



REPUBLIC OF INDONESIA

Recent Economic Developments

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Executive Summary

- Indonesia's economy has posted robust growth in 2008 and one of the rare countries which successfully posted a positive growth rate in 2009, navigating through the global financial turmoil and economic slowdown. **GDP growth**, in excess of 6% in 2008, reached 4.2% for the first nine months of 2009. In preliminary figures for 2009, the economy charted fairly vigorous growth at 4.3%(yoy) and it is projected at 5.5 % in 2010
- **Banking** industry is in stable condition with high level of CAR (17%) and comfortably safe level of NPL (gross) at a subdued level below 5% (latest data as of November 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 USD 66.0 billion as of end of December 2009, equivalent to about 6.58 months of imports and official external debt payment.
- In 2009, **Rupiah** has been showing an appreciation trend, mainly supported by continuing of global economic recovery and positive economic performance which outperformed regional economies. Rupiah strengthened from IDR 10,950 against USD as on December 31, 2008 to IDR 9,400 against USD as on December 31, 2009, representing 16.5% appreciation .

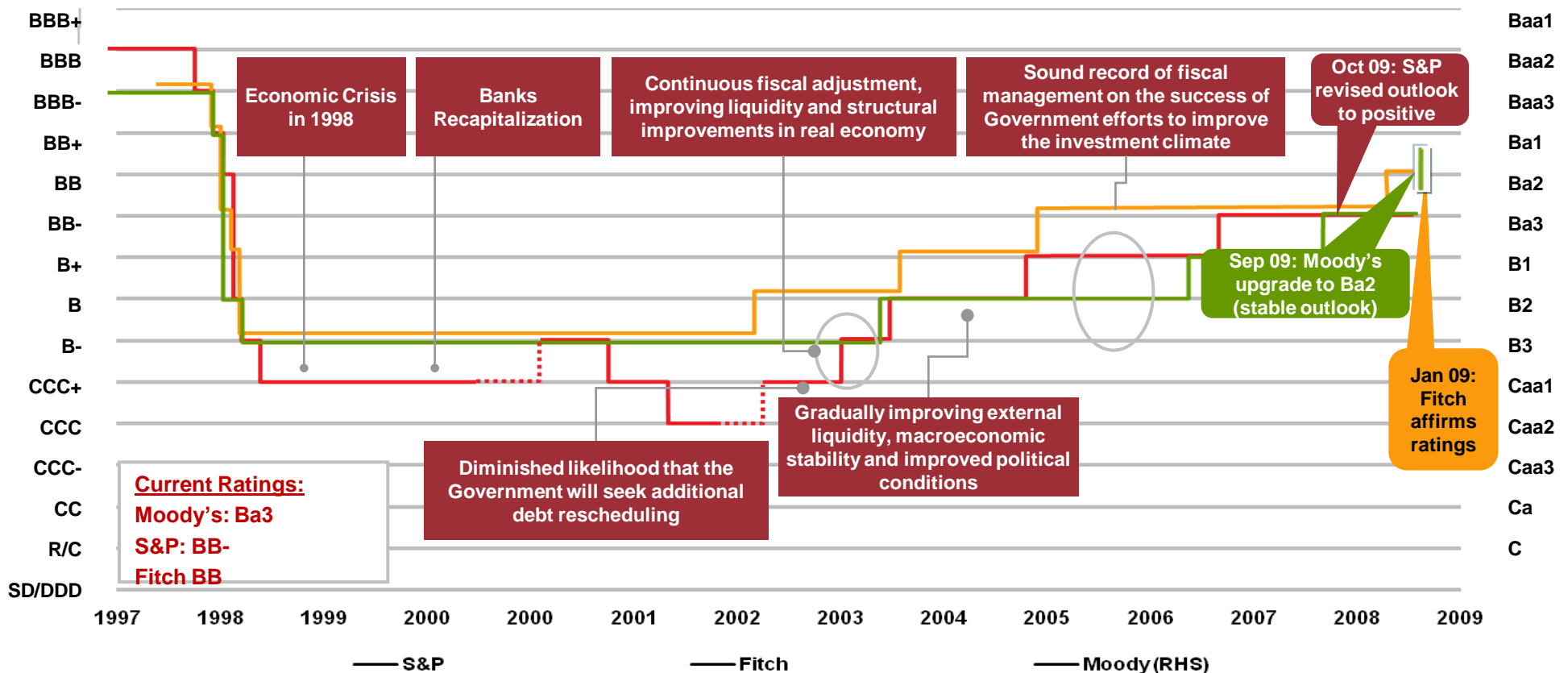
Executive Summary

- The monetary relaxation during 2009 has provided ample support for the economic recovery and bank intermediation processes. At the latest Board of Governors Meeting convened in January 2010, **The BI rate** decided to be kept at 6.50% after concluding the present level of the BI Rate is consistent with achievement of the 2010 inflation target, set at $5\% \pm 1\%$. In the balance of risk, there are little likelihood of renewed inflationary pressure, at least during the first half of 2010. The BI Rate is also seen as conducive to efforts to boost economic recovery, maintain financial system stability and promote the banking intermediation function.
- The Indonesian economy in 2009 has charted remarkably low **inflation**. In 2009, the Consumer Price Index (CPI) recorded annual inflation at 2.8% (yoy). Inflationary pressure has eased in response to the government decision to lower fuel prices at the beginning of the year, external factors of lower trading partner inflation, appreciation in the exchange rate and softening public expectations of inflation.
- With the target of fiscal deficit 1.6% of GDP in 2010 Budget, **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.

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.





Positive Macroeconomic Developments

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

Fiscal Policy Overview 2009 and 2010

Fiscal Policy framework for 2009 and 2010

Fiscal Stimulus Policies:

- Continue an effective fiscal stimulus
- Actual fiscal deficit 1.6% of GDP, lower than the 2.4% of GDP target deficit projected in 2009 Revised Budget
- Target fiscal deficit 1.6% of GDP in 2010 Budget
- Reduce Public debt to GDP ratio: 29.6% as of September 2009

Tax and Administrative Reforms:

- Continue tax policy and administration reform
- Simplify tax regulations and broaden tax base for taxpayers

Maintain Social Welfare

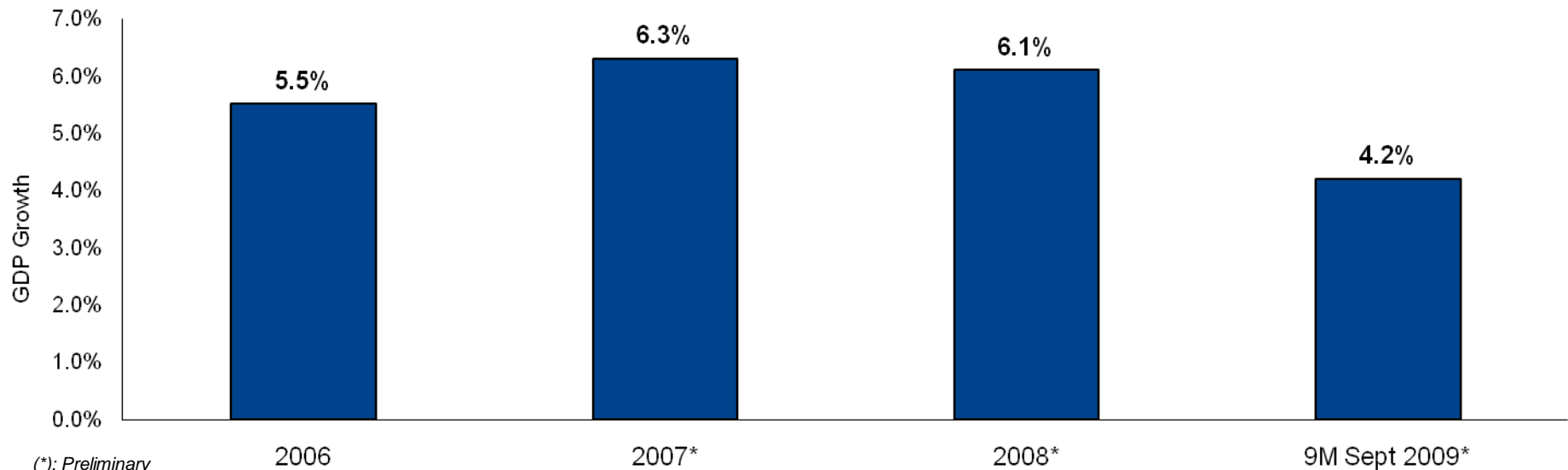
- Continue welfare programs and provide budget for education sector

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 4.4%. 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.

Sustainable Economic Growth



(*): Preliminary
Source: Ministry of Finance, BPS.

Banking Stability

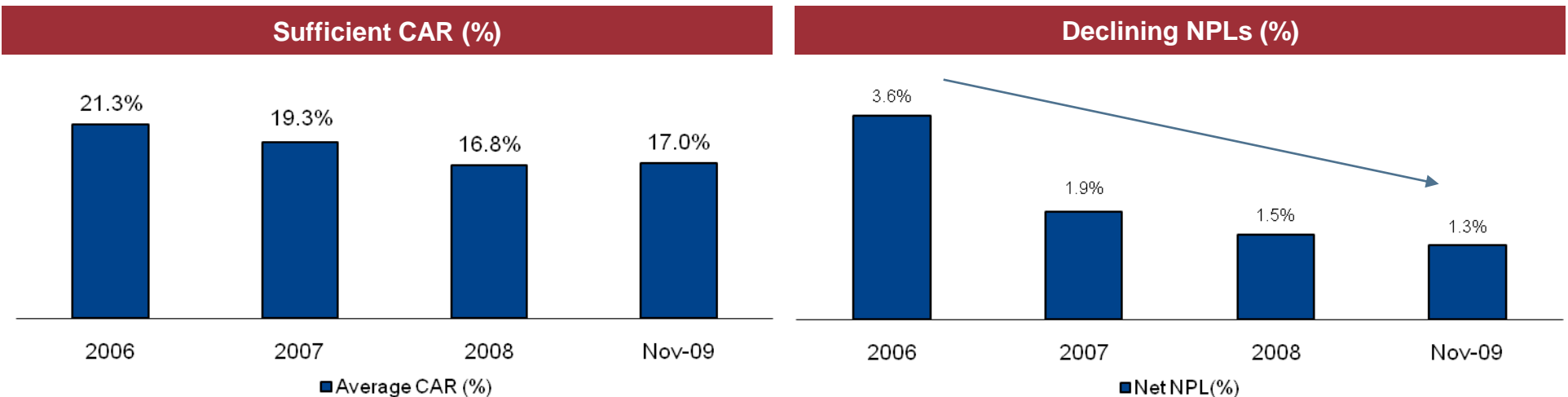
The Indonesian banking sector continues to maintain financial stability and show positive performance (as of November 2009):

In Trillions of rupiah unless stated otherwise

Indikator Utama	Dec-06	Dec-07	Dec-08	Jul-09	Aug-09	Sep-09	Sep-09	Oct-09	Nov-09
Total Asset (T Rp)	1,693.5	1,986.5	2,310.6	2,331.4	2,384.6	2,388.6	2,388.6	2,392.7	2,439.7
Deposits (T Rp)	1,287.0	1,510.7	1,753.3	1,806.6	1,847.0	1,857.3	1,857.3	1,863.5	1,897.0
- Demand Deposits	338.0	405.5	430.0	437.1	467.1	460.4	460.4	448.3	464.4
- Savings Accounts	333.9	438.5	498.6	515.4	518.9	536.2	536.2	539.4	554.5
- Time Deposit	615.1	666.7	824.7	854.1	861.0	860.7	860.7	875.8	878.0
Earning Assets (T Rp)	1,556.2	1,792.0	2,170.9	2,207.1	2,259.0	2,241.3	2,241.3	2,267.7	2,303.0
- Loans (T Rp)	832.9	1,045.7	1,353.6	1,370.2	1,400.4	1,399.9	1,399.9	1,410.4	1,430.9
- Bank Indonesia Certificates (T Rp)	179.0	203.9	166.5	194.4	193.2	182.4	182.4	189.7	199.4
- Overnight Placements at BI (T Rp)	38.6	46.8	71.9	50.3	56.6	44.8	44.8	70.6	50.6
- Securities	342.9	350.2	358.5	363.4	363.2	351.7	351.7	346.1	349.5
- Inter-bank Placements	156.8	139.8	213.8	220.0	236.3	252.9	252.9	241.1	262.6
- Equity Investments	5.9	5.6	6.6	8.9	9.4	9.6	9.6	9.8	9.9
Net Interest Income (Cumulated)	83.1	96.4	113.1	74.1	84.9	94.6	94.6	106.3	117.4
Capital Adequacy Ratio (%)	20.5	19.3	16.2	17.0	17.0	17.7	17.7	17.6	17.0
Loans/Earning Assets (%)	53.5	58.4	62.4	62.1	62.0	62.5	62.5	62.2	62.1
Gross Non Performing Loans (%)	7.0	4.6	3.8	4.6	4.5	4.3	4.3	4.3	4.4
Net Non Performing Loans (%)	3.6	1.9	1.5	1.7	1.5	1.3	1.3	1.2	1.4
Return on Assets (%)	2.6	2.8	2.3	2.7	2.7	2.6	2.6	2.7	2.6
Net Interest Margin (%)	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.5	0.5
Ops. Expense/Ops. Income (%)	86.4	78.8	84.1	81.9	81.8	82.0	82.0	81.7	81.7
Loan to Deposit Ratio (%)	64.7	69.2	77.2	75.8	75.8	75.4	75.4	75.7	75.4
No. of Banks	130	130	124	122	122	121	121	121	121
No. of Bank Office Network	9,110	9,680	10,936	12,571	12,616	12,652	12,652	12,763	12,795

Stable and Profitable Banking Sector

Protected by prudential guidelines and conservative practices, the Banking Sector has weathered the global financial turmoil and posted good performance : strong solvency, contained risk exposure and profitability

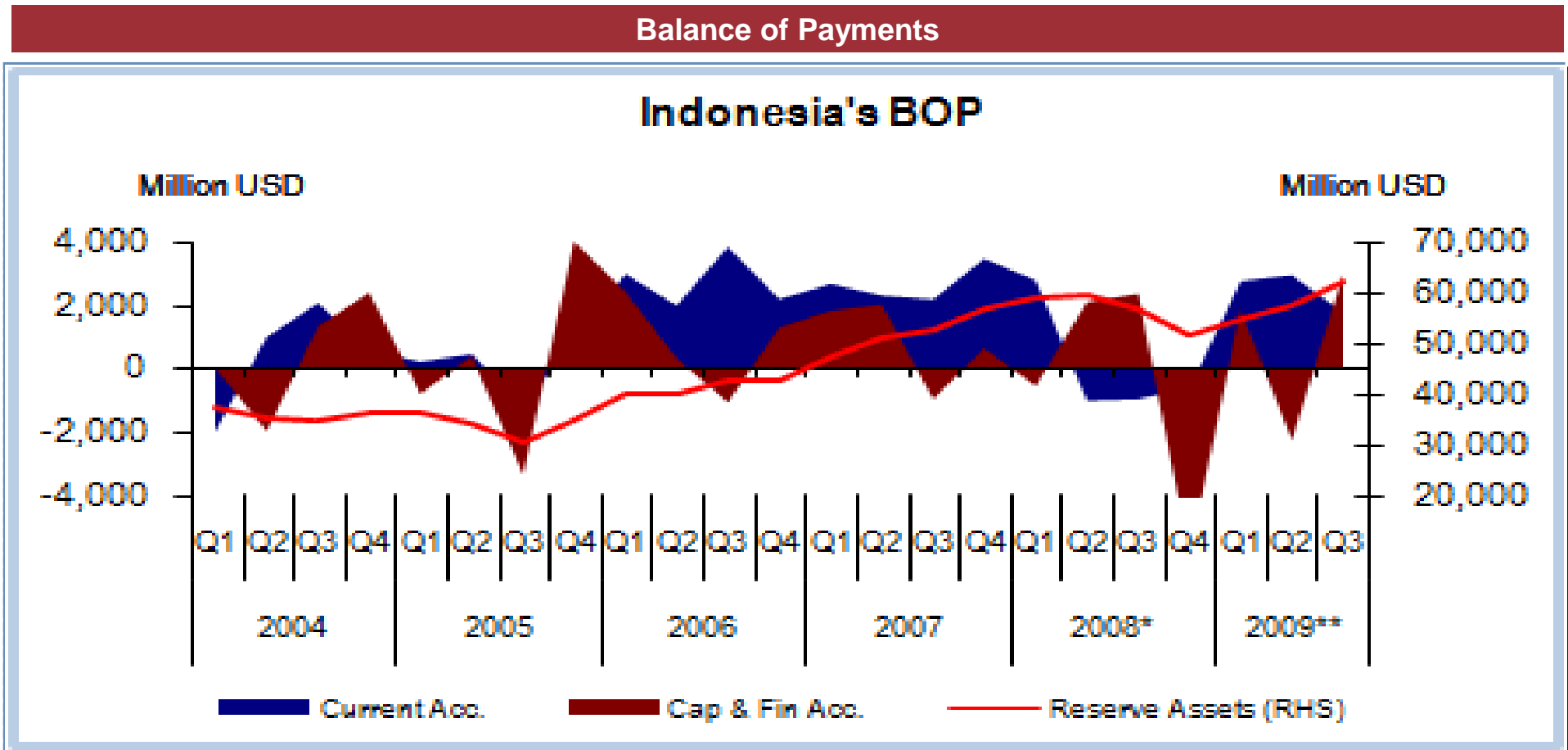


As well as prudent measures while maintaining strong credit growth:

- Banks kept away from trouble and remained free from toxic assets
- Banks were not dependent on international funding
- Enhanced supervision & risk management, including licensing for Structured Products
- Swap has been extended from 7 days to 1 month
- Bank Indonesia renewed provision of short-term liquidity facility to provide access for all banks in the event of severe liquidity constraints. Collateral requirements are also extended. The new policies allow banks to also include performing loans as collaterals from previously only high quality

Strong Balance of Payments Performance

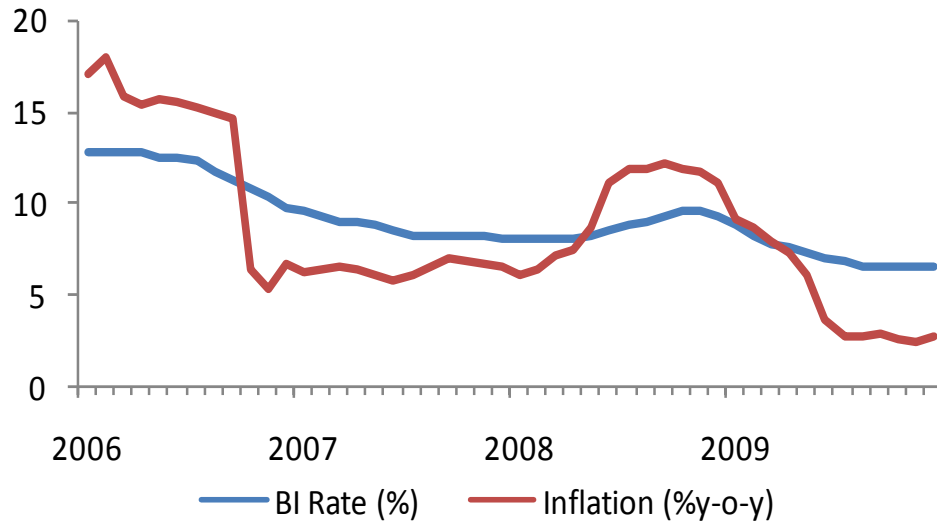
Indonesia's balance of payments in Q3-2009 posted a surplus of US\$3.5 billion (Q2-2009: US\$1.1 billion), resulted from surpluses in both the current account as well as the capital and financial account.



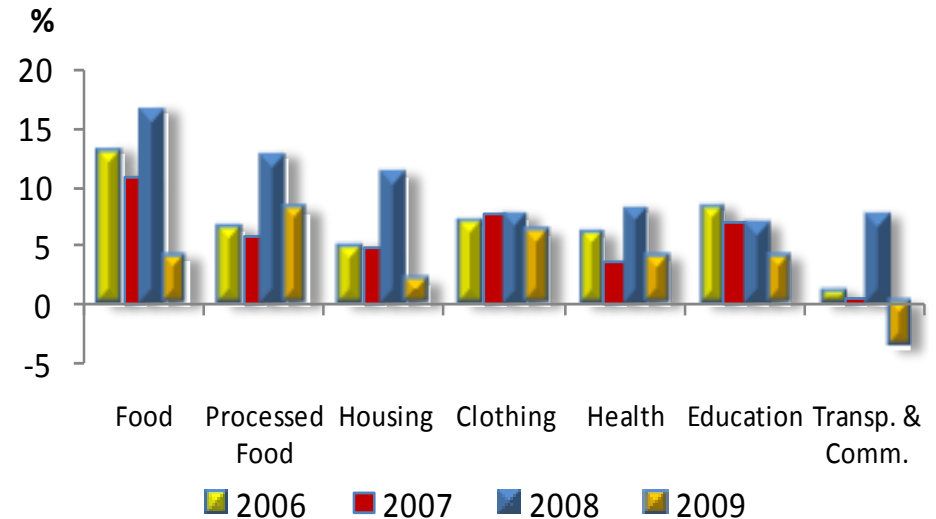
Flexible monetary policy to support growth objectives

The monetary relaxation has offered ample support for the economic recovery and bank intermediation process

BI Rate and Inflation



Sources of Inflation

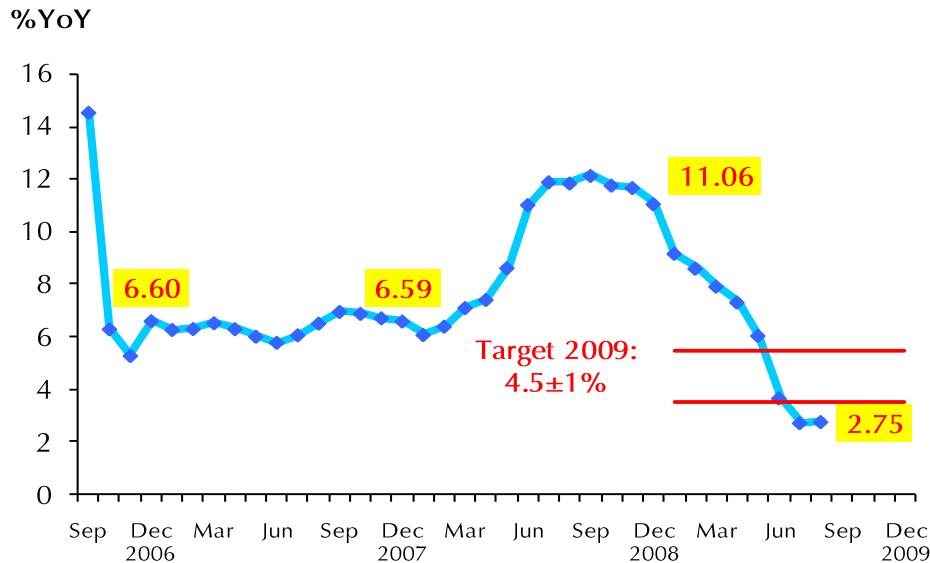


- The monetary relaxation during 2009 with BI Rate lowered 300 bps to 6.50% has provided ample support for the economic recovery and bank intermediation processes.
- In regard to prices, the Indonesian economy in 2009 has charted remarkably low inflation. In 2009, the Consumer Price Index (CPI) recorded annual inflation at 2.78% (yoy).
- Inflationary pressure has eased in response to the government decision to lower fuel prices at the beginning of the year, external factors of lower trading partner inflation, appreciation in the exchange rate and softening public expectations of inflation.
- The monetary policy stance is directed towards maintaining consistently low inflation while making adequate provision for measures to strengthen economic recovery.

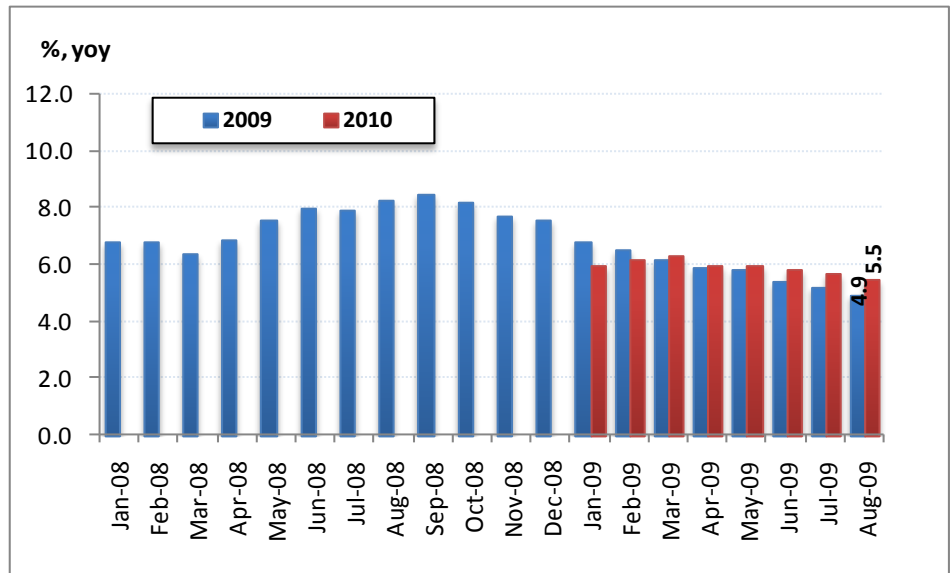
Inflation Expectation

- 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



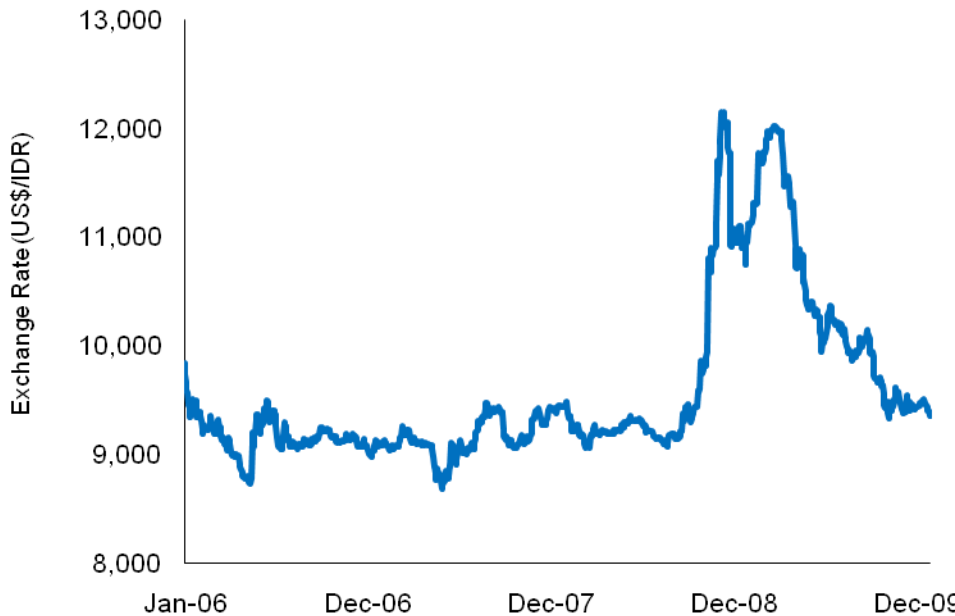
Inflation Expectation – Consensus Forecast



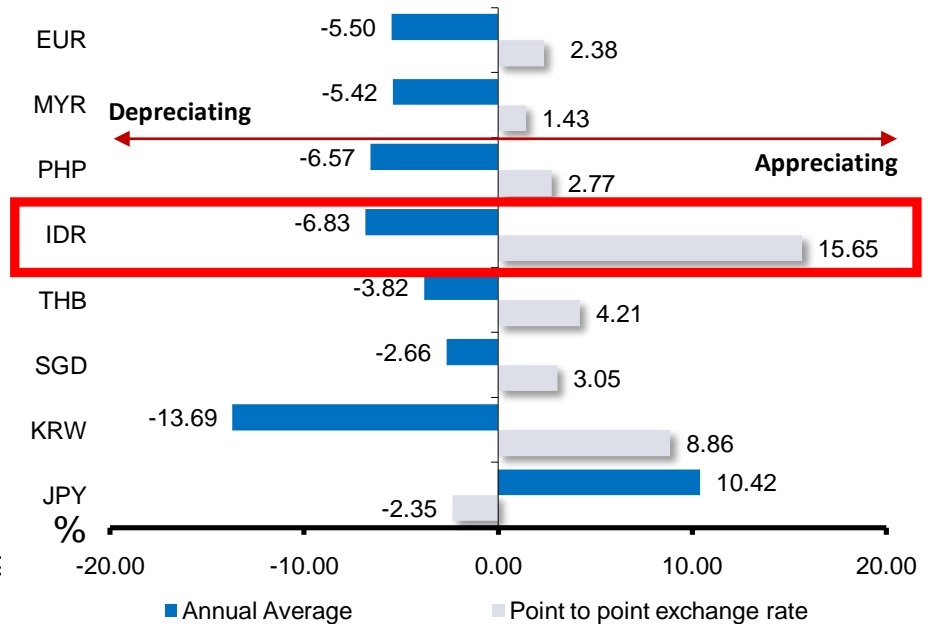
Flexible monetary policy to achieve IDR stability

- The Rupiah appreciated substantially in the course of 2009 on the back of increasing investor risk appetite due to the relative improvement in the global economic outlook
- Investors' preference to hold Rupiah assets was also supported by better economic growth in 2009 outperforming the regional economy
- Foreign investors purchased Rupiah assets such as SBI, government bonds (SUN) and stocks
- Rupiah strengthened from IDR 10,950 per US\$ as on December 31, 2008 to IDR 9,681 per US\$ as on September 30, 2009 and closed at IDR 9,400 per US\$ as on December 31, 2009, representing 16.5% appreciation

Rupiah Exchange Rate – Against USD



Exchange Rate Movement – Indonesia Compared to Regional



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.