

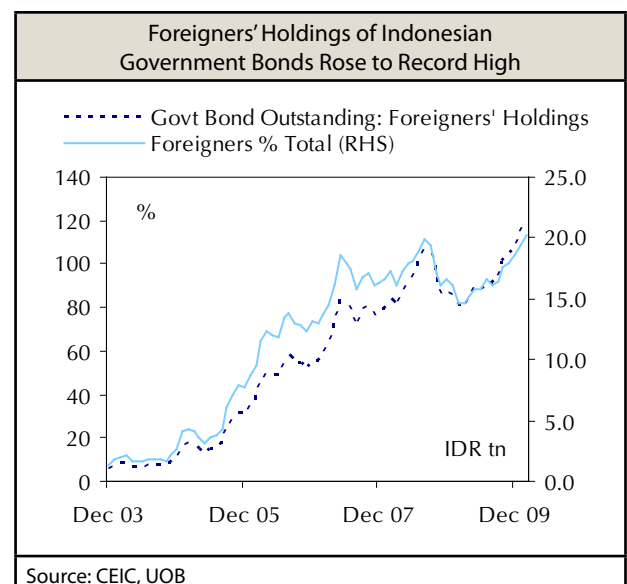
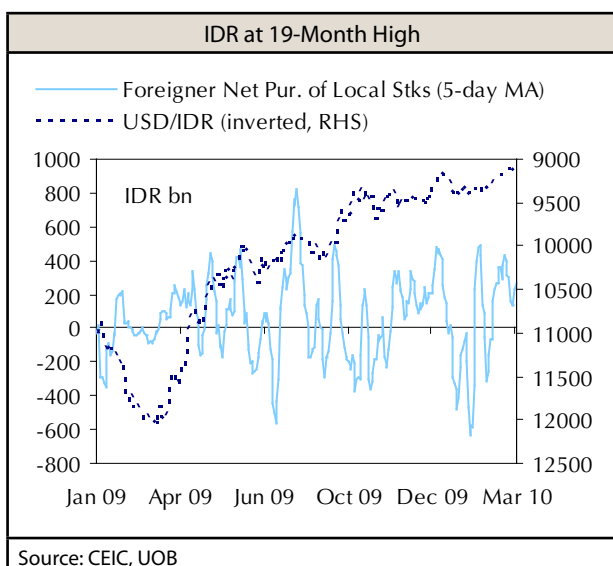
# Indonesia

UOB Economics Projections	2008	2009	2010F	2011F
GDP	6.0	4.5	6.0	6.2
CPI (average, y/y)	9.8	4.8	4.7	6.9
Unemployment (end-4Q)	8.4	7.9	7.5	7.2
Current account (% of GDP)	0.0	2.0	1.2	1.0
Fiscal balance (FY, % of GDP)	-0.1	-1.7	-1.5	-1.2

- Aside from more clarity on the resolution for the Greece debt issues, the resiliency of the domestic economy and affirmations from credit rating agencies helped to seal confidence in the economy. We expect interest rate normalisation which could materialise in early 3Q10 and positive outlook on the economy to keep IDR supported. Our USD/IDR target is at 9,000 for end-2Q10 and 8,900 end-3Q10.
- Inflation risks could rise in 2H10 if the government proceeds with its planned 15% hike to the electricity prices in July. That could increase the full-year inflation rate by 0.8ppt to around 5.5% for the full-year and inflationary pressure in the ensuing months could result in interest rate hikes of more than 100bps for the year. We expect the benchmark interest rate to end the year at 7.75% from 6.50% now.
- More stability in the global outlook and underlining momentum in the domestic economy suggest that Indonesia's GDP growth could come in at around 6.0% this year compared with 4.5% in 2009.

The IDR surged 3.6% to its 19-month high at 9,070/USD in 1Q10 from 9,400 at the end of 2009. Aside from more clarity on the resolution for the Greece debt issues, the resiliency of the domestic economy and affirmations from credit rating agencies helped to seal confidence in the economy. Foreigners' holding of the domestic government bonds rose to a record high of 20.2% in February from 14.6% in March 2009. In the domestic equity market, foreigners bought a net IDR4 tn in the first quarter of the year, rising from IDR2.5 tn in 4Q09. Although capital inflows have lifted

the IDR, it also meant that the currency will be subjected to risks of reversals should sentiment take a hit. On interest rate normalisation, Bank Indonesia (BI) has adopted a more cautious than expected stance. But we expect the rate hikes which could materialise in early 3Q10 and positive outlook on the economy to keep IDR supported, barring a negative event risk in the global market affecting risk appetite significantly. Our USD/IDR target is at 9,000 for end-2Q10 and 8,900 end-3Q10.

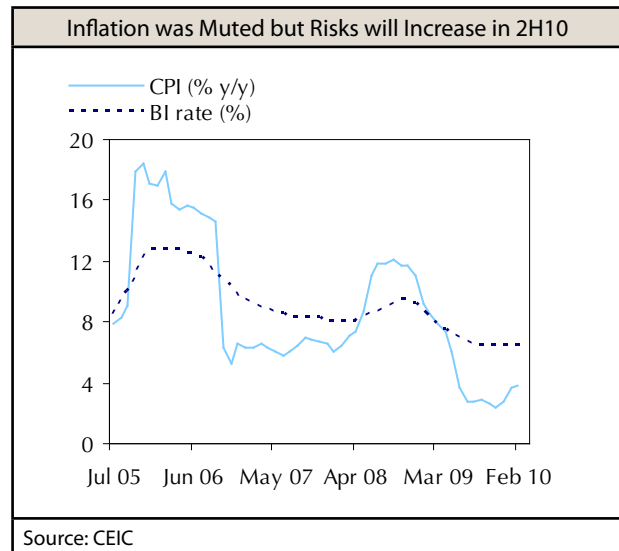
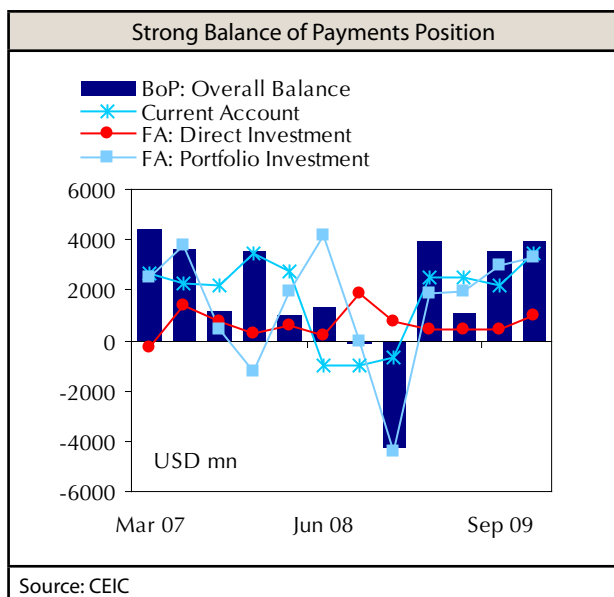


## Indonesia

### Adopting a More Cautious Stance on Interest Rate Normalisation

The central bank kept its benchmark overnight rate steady at 6.50% since August 2009. Low inflation rate in the country, partly due to the IDR strength has helped to rein in inflation since the beginning of the year and the BI has also consistently resisted calls to hike interest rate at least until June in order to boost credit growth in the country. A steady benchmark rate is in line with BI's calls for the commercial banks to cut their lending rates. This was in addition to BI's move to ease its rule on required reserves at the commercial banks, including revising the reserve requirement in January.

Although the BI was optimistic about Indonesia's growth prospects, it reiterated its long-held view that the current policy rate of 6.5% is consistent with the inflation rate within its forecast range of 4.0%-6.0%. CPI rose by an average of 3.7%/y/y in 1Q10 compared with 2.6% in 4Q09 but this was still below the BI's forecast range. Inflation risks could rise in 2H10 if the government proceeds with its planned 15% hike to the electricity prices in July. That could increase the full-year inflation rate by around 0.8ppt to 5.5% for the full-year and inflationary pressure in the ensuing months could potentially result in interest rate hikes of more than 100bps for the year. In addition, crude oil prices crossing US\$85/bbl could increase risks that the government would review the retail fuel prices although any near-term price hike is fairly unlikely. We are now expecting the BI to hike its interest rates beginning 3Q10 with the rate increase likely around 125bps this year.



### GDP Growth to Stabilise Higher in Coming Quarters

Indonesia's 4Q09 GDP growth outperformed market's expectation, rising 5.4%/y/y – its fastest pace of expansion since 4Q08. This brought the full-year growth to 4.5% in 2009. Improvements were recorded in government consumption and fixed investment while exports growth rebounded into the positive territory. The largest contribution to headline growth came from public and private consumption which jointly accounted for 4.1ppt of the 4Q09 growth rate.

Going forward, firm commodity prices are expected to support the export recovery in Indonesia while investment will continue to turn higher as sentiment pick up. Exports grew by more than 50%/y/y between Dec and Feb due particularly to strong demand from China, and are set to remain robust this year on the back of 15.0% contraction in 2009. Private consumption will offset easing government spending growth ahead as the economy improves. More stability in the global outlook and underlining momentum in the domestic economy suggest that Indonesia's GDP growth could come in at around 6.0% this year. We expect the GDP growth to be relatively stable at around 6%/y/y per quarter this year. This is slightly more bullish than the BI's forecast of 5.6% growth for 2010 and the government's 5.3%-5.5%/y/y forecast for 1Q10.

Positive developments in the domestic economy resulted in further rating upgrades since the start of this year. S&P lifted the country's long-term foreign currency rating by one notch in March for the first time since July 2006. Fitch

## Indonesia

last raised Indonesia's rating in January and is expected to increase it to investment grade within the next two years. These positive affirmations from the rating agencies are expected to boost foreign direct investment to the country. Based on the balance of payment data, foreign direct investment in Indonesia strengthened in 4Q09 but

we believe there could be more upside as we see more growth and stability ahead. Indonesia's investment agency recently suggested that the country could be ready to relax restrictions on foreigners' purchase of residential and commercial properties directly in the country by 3Q10 and this could strengthen inflows into the country.

4Q09 GDP: Improvements in Most Components							
	2009	4Q08	1Q09	2Q09	3Q09	4Q09	4Q09
	y/y % change						Ppt Cont
GDP	4.5	5.3	4.5	4.1	4.2	5.4	5.4
Consumption	6.2	6.4	7.3	6.3	5.4	5.9	4.1
Public	15.7	16.4	19.2	17.0	10.3	17.0	1.8
Private	4.9	4.8	6.0	4.8	4.7	4.0	2.3
GFCF	3.3	9.4	3.5	2.4	3.2	4.2	1.0
Change in stocks (as % of GDP)	0.0	-0.7	-0.3	0.3	0.6	-0.6	0.0
Net Exports	12.4	27.7	5.3	9.4	25.2	10.6	1.2
Exports	-9.7	2.0	-18.7	-15.5	-7.8	3.7	1.8
Imports	-15.0	-3.7	-24.4	-21.0	-14.7	1.6	0.6

Source: CEIC, UOB