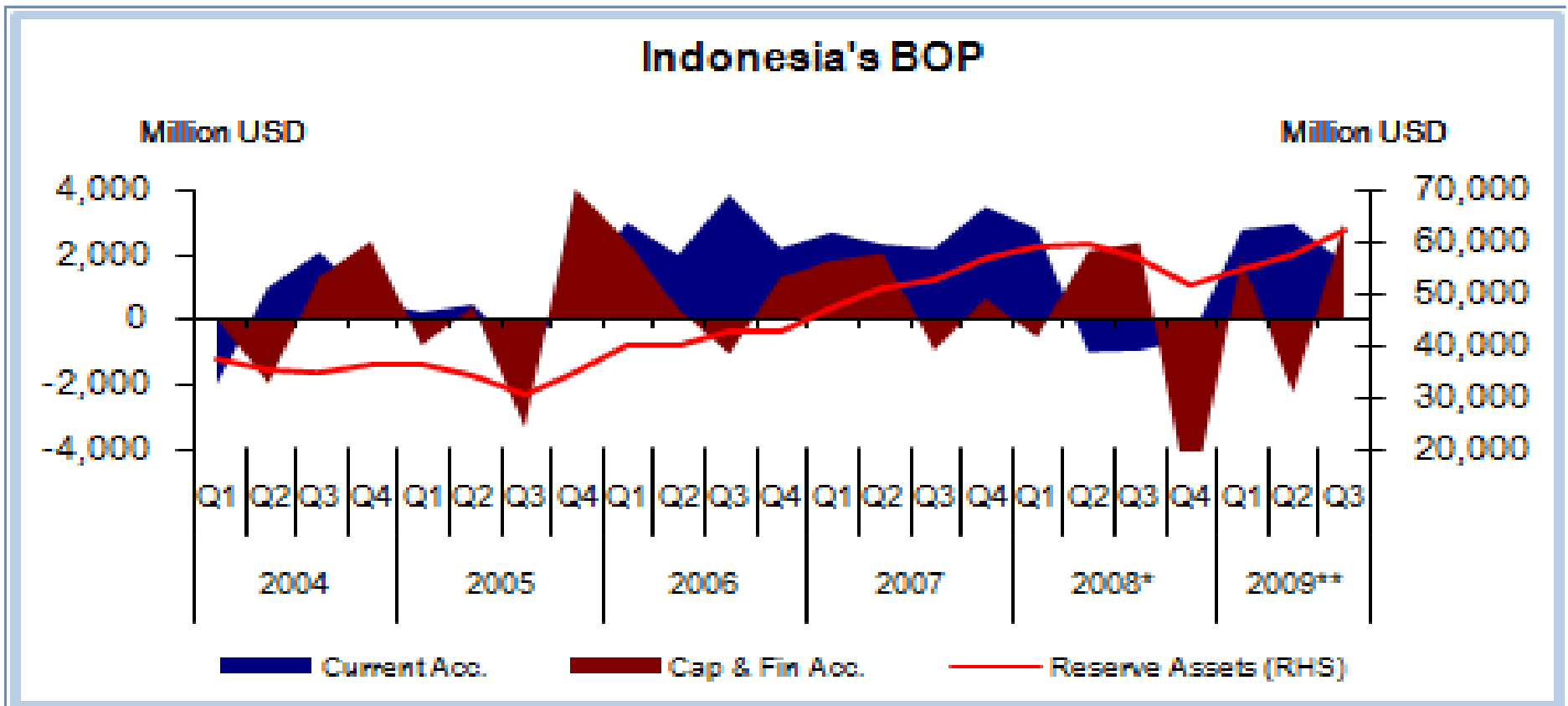
In Trillions of rupiah unless stated otherwise

Main Indicators	Dec-05	Dec-06	Dec-07	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Oct-09
Total Asset (Rp T)	1,469.8	1,693.5	1,986.5	2,122.6	2,310.6	2,352.1	2,354.3	2,388.6	2,392.7
Deposits (Rp T)	1,127.9	1,287.0	1,510.7	1,601.4	1,753.3	1,786.2	1,824.3	1,857.3	1,863.5
Loans (Rp T)	695.6	792.2	1,002.0	1,246.1	1,307.7	1,305.4	1,335.4	1,366.1	1,376.9
Net Interest Income (Rp T)	70.9	83.1	96.4	81.6	113.1	31.4	63.5	94.6	106.3
CAR (%)	19.5	20.5	19.3	16.5	16.2	17.4	17.0	17.7	17.6
NPLs Gross (%)	8.3	7.0	4.6	3.9	3.8	4.5	4.5	4.3	4.3
NPLs net (%)	4.8	3.6	1.9	1.4	1.5	1.9	1.7	1.3	1.2
ROA (%)	2.6	2.6	2.8	2.6	2.3	2.8	2.7	2.6	2.7
BOPO (%)	87.7	86.4	78.8	79.7	84.1	82.3	82.2	82.0	81.7
Number of Banks	131	130	130	126	124	123	122	121	121

Strong Balance of Payments Performance

Indonesia's balance of payments in Q3-2009 posted a surplus of US\$3.5 billion (Q2-2009: US\$1.1 billion), resulted from surpluses in both the current account as well as the capital and financial account.

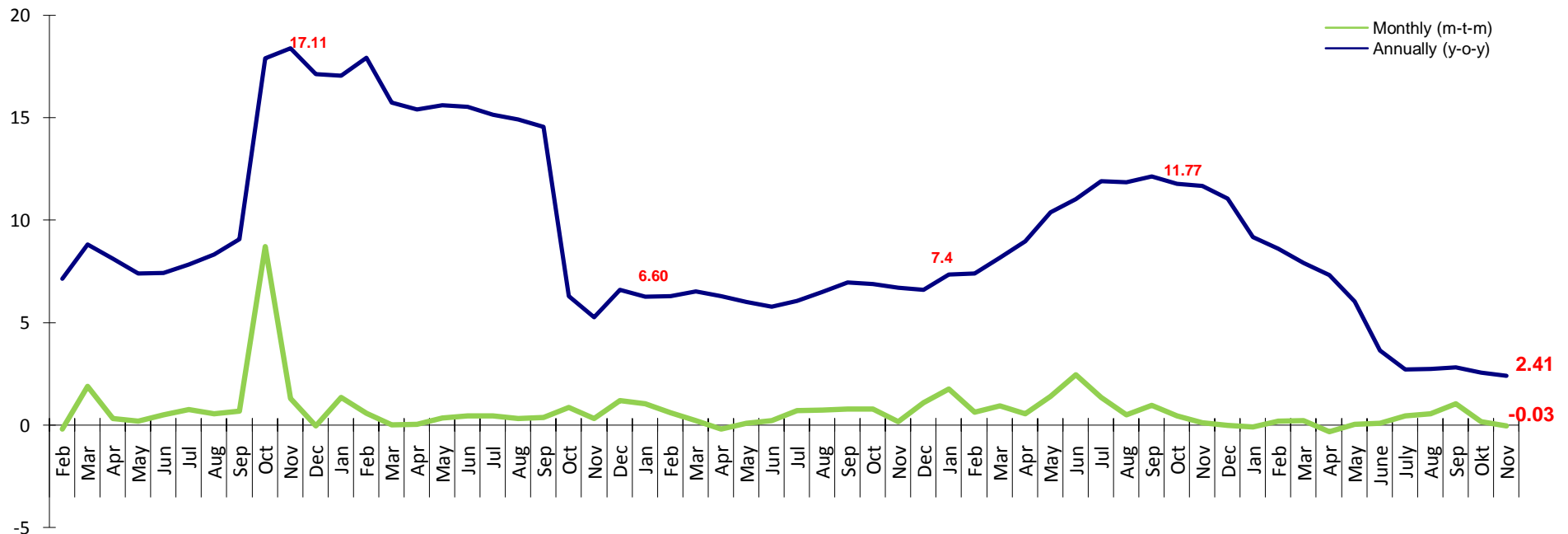
Balance of Payments



Inflation has Been Trending Downward

- **2009 Inflation expectation is in a downward trend to chart a remarkably low inflation.** It is mainly related with the strong consumer and business confidence on the government and monetary policy as well as exchange rate stability, the absence of administered price policy, and better food supply management.
- Fundamentally, inflationary pressure tend to decline related to global economy recovery and rupiah appreciation. While international commodity prices began to increase, imported inflation still remained low. **It contributed on maintaining CPI inflation at the low level, which per end of November 2009 was at the level of 0.03% deflation (m-t-m) alongside annual inflation at 2.41% (y-o-y).** Accordingly, potential inflation in 2009 to come below the Bank Indonesia inflation target set at $4.5\% \pm 1\%$. For years 2010 and 2011, as the economic is expected to be improving, inflation is forecasted to return to its normal path within the range of $5\% \pm 1\%$.

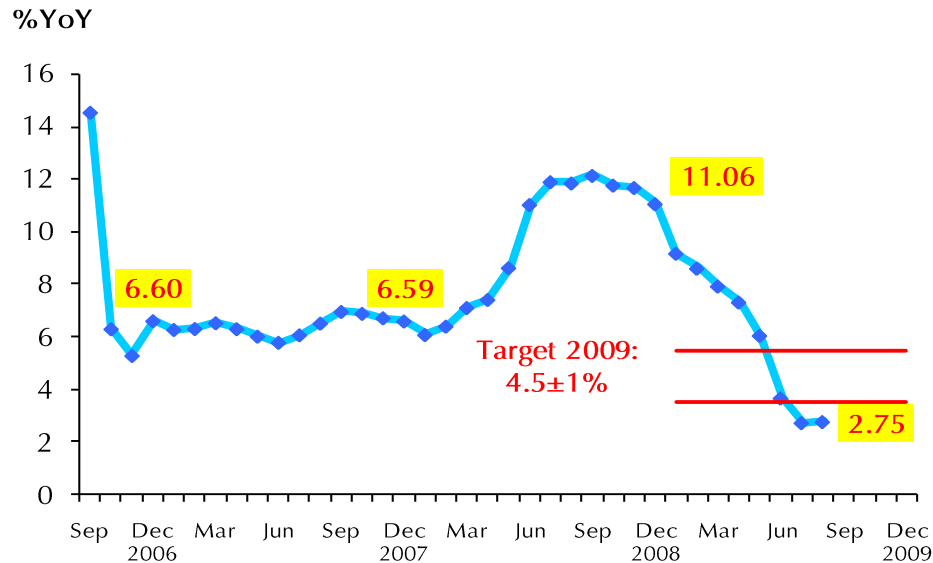
Headline Inflation Trending Down from Peak



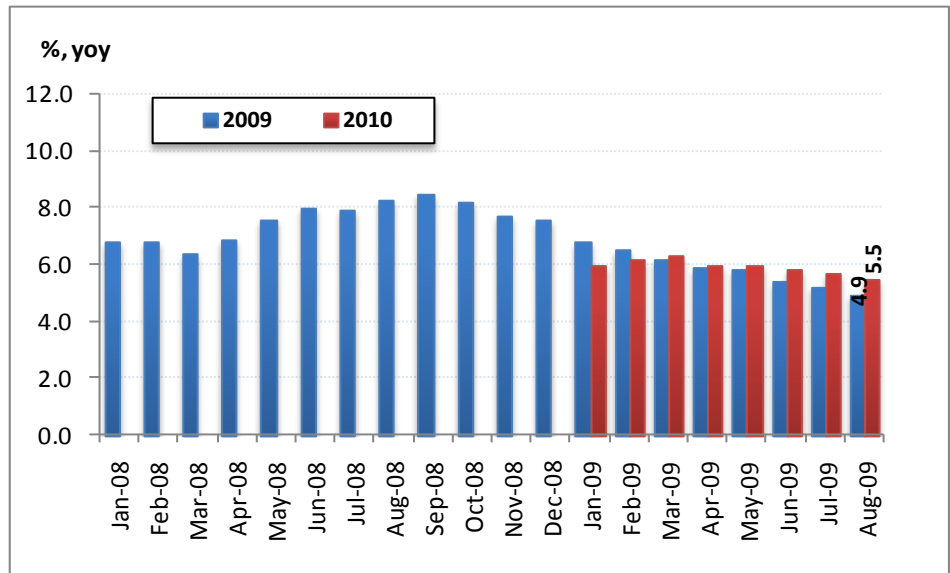
Inflation Expectation

- In line with slowing demand, globally and domestically, we estimate subdued inflationary pressure in 2009. Against this backdrop, CPI inflation in 2009 is predicted to be in the lower end of the target range $4.5\% \pm 1\%$.
- Looking forward, inflation in 2010 is forecasted to return to normal alongside renewed strength in domestic economic activity and commodity prices. Bank Indonesia continues in monitoring global economic developments and taking the necessary measures to safeguard macroeconomic stability while maintaining a conducive climate for the economy.
- To enhance the effectiveness of monetary policy transmission, BI will encourage systemically important banks (SIBs) to play significant role as market leaders in setting the deposit and credit rates. BI will also encourage banks to continue extending credit to the real sector, without abandoning prudential banking policy.

CPI Inflation Forecasts



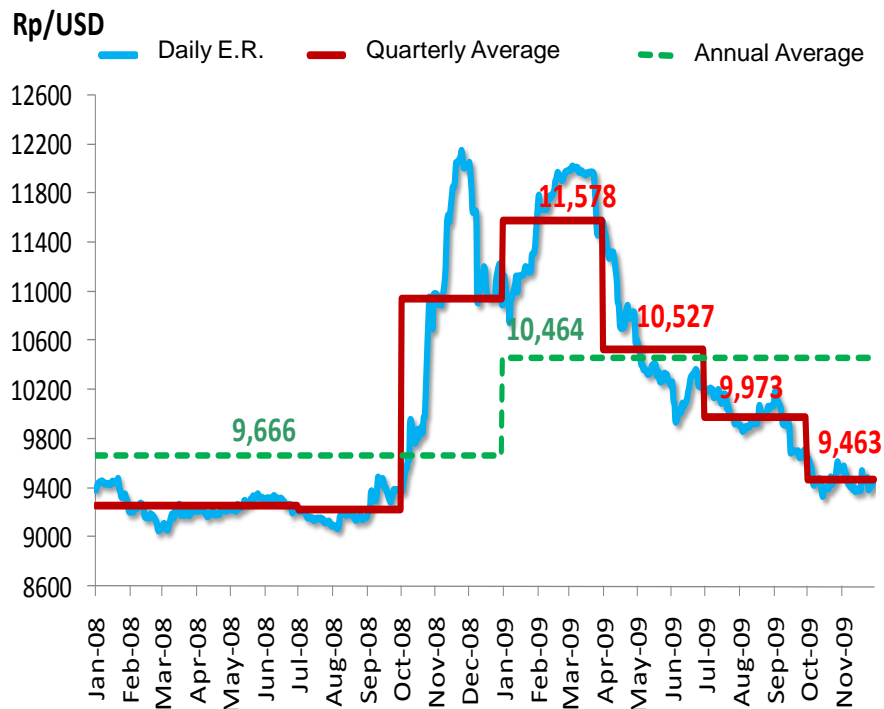
Inflation Expectation – Consensus Forecast



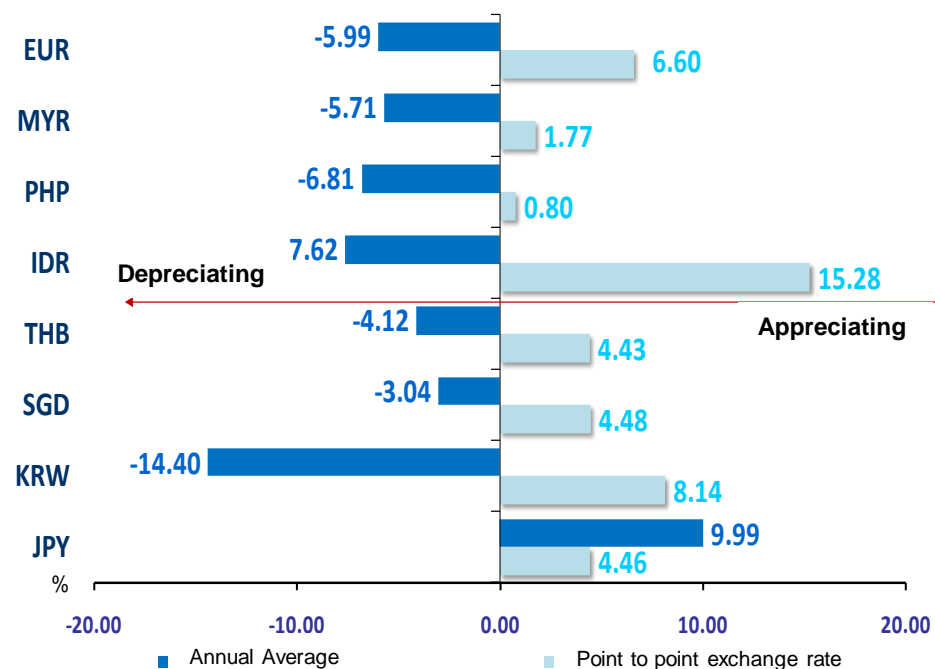
Exchange rate: Strengthened and more stable through 2009

- Rupiah appreciated substantially spurred with increasing investor risk appetite due to improvement in global economic recovery outlook. Investors' preference to hold rupiah assets were also supported by better economic growth in 2009 along with outperformed regional economy. Foreign investors purchased the rupiah assets such as SBI, government bonds (SUN), and stocks.
- Rupiah strengthened from Rp10,950 per USD at the beginning of this year to Rp9,436 per USD on December 4th, 2009, the strongest appreciation among other Asian currencies.
- Rupiah Exchange Rate along Q4-2009 strengthened 5.39% up to end of November to Rp9.463 against USD, with a slightly increasing volatility.

Rupiah Exchange Rate – Against USD



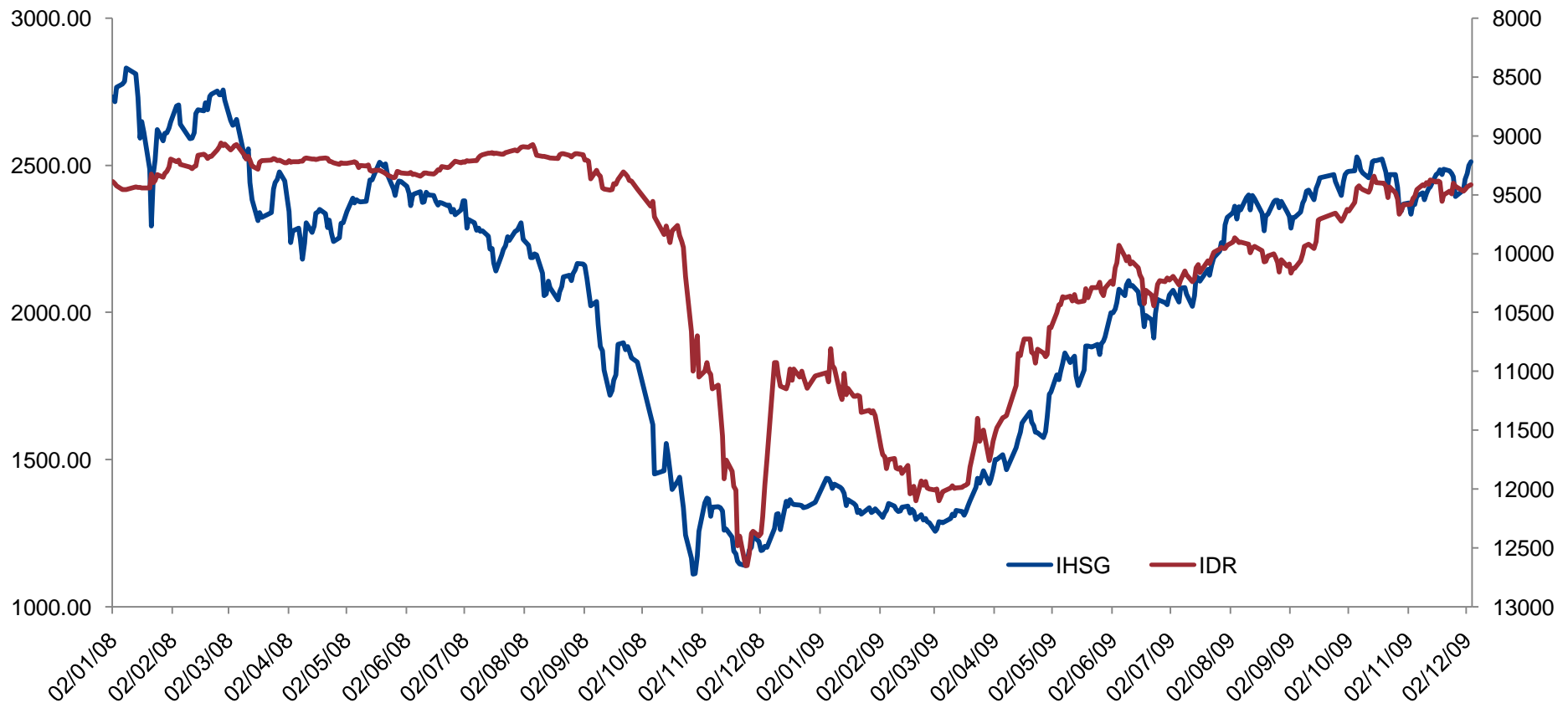
Exchange Rate Movement – Indonesia Compared to Regional



Improved Confidence in the Equity Market

- In line with the strengthening of rupiah, the Indonesia stock market index also rebound reflecting investors confidence on the economy.
- The stock index rose significantly from 1355 at the end of 2008 to 2,469 at November 19th, 2009, one of the best performing equity index in the region this year.

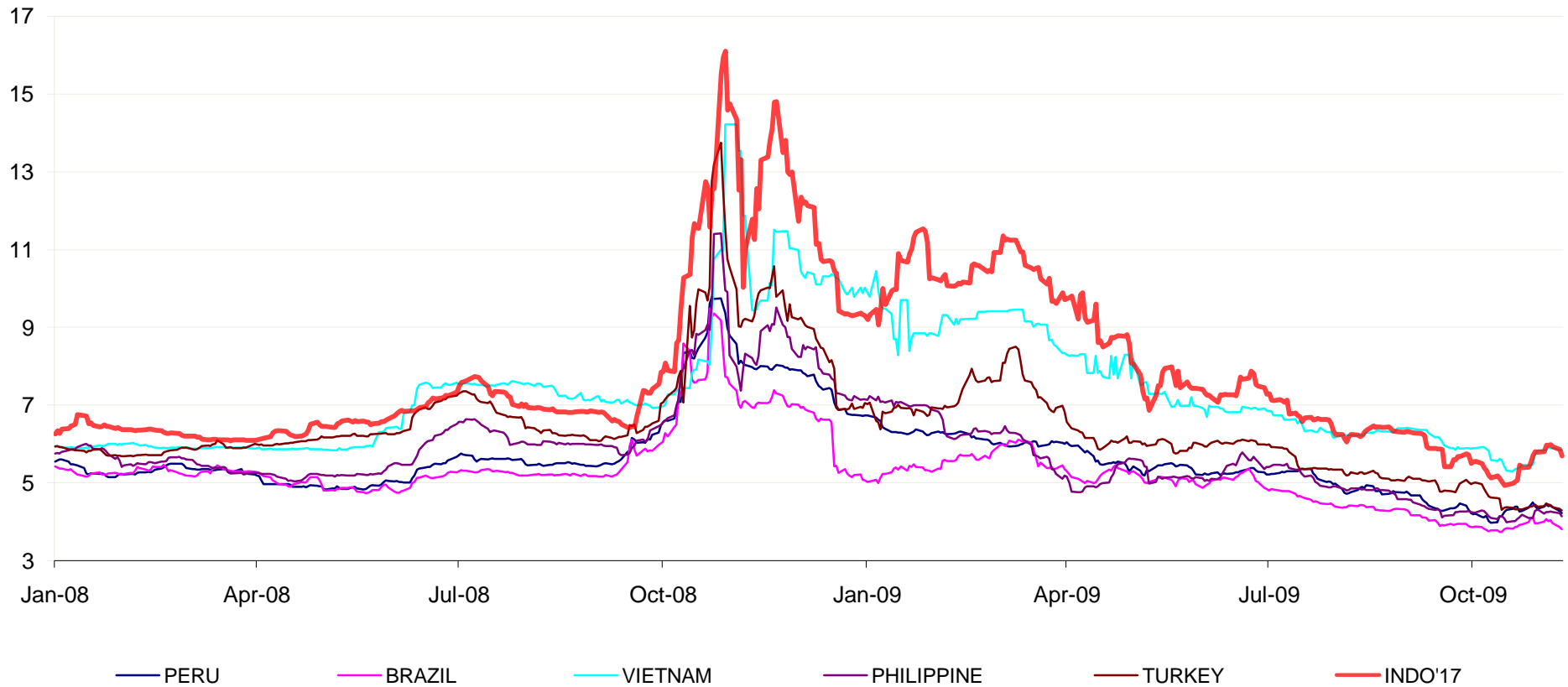
Exchange Rate and Equity Markets



Performance of the Global Bond Has Been Significantly Improved

- **RoI Government Global Bond yield is lowered to converge with peers' level**

Global Bond Yield: Indonesia and Peers



In 2010, the Indonesian economy is positioned to grow beyond original forecasts

2010 Forecast

GDP Growth
is forecasted at about
5.0%-5.5%

Export
is expected to chart
higher growth

**Private
Consumption**
will remain strong

Inflation
is estimated to be on
target at range of
5.0% 1%

Main Factors Behind The Forecast

- The continued strength of household consumption growth
- Better than expected exports and the Government stimulus.
- The brisk household consumption is bolstered by high levels of consumer confidence commensurate with low inflation and interest rates, in addition to the income effect of rising export revenues.
- Externally, export performance will improve on the growing strength of global economic recovery and increases in prices for oil and natural gas as well as non-oil and gas commodities.
- Global economic recovery will produce renewed acceleration in exports. The global economy is predicted to enter an expansionary phase in 2010. Renewed momentum is predicted for the economies of Indonesia's major trading partners, such as Japan, China and Singapore. This strengthened performance will position exports as one of the main engines of economic growth in 2010.
- Indonesian exports characteristics which is based on primary commodities has also supported export growth acceleration.
- Household consumption is forecasted to maintain vigorous expansion, driven by improvement in external factors. The strengthening global economic outlook for 2010 will given added momentum to Indonesia's exports, which in turn will produce an overall increase in private incomes.
- Higher investment will also contribute to rising incomes, thus paving the way for stronger public purchasing power.
- CPI inflation is predicted to return to normal levels in the range of 5±1%. On the fundamentals side, pressure from core inflation is predicted to mount overall.
- On the domestic front, the more invigorated economic growth in 2010 is also expected to fuel inflation, as indicated by the modest rise now visible in total capacity utilization.