Dealing With Financial Crisis:
Indonesia’s Experience

ADFIMI Development Forum 2013
Istanbul, 7 November 2013

Dr. Luky Alfirman
Fiscal Policy Agency, Ministry of Finance
Outline

- Indonesia at glance
- Lesson Learnt from previous crisis
- Recent Economic Developments
- Recent Volatility and Indonesia’s Policy Response
- Future Prospects and Challenges
Indonesia At Glance
Indonesia has continued to demonstrate strong and stable macroeconomic performance...

Strong and consistent real GDP growth

- **Indonesia**
- **Peers (Baa1 - Baa3)**
- **2008–2012 Average = 5.9%**

Moderate and sustainable inflation

- **yoy (%)**
- **Oct-2013, 8.32**

Comfortable foreign exchange reserves cushion with long run overall healthy BoP

- **(US$ mm)**

Bank financial soundness indicators are continuing to improve

- **CAR (LHS)**
- **Gross NPL ratio (RHS)**

Favorable debt position and sustainable fiscal deficit

- **Debt to GDP ratio (%)**
- **Debt service to GDP ratio (%)**
- **Fiscal Surplus / (Deficit)**

Source: Ministry of Finance

Source: Bank Indonesia

* Provisional values
Indonesia continues to demonstrate strong economic fundamentals...

### Yearly GDP Growth (%)

- **1998**: -13.1
- **1999**: 0.8
- **2000**: 4.9
- **2001**: 3.6
- **2002**: 4.5
- **2003**: 4.8
- **2004**: 5.0
- **2005**: 5.7
- **2006**: 5.5
- **2007**: 6.0
- **2008**: 6.2
- **2009**: 6.5
- **2010**: 6.2
- **2011**: 6.3
- **2012**: 0.8
- **2013**: 4.9

### 5 Years GDP Growth Average vs peers (%)

- **China**: 4.3
- **India**: 5.9
- **Indonesia**: 6.2
- **Colombia**: 4.4
- **Brazil**: 2.9
- **Costa Rica**: 1.5
- **Russia**: 2.6
- **Thailand**: 3.6
- **Mexico**: 1.5

### Household Consumption (% of GDP)

- **2000**: 61.7
- **2001**: 63.2
- **2002**: 67.6
- **2003**: 68.1
- **2004**: 66.8
- **2005**: 64.4
- **2006**: 62.7
- **2007**: 63.5
- **2008**: 60.6
- **2009**: 58.7
- **2010**: 56.5
- **2011**: 54.6
- **2012**: 54.6
- **2013**: 55.6

### Total Investment (% of GDP)

- **Brazil**: 55
- **China**: 50
- **India**: 45
- **Indonesia**: 40
- **Korea**: 35
- **Russia**: 30
- **Thailand**: 25
- **Mexico**: 20

*Source: BPS, Bloomberg*
Indonesian economic growth is much stable compared to others...

BRIC GDP Growth (% , yoy) compared to Indonesia

Selected ASEAN Members GDP Growth (% , yoy)

G-20s, Q2 2013 GDP Growth (% , yoy)

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>7.5</td>
</tr>
<tr>
<td>Indonesia</td>
<td><strong>5.8</strong></td>
</tr>
<tr>
<td>USA</td>
<td>1.6</td>
</tr>
<tr>
<td>Turkey</td>
<td>4.4</td>
</tr>
<tr>
<td>Mexico</td>
<td>1.5</td>
</tr>
<tr>
<td>India</td>
<td>4.4</td>
</tr>
<tr>
<td>Japan</td>
<td>1.2</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.3</td>
</tr>
<tr>
<td>Germany</td>
<td>0.5</td>
</tr>
<tr>
<td>Argentina</td>
<td>3</td>
</tr>
<tr>
<td>France</td>
<td>0.3</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>2.7</td>
</tr>
<tr>
<td>Australia</td>
<td>2.6</td>
</tr>
<tr>
<td>S. Korea</td>
<td>2.3</td>
</tr>
<tr>
<td>S. Africa</td>
<td>2</td>
</tr>
<tr>
<td>UK</td>
<td>1.5</td>
</tr>
<tr>
<td>Canada</td>
<td>0.9</td>
</tr>
<tr>
<td>Japan</td>
<td>1.2</td>
</tr>
<tr>
<td>Germany</td>
<td>0.5</td>
</tr>
<tr>
<td>France</td>
<td>0.3</td>
</tr>
<tr>
<td>EU</td>
<td>0.5</td>
</tr>
<tr>
<td>Italy</td>
<td>-2.1</td>
</tr>
<tr>
<td>S. Africa</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: WEO, Bloomberg, Ministry of Finance, Republic of Indonesia
Lesson learnt from previous crisis and major shock: Continuous Reform
A comparison of Institutional, Structural and Macroeconomic Variable Development...

1998
- Risk coming from domestic economy
- ER regime is relatively fixed
- Govt. debt is multilateral/bilateral
- Un-hedged foreign private debt
- Not independent Central Bank
- Manufacturing was the main source of growth
- High unemployment
- High Poverty Rate
- Political Pressure

2008 - Present
- Influenced by interconnectedness and contagion effect
- ER regime is floating
- Govt. market risk financing
- High global capital influence
- Independent Central Bank
- Main Growth source; 2008: Commodities, 2013: Non-tradable
- Manageable Unemployment & Poverty rate
- Stable political condition
Compared to 1997, Indonesia is less vulnerable to external shocks….

To support growth, Indonesia continues to increase its leverage, including that of the private sector.

According to IMF Article IV Staff Report, Indonesia’s external sustainability is robust to most shocks. Debt to GDP is projected to rise moderately.

External vulnerabilities are much improved in Indonesia compared to that in 1997.
**What made current situation different with 1998...**

<table>
<thead>
<tr>
<th>1998</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home ground but not home alone</td>
<td>QE and Current Account</td>
</tr>
<tr>
<td>Weak banking system: NPL &gt; 30%</td>
<td>Banking sector is relatively healthy; NPL &lt; 3%</td>
</tr>
<tr>
<td>Dollar debt denominated $\rightarrow$ high</td>
<td>Dollar debt denominated $\rightarrow$ small (parents and subsidiaries)</td>
</tr>
<tr>
<td>Fixed exchange rate</td>
<td>Flexible exchange rate</td>
</tr>
<tr>
<td>Political situation: no confidence</td>
<td>Political situation : get support</td>
</tr>
</tbody>
</table>
Some Indonesian Rule Based Policies on crisis mitigation...

Rule based policy is newly established after the 1998 Asian Financial Crisis

**Fiscal**

- Based on the Public Finance Law 2003, the Government is allowed to have:
  - Maximum Budget Deficit Ceiling: 3% to GDP
  - Maximum government debt: 60% to GDP

**Monetary**

- Based on the BI Law 1999 and 2004, BI has become independent with primary mandate to maintain the stability of Rupiah.
  - Instrument Independent
  - Forward Looking policy
  - Focus on Inflation expectation

**Financial System Stabiility**

- Based on the OJK Law 2011, The Coordination Forum for Financial System Stability (FKSSK) has been established to maintain financial system stability to decide and implement the necessary measures in crisis prevention and mitigation

**Regulation being Prepared**

- Amendment of Bank Indonesia Law
- Amendment of Insurance Law
- Amendment of Capital Market Law
- Amendment of Pension Fund Law
- Amendment of Banking Law
- Financial Safety Net Law
### Discretionary Policy Summary: 2008 Global Financial Crisis

<table>
<thead>
<tr>
<th>Monetary Policy and Supporting the Banking and Capital Market Systems</th>
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<tbody>
<tr>
<td>- Place government funds with state-owned banks to increase liquidity in the banking system</td>
</tr>
<tr>
<td>- Increase the amount of deposits guaranteed by the government in the banking system</td>
</tr>
<tr>
<td>- Manage state-owned enterprises’ foreign exchange transactions to reduce speculation</td>
</tr>
<tr>
<td>- Requiring greater disclosure on large-sized purchases of foreign currency to curb speculative pressure on IDR</td>
</tr>
<tr>
<td>- Double Bilateral Swap Facilities with Japan and signing bilateral swap facility with China in Local Currency</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Stimulus: Targeted US$7 billion fiscal stimulus plan to stimulate the real economy and maintain positive growth momentum</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accelerate job creation and foster small scale businesses</strong></td>
</tr>
<tr>
<td>Support from infrastructure and national programs, such as: Expansion of government programs to alleviate poverty and credit program (KUR) to accelerate the development of the primary sector, Additional infrastructure projects for job creation activities</td>
</tr>
<tr>
<td><strong>Boosting people’s purchasing power</strong></td>
</tr>
<tr>
<td>- Reduce individual income tax (lower rate and higher non taxable income threshold)</td>
</tr>
<tr>
<td>- Acceleration of National and Regional budget disbursement</td>
</tr>
<tr>
<td>- Subsidies on medicine and cooking oil</td>
</tr>
<tr>
<td>- Direct subsidies (cash transfer and conditional cash transfer) for low-income households</td>
</tr>
<tr>
<td>- Provides more direct and indirect subsidies to education and health sector</td>
</tr>
<tr>
<td><strong>Stimulate trade and promote entrepreneurship</strong></td>
</tr>
<tr>
<td>- Import duty facility reduction in import tax for capital goods</td>
</tr>
<tr>
<td>- Export financing and guarantee (JBIC, ADB, IFC, etc.)</td>
</tr>
<tr>
<td>- Single tax rate on corporate tax</td>
</tr>
<tr>
<td>- Discount on electricity peak-hour charge for industries and reduction on diesel fuel price</td>
</tr>
<tr>
<td>- Tax subsidy for oil &amp; gas industry</td>
</tr>
</tbody>
</table>
Recent Economic Developments
Commodity and energy price tend to decrease due to global economic slow down....

* Export Price Index is calculated based on the six export commodity prices (coal, natural gas, palm oil, crude oil, rubber, and Copper)
Tapering off QE: Bring back the economy into equilibrium...

IDR Exchange Rate, Actual Government Bond Yield (10 Y) and prediction

Source: JP Morgan
Current account deficit remains as a risk in several emerging economies...

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP (%yoy)</th>
<th>CPI (%yoy)</th>
<th>CA surplus/deficit (% GDP)</th>
<th>Fiscal Deficit as % GDP</th>
<th>Govt Debt as % GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>0.9</td>
<td>5.4</td>
<td>(2.4)</td>
<td>(2.5)</td>
<td>35.2</td>
</tr>
<tr>
<td>Russia</td>
<td>3.4</td>
<td>5.1</td>
<td>3.7</td>
<td>0.3</td>
<td>8.8</td>
</tr>
<tr>
<td>India</td>
<td>5.1</td>
<td>7.5</td>
<td>(5.1)</td>
<td>(7.0)</td>
<td>46.5</td>
</tr>
<tr>
<td>China</td>
<td>7.8</td>
<td>2.6</td>
<td>2.3</td>
<td>(1.6)</td>
<td>15.2</td>
</tr>
<tr>
<td>Mexico</td>
<td>3.9</td>
<td>4.1</td>
<td>(1.0)</td>
<td>(2.6)</td>
<td>29.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>6.2</td>
<td>4.3</td>
<td>(2.7)</td>
<td>(1.8)</td>
<td>23.0</td>
</tr>
<tr>
<td>Korea</td>
<td>2.0</td>
<td>2.2</td>
<td>3.8</td>
<td>2.7</td>
<td>34.5</td>
</tr>
<tr>
<td>Turkey</td>
<td>2.2</td>
<td>8.9</td>
<td>(6.1)</td>
<td>(3.0)</td>
<td>-</td>
</tr>
<tr>
<td>S. Africa</td>
<td>2.6</td>
<td>5.7</td>
<td>(6.3)</td>
<td>(5.2)</td>
<td>43.2</td>
</tr>
<tr>
<td>Thailand</td>
<td>6.5</td>
<td>3.0</td>
<td>0.8</td>
<td>(3.6)</td>
<td>44.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>5.6</td>
<td>1.7</td>
<td>6.1</td>
<td>(4.5)</td>
<td>53.0</td>
</tr>
<tr>
<td>Philippines</td>
<td>6.8</td>
<td>3.1</td>
<td>2.8</td>
<td>(2.4)</td>
<td>52.0</td>
</tr>
</tbody>
</table>

- Indonesia faces current account deficit but with strong overall fiscal position
- With similar CAD challenges as in Brazil & India, Indonesia’s ability to manage a safe level of Govt. Debt provides a buffer from a deep currency risk
Countries facing similar pressure on widening current account balance also find themselves in a risk of currency depreciation...
Capital and foreign exchange market have been negatively affected, reversing much of the gains made over 2012...

Issues that are closely managed include:
- The Fed Tapering Activities
- US & China economic indicator (Manufacturing Index, Unemployment, Economic Growth)
- Middle East political tension

Source: Bloomberg
Recent Volatility and Indonesia’s Policy Response
The global economic downturn has also affected Indonesia...

- The global economic downturn has significantly affected Indonesia’s BOP, influencing the IDR and pushing FX reserves down.

- Compared to that during the 1997 AFC, however, the FX reserves position is better.
The global economic downturn has also affected Indonesia → a widening CA deficit...

- CAD increased to US$9.8 Billion (4.4% GDP) in Q2-2013, from US$5.8 Billion (2.6% GDP) in Q1-2013.
- Current Account on Goods recorded a deficit for the first time of US$0.6 Billion.
- Financial Account returned positive of US$8.2 Billion after a deficit of US$0.3 Billion in Q1-2013.
- Overall BOP remains modest given strong capital and financial account surplus, including robust FDI.

### Indonesia Balance of Payments Abridged (US$ Billion)

<table>
<thead>
<tr>
<th>ITEM</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
</tr>
<tr>
<td>A. Current Account</td>
<td>2.9</td>
<td>0.3</td>
<td>0.8</td>
</tr>
<tr>
<td>1. Goods</td>
<td>9.3</td>
<td>9.2</td>
<td>9.7</td>
</tr>
<tr>
<td>a. Export, fob</td>
<td>45.9</td>
<td>51.8</td>
<td>52.4</td>
</tr>
<tr>
<td>b. Import, fob</td>
<td>-36.6</td>
<td>-42.6</td>
<td>-42.7</td>
</tr>
<tr>
<td>2. Services</td>
<td>-1.8</td>
<td>-3.1</td>
<td>-2.6</td>
</tr>
<tr>
<td>3. Income</td>
<td>-5.5</td>
<td>-6.8</td>
<td>-7.4</td>
</tr>
<tr>
<td>4. Current Transfers</td>
<td>1.0</td>
<td>1.0</td>
<td>1.2</td>
</tr>
<tr>
<td>B. Capital &amp; Financial Account</td>
<td>4.8</td>
<td>11.6</td>
<td>-3.1</td>
</tr>
<tr>
<td>1. Capital Account</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>2. Financial Account</td>
<td>4.8</td>
<td>11.6</td>
<td>-3.1</td>
</tr>
<tr>
<td>a. Direct Investment</td>
<td>3.8</td>
<td>2.5</td>
<td>2.1</td>
</tr>
<tr>
<td>b. Portfolio Investment</td>
<td>2.9</td>
<td>5.2</td>
<td>-4.6</td>
</tr>
<tr>
<td>c. Other Investment</td>
<td>-1.9</td>
<td>3.9</td>
<td>-0.7</td>
</tr>
<tr>
<td>C. TOTAL (A + B)</td>
<td>7.8</td>
<td>11.9</td>
<td>-2.3</td>
</tr>
<tr>
<td>D. DISCREPANCY</td>
<td>-0.1</td>
<td>0.0</td>
<td>-1.6</td>
</tr>
<tr>
<td>E. OVERAL BALANCE (C + D)</td>
<td>7.7</td>
<td>11.9</td>
<td>-4.0</td>
</tr>
</tbody>
</table>

### Official Foreign Reserve

<table>
<thead>
<tr>
<th>ITEM</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>105.7</td>
<td>119.7</td>
<td>114.5</td>
</tr>
<tr>
<td>Months of Import &amp; Debt Service</td>
<td>7.5</td>
<td>7.9</td>
<td>7.1</td>
</tr>
<tr>
<td>Current Account (% GDP)</td>
<td>1.5</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Debt Service Ratio (%)</td>
<td>18.4</td>
<td>21.9</td>
<td>19.8</td>
</tr>
</tbody>
</table>

Source: Bank Indonesia, Indonesian MoF
**Recent Indonesian Policy Summary**

**Phasing in Structural Reforms Through Targeted Fiscal Policies**

- **Increasing subsidized fuel prices** by 44.4% for gasoline and 22.2% for diesel
- **Increasing biodiesel portion** to reduce diesel consumption
- **Greater allocation on 2013 revised budget to basic infrastructural development**
- **Increasing social assistance expenditures to protect lower-income groups from impact of fuel price hikes**, including a compensation package that includes unconditional cash transfers for the poorest households and financial assistance programmes for poor students

**Preserving Monetary and FX Stability**

- **BI raised the policy rate by a cumulative 150 bps since May 2013**, to its present rate of 7.25%
- **BI introduced complementary products to deepen financial markets**, including FX swap by auction and increased tenor of FX deposits with BI
- **BI Introduce macro prudential measures through LTV, RR-LDR and Secondary Reserve of Bank**
- **Further deregulation of non-resident VOSTRO accounts by allowing banks to hold divestment fund and allowing more underlying documents to purchase FX by exporters.**

**Policy to curb inflation**

- The government continues to coordinate closely with Bank Indonesia
- The government is responding to volatile food inflation by **improving the meat and horticulture trade system to satisfy demand**

**Current Account Deficit and Currency Stabilization**

- **VAT tariff adjustment by MoF for a number of luxury goods**, and higher taxes for imported luxury vehicles, and exemptions for goods deemed contributive to human resource capacity building
- **Provided tax holidays and tax allowances for investment in Indonesia**
- **Completing the revision of negative investment lists**
4 Packages of Government Economic Policy
(August Economic Policy package)

A. Policy to improve current account and exchange rate performance:
- Increasing biodiesel portion to reduce diesel consumption
- Additional luxury tax rate for luxury car and branded products by 25% - 50%.
- Promote mineral export by easing procedure in regard with quota and CnC

B. Incentive provision to maintain economic growth and people purchasing power
Government will seek to ensure that the 2013 state budget deficit keeps sound at 2.38%

Short term
- Deduction / Deferring of Income tax for specific industries (labor intensive & export oriented industries)
- Relaxation for facility restriction policy in bonded zone
- VAT relief for books
- VAT relief for luxury goods for basic products

Mid term
- Additional deduction for R&D
- Improve tax holiday & Tax allowance provisions

C. Policy to curb inflation
- The Government will continue to coordinate closely with Bank Indonesia
- The Government is responding to volatile food inflation by improving the meat and horticulture trade system to satisfy demand

D. Policy to promote investment
- Streamline permit process and improve single window service for investment
- Currently Government has been formulating permit simplification for oil and gas upstream investment from 69 permits to only 8 permits
- Accelerate the revision of Presidential Decree of negative investment list
- Debottlenecking problems in the strategic investment projects such as power plant, oil, gas, mineral mining, and infrastructure projects
October Economic Policy Package: Providing support for Small Medium Enterprises to avoid negative impacts of financial crisis

- Simplification of process for New business
- Policy support for SMEs accessing electricity
- Online Tax payments and Simple mandatory insurance premium payments (Pension, Health, Death, Work-Related Accident)
- Simple Legal support → Small Claim Court in the Indonesian Supreme Court.
- Bankruptcy process
- Ownership of land and building
- Land and Building development permit
- Access to Credit
Comprehensive stabilization framework to pro-actively manage pressures on Financial Sector is in place...

**Pre-emptive measures**

1. Implementing Crisis Management Protocol
2. Implementing Bond Stabilization Framework
3. Enhancing coordination between government institutions (FKSSK) and continuous dialogue with market participants
4. Specific policies in place to address crisis enacted in the 2013 budget law
5. Swap facility arrangements based on international cooperation
6. Chiang Mai Initiative Multilateralization

**Fiscal Buffers to prevent and mitigate crisis**

1. Deferred Drawdown Option facility
2. Specific articles in the 2013 State Budget Law that provide flexibility for Government to take quick mitigation action if necessary, with Parliament approval that has to be given within 24 hours

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**Crisis Management Protocol**

- Indicators to determine crisis level of Government Securities Market condition (normal, aware, alert, crisis)
- There are some indicators that are monitored
  - Benchmark yield on Government securities
  - Exchange rate
  - Jakarta Composite Index (JCI)
  - Foreign ownership in Government securities
- Policies to address the crisis at every level
  - Re-purchase Gov. securities at secondary market
  - Postpone or stop the issuance of Govt. securities

**Bond Stabilization Framework**

<table>
<thead>
<tr>
<th>DMO Budget</th>
<th>SOE Budget</th>
<th>Other Gov’t Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buyback funds</td>
<td>Related SOEs (min. Alert level)</td>
<td>KUN (State’s General Cash) (min. Alert level)</td>
</tr>
<tr>
<td>Buyback of government bonds by the DMO from the state budget</td>
<td>Potential purchase of government bonds by State Owned Enterprises</td>
<td>Potential purchase of government bonds by the Treasury Office using the State’s General Cash (KUN)</td>
</tr>
<tr>
<td>Related SOEs (min. Alert level)</td>
<td>KUN (State’s General Cash) (min. Alert level)</td>
<td>PIP Investment funds (min. Alert level)</td>
</tr>
<tr>
<td>Potential purchase of government bonds by State Owned Enterprises</td>
<td>Potential purchase of government bonds by the Treasury Office using the State’s General Cash (KUN)</td>
<td>Potential purchase of government bonds by the Indonesia Investment Agency</td>
</tr>
<tr>
<td>KUN (State’s General Cash) (min. Alert level)</td>
<td>PIP Investment funds (min. Alert level)</td>
<td>SAL (min. Crisis level)</td>
</tr>
<tr>
<td>Potential purchase of government bonds by the Treasury Office using the State’s General Cash (KUN)</td>
<td>Potential purchase of government bonds by the Indonesia Investment Agency</td>
<td>Purchase of government bonds using the accumulated cash surplus (SAL). Parliament approval is required</td>
</tr>
<tr>
<td>PIP Investment funds (min. Alert level)</td>
<td></td>
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</tbody>
</table>
Coordinitative approach among financial authorities help to mitigate internal and external risk...

  - The nationwide CMP incorporates the Exchange Rate, Banking, Non-Bank Financial Institution, Capital Market, Government Bonds Market (SBN), and Fiscal CMPs.
- Coordination Meeting of the Forum is conducted regularly to discuss the current level of Financial System Stability and current issues related to the financial system
- The Forum has conducted two mini simulations (fire drills) to test the CMP and currently preparing for a full dress simulation.
- Crisis binder and systemic impact analysis framework are currently being developed
Exchange rate has shown convergence with foreign reserve in a relatively stable position...
Recent Policy Package led deflation on September (-0.35% mtm) and a manageable inflation on October (0.09% mtm)...

- Food price development and moderating effect of fuel price adjustment has created deflation in September 2013, the first since Sept 2001
- Government policies have helped to soften pressure from food prices.
  - Government’s role in managing the inflation includes imports management, food price stabilization, and rice for poor policy.
- Religious events in the last month still gave upward pressure on inflation, especially in transportation sector.
Trade balance deficit has moderated due to oil imports moderation and Government incentives for Industries...

- Indonesia’s trade balance record a large deficit in July due to increasing oil imports value.
- Oil and Gas import have declined in August and September due to a lower import volume as a result of the fuel price adjustment policy and new policy package.
- Government policy package, which include incentives for industries, has helped Non-oil and Gas trade to stay positive in August and September.
Future Prospects and Challenges
Young and dynamic population, also known as demographic dividend, driving strong consumer demand...

More than 60% of Indonesians are under 35 year

Age 100+

Age 0

Dependency ratio keeps falling until 2025

Rising nominal GDP per capita (US$)

Source: World Bank, UNPP

Source: IMF, International Financial Statistics
Indonesia remains an attractive destination for international investors...

### Direct Investment (US$ billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>4.4</td>
<td>1.56</td>
</tr>
<tr>
<td>2012</td>
<td>5.16</td>
<td>2.11</td>
</tr>
<tr>
<td>2013</td>
<td>5.73</td>
<td>2.67</td>
</tr>
</tbody>
</table>

**2011 growth:** 20.5%  
**2012 growth:** 24.6%  
**2013 growth:** 27.6%

### Total Investment (% GDP)

The Economist: Indonesia is the #3 investment destination in Asia in 2013

- Increase their level of investment
- Still in the market, but will not invest more
- Reduce their investment
- Have no plans to invest

Source: The Economist

**Source:** IMF, World Economic Outlook Database – April 2013

Note: IDR/US exchange rate of 9,000; USD values for convenience only
Future Global Economic Challenges

Slow pace of recovery in US, EU Zone and Japan and a weakening growth in China and India could negatively influence Indonesia’s export performance and investment inflow.

The QE tapering issue is still open along with US Government budget risk (with Bond issuance term only up to Feb 2014), leads to open risk of global liquidity shortage and external financing risk for Indonesia.
  • With US economy on the recovery efforts, the Fed tapering issue in the future is still a concern due to possibility of triggering capital outflow and create pressure in foreign exchange market, including for Indonesia.

Volatility in global Commodity price
  – General weakening of global primary commodities prices has negatively influenced global trade.
  – The price of Indonesia’s main export commodities (CPO, Gas, Copper) has been weakening since 2011.
  – Oil price have shown a significant increase followed with large volatility with future risk coming from recent Middle-East geopolitical tension.
Domestic Economic Challenges (1)

Current Account Deficit
- Slowdown in Oil Lifting activities and weak external demand combined with relatively strong import have resulted in a widening Current Account Deficit profile.
- As investment growth moderate, the risk coming from fuel and capital goods have softened.
- However, future pressure on Rupiah exchange rate will still be strong.

Financial System Stability Issue
- Indonesia’s financial system is vulnerable to the shift in investors sentiment.
- High foreign ownership in both stock and bond market instruments could lead to a wider risk if there is a sudden reversal of capital.
- Domestic financial market is relatively well-capitalized, however, Foreign denominated private sector debt could also pose currency mismatch risk.
- Regulatory framework is needed.

Price Stability
- Fuel price adjustment implemented in July and supply disruption on several agriculture commodities has also increased inflationary pressure.

Domestic Challenges
- Financial System Stability Issue
- Investment climate development
- Govt. Deficit & Spending
- Current Account Deficit
- a more inclusive economic growth
- Price Stability
**Domestic Economic Challenges (2)**

**Govt. Deficit & Spending**
- Possible decrease in tax and natural resource revenue.
- The need to optimize government spending and improve the quality of spending focusing on infrastructure and social security.

**A more inclusive economic growth**
- Coping with an increasing Gini Ratio despite improvements in poverty rate.
- Implementation of a comprehensive social security system.

**Investment climate development.**
- Providing transparent wage regulation and maintaining labor market competitiveness.
- Synchronizing central and regional regulation in promoting investment activities.
- Improvements in infrastructure development, especially electricity.

**Current Account Deficit**

**Financial System Stability Issue**

**Price Stability**

**Investment climate development**
Thank You