

Recent Economic Development, And Outlook For 2010

Recent Economic Development

- Performance of the Indonesian economy continued to show improvement in line with better economic conditions and global financial markets. In 2009 Indonesia was able to post a positive growth at 4.5% (yoy). This level of growth was relatively high compare to neighbouring countries.
 - From the demand side, higher GDP growth is driven by strong growth in household consumption, investment and export. Household consumption remains strong, supported by better purchasing power and consumer confidence. Export also improved further, sustained by the surging demand from trading partner countries and higher international commodity prices. Export performance in the fourth quarter of 2009 outperformed previous estimation and in line with global economy recovery. Accordingly, investments are also charted better growth corresponded to stronger demand and business confidence. Investment mainly occurred in the construction sector, in the form of infrastructure. Current demand side indicators show that the trend will remain strong entering 2010.
 - From supply side, some sectors show outperformed other sectors along with higher external and domestic demand such as manufacturing; electric, gas and water as well as transportation and communication. Entering 2010 optimism for recovery is getting strong. Sectors that will post strong growth in 2010 are manufacturing and trade sectors, particularly related to higher consumption and exports, as well as transport and communications sectors, along with higher economic activities.
 - The implementation of ASEAN-China Free Trade Agreement (ACFTA) is expected to bring positive impact for domestic economy both through exports and imports. Related to export, Indonesia's competitiveness in natural resource commodities will encourage exports, as for imports, ACFTA will support the availability of cheaper raw materials and capital goods, and will, in turn, improve production efficiency.
- In term of prices, inflation slightly picked up in January, 2010, but will remain within the target range of $5 \pm 1\%$ in 2010. Inflation in January 2010 was 0.84% (mtm), or 3.72% (yoy), higher than previous month of 0.33% (mtm) or 2.78 (yoy).
 - Inflation came mainly from volatile foods due to lower production of rice related to seasonal factor. In addition, government policy to raise government-purchasing price (HET) of rice by 10% and the estimated increase of highest retail price (HET) of subsidized fertilizer in April 2010 had pushed up the price of rice.
 - Meanwhile, the pressure from fundamental sectors, which are reflected in core inflation, was relatively stable. From the domestic side, supply was still sufficient to respond to increasing demand.
 - From external side, imported inflation in certain commodities surge, especially sugar. This was in line with rising international sugar prices. However, continued rupiah appreciation trend was able to tame inflation pressure from external factors.
- Improved export performance coupled with capital flows continues to keep Indonesia's balance of payments in surplus.
 - Favourable global economic condition, particularly in Indonesia's trading partner countries, support the improvement of export performance. In addition, rising international commodity prices will support growing optimism in the exports performance during first quarter of 2010. That condition

supports current account surplus.

- Performance in the BOP was also supported by surplus in the capital and financial account, corresponding with strong capital flows. The main factor behind this surplus were stability in Indonesia's economy, attractive yield in rupiah denominated assets, as well as Fitch rating upgrade further improved the attractiveness of rupiah assets. Issuance of government's medium term notes in the global market amounted USD 2 billion had contributed to the capital and financial account surplus.
- With the above conditions, foreign exchange reserve at the end of January 2010 arrived at USD69.6 billion, sufficient to finance 5.9 months of imports and government foreign debt.
- During January 2010, the rupiah strengthened, although had a slight pressure at the end of the month.
 - Prospects for the domestic economy which is quite solid and attractive yield in rupiah assets among the Asian countries were able to support the stability of the rupiah.
 - Pressure occurred at the end of months were influence by the negative sentiment in global financial market, among other, the release of JP Morgan's losses an the U.S financial castor policies, and also the decision of the India and China monetary authority to raise reserve requirement (GWM).
 - The rupiah on average gained 1.90% to Rp9.275 per USD. At the end of period, rupiah arrived at Rp9.350 or gained 08% (ptp) from the year-end.

Economic Outlook 2010

- The Indonesia economy has resumed a phase of accelerating economic growth. The indicators suggest that growth passed through a trough in Q2/2009 at 4.0% before picking up in the subsequent quarters. With the upbeat outlook for an accelerating economic growth trend, we expect to see improved growth of 5.0 – 5.5% (yoy) in 2010.
- From the demand side, export, together with consumption, become one of the main economic driver in 2010.
 - Export appears to be on the mend after reaching a lowest growth in Q1-2009 which has maintained an upward monthly growth trend since March 2009. The accelerated export growth is supported by Indonesia's primary commodity-based exports, which have seen comparatively quick recovery in keeping with rising demand in trading partner countries.
 - Meanwhile, the private consumption will maintain a stable trend. The key to the stable private consumption is solid consumer confidence. Stable performance in private consumption is reflected in various indicators. Car sales and imports of consumer goods are showing improved growth. However, the idea of having local government election all together in 2010 as proposed by ministries of home affairs will likely to boost household consumption as well as local government spending.
 - Accelerated growth in private consumption and recovery in export will be followed by increasing in production activity.
- From the supply side, the accelerated overall sectoral growth is not only explained by renewed domestic and external demand but also by the backward and forward linkages between tradable sectors and other sectors in the economy. Sectors that will play starring role in shaping GDP growth are Manufacture; Trade, Hotel and Restaurant; and also Transport and Communication.
- Prospects for global economic recovery had a positive impact on balance of payments forecasts of Indonesia in 2010. Since the first quarter of 2010, the surplus of balance of payments is forecasted to continue. In goods markets, the combination of the improved external demand and rising commodity

prices support the increase of the export value in the first quarter. On the domestic side, the positive transmission of the global economy is expected to have an impact on the growth of investment activity and consumption, thus pushing the value of imports. On the capital and financial transactions, the ease of deleveraging process and accommodative global monetary policy will be sufficient to sustain inflow of funds in the form of portfolio. With these developments, the overall balance of payments in the first quarter 2010 is forecasted to post surplus, supported by surplus in current account as well as capital and financial account, the BOP for the whole 2010 will be solid and post surplus.

- In term of inflation, inflation in 2010 is expected to back to its normal path and arrive at range of $5\pm 1\%$, along with domestic economy expansion as well as increasing inflation in trading partner countries as global economic recovers. In addition, domestic economic is also expected to chart better growth this year. Compare to condition in 2009, administered price in 2010 is expected to be higher. From the volatile food, El Nino will not have a significant effect on food prices.

RISK FACTORS

- GDP growth in 2010 nevertheless carries a number of downside risks, most importantly if the accelerated growth in volume of world trade during 2010 disappoints predictions. Key factors that may disrupt the accelerated trade growth are persistently high unemployment and lack of significant improvement in financing in the developed economies. Looking at current development in European countries, the negative sentiment associated with fiscal sustainability in Portugal, Spain and Greece led a global stock market slump. The worsening of the European economy prompted uncertainty about global economy recovery and disrupted market confidence as reflected in exchange rate pressures especially in emerging countries including Indonesia. However, should there be a modest weakening in the fundamentals in the rupiah exchange rate, the competitiveness of Indonesia’s exports is expected to improve, pushing Indonesia’s GDP growth to a slightly higher level.
- The inflation outlook for 2010 is also daunted by various risks. The main risks are related to government plans to phase in higher electricity billing rates and LPG prices. The increase in electricity billing rates is related to the still considerable gap between electricity selling prices and cost of production and the substantial subsidy provided by the government. In a similar vein, bottled LPG prices are set to rise to compensate for the marked difference between LPG selling prices and the economical price of the fuel. Risks may also arise from the impact of the El Nino phenomenon, if worse than predicted. Both factors could potentially drive CPI inflation beyond the projected level.

Macroeconomic Outlook

Components	2007	2008				2008	2009				2009	2010*		
	I	I	II	III	IV		I	II	III	IV				
Private Consumption	4.7	5.7	5.5	5.3	4.8	5.3	6.0	4.8	4.8	4.0	4.9	5.1	-	5.3
Government Consumption	3.7	3.6	5.3	14.1	16.4	10.4	19.3	17.0	10.3	17.0	15.7	1.0	-	1.4
Total Investment	7.6	13.9	12.2	12.3	9.4	11.9	3.5	2.4	3.2	4.2	3.3	8.5	-	8.7
Export of Goods and Services	8.6	13.6	12.4	10.6	2.0	9.5	(-18.7)	(-15.5)	(-7.8)	3.7	(-9.7)	8.1	-	9.0
Import of Goods and Services	8.5	18.0	16.1	11.1	(-3.7)	10.0	(-24.4)	(-21.0)	(-14.7)	1.6	(-15.0)	10.8	-	11.1
GDP	6.1	6.2	6.3	6.3	5.3	6.0	4.5	4.1	4.2	5.4	4.5	5.0	-	5.5

* Bank Indonesia Estimated Figure

INDICATORS		2008	2009:1	2009:2	2009:3	2009:4	2009	2010
INFLATION								
CPI	% yoy	11.1	7.92	3.65	2.83	2.78	2.8	5±1
CORE	% yoy	8.3	7.15	5.56	4.86	4.28	4.3	
ADMINISTERED	% yoy	16.0	8.27	-3.22	-5.73	-3.26	-3.3	
VOLATILE FOOD	% yoy	16.5	10.57	4.32	4.98	3.95	4.0	

