Indonesia Update

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Contents

Mandiri Investment Forum 2015
Indonesia: Pushing the Structural Reform
(Part Two)

M. Ajie Maulendra, Reny Eka Putri, Nurul Yuniataqwa Karunia, Rully Arya Wisnubroto, and Wisnu Trihatmojo

Panel Discussion 1, Infrastructure: Executing the Plan

Agus Budi Warjono, Ministry of Energy and Mineral Resources

The energy usage is mainly for fueling development in the country

Strategic issues in Indonesian energy sector includes oil and gas, electricity, mineral and coal and renewable and conservation energy. Government will be prioritizing the domestic supply fullfillment to optimize the contribution of energy sector to economic development. Old paradigm stated that energy resources are tradable commodities whih is able to be exported. Nowadays, that paradigm has shifted in to more domestically purpose in which the energy usage is mainly for fueling development in the country. Indonesia energy sector must be improved further to gain self fulfilling in energy sector. As an illustration, currently, the 893,000 barrel a day oil lifting hasn't been sufficient to fulfill domestic needs.

Aside to build additional oil refinery, government also focus on developing renewable energy source as a part of national energy security agenda

Similar to that condition, the pace of the development in renewable energy has been slow. For example, the conversion of the oil to gas has not been quite fast. It needs a huge capacity of investment to build an alternative energy. The ministry of energy is targeting to build nuclear powerplant in the future to reduce the dependency on oil to support the domestic needs for energy. Aside to build additional oil refinery, government also focus on developing renewable energy source as a part of national energy security agenda.

Another program that will be executed by government in medium term is to build electricity which is 35,000 MW in the next five years or 7 thousand MW per year. Currently there is around 53,000 MW power plant capacity versus 100,000 MW actual needs of electricity.

Andi Baso, Assistant of Regional Secretary On Finance Of DKI Jakarta Province

The district government of DKI Jakarta has a vision to be the Capital of the Republic of Indonesia, safe, comfortable, prosperous, productive, sustainable and has global competitiveness. As of 32% investment potential lies on Jabodetabek which Jakarta is a biggest part of it. Therefore local government of DKI has been improving the public sector related to investment. For instance, by providing one stop service in "kelurahan office".

In the next three years, Jakarta will have business and property with area of 2.700 hectare

In line with 2012-2017 Jakarta vision, local government of DKI has plan to develop Jakarta city in to several areas of development such as residential, business district and tourism. DKI Jakarta has a most complete infrastructure facility compared to other area in Indonesia such as airport, sea port and electricity supply. Jakarta also has business zone and special economic zone, like in Marunda and Pulo Gadung. In the next three years, Jakarta will have business and property with area of 2.700 hectare. Policy focus in 2017 is to create new Jakarta that is well organized. It means Jakarta will have proper housing condition and public services oriented government. Next, DKI government is planning to build power plant that will be distributed to other lack of electricity supply areas. The power plant itself will have capacity of 10 thousand MW.

Other priority is to be the host of Asian Games, so then Jakarta needs to improve infrastructure by building integrated transportation. One of the projects regarding to that is building airport train that initiated together with PT. KAI (Kereta Api Indonesia). DKI government is also planning to develop the tourism area in Pulau Seribu.

To build infrastructure and other facilities, Jakarta still needs a very big investment. Jakarta has a regional budget of IDR73 trillion, but still not enough for infrastructure development. Several projects are six toll roads in the middle of Jakarta to compliment the ring roads.

The purpose of one stop service is to speed up administration process that related with investment activity

Regarding to the governance improvement, DKI government has established a one stop service across 427 kelurahan. The purpose of one stop service is to speed up administration process that related with investment activity. In 2014, Jakarta economic growth is higher than national economic growth (5.9% vs 5.1%). That is a good indicator for investment prospect. Regarding to investment, Jakarta development is focusing on North, East and West of Jakarta. One of the most prospective sectors in Jakarta is consumer goods because inflation is relatively stable.

Irman Boyle, Head of Public Sector Advisory of Indonesia Infrastructure Finance

Main issue in Infrastructure development is thin supply of bankable projects. In line with that, there are three types of infrastructure project in term of project owner and financing:

First model is by pure state budget (APBN or APBD), in which government has a role in funding, designing, and procuring contractors and private sector has limited role as project contractor. Second model is through the SOE, where government is acting as a regulator and funding through PMN and awarding the project. Private sectors (SOEs) are acting as equity partner, lender, and contractor. Third model is through PSP/PPP in which the government only acts as contracting authority, defining the scope, selecting sponsors, and award the contract. Private sector act as equity sponsor, lender and contractor.

In the medium term development plan (RPJMN), government is going to increase its infrastructure spending to IDR 2,216 trillion (5% of GDP) or about IDR 443.2 trillion per year

Infrastructure spending was less than 5% of GDP in the last 2 decades. In the last 5 years, total government spending for infrastructure was IDR812.9 trillion (2% of GDP). This is why infrastructure development in Indonesia is running slowly. In the medium term development plan (RPJMN), government is going to increase its infrastructure spending to IDR2,216 trillion (5% of GDP) or about IDR443.2 trillion per year. The biggest portion of spending will go to sea transportation (IDR496 trillion), residential (IDR384 trillion), roads (IDR340 trillion), water resources (IDR275.5 trillion) and rest of them will go to waste and water treatment.

State Owned Enterprises (SOE) was assigned with greater development role. However, SOEs capacity is limited so that the government needs to make project allocation and prioritize the SOEs as the project executor. Government will increase capital of SOEs through state capital participation (PMN) so that they will have enough capacity to tackle infrastructure project.

The key success factor in PSP/PPP is political support

PSP (Private Sector Participation)/PPP (Private Public Partnership) is still attractive option for the government, and would be the fastest way to execute infrastructure project. Next step is to ensure the bankable project structure and qualified investor under a transparent and competitive tender process. The key success factor in PSP/PPP is political support. PSP/PPP needs a commitment and capacity of government contracting authority. It also needs a fiscal support to improve project viability through direct fiscal contribution and contingent fiscal contribution.

PSP/PPP is awarded through competitive selection and project award. Project due diligence is done to make a clear definition of project scope and structure and minimize uncertainties and asymmetric information. Meanwhile, direct selection (beauty contest) is undertaken to create and maintain level of competition. In deciding which option will be chosen to make an infrastructure development, government will need to take into account project level issues (bankability, etc), funding issues (fiscal risk/capacity, etc) and institutional issues (politics, etc).

Panel Discussion 2, Indonesia Consumer in 2020

Suahasil Nazara, Demography Expert

Indonesia is currently enjoying demographic bonus marked by abundant productive age population relative to infants and the elderly

The features of the future population. In the next 20 years Indonesian population will be characterized by three main features: age, urbanization, and income.

Aging population changes demographic structure. Indonesia is currently enjoying demographic bonus marked by abundant productive age population relative to infants and the elderly. However, there will be exponential growth in the elderly population which changes the age structure and ends the demographic bonus in 2035. On the one hand, this implies increases in labor supply, female participation in the workforce, national saving, as well as human capital, productivity, and income. On the other hand, we need to maintain healthy, educated, and productive elderly as the key for continued demographic bonus.

Moving to urban area. As much as 71% of population will move and live in urban area in 2030 compared with 17% in 1971, 48% in 2005, and 67% in 2025.

Inequality in growing middle income class. The population of middle income has nearly doubled in ten years. In 2003 it was only 37.6%, in 2010 56.5%, and in 2013 reached 62.4%. However, the rise of middle income class is unequally distributed.

Implication. The three features will result in increasing demand for food, energy, and water.

Population	Number	Cities
Specialcity	**1 cities**	Jakarta
Between2-3million	**4 cities**	Surabaya, Bandung, Bekasi, Medan
Between1-2 million	**6 cities**	Semarang, Tangerang, Depok, Palembang,Makassar, TangerangSelatan
Between500 thou.–1 mill.	**15 cities**	Bogor, Batam, Pekanbaru, BandarLampung, Padang, Malang, Denpasar, Samarinda, Balikpapan, Tasikmalaya, Banjarmasin, Serang, Pontianak, Cimahi, Jambi
Between200 –500 thou.	**24 cities**	Surakarta, Manado,Mataram, Yogyakarta, Cilegon, Palu, Kupang, Ambon, Bengkulu, Cirebon, Kendari, Sukabumi, Kediri, Pekalongan, Jayapura, Dumai, Purwokerto, Binjai, Tegal, Pematangsiantar, Banda Aceh, Palangkaraya, Probolinggo, Lubuklinggau

Income Group	Expenditure Cut-off (USD)	2003		2010		2013	
Low	< 1,25	21.9	62.2	14	43.3	11.5	37.4
	1,25 - 2	40.3		29.3		25.9	
Middle	2-4	32.1	37.6	38.5	56.5	39.4	62.4
	4-6	3.9		11.7		13.1	
	6-10	1.3		5		6.1	
	10-20	0.3		1.3		3.8	
High	>20	0.1		0.2		0.2	

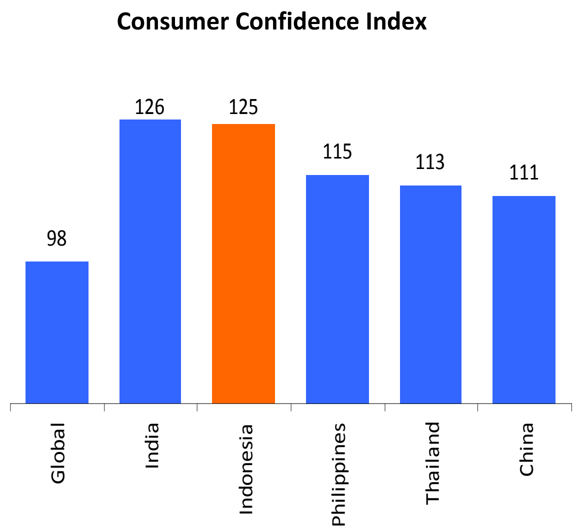
Figure 1. The 50 largest cities in Indonesia in terms of population. Living in the cities, with longer age than the previous generation. They have purchasing power, want a better live for them and their offspring Furthermore, economic development has created the middle income class and rich as well. (Source: 2010 Population Census)

Guillaume de Gantes, Partner, McKinsey Indonesia

Indonesian consumers are the second most optimistic in the world

Indonesian consumer characteristics. Indonesian consumers are the second most optimistic in the world after India and they have fundamentally different characteristics than seen in the rest of the world. They are family oriented (take advices from family or relations for purchase decisions), high brand loyalty, more likely to buy branded products (63% buy branded product), favors local brands, late adopters, and emotionally engaged to the product (take advice, do research, etc).

Consumption shift. There are three services which consumption pattern will increase the most ahead as Indonesia consuming class expands from 55 million in 2013 to 85 million in 2020. In CAGR term, they are financial service (+10%), leisure (+7.5%), and healthcare (+6.0%).



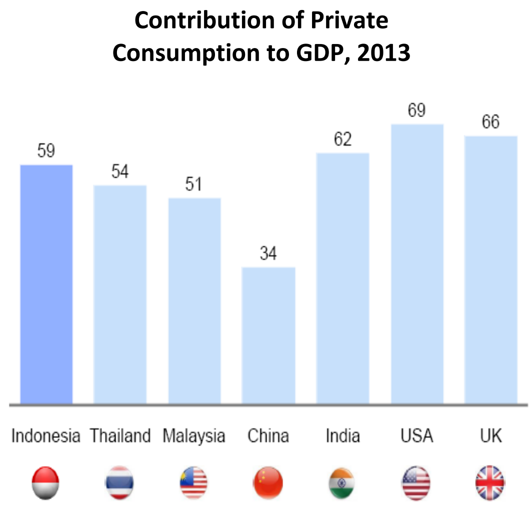


Figure 2. Indonesian consumers are the second most optimistic in the world. Consumer confidence index (>101 optimism). Furthermore, private consumption remains a primary driver of Indonesia's growth, underlining the importance of understanding 'consumerism' in Indonesia. (Source: Nielsen consumer confidence, WMM)

Rudy Ramawy, Country Head of Google Indonesia

Indonesians online activity growth is high

Breaking limitation. Indonesia breaks infrastructure limitation as average internet user watches Youtube video 23 minutes/day, longer than than Japanese and Korean. Local videos are also increasingly available in Youtube. Indonesians online activity growth is high; three years ago only 25% of population access internet more than> 3 hours. Now it rises to more than 50%.

Beneficiary. Fashion, gadget, and domestic travel benefit the most from e-commerce growth.

Hasnul Suhaimi, CEO of XL Axiata

Around 73 bn of Indonesia population already has access to internet

Data is the new source of telecommunication growth. Around 73 bn of Indonesia population already has access to internet. In relation, the current trend shows that voice and SMS services decline as chat increase. Call duration has dropped from 9 minutes/day to 5 minutes/day whereas chat service jumped from 33 minutes/day to 45 minutes/day. Moreover, combined data usage for social media and entertainment is more than 50% of data traffic.

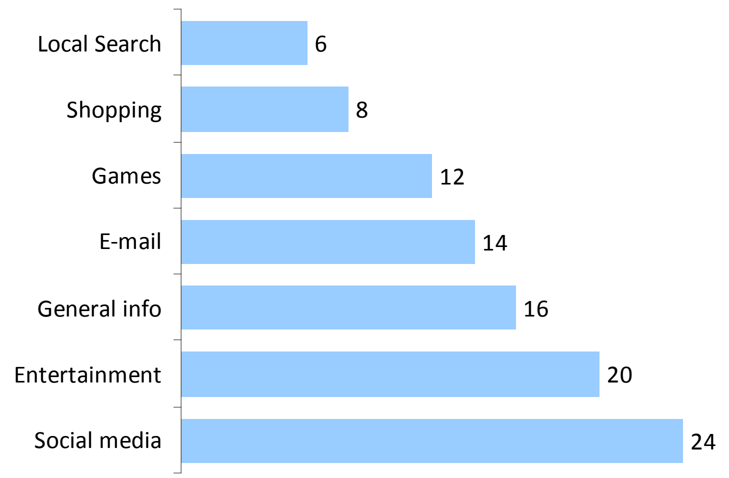


Figure 3. Mobile phone is the primary devices to go online in Indonesia with social media as the biggest traffic contributor. Majority of internet users in Indonesia are mobile only with social media and entertainment contribute around 50% from total traffic. Total Indonesian internet users is around 73 bn, 75% use mobile devices to use internet. (Source: cisco)

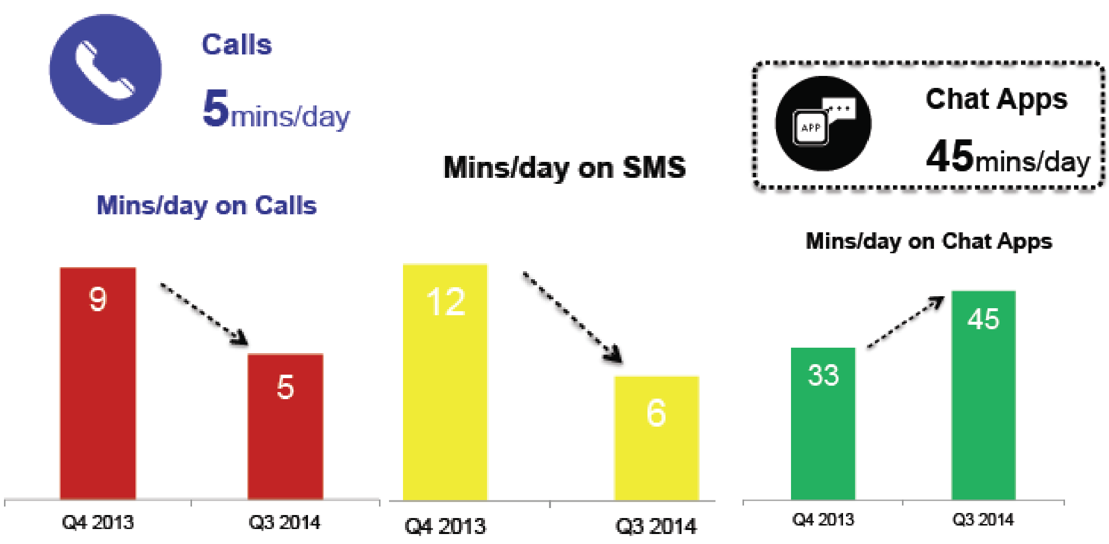


Figure 4. Time spent on communication activities, 3Q14. Traditional Voice and SMS activities decline in engagement as chat increases. Current trend, data traffic growth 5 to 9 times revenue growth. (Source: APAC ODM Panel – 4Q13 and 3Q14)

Danny Oei Wirianto, CEO of Mindtalk.com

It is believed that e-commerce activity starts to pick up when 20% of the population went digital

E-commerce is growing. It is believed that e-commerce activity starts to pick up when 20% of the population went digital. In that sense, the average e-commerce transaction has now reached USD250/year and it is getting bigger over time. In terms of transaction volume, the growth is encouraging as it surges to 50,000 transactions/day from as low as 1,000 transactions/day.

Challenges. Indonesia has as many as 48 payment system which is deemed as complicated and allows confusion in the consumer. In addition, Indonesia needs to develop data transfer infrastructure and logistics consolidation as delivery method.

Keynote Speech, by Mr. Muliaman D. Hadad, Chairman of Financial Services Authority

The domestic financial market has experienced a huge volatility lately because the Indonesian financial market is still relatively shallow. That is why it is very important to deepen Indonesian financial market in anticipating global volatility.

The needs of infrastructure financing are very big and also long term oriented, in which it can't be fulfilled by banking sector alone

Indonesian banking sector had performed relatively well in 2014, despite of the moderating trends of loan growth. This deceleration loan growth has necessary bring stability of domestic banking industry. Slowing loan growth has given a positive impact for bank's liquidity. As the credit growth slowed, the LDR has also decreased and liquidity is improving. Other banking performance indicator has also improved. Even though, the needs of infrastructure financing are very big and also long term oriented, in which it can't be fulfilled by banking sector alone.

Therefore, this is very good opportunity for capital market to contribute more to the national economy in term of infrastructure financing.

The room for capital market development is not just for the equity market, but also bond market as well

On the supply side, the development of capital market is related to the number of listed companies in stock exchange. Unfortunately, the listed companies have been quite limited of only around 500 companies. The room for capital market development is not just for the equity market, but also bond market as well. SOEs and its subsidiaries are very important participants that can increase the number of listed companies in Indonesia. In addition, the practice of implementing good corporate governance in SOEs and other companies must be conducted in order to increase their reputation and accountability. On the demand side, it is very important to increase the participation of domestic retail investors. Indonesian population is very big but the number of investors is very small so that there is opportunity in penetrating capital market product to population.

Last but not least, project based instrument in the capital market can also be created to increase the contribution of capital market to national economic growth.

Topic: The Role of FSA to Support Financial System Stability through Financial Deepening

Panel Discussion 3, Towards More Stable and Reliable Financial System through Financial Deepening

1. **Mr. Mirza Adityaswara, Senior Deputy Governor of Bank Indonesia**

Country with current account deficit meaning that needs financing from offshore

Country with current account deficit meaning that needs financing from offshore. Indonesia's current account deficit at 2014 closed to USD26 billion. Although better than USD29 billion in 2013, there still has to be improvement on financing on this deficit from capital inflows, either from the capital market or from foreign direct investment. Furthermore, it is very important to encourage financial market deepening. For example, the capital and financial account surplus in Indonesia every quarter in 2014 and the bulk of capital account are actually from portfolio inflows at USD25.8 billion and from FDI at USD15.2 billion.

The main fund supplier in Indonesia is bank asset, around 55% of GDP. Share of insurance is growing but small around 7% of GDP and mutual fund only 2% of GDP. Indonesia funding to higher economic growth is dominated by banks, and this fund supply is limited by LDR. Bank's lending capacity has started declined. LDR reached 111% in 1997 and around 11% came from short term money markets, especially during that time was from inter-bank short term financing. And then during the crisis, Indonesian bank was recapitalized, the bulk of the loan was transferred to IBRA, then LDR dropped to around 40%. During the recovery, LDR was going up and now close to 90%. It means around 90% deposit become loan, the rest is actually liquidity reserve and precautionary liquidity. As a consequent, bank needs a system in term of funding if they want to increase their loan. Banking excess liquidity in Indonesia that was put in BI by open market operation is now quiet minimal, around 5-7% of total deposit. Significantly low compared to 10 years ago at above 20%.

In the meantime, source of funds from foreign are important but subject to the availability and liquidity of hedging instruments. Foreign investor's participation in the markets now around 5% of GDP or IDR485.5 trillion, the purchase of corporate bonds from foreign investor is still very tiny. Therefore, this is the challenge for regulator (OJK and BI) to grow corporate market in Indonesia. Furthermore, foreign debt financing from private sector is around 20% of GDP and foreign buy in stock market is around 19% of GDP.

With the high LDR in banking sector means that banking needs other non deposit instrument

With the high LDR in banking sector means that banking needs other non deposit instrument. BI and OJK recently want to develop negotiable certificate deposit markets in order to develop money markets instruments, for example the MTN markets with more prudence and more developed approach. The problem with the high LDR in banking sector is banking now needs more financing from offshore. Last year, BI and OJK give approval for banking sector around USD7.5 billion offshore financing. Offshore financing to corporate sector has already reached USD160 billion, from USD70 in 2009. Subsequently, Indonesia needs to develop financial markets, corporate bonds markets MTN markets and hedging markets.

Financial deepening basically is about funding

Financial deepening basically is about funding. Most of the economic financing comes from the banking sector. Nevertheless, the liquidity condition in the banking sector is limited as LDR is relatively high reaching close to 89%. Therefore, with the already high LDR, non-banking instruments become important to finance Indonesia's high growth ahead. Currently, Indonesia's financial market is still shallow. For instance, Indonesia's FX market is dominated by spot transactions (68%) while derivative instruments are less liquid due to undeveloped derivative market. Due to the lack of development, Indonesia's daily average FX transaction is lower than peer countries (only reaching USD5.01billion vs. Thailand and Malaysia at USD12.8 billion and USD11.1 billion, respectively). On the interbank market, Indonesian interbank claims are the lowest (% of total banks) compared to peer countries. In 4Q14, BI announces regulation on FX transaction and continues to develop the markets on FX markets. For the first time, BI invited the private sector to work together to develop FX markets as Indonesia's markets committee.

Financial deepening basically is about funding a

Followed by the fact that Indonesian financial markets play limited role in the economy and are not yet developed, Indonesia is vulnerable against external shocks. This vulnerability is exacerbated by the large size of foreign ownership in the government bond market. As a result of limited domestic funds, private external grow larger. Therefore, financial market deepening is a national concern. Strengthening coordination and integration among authorities are critical to support the development of a deep and liquid financial market. In 2015, Bank Indonesia will focus more on developing money market and FX market (including syaria financial market).

Mr. Mirza also emphasizes seven focus of Bank Indonesia, i.e.:

1. Current account deficit is estimated of around 3% of GDP for 2015.
2. Inflation targeted at 4±1 in 2015 due to current declining on oil price.
3. Current debt especially corporate offshore current debt hence BI issued regulation on hedging.
4. Financial markets deepening.
5. BI enforced the law on the use on rupiah.
6. Financial system stability together with OJK, MoF and LPS.
7. BI push on the less cash system.

FUND SUPPLIERS	IDR Trillion	% to GDP
Bank	**5,418.8**	**55%**
Insurance	733.9	7%
Finance Companies	439.8	4%
Mutual Funds	224.3	2%
Pension Funds	180.2	2%
Foreign Investors		
- Gov Bonds (Inc. SPN + Global)	485.5	5%
- Corporate Bonds	22.0	0%
- Stock	1,840.8	19%
Foreign Debt	1,990.2	20%

Figure 5. Limited domestic financing capacity: conomic financing mostly derived from the banking sector. Indonesia funding to higher economic growth is dominated by banks, and this fund Supply is limited by LDR. In the meantime, source of funds from Foreign are important but subject to the availability and liquidity of hedging instruments. (Source: Bank Indonesia)

2. **Mr. Isa Rachmatarwata, MoF Expert Staff on Financial Services and Capital Market Policy and Regulation**

   Government contribution for financial deepening includes three focuses on the area:

The government also sees the possibility of higher local government bonds issuance and the ability to maintain country's credit rating

   - Through the creation of government securities means the government tries to provide every segment of investors in the market with different types of instruments such as traditional bonds, retail bonds, retail sukuk, and project based sukuk, etc. The government also sees the possibility of higher local government bonds issuance and the ability to maintain country's credit rating.
   - Government sees the opportunity to help deepening the market by establishment of several institutions to develop optimism of domestic investor and utilization of new instruments, such as BPJS (*Badan Penyelenggara Jaminan Sosial*, basically as social protection in Indonesia) to attract and provide the confidence of domestic investors especially institutional investors.

The government should utilize the ASEAN cooperation to help financial market deepening

   - Government seeking possibilities of regional (ASEAN) cooperation (integration). Some initiatives within the ASEAN are ASIAN Bond Fund, ASEAN+3 multicurrency bond issuance framework (AMBIF), credit guaranty and investment facility (CGIF), Fund Passporting and ASEAN collective investment scheme. These initiatives will be the opportunity to help local corporate bond issuance in local or regional currency and also to attract investors from other countries. Overall, the government should utilize the ASEAN cooperation to help financial market deepening.

3. **Mr. Elvyn G. Masassya, President Director of BPJS Ketenagakerjaan**

   BPJS Ketenagakerjaan (BPJS TK) as social security agency in Indonesia that managed all the workers fund. The new paradigm of investment started five years ago, with fund worth USD6 billion. But currently, BPJS TK's funds reach USD17 billion.

BPJS TK mostly choose bond market with lower risk as our investment portfolio

Investment horizon of BPJS TK: Long Time Horizon
The market instruments allocation of BPJS TK investment in 2014 includes Bond Market (42.52%), Time Deposit (28.79%), Capital Market/Equity (20.20%), Mutual Funds (7.88%), and Property (0.6%).

As long term investor, BPJS TK mostly chose bond market with lower risk as our investment portfolio. However, BPJS TK still doing investment in equity market, although it sees the limited quality of equity instruments in Indonesia.

BPJS TK also sees the risk that coming from government regulation and commodity prices development that can encourage the market. BPJS TK addresses five points that important for the institution as an investor:

1. Stability of the market
2. Clear direction of regulation
3. Predictable government action
4. Encouraging the supply side and quality of the investment instrument
5. Intensify communication between the investor and regulator

Based on BPJS TK activity, it plans for the upcoming years that the organization will be able to manage more than USD50 billion as a fund in capital market, money market and direct investment. BPJS TK also put the attention on property sector activity started in 2015 by planning to build more than 100,000 unit affordable housing for workers. BPJS TK expects this activity will give multiplier effect for investment. At last, the organization still believes that Indonesia has good prospects for investment and BPJS TK still does its investment based on long time horizon. BPJS TK expects the local and foreign investors will join the organization to boost Indonesia investment.

4. Mr. Budi G. Sadikin, Group CEO Bank Mandiri

Since our financial market is small and narrow that will generate volatility

My view is finance is the blood of the economy. So if we want have a high growth of the economy, we had to have big and very deep financial market. As the major player in Indonesia financial market, we see the Indonesian financial market is very small compared with our neighboring countries. In my point, our financial market is small and narrow so that will generate volatility. Furthermore, availability of financial market to support the economy is relatively low.

Although our country is the largest economy in ASEAN countries or the 16th biggest economy in the world, our financial market still small. Indonesia financial market size does not correlate with the economy size. So that, if Indonesia wants to be recognize as a large country in term of economic activity and wants a high GDP growth, we also need to develop our financial market. As we know, a lot of time and effort have been spent to discuss about physical infrastructure such as building bridges, sea-port, air-port, toll-road and power plant but less energy and time has been spent to discuss how we build much bigger financial infrastructure.

The funny things about financial market: there is always somebody that buys and at the same time somebody that sells and both of them fell that they're really good in making a lot of money.

Deepened Financial System to Support Infrastructure Development

Moekti P. Soejachmoen

Government initiative to build and revamp infrastructure in Indonesia in the next five years definitely requires lots of funding. This infrastructure project includes maritime connectivity, railroad expansion, improve electrification, Mass Rapid Transportation (MRT), irrigation improvements and strengthen tourism. The highest proportion of infrastructure fund will go to electricity (19.5%), followed by maritime (17.9%) and roads (16%). Government predicted that during the next five years, the need for infrastructure funding is around IDR5.5 trillion or IDR1.0 trillion per year. With a limited government funding which will only cover around 50% from government budget (central and regional) and 19.3% from State Owned Companies, the role of private sector is significant (30.7%).

Shallow financial market increases the vulnerability of financial system since the dependency of foreign funds is high

Fund raising from private sector can be done through financial system. However, financial system in Indonesia is still shallow compared to other ASEAN countries. M2 to GDP ratio in 2013 was 40% compared to Malaysia (142%), Singapore (133%), Thailand (131%) and Philippines (59%). While the ratio of total reserve to GDP is also the lowest: 12.9% compared to Singapore (92.7%), Thailand (49.6%), Malaysia (45.8%), and Philippines (33.5%). Banking sector dominates the financial system with contribution more than 87% and bonds and equity contribute the rest. The number of companies listed in Indonesia Stock Exchange is 501 with daily average transaction of USD500 million, which is low compared to Malaysia and Thailand. Meanwhile the assets of banking system is around IDR5,445 trillion in October 2014 compared to IDR416 trillion for multi finance companies and IDR235 trillion of mutual funds. Although infrastructure loan from banking sector has increased for more than four time since 2007 to September 2014 (from IDR88 trillion to IDR348 trillion), it only covers 32% of national infrastructure funding need. In addition, shallow financial market increases the vulnerability of financial system since the dependency of foreign funds is high. High foreign investor exposure in Indonesia market leads to a high risk of capital reversal. Percentage of foreign stocks transaction and foreign ownership in government bonds in Indonesia is higher than in Malaysia and Thailand (38% and 31% respectively).

With this backdrop financial deepening is really necessary for Indonesia especially with the high need of infrastructure funds. There are four main assets classes that can be developed to deepen the financial market, namely money market, bond market, *Off shoring high net work individuals are driven by private security, business relationship and risk diversifications as tax can be very high in Indonesia*

foreign exchange market and equity market. Each market faces different challenges and has different initiatives that can be developed. The primary barriers are the lack of structural investors in Indonesia economy. Big and long term domestic investor is lacking as pension funds involvement in the market is still limited. In addition there is small history of shares traded and limited product variety for bond markets. In addition share of wealth that is being managed in Indonesia is relatively small. The major segment are off shore high net worth individuals and non-resident Indonesia account as well as corporation including export money which was not repatriated. Off shoring high net work individuals are driven by private security, business relationship and risk diversifications as tax can be very high in Indonesia.

The second challenge is lack of instrument variety to accommodate investors' needs. In the money market, development of Cross Currency Swap, Negotiable Certificate of Deposit and Repurchase Agreement (REPO) is needed to deepen the financial market. The development of capital market mortgage securitization instrument such as real-estate investment trusts (REIT) and residential-mortgage backed securities (KIK EBA) will provide alternative for investor for securitization of assets. Some banks have developed these instruments but government support in terms of regulations and policies are still needed to accelerate the development of the instruments.

Strengthening the credibility and transparency of credit rating agency to improve investors' confidence

Other policies that are expected by the investors to further develop financial system in Indonesia are double taxation exemption for KIK EBA because until now the special purpose vehicles (SPV) are treated as new companies therefore are subject to tax. Policies to relax the restriction on bonds and equity investment including simplifying procedures of equity offering, expediting processes for share offerings (large domestic investors such as pension funds and insurance, are limited in investing on bonds and equity).

Others are strengthening the credibility and transparency of credit rating agency to improve investors' confidence in investing in the Indonesian bonds market and reviving the secondary market for mortgage securitization by establishing a secondary mortgage corporation for Indonesia and providing a supporting regulatory framework.

The above initiatives would create a more stable and reliable financial system in Indonesia and would provide a larger domestic base for infrastructure financing, which is needed to obtain high growth of an average 7 percent per year until 2019.

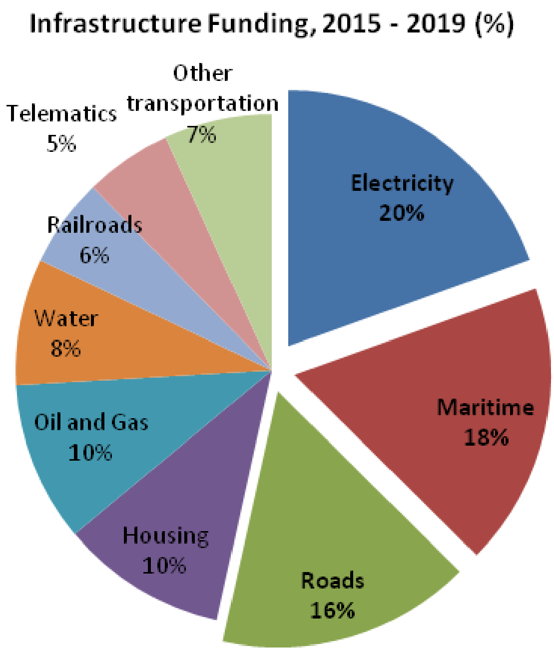


Figure 6. Infrastructure Funding, 2015 - 2019 (%) (Source: RJPM 2015-2019)

The Importance of Financial Deepening in Indonesia

Andjarsari Paramaditha

Financial deepening refers to the increased condition and amount of financial services, with broader alternatives of services that is accessible to every investor

As one of the strongest emerging economy in the world, Indonesia is expected to have a more sustainable economic growth. One of the ways to achieve it is by constructing a solid economic fundamental by creating various instruments and products in financial sector as well as creating an inclusive and liquid environment across these products, widely known as financial deepening.

Financial deepening refers to the increased condition and amount of financial services, with broader alternatives of services that is accessible to every investor, foreign and domestic as well as retail and institutional. It also gives greater macro effects on the economy as the liquidity and ratio of money supply to GDP is significantly increased.

Financial deepening is shown to have significant function to support the economic growth, mitigate systemic risk, sustain financial stability and trim down poverty and inequality level

Through comparative studies and success stories in other countries, financial deepening is shown to have significant function to support the economic growth, mitigate systemic risk, sustain financial stability and trim down poverty and inequality level. When global volatility occurs, financial deepening can help to deem the effect and prohibit it to fall into a deeper crisis, as the market has a better structure and built with better defense mechanisms.

Financial deepening will also create a more even wealth and growth distribution. Better access to credit by the poor can reduce poverty by investing in human capital and micro-entrepreneurship. By broadening the access to financial sector and products, it could benefit the poor through rising capital flow and allocation amount, thus gradually reduce inequality. Furthermore, financial deepening is needed to provide financing to the small & medium enterprises (SME) due to crowding out by large corporations. With a more deep financial sector, larger corporations can raise funding more easily through bonds and equity, so that banking system can allocate its lending fund to SMEs.

Financial deepening plays a critical point, moreover with the new administration that is focusing on reallocating subsidy to human development, as well as ramping up infrastructure development

Hence financial deepening plays a critical point, moreover with the new administration that is focusing on reallocating subsidy to human development through social safety net, as well as ramping up infrastructure development. In order to finance them, GDP must be boosted to a certain level, so that it could also support government budgeting without relying too much from government debt.

While it needs IDR6.2 trillion for poverty alleviation program in 2015 (TNP2K), Indonesia also needs USD450 billion to fund infrastructure spend from 2010-2020 (ADB). Current banking sector has high loan to deposit ratio (LDR) and cannot meet these funding needs.

	Indonesia	Thailand	Malaysia	India	China
Number of listed companies	540	613	905	1,708	2,600
Number of listed companies *(normalized to RI size)**	540	1,400	2,360	790	215
Number of corporate bond issuers	140	134	387	706	3,540
Number of corporate bond issuers *(normalized to RI size)**	140	304	1,008	327	293
Number of retail investors	450,000	n/a	n/a	25,000,000	50,000,000
Percentage of investors to population	0.20%	n/a	n/a	2%	4%
Equity to GDP	49%	111%	141%	149%	58%
Bond to GDP	6%	18%	42%	12%	18%

**rescaling based on relative GDP ratio*

Figure 7. Financial market key indicators in Asian emerging market. (Source: Mandiri Institute research)

Compared to Malaysia and Thailand, Indonesia is 2.2 to 7.2 times smaller in term of listed companies and bond issuance amount from its neighbors.

Financial deepening is very important for financial resilience. Looking at comparative figures to its emerging economy peers, Indonesia is still lagging behind in size of its capital market formation. It also shows that Indonesia has the shallowest penetration compared to its Asian counterparts. Compared to Malaysia and Thailand, Indonesia is 2.2 to 7.2 times smaller in term of listed companies and bond issuance amount from its neighbors. Compared to high-populated emerging countries such as India and China, retail investor rate is lower than one-tenth of the peers, showing that investment literacy is superbly low in Indonesia. The highest correlations of Indonesian market penetration is also still shallow than it should be.

To catch up with its peers, Indonesia needs accelerated transformation in capital and money market to increase the liquidity through more participation as its foremost barrier is the lack of structural investors in Indonesian economy. Providing

To catch up with its peers, Indonesia needs accelerated transformation in capital and money market to increase the liquidity through more participation

individuals, households and small firms with greater access to financial risk-managing tools can enhance resilience and stability of the real economy and thus also the financial system that serves it (Cull, R., Demirgüç-Kunt, A., & Lyman, T. ,2012).

However it is also crucial to focus on the domestic demand side, as local participation will also reduce capital outflow and currency risks. With improved market stability, Indonesia will also become attractive to foreign investors to invest in long-term. Hence, it will also affect financial sustainability, market liquidity and risk mitigation. How this can be achieved, is also depending on how broad the access to financial services and how it is administered by the supervisory and regulatory framework.

Government and regulators play significant roles to boost financial deepening. Currently, there are unfavorable tax environment in Indonesia for foreign companies and the absence of fiscal incentives for retail capital markets investors

Government and regulators play significant roles to boost financial deepening. Currently, there are unfavorable tax environment in Indonesia for foreign companies and the absence of fiscal incentives for retail capital markets investors. Through combined monetary, fiscal and public policies, they need to intensify the financial sector and reinforce continuous strategic plan to grow financial deepening and economic growth. This can be done through financial integration; relaxation or deregulation in paper works, limiting intervention in the financial systems and speeding up process in financial product issuance. High fixed-costs in financial provision also need to be cut to have a more efficient financial ecosystem.

The existing financial systems also need to develop financial markets, by increasing the status of financial institutions and creating diversified financial institution as well as instruments. Financial products, especially for equity and bond products, should also be available for domestic retail market; while it should be created in a higher scale, the minimum ticket allocation should still be affordable. There are several market instruments that also not yet available or utilized in Indonesia, such as cross-currency swap and interest-rate swap market, asset-backed equity securitization and REITS (real estate investment trusts).

Financial products, especially for equity and bond products, should also be available for domestic retail market

Finance sector has a well-established “supply-leading” character; the level of financial development and stock market liquidity each exerts an independent, positive influence on economic growth (McKinnon, R.I.,1973). By building the much needed financial services, it can stimulate economic growth through increasing the rate of capital accumulation, improving capital formation and efficiency (particularly more effective in low and middle income countries) and create greater ability to facilitate efficient resource allocation through a liquid trading platform and market.

BI Rate Update: Shifting Gear

Aldian Taloputra, Leo Putera Rinaldy, and Wisnu Trihatmojo

A 25 bps cut rate to 7.50%.

Unexpectedly, BI decided to cut its policy rate by 25bps to 7.50% in today's board meeting, when all economists surveyed, including us, expect it to be unchanged. Accordingly, deposit facility rate was also cut to 5.50% while lending facility was kept unchanged at 8.0%. The reason for the cut is low and manageable inflationary pressure. The central bank sees inflation in the lower bound of its target of 4% ± 1% in 2015. Meanwhile, it sees 7.50% policy rate is in line with its effort to bring the current account deficit to a healthier level.

BI: economic growth forecast is still unchanged at 5.4% - 5.8% while it sees the CAD to GDP at 3.0% - 3.1% of GDP in 2015

BI: economic growth forecast is still unchanged at 5.4% - 5.8% while it sees the CAD to GDP at 3.0% - 3.1% of GDP in 2015, slightly higher than last year at 2.95% of GDP. What is interesting for us is the latter number. The fact that the central bank sees a pick-up in CAD yet BI rate is still cut indicates a new definition for a healthy current account deficit. Previously 2.5% of GDP is the healthy level for current account deficit. Now, we suspect higher than 2.5% is acceptable if the reason is for productive economic activity such as infrastructure.

Lower external risk perspective

During last month's board meeting, BI stated that it saw escalated outflow risk as a consequence of growing uncertainty surrounding the normalization policy of the Fed in combination with US dollar appreciation. Currently, the central bank sees potential inflows owing to ECB's expanded asset purchase program.

Monetary policy: shifting the gear

All in all, low inflationary risk, the new normal for healthy current account deficit, and potential inflow ahead indicate BI's view of easing external and domestic risks. Thus, we think that BI is now starting normalizing its monetary policy. Having said that, we penciled in another 25bps rate cut this year to 7.25% in 2Q15.

Neutral impact on rupiah in the short term

Given the benchmark rate cut, we see the impact on the interest rates will be limited as the money market rate and government bond yield has already been in declining trend. Since end 2013, the interbank O/N rate, 1mo reverse repo, 6mo SDBI, 9mo SBI and 10 year government bond yield have declined by 18bps, 23 bps, 18bps, 29bps, and 106bps, respectively. This, we think, is the result of slower economic expansion and capital influx. Nevertheless, this does not change our rupiah view in the medium term, as we still think the normalization US monetary policy and thin FX transaction will continue to risk rupiah exchange rate on the downside.

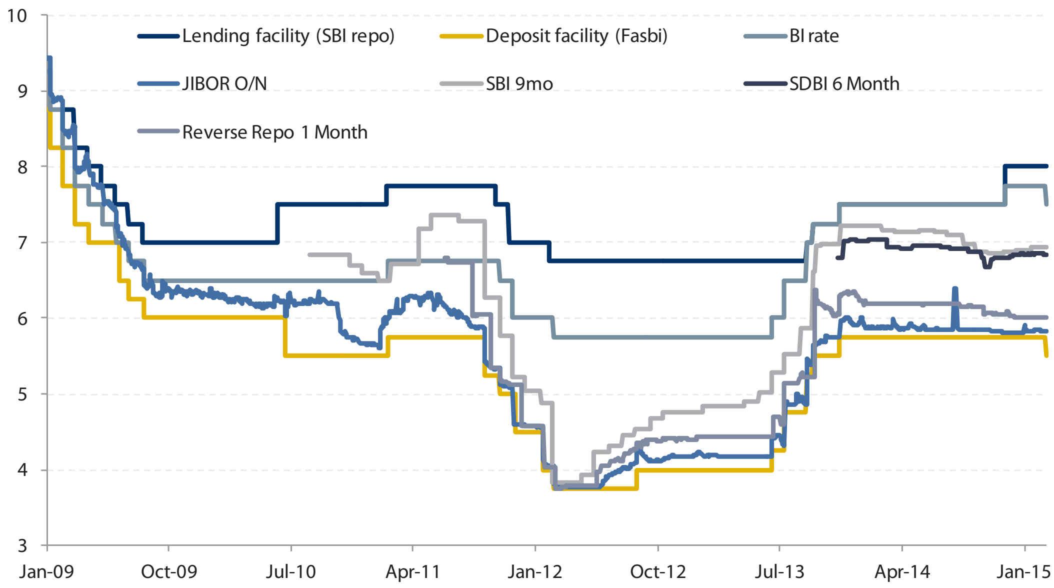


Figure 8. Interest Rate Corridor. (Source: Bloomberg, Bank Indonesia)

Government Plans to Revise Property Tax Regulations

Sindi Paramita

The government is currently reviewing revision of some tax regulations to boost the potential revenue from taxes

Overview of Revisions on Tax Regulations

The 2015 Revised Budget Draft revealed that tax revenue target in 2015 was raised to IDR1,484.6 trillion. Thus, the government is currently reviewing revision of some tax regulations to boost the potential revenue from taxes. The property sector is one of the sectors that will be targeted of revision of the regulation. The government is considering the following revisions to financial transactions involving property.

First off, there are plans to review the reduction of price limit for income tax (PPh 22) on property. Currently, an income tax of 5% is imposed on property transactions connected to both landed houses worth more than IDR10 billion or more than 500 square meters (sqm) and apartment worth more than IDR10 billion or more than 400sqm. However, the government is considering the possibility of lowering the price limit for the income tax on property from IDR10 billion to IDR2 billion. If this revisions was approved, the number of people paying taxes on property would increase significantly.

The second revision up for review is the removal of the taxable value of property (NJOP). Currently, regional governments determine the value of the land this measure is used as a guide to collect land and building taxes (PBB) and land and building transfer fees (BPHTB). However, the official value of the land usually does not reflect the actual transaction value and typically lower compared to the actual transaction price. Therefore the property tax collected has been lower compared to the actual transaction value. Hence, the government plans to replace the current methodology for determining the value of land with a new system called price zoning. This new methodology should more accurately reflect the actual market or transaction value, thus, increase the revenue from land and building tax (PBB) and land and building transfer fee (BPHTB).

The third revision for review is to change the price limit for luxury tax (PPn BM). The current regulations stipulate a 20% luxury tax on transactions for apartments that are more than 150sqm and landed houses that are more than 350sqm. Previously, there was a price limit for PPn BM. According to a 2004 tax regulation, luxury tax was imposed on property transaction related to purchase of apartment above 150sqm and priced over IDR4 million per sqm and landed house above 400 sqm and priced over IDR4 million per sqm. However, in 2009 the price limit was removed as it is difficult to determine luxury houses nationally given that prices vary widely accross different regions. Developers and property investors received the 2009 revision well because it made it easier to calculate taxes.

Forth, the government is considering the possibility of removing of land and building tax (PBB). Under current regulations, regional government collect land and building tax annually. The government is currently reviewing the removal of land and building for public welfare, while the public only need to pay land and building tax on the purchase of property. The government is proposing the removal of land and building tax for non-commercial such as hospitals, houses of worship and houses below 200 sqm. In this scheme, land and building tax will only be imposed on commercial buildings, such as stores, malls and shopping centers, office buildings, and restaurants. The tax exemption is expected to free non-commercial building residents from tax burdens. In the future, the government plans to charge property taxes only when people purchase a land or a house.

Tax Paid on Purchase of Residential Property

No.	Tax	Percentage
1.	Land and building transfer fee (BPHTB)	5%
2.	Value added tax	10%
3.	Income tax (PPh 22) only imposed to landed houses worth more than IDR10 billion or above 500sqm and apartment worth more than IDR 10 billion or above 400sqm	5%
4.	Luxury tax (PPn BM) only imposed to landed houses above 350sqm and apartment above 150sqm	20%

Figure 9. Tax paid on purchase of residential property. Currently, purchase of landed house worth more than IDR 10 billion or more than 500 sqm or apartment worth more than IDR 10 billion or more than 400 sqm is subject to around 40% tax include value added tax by 10%, income tax by 5%, luxury tax by 20%, and land and building transfer fee (BPHTB) by 5%. (Source: Tax Office)

Impact on the Property Sector

As a result, the price of houses and apartments would increase because developers are likely to pass the tax onto the consumers.

If the reduction of price limit for income tax was approved, any property purchases that fit the regulations mentioned above (landed houses worth more than IDR 2 billion or more than 500sqm or apartment worth more than IDR 2 billion or more than 400sqm) would be subject to a total transaction tax about 40%. The large figure includes value added tax by 10%, income tax by 5%, luxury tax by 20%, and land and building transfer fee (BPHTB) by 5%. As a result the prices of the house and apartment that must be paid by consumers become more expensive because developers are likely to pass the tax to the consumers. This potential increase on house price will probably suppress the demand for residential property and eventually cause the slowdown in property sector.

Along with the pressures on the demand side, most of developers do not target high sales growth for 2015, they are aiming for the same as in 2014. For example, Ciputra Development only targeted IDR9,6 trillion for marketing sales in 2015 or only 11,2% year-on-year (YoY) growth and Bumi Serpong Damai targeted IDR7 trillion for their marketing sales in 2015 or 7,7% YoY growth. The government’s plan to reduce the price limit for income tax to IDR2 billion will have a diversity of effects across property companies. The reduction will affect developers of luxury properties more than developers that focus on less expensive projects.

The proposed removal of land and building taxes is unlikely to be implemented to residential houses because land and building tax is one of the main sources of revenue for regional governments. Furthermore, most of revenues from land and building tax come from tax on residential houses. For instance, Medan Regional Income Agency said that around 60% of their land and building tax comes from residential houses. As for the implementation of price limit for luxury taxes, it is rather difficult to generalize luxury house nation wide. In line with that, Indonesian Real Estate (REI) is against the implementation of price limit for luxury tax, since it is thought to be ineffective.

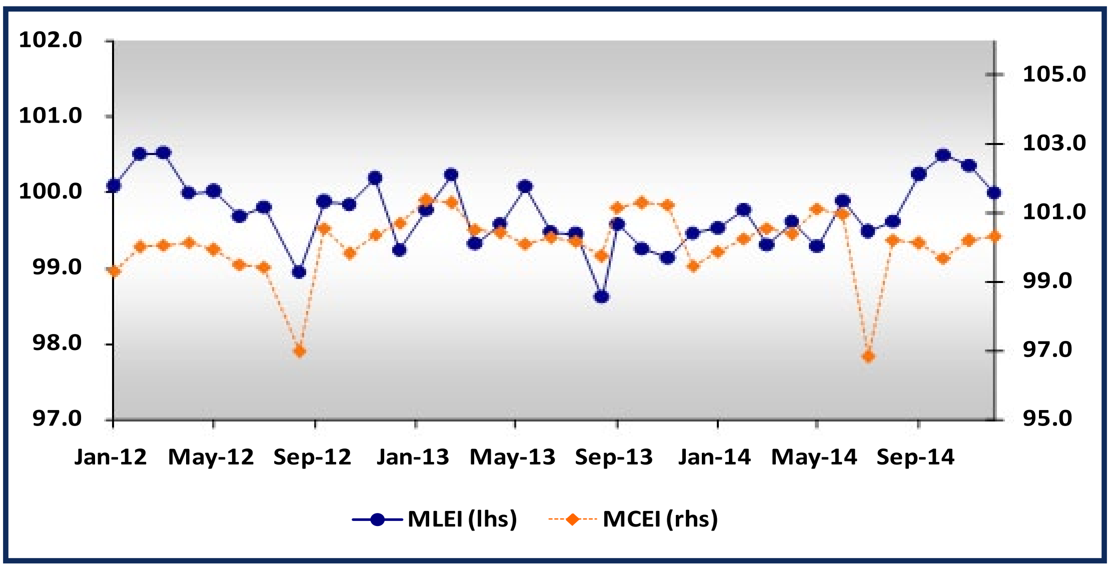
We expect the government will revise the regulations wisely and will not burden the people so that consumers can continue to support the growth of the property sector.

Mandiri Leading Economic Index (MLEI)

Economy Expected to Rebound in 2015

In December 2014, MLEI decreased 0.4% compared to last month to the 100.4 level. MLEI fluctuated in the range of 99.3 to 100.4 during the period of January 2014 to December 2014. Four out of eight constituent indicators of MLEI showed an increase in December 2014 (see detailed data on the following tables). Based on the quarterly average of MLEI in 4Q14 (100.4) that higher than average MLEI in 2Q14 (99.6) and 3Q14 (99.8), it predicts the economy will experience a higher growth in 1Q15 and 2Q15 compared to 4Q14. In our latest forecast, the economic growth in 2015 will accelerate to 5.5% (YoY) from 5.02% (YoY) in 2014.

From recent development, Indonesian economy recorded 5.01% (YoY) growth in the 4Q14, increasing from 4.92% (YoY) in the preceding period. Robust economic growth was achieved on the back of stronger domestic demand, predominantly in the form of construction investment and government consumption. From an external side, a deep contraction was felt in terms of export performance, decelerating to 4.53% (YoY) due to weak demand from emerging market countries and lower commodity prices.



The Indonesia's trade balance in January 2015 was posted with a surplus USD709 million, resulted from a sharper drop in imports than exports. Data showed imports in January 2015 dropped 15.59% (YoY), significantly better than the 6% fall of market expectation, while exports shrank 8.09% (YoY) versus a consensus of 4.6% fall. January 2015 surplus is higher than in December 2014 and market consensus at USD187 million and USD56 million, respectively. We expect trade balance improvement will continue this year and mainly comes from lower oil imports due to the sluggish oil price and non oil and gas exports will support exports performance until the end of this year by the improvement of global economy. In our view, we predict that the export may have improved 3.6% (YoY) and import will rise at around 1.5% (YoY) with CAD at 2.8% to GDP in 2015.

	2014			2014			2014			2014		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec*
MLEI	99.5	99.8	99.3	99.6	99.3	99.9	99.5	99.6	100.2	100.5	100.4	100.0
Change (%MoM)	0.1	0.2	(0.5)	0.3	(0.3)	0.6	(0.4)	0.1	0.6	0.3	(0.1)	(0.4)
Average		99.5			99.6			99.8			100.3	

	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14*	Dec-14* (% MoM)
Mandiri Leading Economic Index (MLEI)	**99.6**	**100.2**	**100.5**	**100.4**	**100.0**	**(0.4)**
Indonesia Stock Market Index	100.8	100.0	100.8	99.9	100.0	0.1
Consumer Confidence Current Condition Index	99.7	100.6	101.4	101.0	100.1	(0.9)
Export Index	99.5	100.7	100.5	98.3	98.8	0.5
Import Index	100.7	101.0	100.1	99.6	99.9	0.3
Rupiah to USD Index	100.0	100.0	100.0	100.0	100.0	0.0
Private Deposit Index	97.2	100.6	102.0	102.9	101.1	(1.8)
Time Deposit Index	100.0	99.9	100.0	99.9	99.9	0.0
Saving Deposit Index	99.0	99.1	99.2	101.0	100.0	(0.9)

	2014			2014			2014			2014		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec*
MCEI	99.9	100.3	100.5	100.4	101.1	101.0	96.8	100.2	100.1	99.7	100.2	100.3
Change (%MoM)	0.4	0.4	0.3	(0.2)	0.7	(0.2)	(4.1)	3.5	(0.1)	(0.4)	0.5	0.1
Average		100.2			100.8			99.0			100.1	

	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14*	Dec-14* (% MoM)
Mandiri Coincident Economic Index (MCEI)	**100.2**	**100.1**	**99.7**	**100.2**	**100.3**	**0.1**
Business Activity Expectation Index	101.8	99.4	99.5	99.5	99.7	0.1
Usage of Labor Expectation Index	100.1	97.8	97.7	98.5	100.0	1.5
Industrial Production Index	100.4	98.9	99.6	101.6	100.2	(1.4)
Retail Sales Index	98.3	101.6	99.4	100.8	100.9	0.1
Motorcycle Sales Index	99.1	101.4	100.5	99.3	100.2	0.8
Cement Consumption Index	101.6	101.6	101.3	101.3	100.8	(0.4)

*note : *) preliminary*

Index > 100 and increasing indicates expansion

Index > 100 but decreasing indicates downturn

Index < 100 and decreasing indicates slowdown

Index < 100 but increasing indicates recovery

Changes in parentheses indicate negative numbers

Mandiri Banking Pressure Index (MBPI)

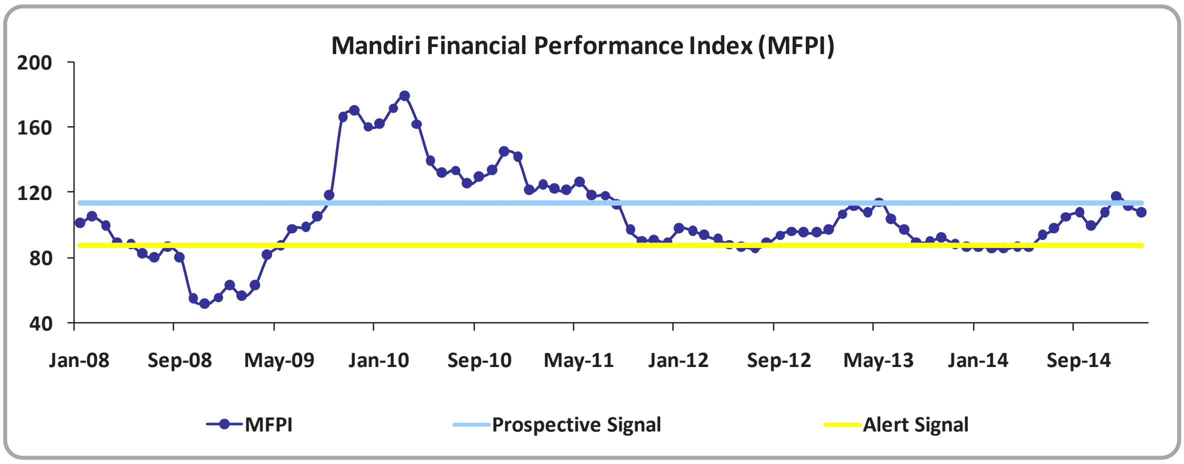
Banking Sector: Prospective Outlook Continues as Liquidity Improves

Bank Mandiri considers the importance of being aware of the banking sector development as a whole; both in booming times, recessions and crises through a leading indicator. From the importance of being knowledgeable on the financial (banking) sector development in the country in a clearer and measurable manner, Bank Mandiri established the Mandiri Financial Performance Index (MFPI) which is a reflection of the service sector and financial business performance, both historical and real time. Bank Mandiri also composed an index that can project the direction of MFPI future movement, called Mandiri Banking Pressure Index (MBPI).

Looking at the actual condition, MFPI in February 2015 reported at 107.6 levels. This position indicates that the condition of the Indonesian banking sector is in normal condition. The banking industry has been resilient, with credit risk, liquidity risk as well as market risk well mitigated and supported by a strong capital base. Credit to third party in December 2014 increased 11.6% (YoY), lower than 11.9% (YoY) growth in the previous month. Deposit growth accelerated 12.3% (YoY) in December 2014, compared to the previous month recorded at 13.8% (YoY).

Mandiri Banking Pressure Index (MBPI) is a leading indicator of the banking sector in Indonesia. It is an indicator that provides a predicted direction of MFPI's movement in the next 6-9 months. In December 2014, it increased to level 134.5 (+1.9% MoM). At that level, we still expect Indonesian banking **in prospective condition in the period from June to September 2015** and liquidity position of the bank expects to improve further.

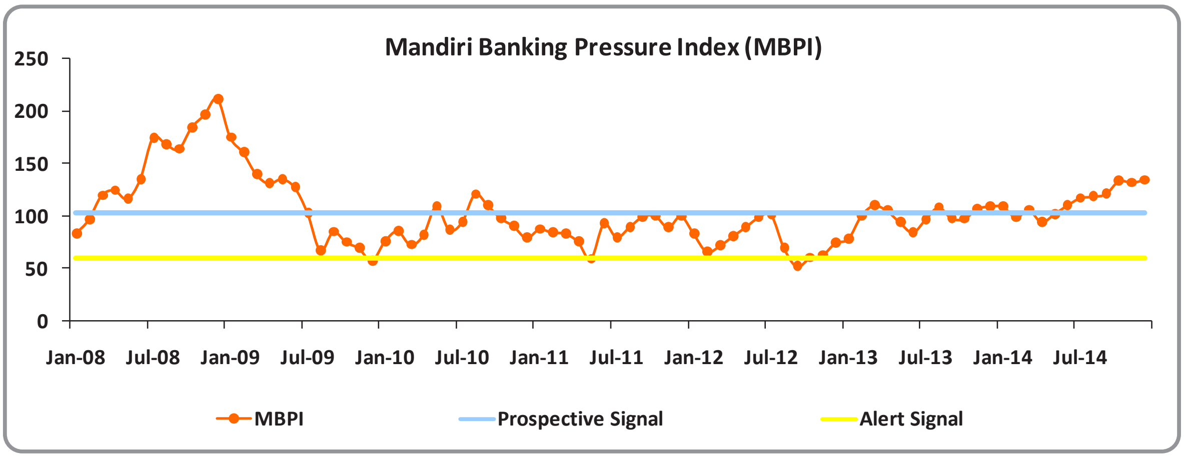
Bank Indonesia unexpectedly decides to cut benchmark interest rate by 25 bps to 7.5%. Bank Indonesia also lowered the Deposit Facility rate by 25 bps to 5.50% and keep Lending Facility rate unchanged at 8.00%. The decision was consistent to control inflation at the lower end of the 4±1% range in 2015 and 2016. The current policy direction is also consistent with Bank Indonesia's efforts to reduce the current account deficit to a more sustainable level. Going forward, Bank Mandiri Group Research Team viewed another possible BI rate cut by 25 bps to 7.25% in the upcoming month to support domestic growth.



Period	2012	2013	2014		2015	
	Dec	Dec	Nov	Dec	Jan	Feb*
MFPI	95.1	86.2	107.6	117.3	111.3	107.6
Chg (%MoM)	0.0	(2.3)	8.5	9.0	(5.1)	(3.3)

*note: * preliminary*

MFPI Threshold		
Prospective	:	MFPI > 113
Normal	:	88 < MFPI < 113
Alert	:	MFPI < 88



Period	2012		2013		2014	
	Nov	Dec	Nov	Dec	Nov	Dec*
MBPI	63.1	74.7	107.0	109.4	131.9	134.5
Chg (%MoM)	4.7	18.3	9.8	2.2	(1.0)	1.9

*note: * preliminary*

MBPI Threshold		
Prospective	:	MBPI > 103
Normal	:	61 < MBPI < 103
Alert	:	MBPI < 61

Mandiri Banking Pressure Index (MBPI) and Mandiri Coincident Banking Pressure Index (MCBPI) are composite indices for predicting Mandiri Financial Performance Index (MFPI) which is a reflection of the service sector and financial business performance, so they can be useful as an early warning on the movement of Indonesian banking sector. MBPI is used to predict the movement of banking condition in the next 6-9 months, while MCBPI is used to predict the movement of banking condition in the same month. MBPI and MCBPI composite indices are formed from several indicators deemed important in studying the movement of Indonesian financial condition

	2009	2010	2011	2012	2013	2014	2015F
National Account							
Real GDP (% yoy)	4.7	6.4	6.2	6.0	5.6	5.0	5.3
Domestic Demand (% yoy)	5.0	4.9	6.3	6.6	5.5	4.6	5.4
Real Consumption: Private (% yoy)	4.6	4.3	5.1	5.5	5.4	5.1	5.2
Real Consumption: Government (% yoy)	11.2	4.0	5.5	4.5	6.9	2.0	5.0
Real Gross Fixed Capital Formation (% yoy)	3.9	6.7	8.9	9.1	5.3	4.1	6.2
Real Exports (% yoy)	(2.0)	15.3	14.8	1.6	4.2	1.0	3.3
Real Imports (% yoy)	(9.3)	16.6	15.0	8.0	1.9	2.2	2.5
GDP (IDR tn) - nominal	6,011	6,864	7,832	8,616	9,525	10,543	12,050
GDP (USD bn) - nominal	578	756	892	918	911	888	1,015
GDP per capita (USD) - nominal	2,499	3,180	3,686	3,742	3,662	3,520	4,044
External Sector							
Exports (% yoy) - Merchandise	(14.3)	32.1	27.4	(2.0)	(2.8)	(3.7)	3.6
Imports (% yoy) - Merchandise	(24.0)	43.7	32.2	13.6	(1.4)	(4.5)	1.5
Trade Balance (US$ bn)	30.9	31.0	33.8	8.7	5.8	6.9	12.2
Current Account (% of GDP)	2.0	0.7	0.2	(2.8)	(3.2)	(3.0)	(2.8)
Current Account (USD bn)	10.6	5.1	1.7	(24.4)	(29.1)	(26.2)	(28.4)
External Debt (% of GDP)	32.1	22.9	22.7	24.5	27.7	29.9	31.1
International Reserves (USD bn)	66.1	96.2	110.1	112.8	99.4	111.9	119.0
Import cover (months)	8.9	9.7	8.4	7.6	6.8	8.0	8.4
IDR/USD (period average)	10,399	9,085	8,779	9,380	10,452	11,878	11,950
IDR/USD (year end)	9,400	8,991	9,068	9,670	12,189	12,440	11,800
Other							
BI rate (% period average)	7.15	6.50	6.58	5.77	6.48	7.54	7.75
BI rate (% year end)	6.50	6.50	6.00	5.75	7.50	7.75	7.75
Headline Inflation (% yoy, period average)	4.30	5.13	5.37	3.98	6.40	6.42	7.00
Headline Inflation (% yoy, year end)	2.80	6.96	3.78	3.65	8.08	8.36	5.10
Fiscal Balance (% of GDP)	(1.5)	(0.7)	(1.1)	(1.8)	(2.2)	(2.2)	(2.0)
S&P's Rating - FCY	BB-	BB	BB+	BB+	BB+	BB+	BB+
S&P's Rating - LCY	BB+	BB+	BBB-	BBB-	BBB-	BBB-	BBB-

INDONESIA CURRENT DATA

Indicators	2010	2011	2012	2013	2014 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange Rate																
End of Period	8,978.00	9,069.00	9,658.00	12,224.00	12,213.00	11,615.00	11,400.00	11,562.00	11,675.00	11,855.00	11,578.00	11,705.00	12,195.00	12,065.00	12,202.00	12435
Average	9,021.26	9,059.00	9,634.00	12,023.00	12,099.00	11,921.00	11,428.00	11,430.00	11,536.00	11,897.00	11,679.00	11,712.00	11,900.00	12,130.00	12,151.00	12461
Monetary Sector																
Base money M0, eop	518.45	613.49	704.84	821.68	781.50	755.17	771.36	778.58	788.72	794.79	892.15	823.34	816.64	849.00	855.03	918.43
Narrow money M1	605.38	733.99	841.70	887.06	842.67	834.53	853.49	880.46	906.75	945.78	918.53	895.83	949.17	940.35	955.55	942.14
Broad Money M2	2,469.40	2,877.22	3,304.65	3,727.70	3,649.27	3,639.49	3,656.44	3,725.94	3,784.86	3,861.66	3,891.43	3,887.55	4,009.86	4,024.15	4,076.29	4,170.73
Outstanding Loan	1,783.60	2,223.69	2,738.05	3,322.68	3,287.39	3,296.10	3,334.92	3,386.45	3,428.36	3,493.47	3,516.73	3,527.00	3,590.30	3,587.74	3,626.20	3,702.92
Outstanding Deposit	2,208.72	2,596.33	2,942.55	3,330	3,272	3,275	3,283	3,357	3,408	3,483	3,442	3,495	3,614	3,627	3,669	3,750
Lending rate (working capital)	12.83	12.16	11.49	12.12	12.23	12.33	12.37	12.38	12.63	12.63	12.70	12.76	12.78	12.82	12.84	12,79
3-month deposit rate, eop	7.06	6.81	5.76	7.61	7.95	8.03	8.28	8.34	8.90	8.34	9.19	9.43	9.37	9.24	9.02	8.94
Overnight rate, eop	5.72	4.55	4.19	6.03	5.89	5.86	5.88	5.84	5.85	5.87	6.55	5.84	5.80	5.80	5.81	5.80
Prices																
Headline CPI (2012=100)	94.46	98.03	101.61	109.82	110.99	111.28	111.37	111.35	111.53	112.01	113.05	113.58	113.89	114.42	116.14	119.00
Year on year inflation rate	6.96	3.79	4.30	8.08	8.22	7.75	7.32	7.25	7.32	6.70	4.53	3.99	4.53	4.83	6.23	8.36
Month on month inflation rate	0.92	0.57	0.43	0.45	1.07	0.26	0.08	(0.02)	0.16	0.43	0.93	0.47	0.27	0.47	1.50	2.46
Year to date inflation rate	6.96	11.01	15.06	8.08	1.07	1.33	1.41	1.39	1.56	1.99	2.94	3.42	3.71	4.19	5.75	8.36
Wholesale Price Index (2005=100)	177.87	185.76	192.06	121.52	124.17	124.89	125.70	126.42	125.67	126.62	128.13	128.34	128.87	129.98	131.53	134.77
Trade																
Export	16.83	17.20	15.40	16.97	14.47	14.63	15.19	14.29	14.83	15.41	14.18	14.48	15.28	15.35	13.62	14.62
Oil	3.26	3.60	2.97	3.41	2.50	2.73	2.64	26.35	2.38	2.79	2.50	2.60	2.62	2.47	2.11	2.35
Non oil	13.57	13.60	12.43	13.56	11.97	11.90	12.55	11.64	12.45	12.62	11.67	11.88	12.65	12.88	11.51	12.27
Import	13.15	16.34	15.58	15.46	14.92	13.79	14.52	16.26	14.77	15.70	14.08	14.79	15.55	15.33	14.04	14.43
Oil	2.64	3.63	3.71	4.22	3.55	3.46	3.99	3.69	3.71	3.39	4.17	3.40	3.65	3.58	3.47	3.39
Non oil	10.50	12.71	11.88	11.23	11.37	10.33	10.53	12.56	11.06	12.30	9.81	11.39	11.89	11.75	10.57	11.05
Trade Balance	3.68	0.86	(0.18)	1.51	(0.44)	0.84	0.67	(1.96)	0.06	(0.29)	0.10	(0.32)	(0.27)	0.02	(0.43)	0.19
Output																
GDP (current price)	1,670.52	1,921.56	2,095.69	2,367.93			2,499.87			2,613.11			2,739.47			2,690.24
GDP (constant price at 2010)	6,864.13	7,287.64	7,727.08	2,058.25			2,060.48			2,139.30			2,206.87			2,161.46
Real Growth	6.89	6.17	6.03	5.61			5.22			5.03			4.92			5.01
Capital Market																
JCI Index, eop	3,703.51	3,821.99	4,316.68	4,274.18	4,418.76	4,620.22	4,768.28	4,840.15	4,893.91	4,878.58	5,088.80	5,136.86	5,137.58	5,089.55	5,149.89	5,226.95
Volume, avg	3,965.38	3,496.38	3,861.68	3,011.27	2,952.32	3,579.68	4,410.18	3,895.67	3,498.73	2,849.74	4,353.82	3,668.56	3,657.27	3,334.22	3,990.10	5,113.63
Value, avg	3,959.30	2,684.29	4,078.36	3,331.35	4,153.35	4,795.29	5,952.82	5,714.42	5,174.81	3,638.93	5,455.92	4,313.15	4,258.52	4,290.20	3,923.60	4,399.87
Consumer Confidence Index	109.30	116.60	116.40	116.50	116.70	116.20	118.20	113.90	116.90	116.30	119.80	120.20	119.80	120.60	120.10	116.50

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