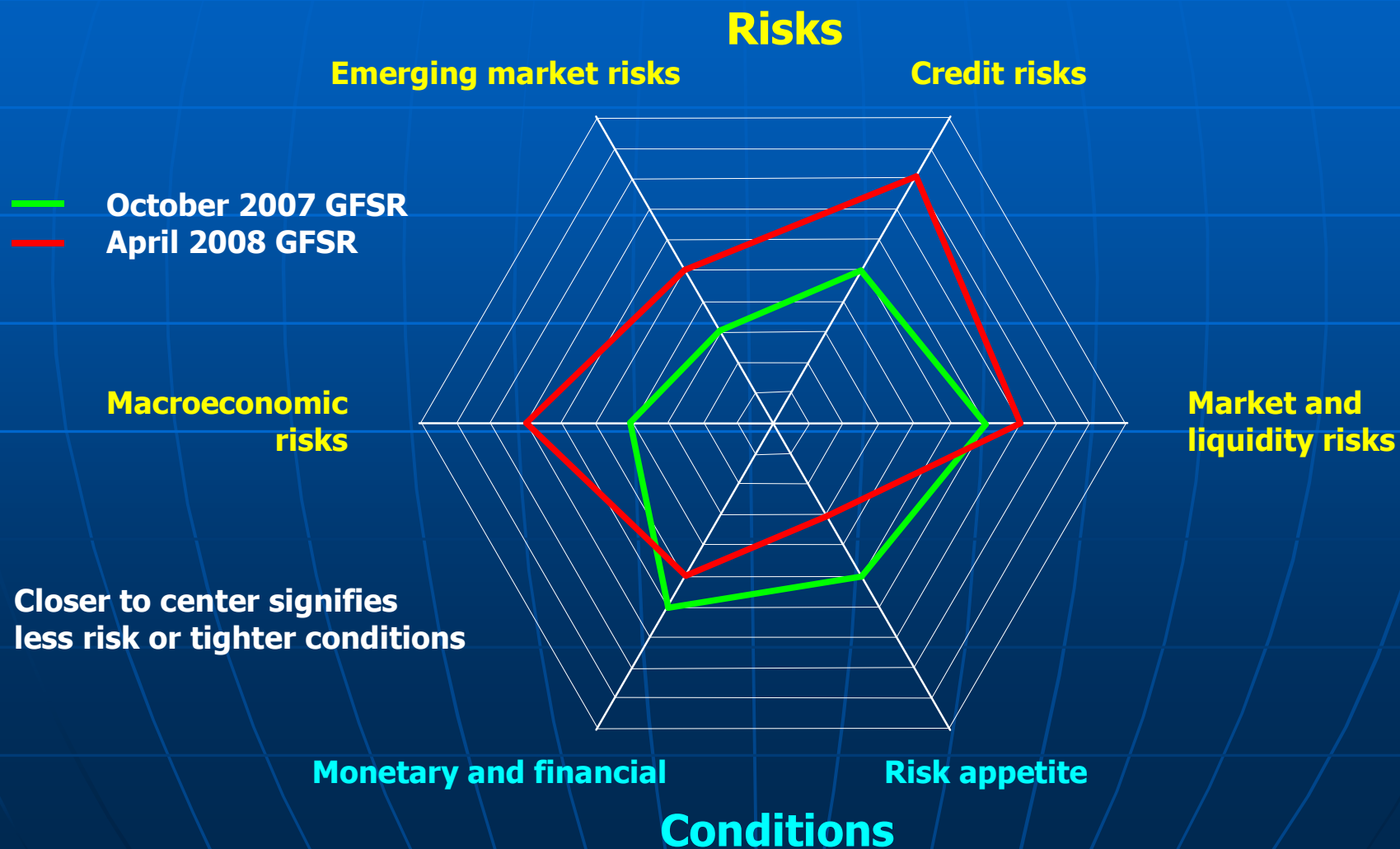


Indonesia—Economic Outlook and Policy Challenges

Daniel A. Citrin
Asia and Pacific Department, IMF

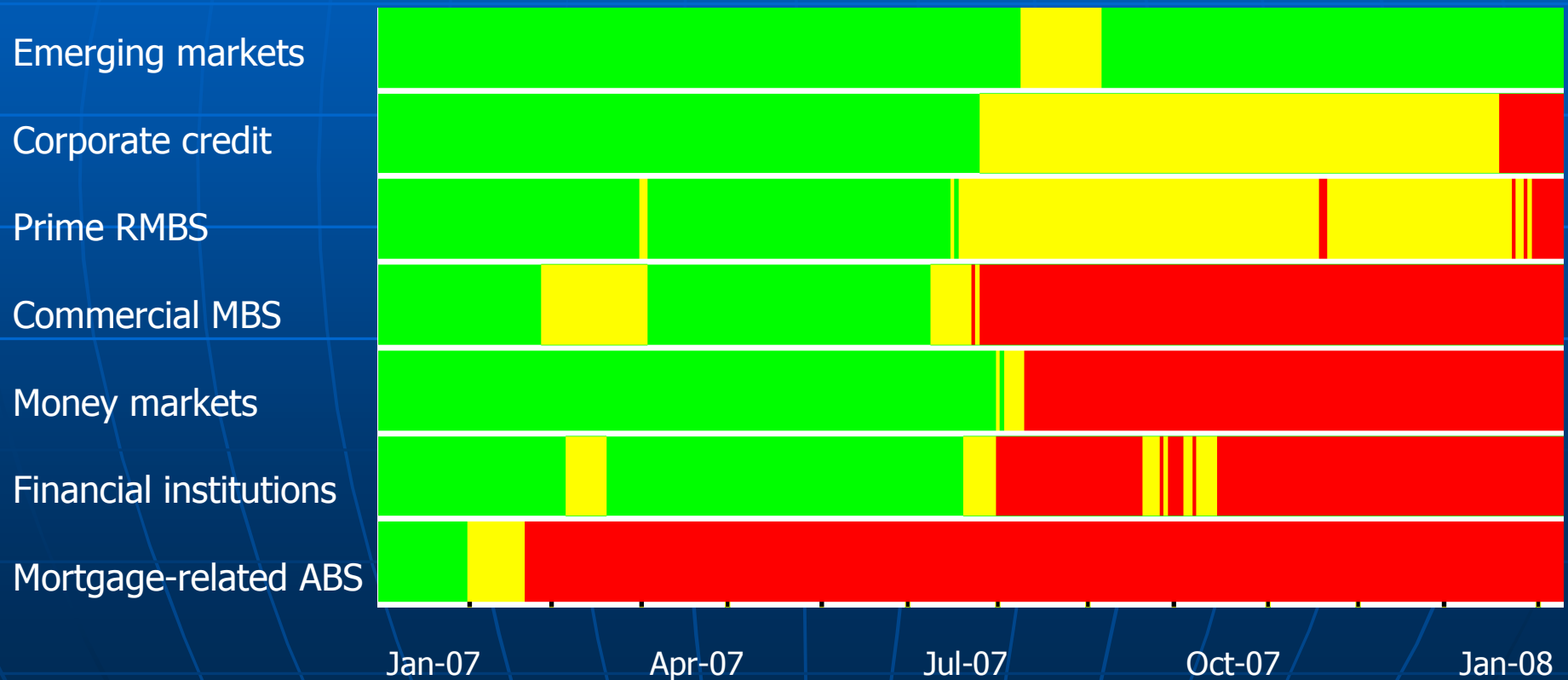
April 30, 2008

Global Financial Stability Map: risks have risen; conditions have deteriorated



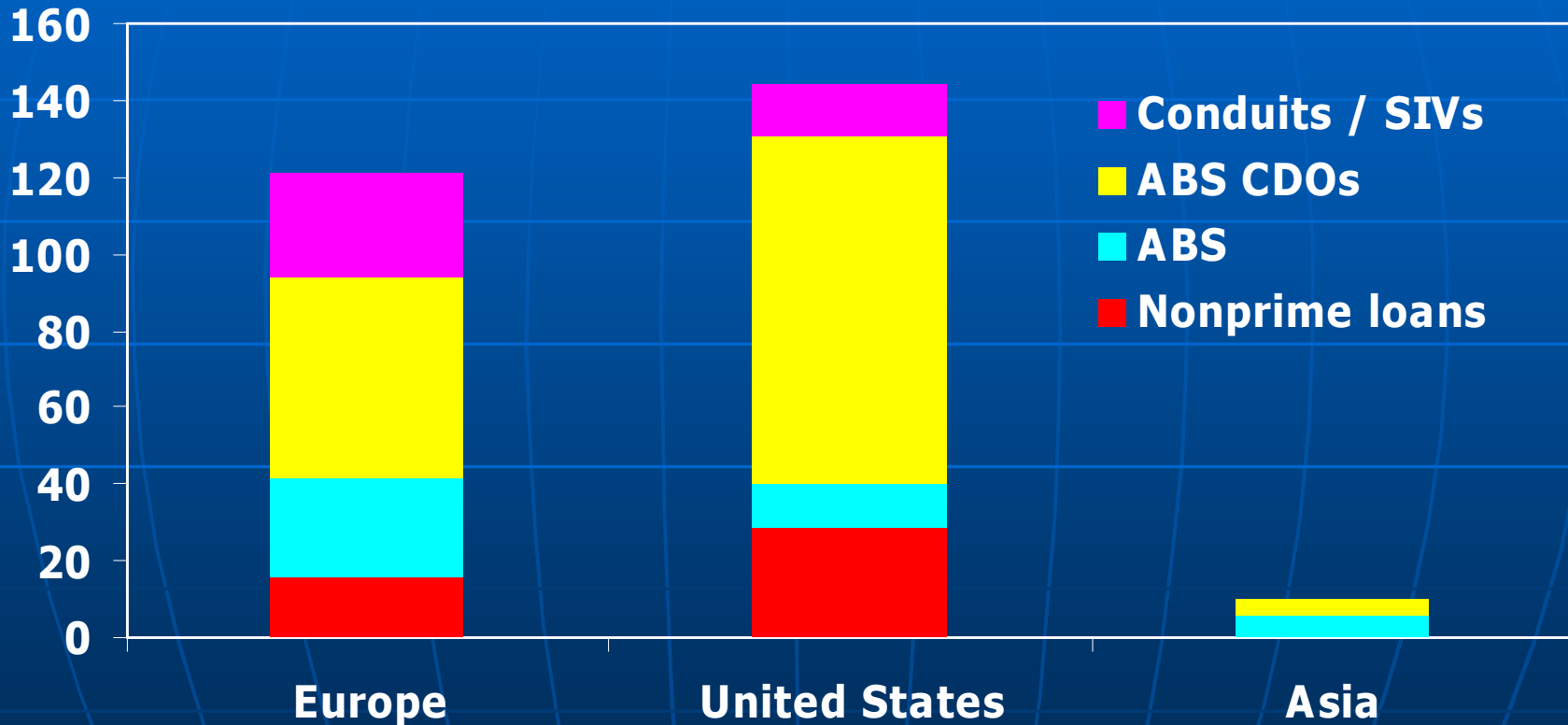
Subprime crisis triggered severe dislocations, but emerging markets largely unscathed so far

Heat Map: Developments in Systemic Asset Classes



European banks are likely to shoulder a sizable share of non-prime losses

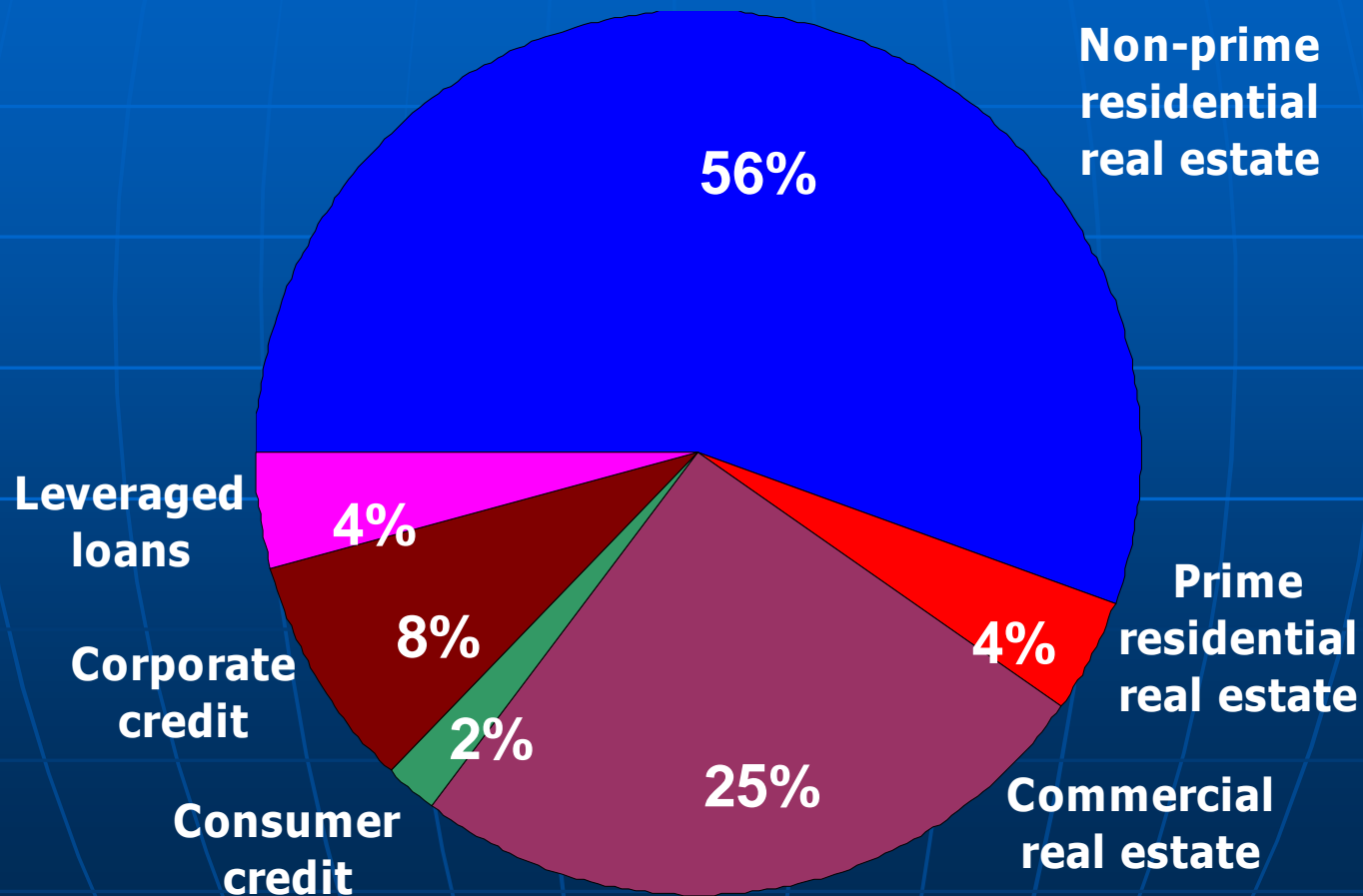
Expected Nonprime-Related Bank Losses
(In billions of U.S. dollars as of March 2008)



Note: Losses aggregated over a two year period. ABS = asset-backed securities; CDOs = collateralized debt obligations; SIVs = structured investment vehicles.

Credit deterioration, a weaker U.S., and financial deleveraging have boosted potential losses.

Estimates of Potential Write-downs to Holders of U.S.-Issued Securitized and Unsecuritized Debt

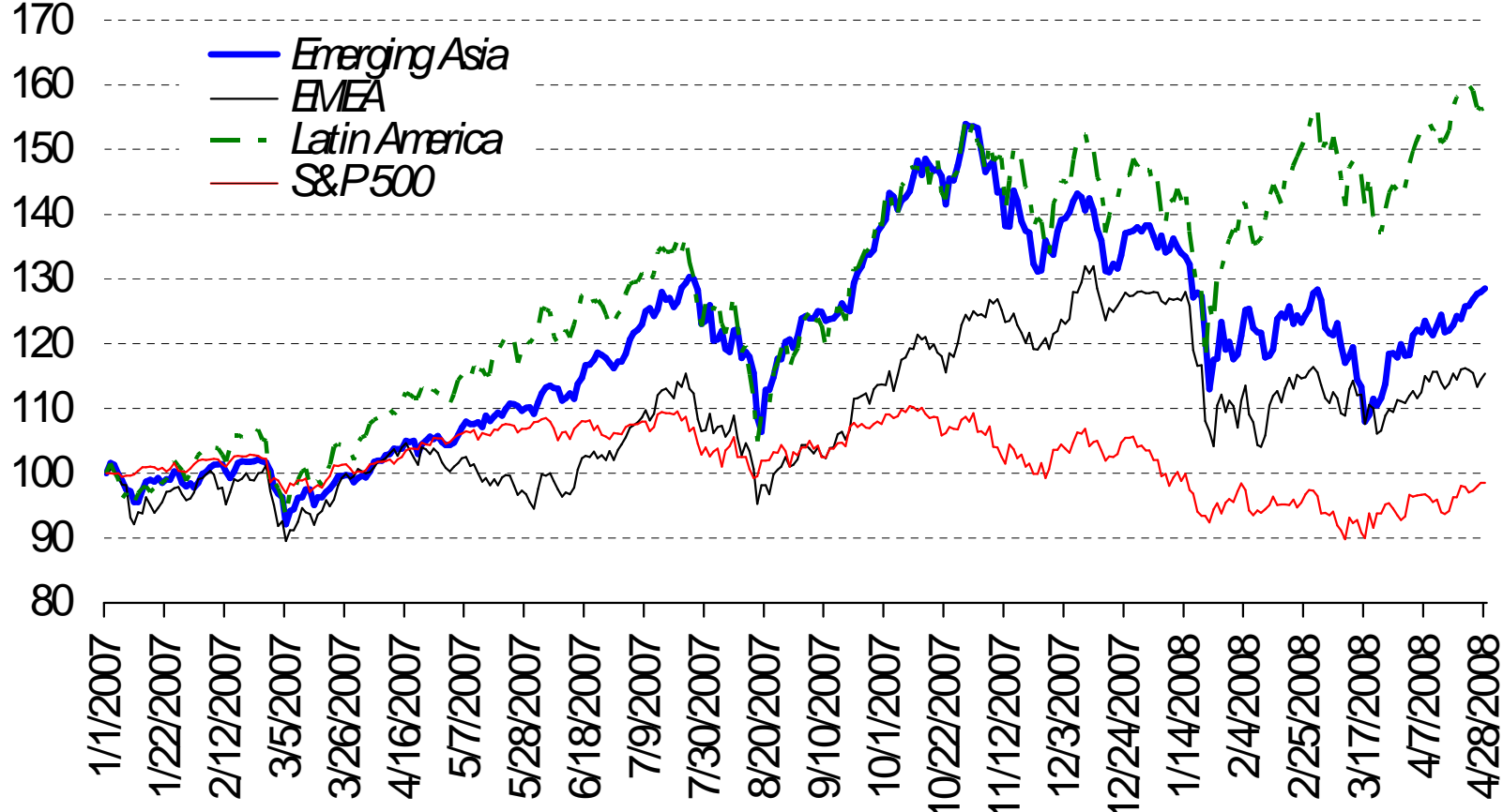


\$945 billion

Emerging Asian stock markets were hit relatively hard in late 2007 and early 2008, but have rebounded slightly recently

Equity Market Performance

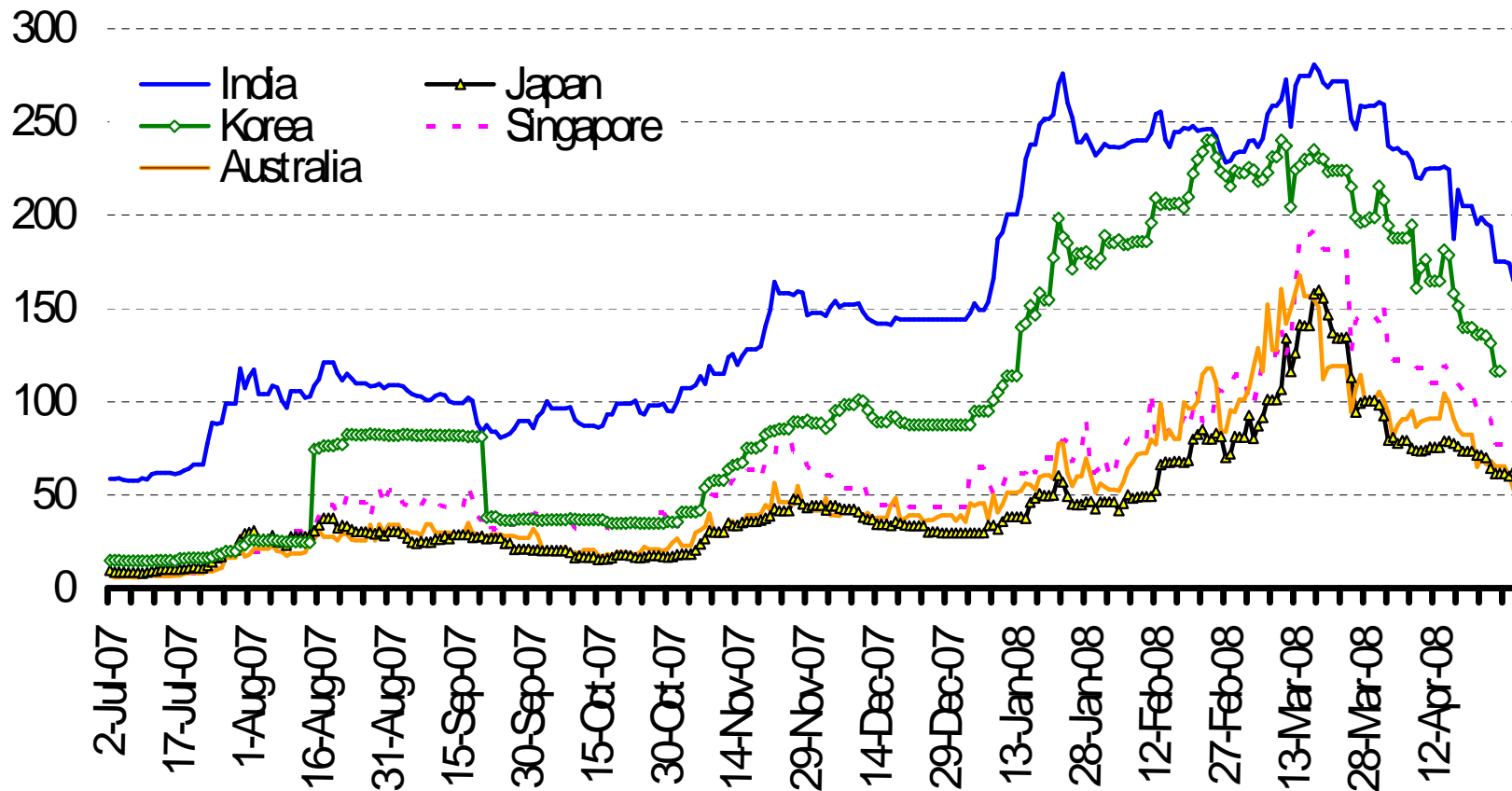
(January 1, 2007= 100)



Source: Bloomberg LP.

Asian bank CDS spreads widened early in 2008 but have come down

Credit Risk: Bank Credit Default Swap Spreads¹

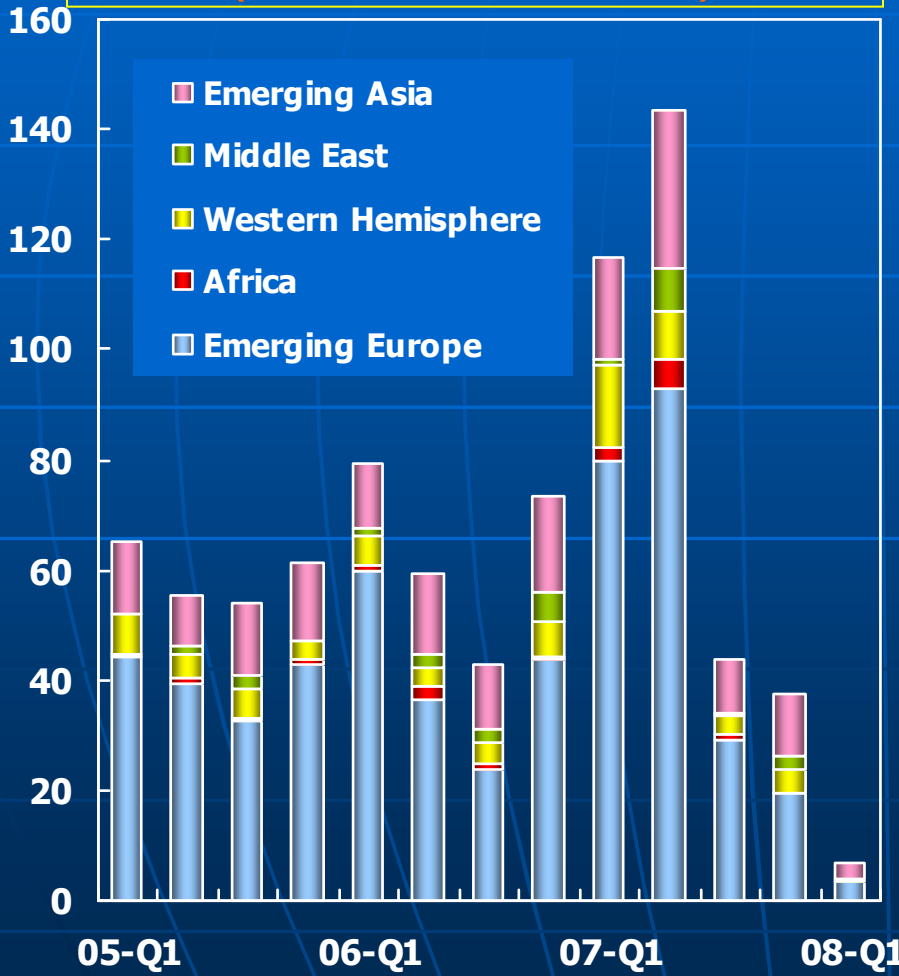


Sources: Bloomberg, and IMF staff calculations.

¹ Country spreads are weighted averages based on relative assets

Possible Financial Contagion Channel to Emerging Market Corporate Bond Issuance

Private Sector Gross Ext. Issuance
(in billions of U.S. dollars)

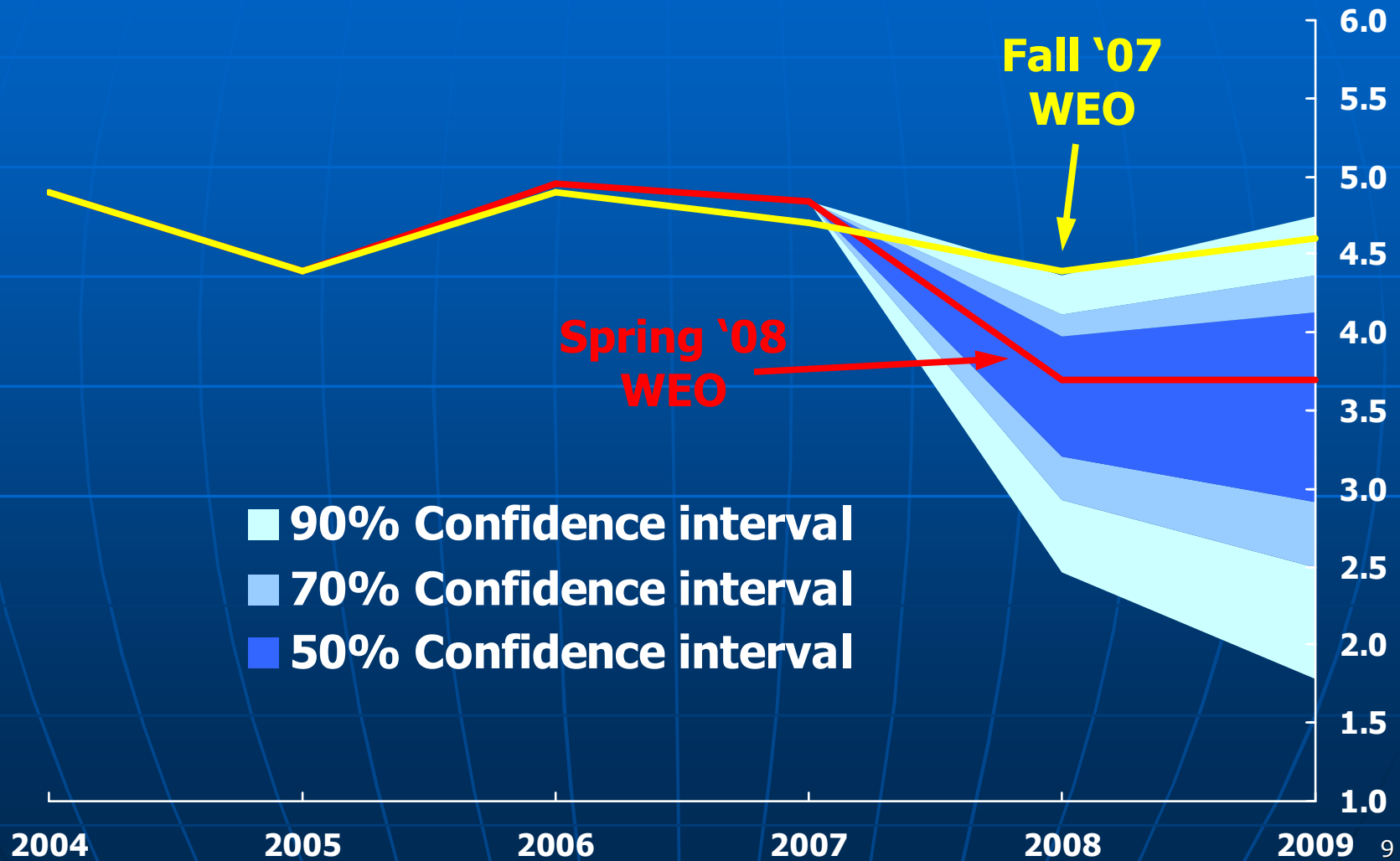


Sovereign and Corporate Spreads
(in basis points)



Sources: IMF, Bonds Equities Loans database and Bloomberg, L.P.

As a result of the financial turmoil, the outlook has weakened



- 90% Confidence interval
- 70% Confidence interval
- 50% Confidence interval

IMF WEO global baseline

GDP Growth and Inflation

	Real GDP Growth			CPI Inflation		
	(Y/Y percent change)			(Y/Y percent change)		
		Proj.			Proj.	
	2007	2008	2009	2007	2008	2009
World	4.9	3.7	3.8	4.0	4.7	3.7
Advanced economies	2.7	1.3	1.3	2.1	2.6	2.0
United States	2.2	0.5	0.6	2.9	3.0	2.0
Euro area	2.6	1.3	1.1	2.1	2.7	1.9
Japan	2.1	1.4	1.5	0.0	0.6	1.3
Emerging and developing economies	7.9	6.7	6.6	6.3	7.4	5.6

Sources: IMF, WEO database; and staff estimates.

Turning to Asia, 2007 was a good year, but growth should decline in 2008

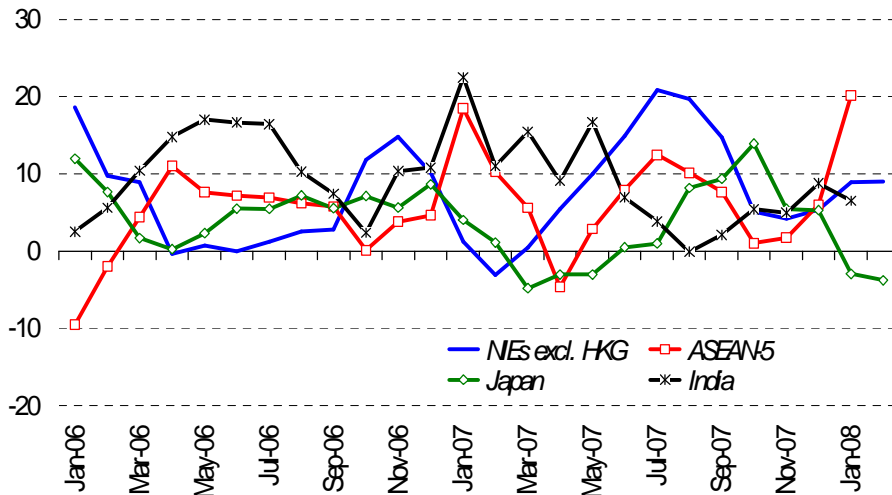
Asia: Real GDP Growth (Year-on-year percent change)						
	2006	2007	2007	2008	2008	2009
			REOOct '07		Latest Proj.	
Industrial Asia	2.4	2.3	2.3	2.0	1.7	1.7
Japan	2.4	2.1	2.0	1.7	1.4	1.5
Australia	2.6	4.1	4.4	3.8	3.2	3.1
New Zealand	1.5	3.1	2.8	2.3	2.0	2.1
Emerging Asia	9.0	9.2	9.0	8.2	7.6	7.9
NEEs	5.6	5.6	5.0	4.5	4.0	4.4
Hong Kong SAR	7.0	6.3	5.7	4.7	4.3	4.8
Korea	5.1	5.0	4.8	4.6	4.2	4.4
Singapore	8.2	7.7	7.5	5.8	4.0	4.5
Taiwan POC	4.9	5.7	4.1	3.8	3.4	4.1
China	11.1	11.4	11.5	10.0	9.3	9.5
India	9.8	9.2	8.9	8.4	7.9	8.0
ASEAN-5	5.7	6.3	5.9	5.8	5.8	6.0
Indonesia	5.5	6.3	6.2	6.1	6.1	6.3
Malaysia	5.9	6.3	5.8	5.6	5.0	5.2
Philippines	5.4	7.3	6.3	5.8	5.8	5.8
Thailand	5.1	4.8	4.0	4.5	5.3	5.6
Vietnam	8.2	8.5	8.3	8.2	7.3	7.3
Emerging Asia excl. China	7.2	7.2	6.8	6.4	6.1	6.3
Emerging Asia excl. China & India	5.6	5.9	5.4	5.1	4.9	5.2
Asia	7.2	7.4	7.3	6.6	6.2	6.4

Sources: CEIC Data Company Ltd; and IMF, WEO database.

Outside of ASEAN-5, consumption and investment indicators have eased

Selected Asia: Industrial Production

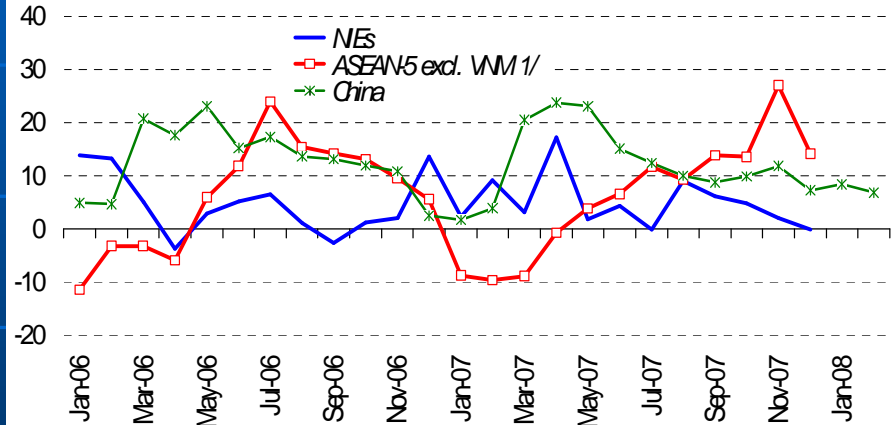
(3-month percent change of 3-mma, SAAR)



Sources: CIEC Data Company Ltd, and IMF staff calculations.

Emerging Asia: Retail Sales Volume

(3-month percent change of 3-mma, SAAR)



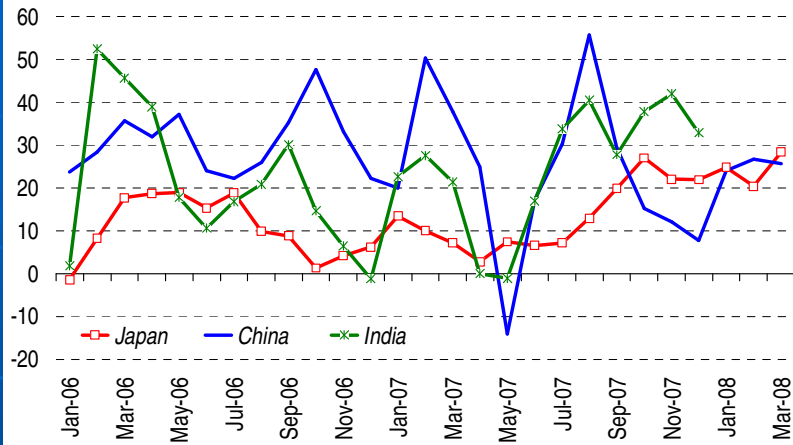
Sources: CIEC Data Company Ltd, and IMF staff calculations.

¹ Proxies used for Malaysia (manufacturing sales), Philippines (car sales), and Thailand (composite consumption).

But trade growth remains buoyant

Japan, China and India: Exports of Non-oil Goods

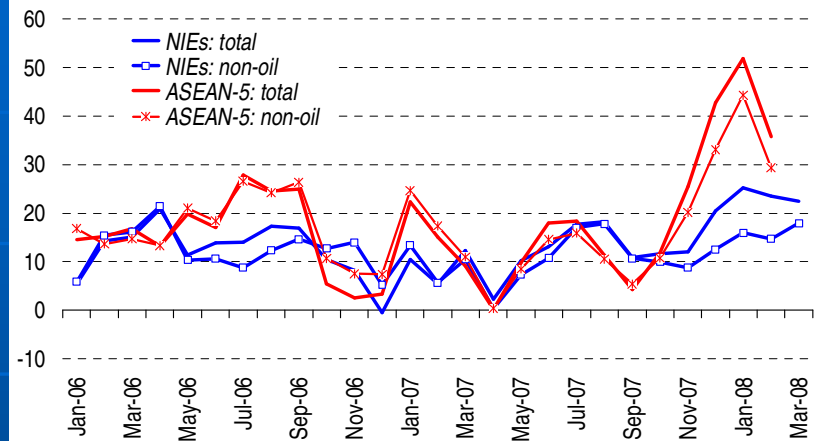
(3-month percent change of 3-mma, SAAR)



Sources: CEIC Data Company Ltd; and IMF staff calculations.

Emerging Asia: Exports of Goods

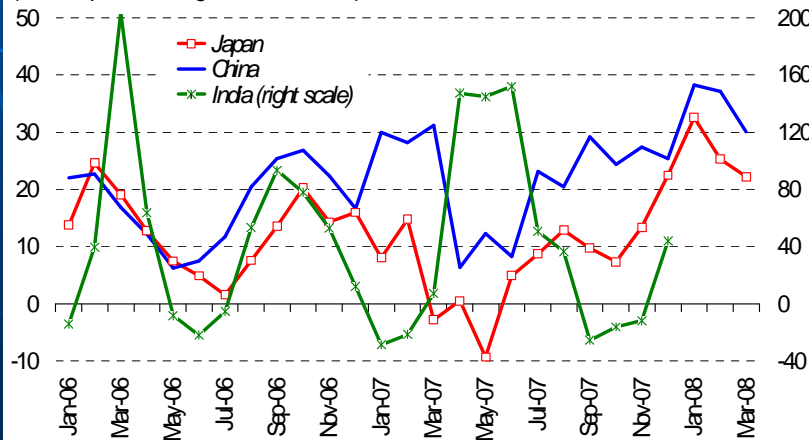
(3-month percent change of 3-mma, SAAR)



Sources: CEIC Data Company Ltd; and IMF staff calculations.

Japan, China and India: Imports of Non-oil Goods

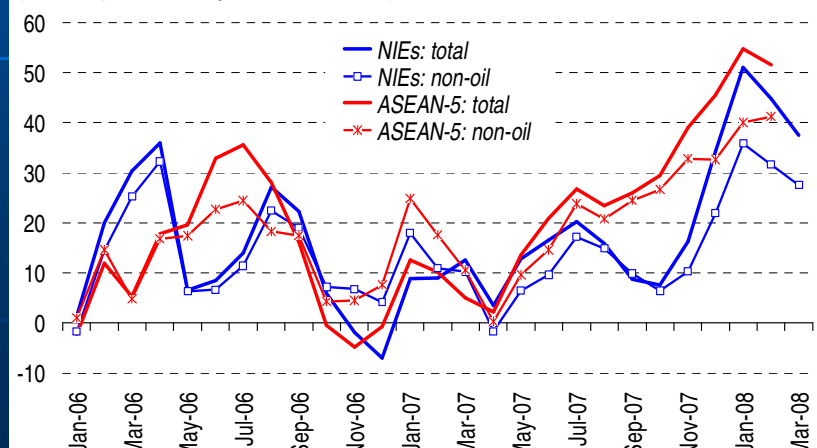
(3-month percent change of 3-mma, SAAR)



Sources: CEIC Data Company Ltd; and IMF staff calculations.

Emerging Asia: Imports of Goods

(3-month percent change of 3-mma, SAAR)

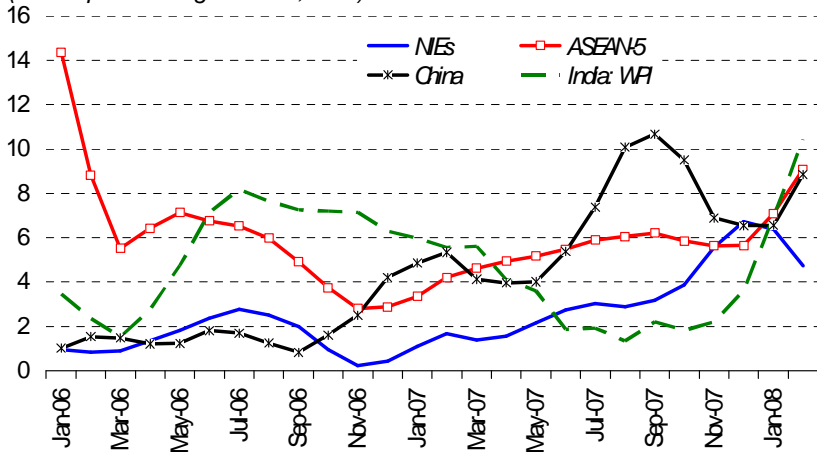


Sources: CEIC Data Company Ltd; and IMF staff calculations.

Inflation pressures are on the rise

Emerging Asia: Consumer Prices

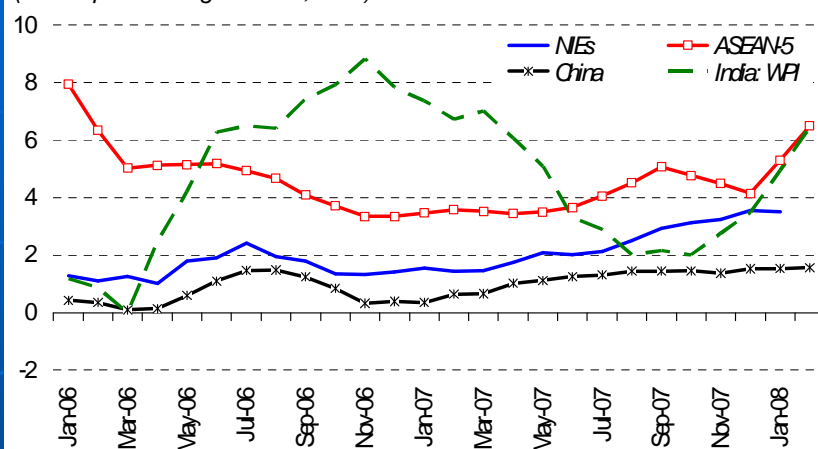
(3-month percent change of 3-mma, SAAR)



Sources: CIBCData Company Ltd, and IMF staff calculations.

Emerging Asia: Core CPI

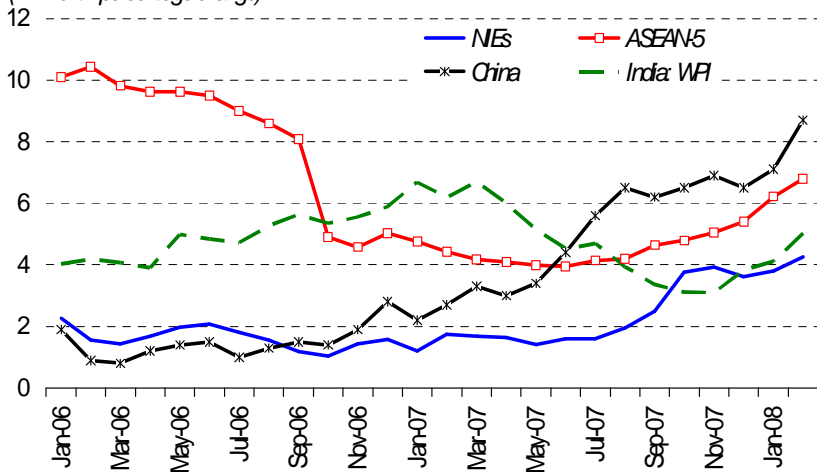
(3-month percent change of 3-mma, SAAR)



Sources: CIBCData Company Ltd, and IMF staff calculations.

Emerging Asia: Consumer Prices

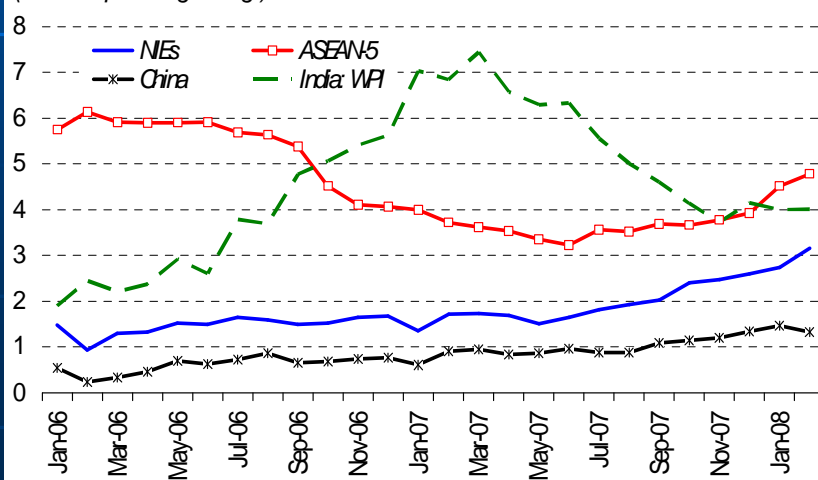
(12-month percentage change)



Sources: CIBCData Company Ltd, and IMF staff calculations.

Emerging Asia: Core CPI

(12-month percentage change)

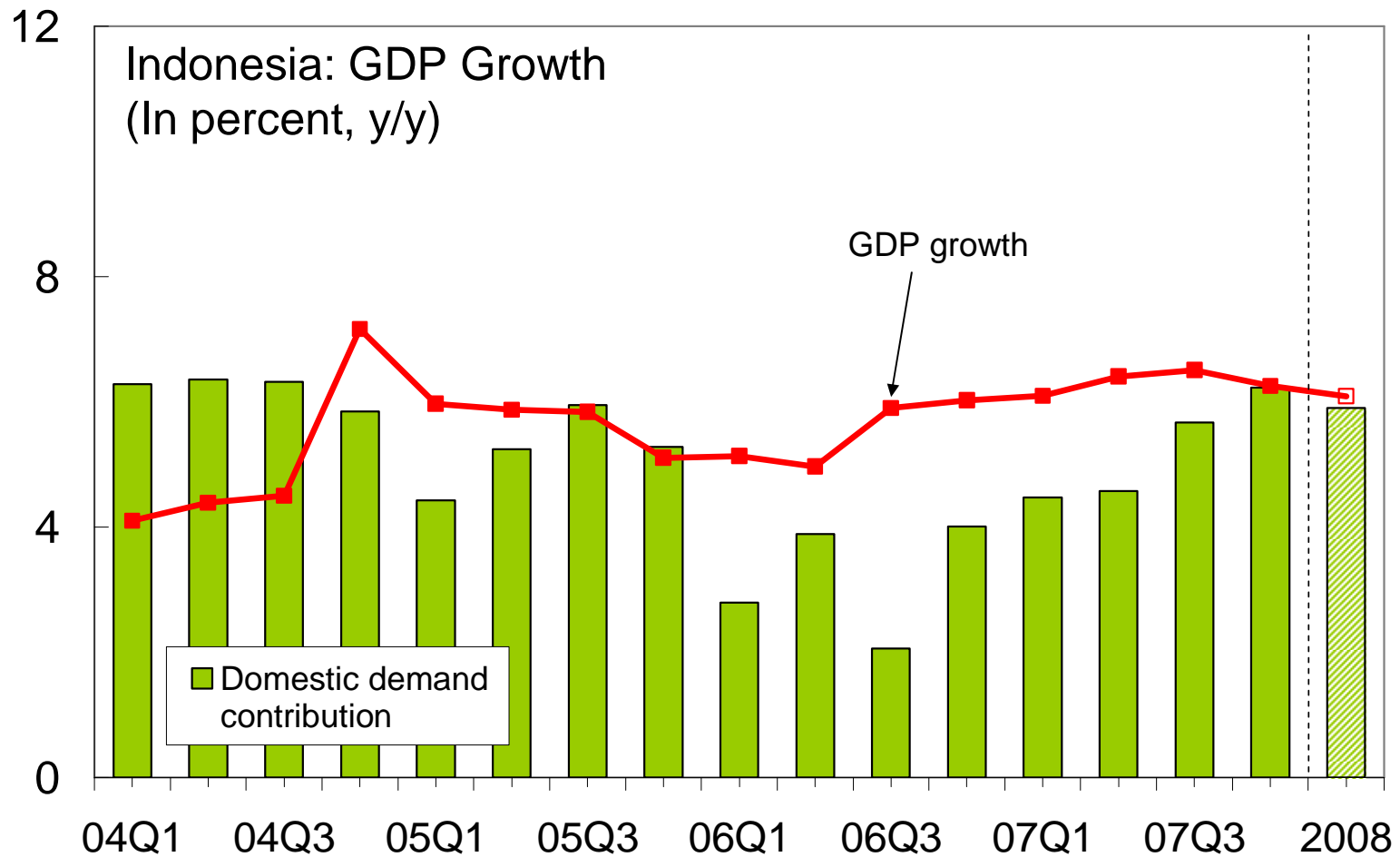


Sources: CIBCData Company Ltd, and IMF staff calculations.

Outlook and challenges for Indonesia

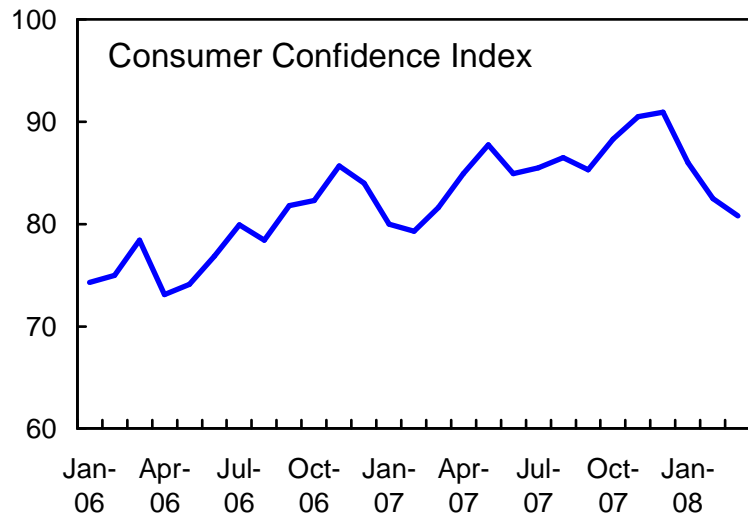
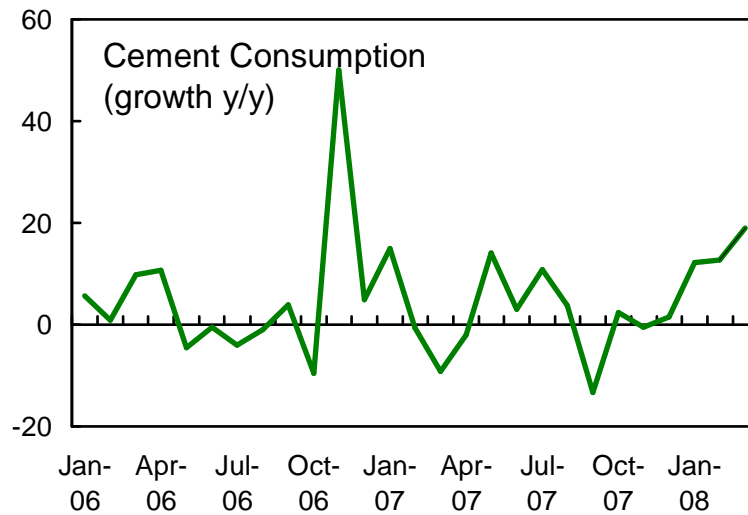
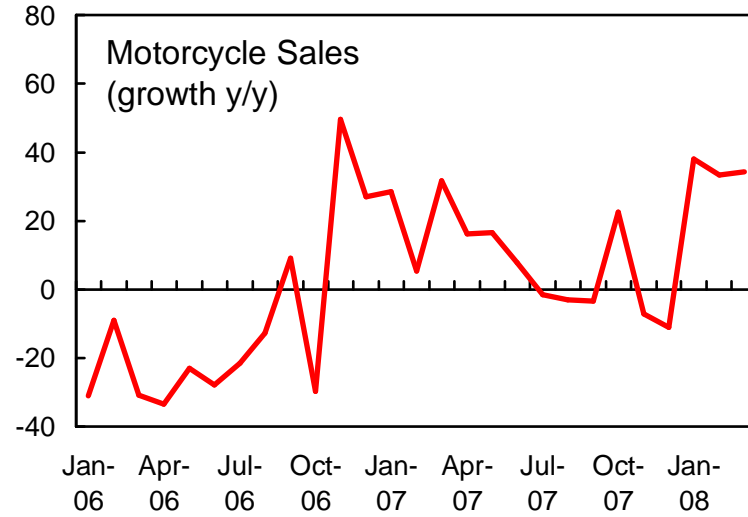
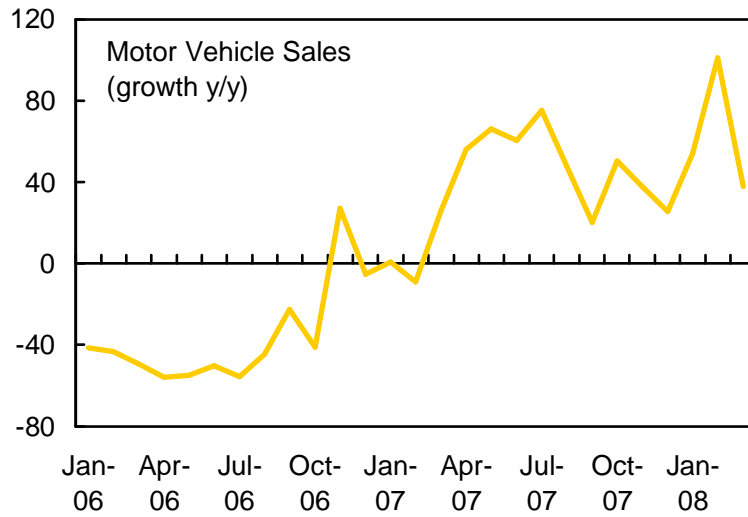
- Indonesia remains reasonably well positioned to withstand moderate US and global slowdown
 - Strong domestic demand
 - Reduced vulnerabilities
 - Limited direct exposure
- Key external risks
 - Deeper global slowdown / commodity price decline
 - Financial contagion
- Domestic macro policy challenges
 - Rising Inflation
 - Energy subsidies

GDP growth remained strong through 2007 with rebalancing towards domestic demand

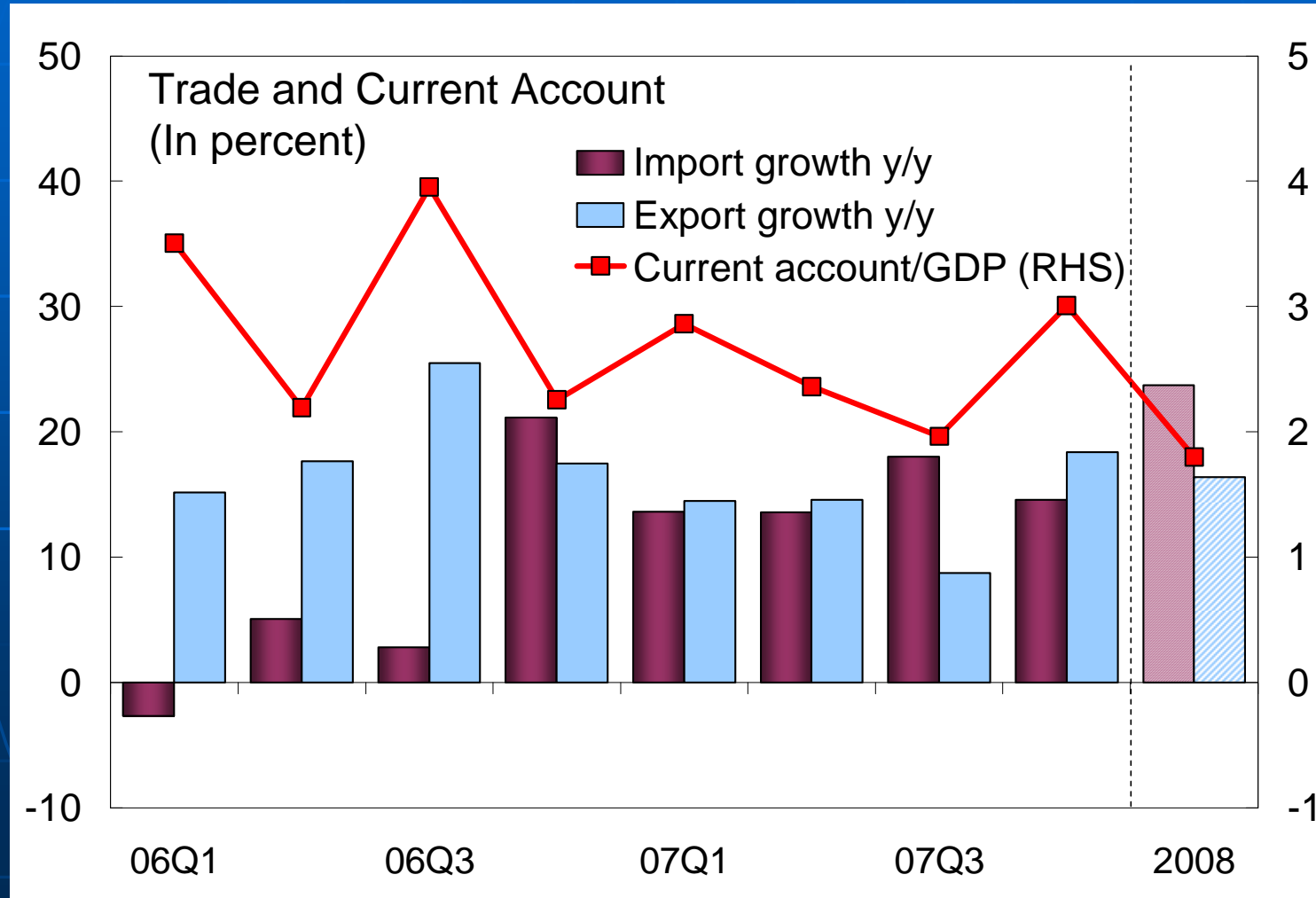


Sources: CEIC database; and Fund staff calculations.

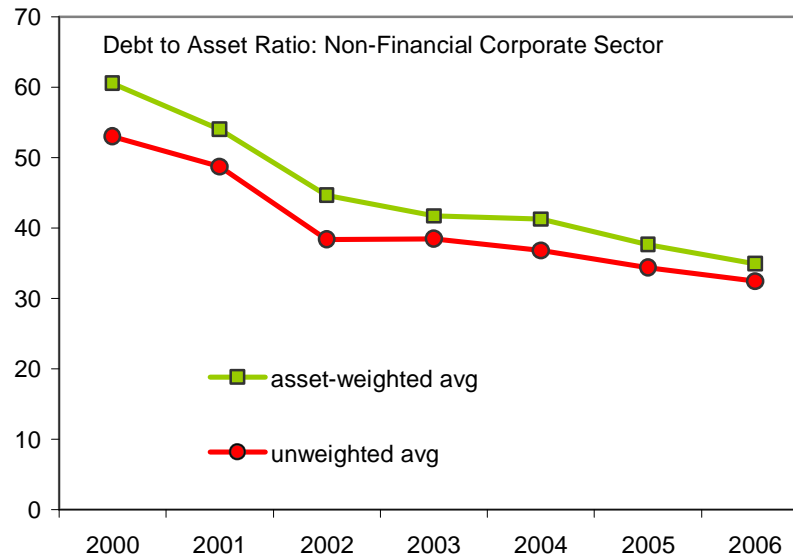
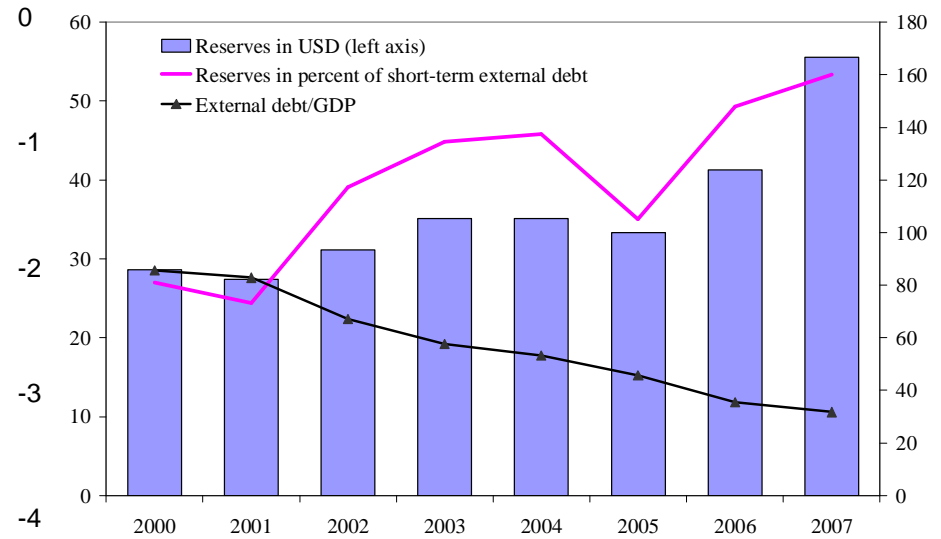
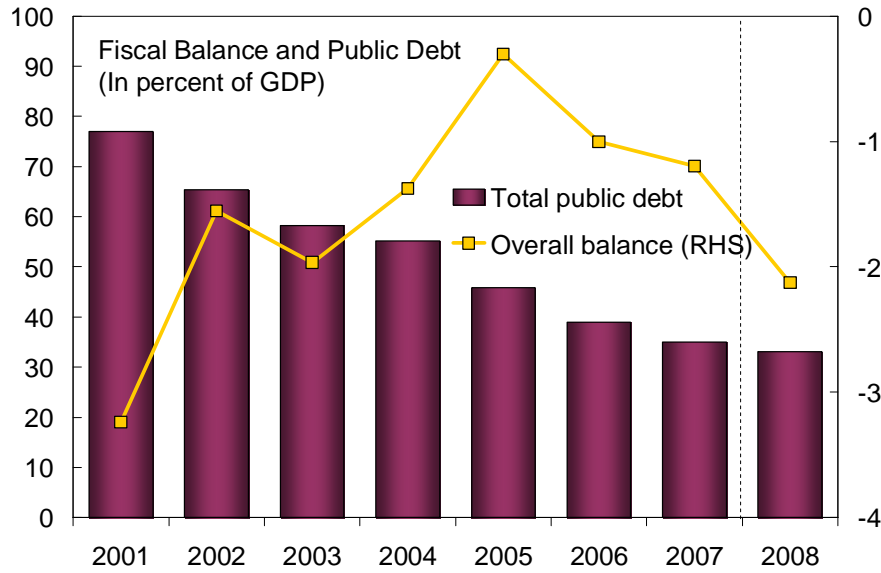
Most short-term indicators picked up in Q1 2008, despite the drop in consumer confidence



Exports remained buoyant, supported by high commodity prices, while imports increased due to strong domestic demand

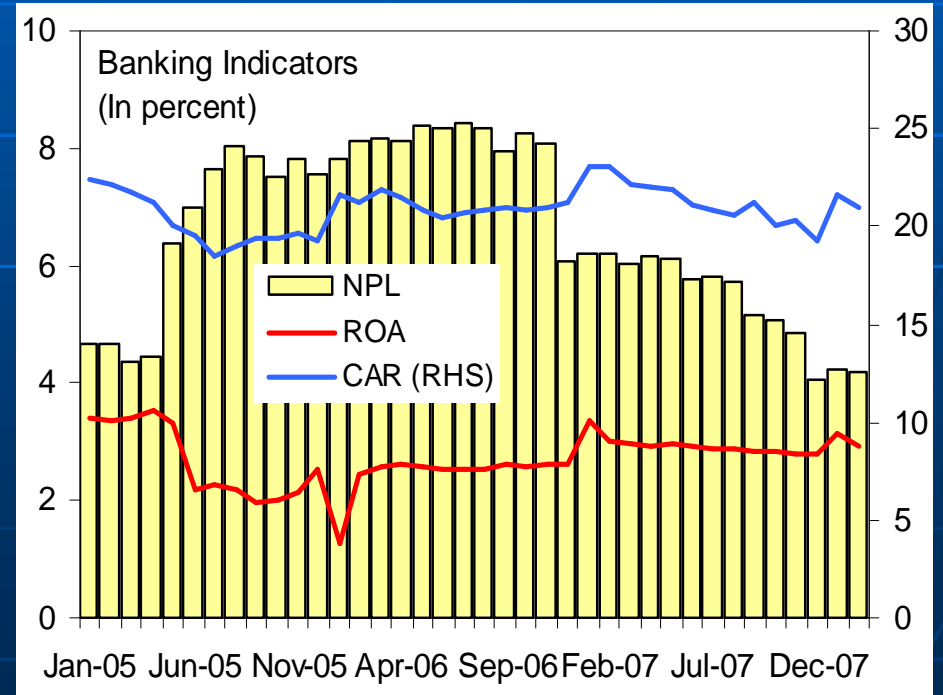
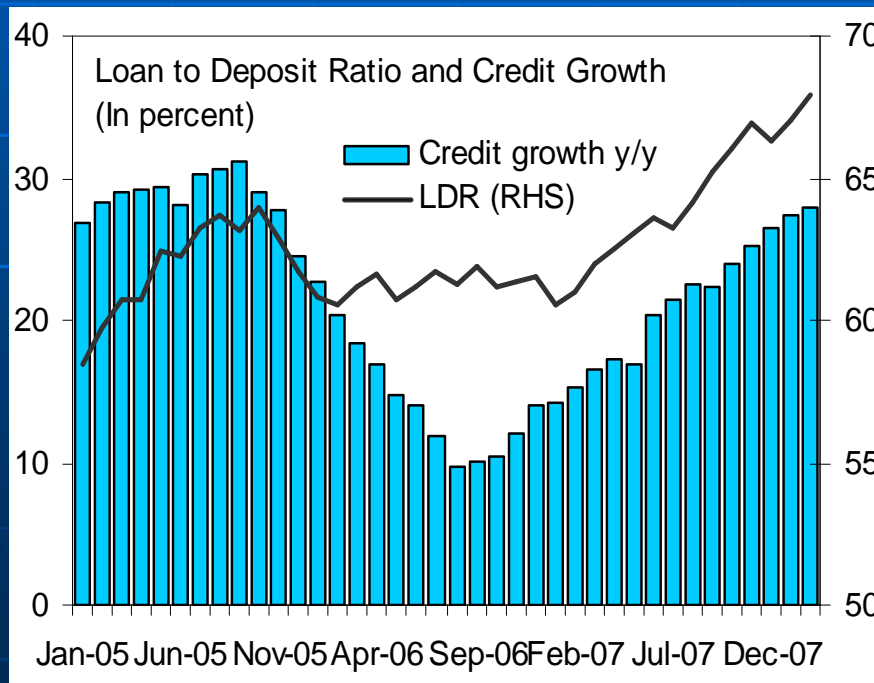


Vulnerability indicators continued to improve

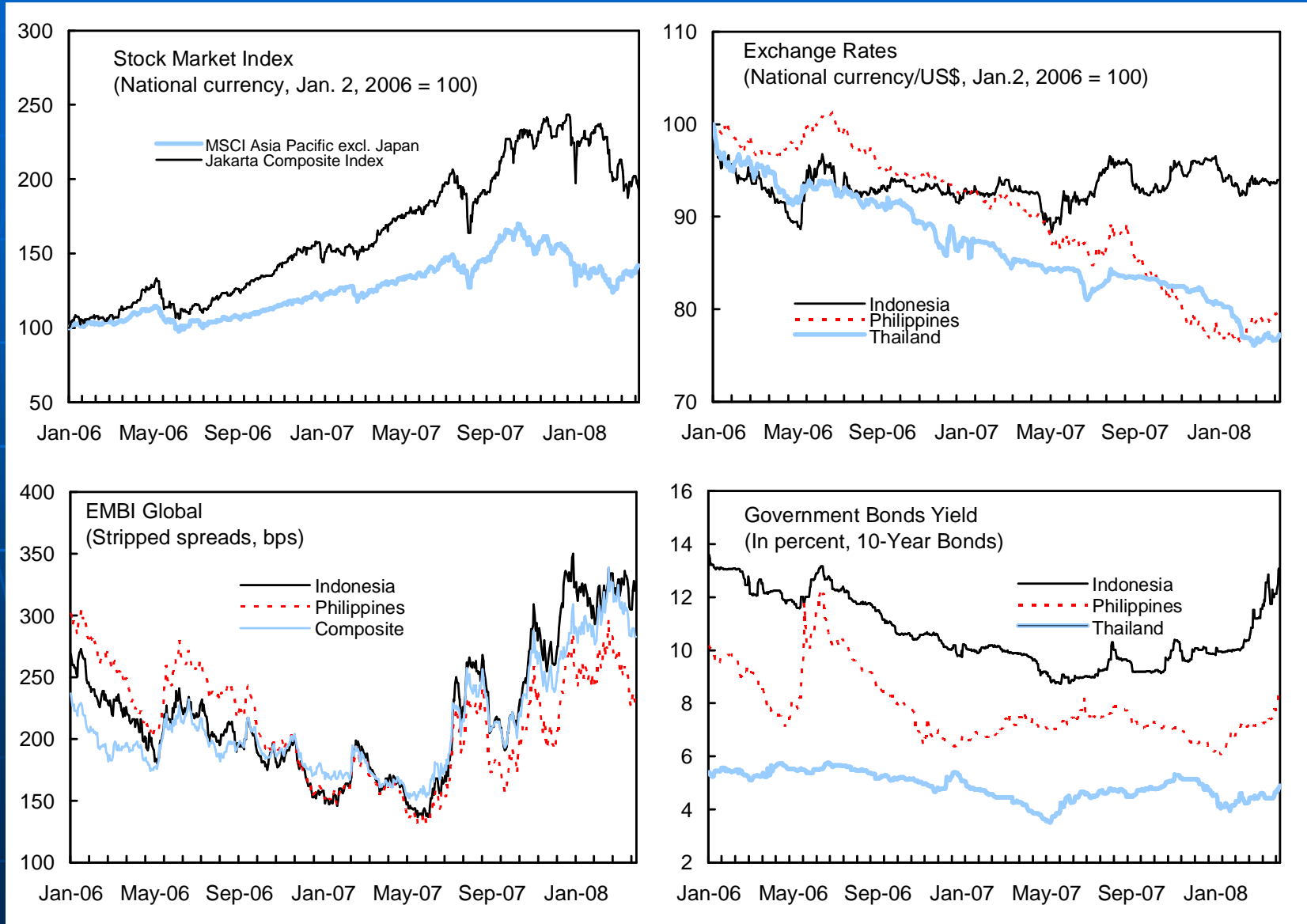


Credit growth recovered strongly from the slump in 2006

- Increasing, but still relatively low loan-to-deposit ratio
- CAR fell somewhat as a result of higher credit share, but still remains high
- NPLs continued to improve
- High liquidity in the banking system

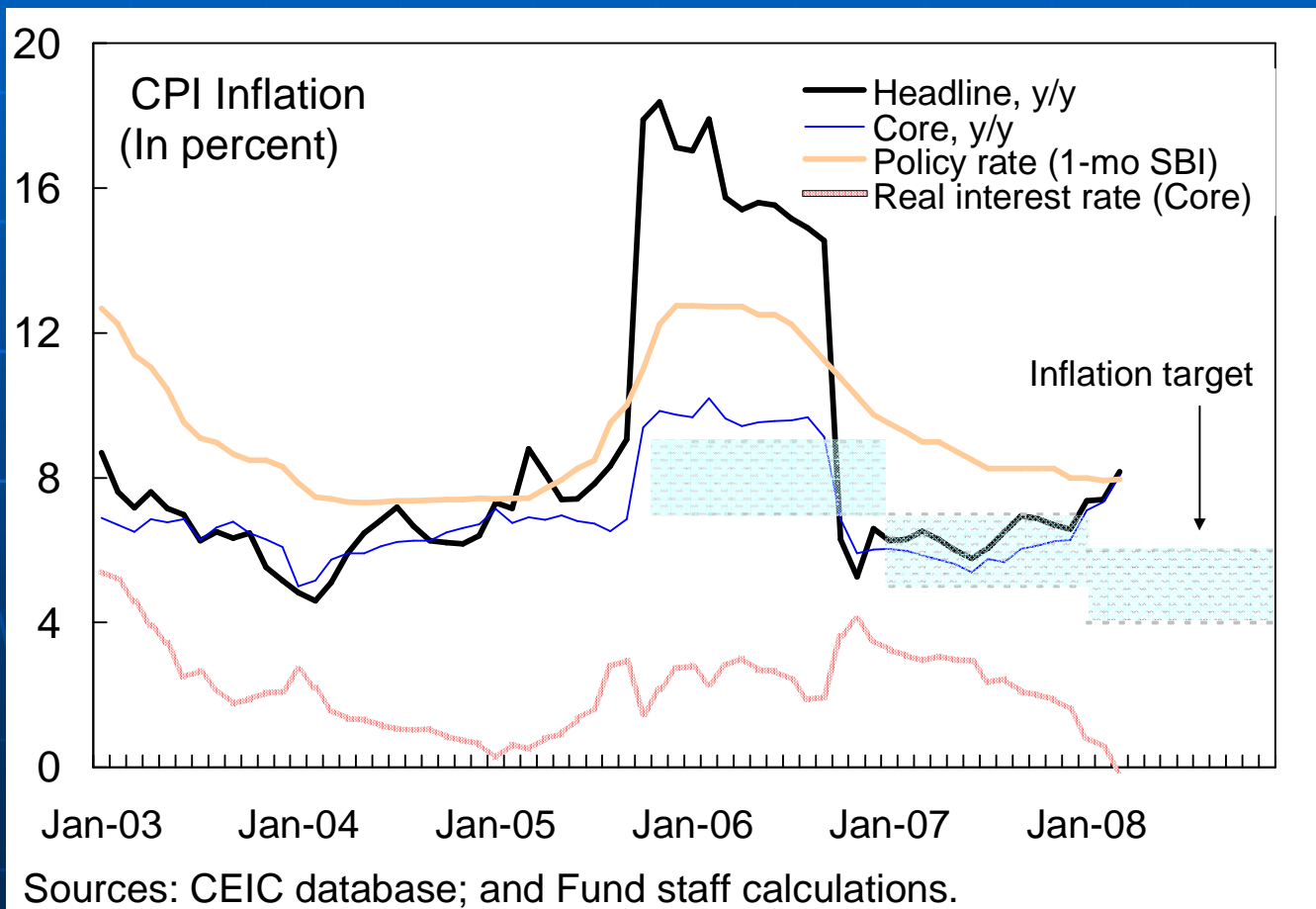


So far, financial spillover have been contained—but recent underperformance and local bond market weakness



Inflationary pressures increased since mid-2007

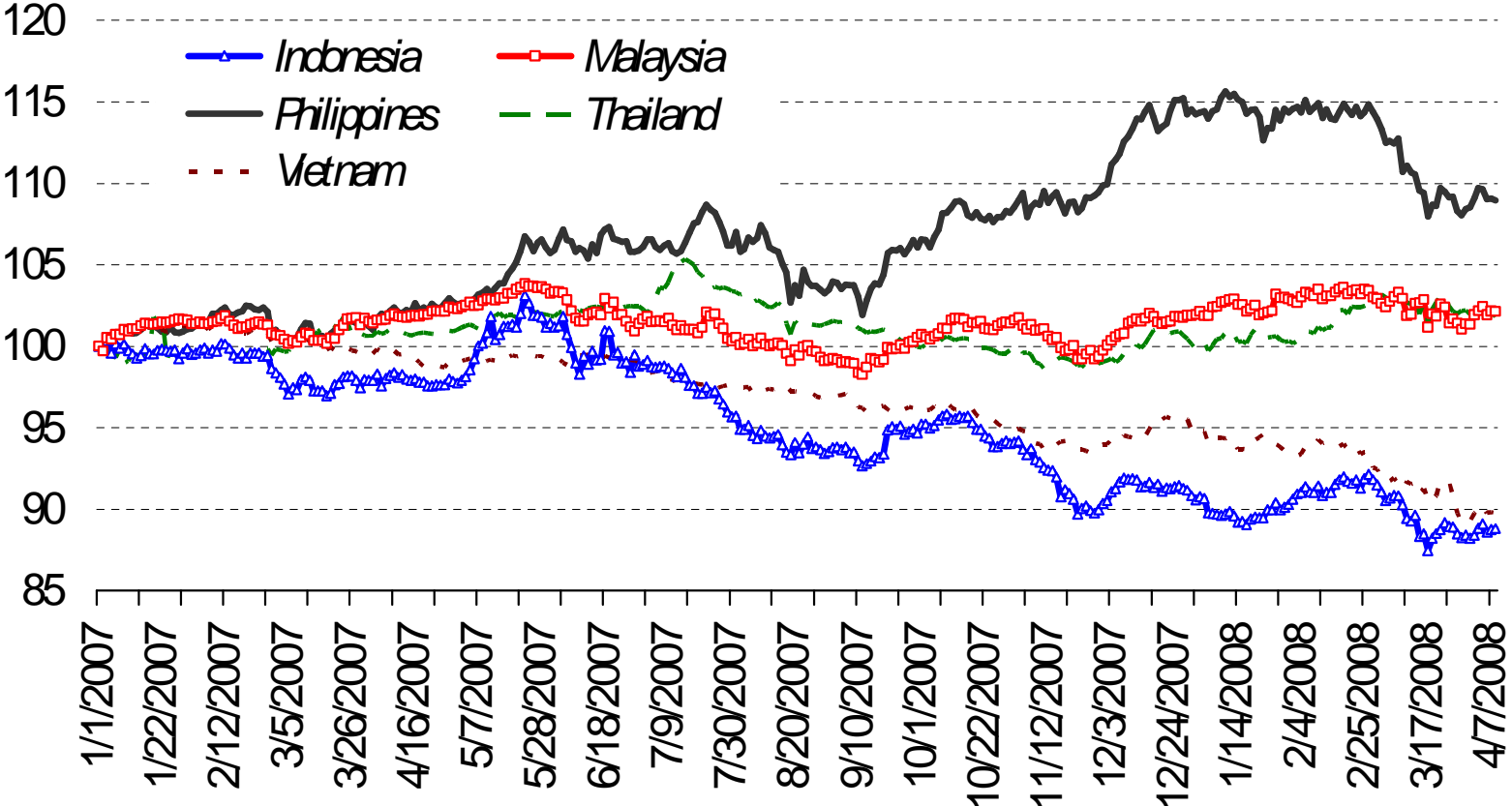
- Headline and core inflation significantly above the target range
- Policy rate unchanged since unexpected cut in December 2007
- Real rates slightly negative



Which likely contributed to the underperformance of the rupiah

ASEAN-5: Nominal Effective Exchange Rates

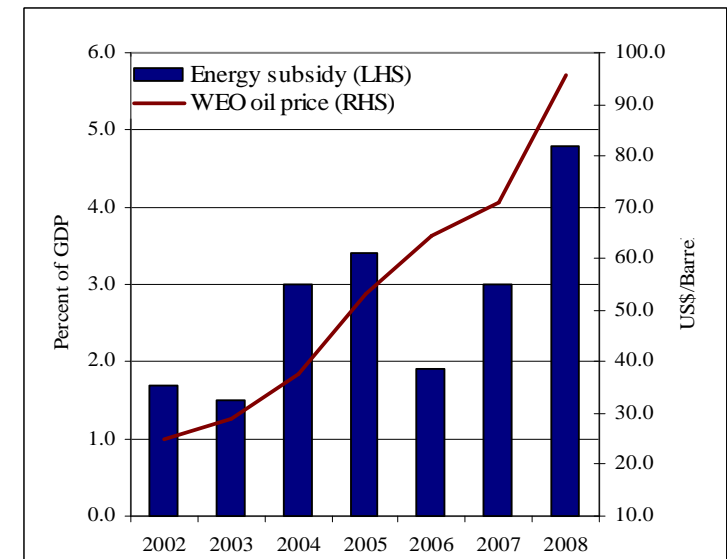
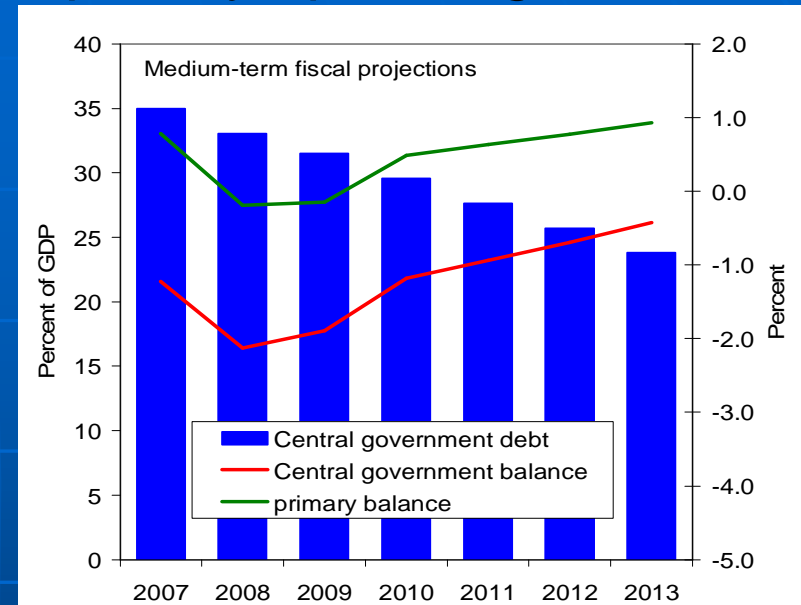
(January 1, 2007= 100)



Source: IMF, Information Notice System, and APD staff calculations.

2008 fiscal stance is broadly appropriate, but fuel subsidies are increasingly crowding out priority spending

- Deficit consistent with further decline in debt ratio
- No fuel price adjustment since 2005
 - world oil price +95%
- Large spending needs in health, education, and infrastructure are being squeezed out
 - Energy subsidies in 2008: ¼ of total spending and ½ of discretionary spending
 - Higher if oil remains at current level
- Risk of potential financing issues



Conclusions

- Near term prospects are generally favorable, but risks are tilted to the downside
- Key priorities include bringing inflation down and reducing oil subsidies in the budget
- Policy actions:
 - Gradual adjustment of subsidized domestic fuel prices, accompanied by compensation to protect vulnerable
 - Interest rate increases to prevent second round effects
 - Slow the pace of reserve accumulation and allow the exchange rate to appreciate

Thank you

