In the Midst of Global Financial Slowdown: the Indonesian Experience

Siregar, Reza and Wiranto, Willeam

The South East Asian Central Banks (SEACEN) Research and Training Centre, Kuala Lumpur, Malaysia

15 December 2009

In the Midst of Global Financial Slowdown:
the Indonesian Experience*

Reza Siregar and Willeam Wiranto

December 2009

Abstract:

The objective of our study is to review and debate selected factors frequently underlined as the foundations to the strength and the resilient of economic growth in Indonesia in recent years. We first examine closely the compositions of the country's exports to particularly highlight the role of primary commodities and diverse export destinations in cushioning the country's balance of payment position. Next, our study assesses the country's management of macroeconomic policies, especially the monetary and fiscal policies, and debates the overall effectiveness and limitations of these policy measures. Lastly, this paper explores the repentant stage of the country's infrastructure, arguably a vital factor for the country's ability to attract the much-needed domestic and foreign direct investment.

---

a/ The South East Asian Central Banks (SEACEN) Research and Training Centre, Kuala Lumpur, Malaysia. E-mail: (rezasiregar@yahoo.com).

b/ An independent Economic Analyst, Singapore. E-mail: (wellian.wiranto@yahoo.com).

*/ The opinions expressed in this study are of the authors alone, and do not necessarily represent the SEACEN Centre.

1. Introduction

Having been among the most severely hit economy by the Asian financial crisis of 1997-1998, Indonesia, based on many measures, weathered the global slump of 2008-2009 remarkably well. The country maintained the third-highest gross domestic product (GDP) growth in the Group of Twenty economies (G-20) and the major Asia Pacific economies ---slower only to China and India, averaging higher than 4 percent quarterly during the first half of 2009 (Table 1). The country's large domestic market and its relatively low dependency on external trade fueled the country's economic growth amidst global economic recession. Robust growth in private consumption, underpinned by both moderate inflationary pressure and a surge in election-related spending, contributed close to 60 percent of GDP during the first half of 2009. Annualized headline inflation bottomed in July 2009 at around 2.7 percent from over 11 percent at the end of 2008. However, with the return of rising commodity prices since the second half of 2009, especially with the crude oil price in the global market, a stronger inflationary pressure was registered in third quarter 2009.

Following three consecutive quarters of current account deficits in 2008, the country reported a surplus in average of USD 3.0 billion during the first two quarters of 2009. The strength of the trade surplus mitigated the impacts of the deterioration of the capital and financial account, and improved the overall balance of payment position, contributing to the rise in the foreign exchange reserve from USD 51.6 billion at the end of 2008 to USD57.4 billion in July 2009. The relative vigor of the Indonesian economy, and the success of parliamentary and presidential elections, particularly the successful reelection of President Susilo Bambang Yudhoyono to his second term, brought about a healthy return of investor confidence. Between January and August 2009, the Indonesia stock-market index has gained 95% in the USD term, albeit still below its 2008 peak. Accordingly, the return of the capital inflow triggered an appreciation trend in the local currency. Rupiah strengthened against most major currencies, in particularly against the US dollar. The Indonesian rupiah appreciated to around 1USD to Rp9400 in early October 2009 from its weakest point at 1USD to Rp12200 in November 2008 (Figure 1).

The objective of our study is to debate and review a number of factors frequently underlined as the foundations to the strength and resilient economic growth of the country in recent years. Next section examines closely the strength of the balance of payment of the country. In addition to the rapid return of portfolio investment, the role of the primary commodities and the diverse export destinations mitigated the impacts of the global financial crisis on the country's balance of payment position. Section three assesses the country's management of macroeconomic policies, especially the monetary and fiscal policies, and debates the overall effectiveness of these policy measures. Going forward, the country must rely less on its domestic consumption, and more on the investment, especially the direct investment. To attract future investment, both domestic and foreign, the country must first address the dire stage of its infrastructure bottlenecks. Section four of the paper explores the regretful stage of the country's infrastructure. Brief concluding section ends the paper.

2. Balance of Payment: Pleasant Surprise and Heightened Expectation

Indonesia's balance of payments situation has improved markedly, registering net surpluses for the first three quarters of 2009. This is a welcome contrast from the worrying trajectory experienced by the overall balance during the global turmoil, which accelerated in the second half of 2008 after the collapse of Lehman Brothers. From a net deficit of $4.2billion in the fourth quarter of 2008, the country's external balance has improved to a quarterly average surplus of $2.9billion in 2009 (Figure 2).

Looking at the compositions of the country's balance of payment, the current account balance has stayed at a comfortably positive level in 2009, adding stability to the overall external balance surplus for the country. Considering that the country had been running a current account deficit from the second to the fourth quarter of 2008, this development is especially heartening (Figure 3). While the relative stability in the level of worker remittances inflows and profit repatriations of foreign firms have helped to sustain the current account levels, the healthy overall surplus in recent quarters has been ultimately due to a strong performance in goods and services balance. Compared to the lackluster balance in the fourth quarter of 2008, which dipped below $1billion, the goods and services balance has been healthy this year, with an average of $4.8billion a quarter year-to-date. The latest number in the third quarter of 2009 at $4.6 billion adds to the confidence that trade balance will continue to be helpful to the country's external payments conditions.

A bottoming in exports coupled with a collapse in imports to give a favorable goods and services balance. The overall trade balance has stayed positive throughout this year, due in part to the fact that the country's import bills for oil have come down dramatically alongside the drop in global oil prices (Figure 4). The prevalent gap between the recovery in exports and imports can be further explained by the fact that Indonesia is primarily a commodity-heavy raw materials exporter. Manufactured goods constitute only 16% of Indonesia's total exports since 2006. In comparison, up to 53% and 44% of the total exports of Singapore and Malaysia respectively come from manufacturing of electronics alone. Therefore, unlike its neighbors which are more manufacturing-dependent and focus on the processing of imported intermediate goods for exports, Indonesia's imports do not necessarily lead its export numbers (Figure 5).

In addition, the destinations of the Indonesian exports are relatively diverse. The big traditional export destinations such as the United States and the European markets, countries severely affected by the recent crisis, absorbed only around 25 percent of the Indonesian exports during the first three quarters of 2009. While the Southeast Asian neighbors consumed around 22 percent of the country's exports for the same period. In 2009, Indonesia has in fact exported more to China and India, than to the United States. A similar general picture can be drawn from the import number. Hence, the Indonesian trade sector arguably faced more of second-round effects of the recent global slowdowns.

The improvement in Indonesia's exports also appears to have been driven primarily by a recovery in commodity prices which are invariably linked to an improvement in demands from China (Figure 6). Once the stimulus package and monetary easing by the Chinese policymakers started to take hold, fixed asset investment in that country began to grow rapidly. The resurgence of investment there has in turn increased demand for raw materials, helping to boost trade balances of commodity-exporting countries like Indonesia and Australia. Whereas the current account's successive deficits in H2 2008 contributed to a depletion of Bank Indonesia's foreign exchange reserves and helped to foster perceptions of increasing country risks, its decisive swing into positive territory (and staying there) has done the exact opposite and stokes the current of optimism about Indonesia's prospects.

Domestically, the rounds of elections this year culminated in the re-election of market-friendly President Susilo Bambang Yudhoyono with an overwhelming direct mandate, as well as a strong showing for his Democrat Party in the earlier parliamentary elections. This has lent hope to the notion that the election results will enable his administration to have a stronger platform to undertake tough reforms that are essential for the country's economy. Globally, the major central banks managed to resuscitate the financial markets through a combination of rapid interest rate cuts as well as less-conventional quantitative easing measures. Banks started to lend to one another again, as they overcome the initial deep distrust of the creditworthiness of their counter-parties. The keenly watched Libor-OIS spread, which at one point shot up to as high as 3.64% in mid-October last year, began to make its gradual decline. By late August this year, the measure has dipped below 0.25%, which according to Alan Greenspan, indicated that the willingness of banks to lend to one another has reached a 'normal' zone (Figure 7) (Fitzgerald (2009)).

The return to a greater degree of normality in the global financial markets during the second half of 2009 has had a direct implication on the Indonesian economy. As markets switched from thinking about "returns *of* capital" back to the more normal assessment of "returns *on* capital", money began to search for yields and started to return to Emerging Markets, including Indonesia. The country has gained additional visibility in this environment due in part to its status as being one of the few major Asian economies to have maintained positive growth throughout the post-Lehman global turmoil. This has invariably led to optimistic portrayal of the country's prospects going forward, so much so that Moody's, a ratings agency, decided to upgrade Indonesia's ratings to Ba2 from Ba3 in September. By October, Standard & Poor's, while keeping its BB- rating for the country, upgraded its outlook from "Stable" to "Positive" in what is widely viewed as a precursor to a ratings upgrade.

Such optimism had played an important role in the dramatic shift in the country's capital accounts balance, particularly on the portfolio investment front. Portfolio flows have swung from the $4.4 billion outflows during the global panic of the fourth quarter of 2008 into a decisive surplus of $1.9 billion by the first quarter of 2009. The inflows have continued to strengthen since, registering net surplus of $3.4billion in third quarter of 2009. The scale of capital inflows has invariably contributed to a rally in the Indonesian stock market of late, enabling the index to be one of the best performing ones among Emerging Markets this year.

The foreign direct investment (FDI) inflows, however, have not been as ecstatic as portfolio investment. After the relative resilience throughout the tumultuous global events last year, the FDI inflows began to taper off this year, with a mere $0.4billion received in the third quarter of 2009. One likely explanation is that potential investors are adopting a wait-and-see attitude towards the new cabinet team and its general policy directions. However, as we would explore further at the latter stage of the paper, we believe that there is a number of nagging structural impediments, such as inadequate infrastructure, that has inhibited Indonesia from attracting substantial FDI inflows.

3. Navigating Domestic Monetary and Fiscal Policies in the Midst of Global Financial Crisis.

It has now been well documented that the present global financial turmoil is confronting emerging market economies with two shocks, namely a sudden stop of capital inflows resulting from the global deleveraging process, and a collapse in export demand associated with the global recession (Ghosh, et.al. (2009)). To mitigate the impacts of the two externally originated shocks, the country's management of macroeconomic policy responses, particularly those of monetary and fiscal measures, is crucial and has often been underlined as a detrimental factor in explaining the overall strength of the economy. This section would review key macroeconomic policy responses in Indonesia and generate lessons from them, in particular on the overall limitations of the macroeconomic policies during a global financial crisis.

3.1 Monetary Policy Side

As in advanced economies, the basic thrust of the monetary policy in Indonesia is to ease the impacts of the deleveraging process in the global economy on the domestic liquidity. Like many central banks around the world, Bank Indonesia (BI) had embarked in massive expansionary monetary policy measures. Its key policy rates declined from 9.5% in December 2008 to 6.5% in August 2009, and the rate is expected to be kept for the rest of 2009. BI also took measures to ease pressure on the bank liquidity by cutting the reserve requirement for bank's reserve at 5% from 9%. To help instill confidence in the domestic banking sector, the monetary authority raised the deposit guarantee limit from Rp100 million to Rp2 billion.

Yet, despite the expansionary efforts, lending rate declined only moderately, especially compared to that of deposit rate. At the end of July 2009, the interbank rate in Indonesia stood at around 7%, among the highest in the region. It is worth noting that the rise in the gaps between the policy rate and key market rates has been a common feature of financial crisis.[1] The policy rate, also known as the BI rate, was hovering around 8.5 percent in October 2008 and the spread rate between BI rate and the lending rate of the commercial banks was reported at around 5.4 percent during the same period (Figure 8). In September 2009, Bank Indonesia had reduced its policy rate to around 6 percent to help stimulate the economy, yet the spread rate had actually inched up to over 7 percent.

Market risk has often played a key role in explaining the widening gap between policy and market interest rates during the past financial crises (Taylor (2009)). Reviewing the spread between the emerging market bond index (EMBI), capturing the expected cost of capital above the t-bill rate that a country must incur, Indonesia has indeed faced the most severe rise in the

[1] Similar episodes have also been reported in Indonesia during the 1997 financial crisis (Siregar (2005)).

cost of borrowing at the global market. The country's EMBI rose above 800 point at fourth quarter of 2008, among the highest in the South-East Asian region (Table 2). The period of high EMBI was also coincided with the sharp weakening of the local currency against the US dollar (Figure 1). Yet, despite the return of market confidence and positive outlooks in the domestic economy, the EMBI at the third quarter of 2009 still doubled the index at the second quarter of 2007.[2]

The widening of the interest spreads between the policy rate and the key market rates could adversely affected 'the optimal response of the policy rate' to inflation, output gap and exchange rate volatilities. As market rates become less sensitive to the changes in the policy rate, we would be in a situation where it would take much steeper adjustments in interest rate to have any meaningful impacts in the market (Siregar and Goo (2009)). If the problem persists, situation worsens and/or no more room to adjust the policy rate (hitting the 'zero' floor of nominal rate), monetary policy may end up to be completely futile.[3]

One key indicator, frequently found at the center of the debate on the effectiveness of the monetary policy in Indonesia, has been the growth of credits extended by the banking system in Indonesia. Despite the expansionary monetary policy position, the lending growth declined significantly from the peak of close to 40% per annum recorded in October 2008 to less than 10 percent by September 2009. Looking at the lending activities by the different groups of banks, only the state bank has been found to continuously sustain a high growth rate of credit at around 18 percent year on year at the end of September 2009. In contrast, the private commercial banks

[2] In September 2009, the Moody rating agency has upgraded Indonesia's foreign and local-currency sovereign debt ratings to Ba2 from Ba3.

[3] The ineffectiveness of the monetary policy during the recent crisis, as captured by the widening of the interest rate gaps, is also evident on the experiences of developed economies. Martin and Milas (2008) demonstrate the case of United Kingdom.

and the foreign banks recorded a dismal performance of around 4.5 percent and -5.4 percent in September 2009, respectively.

3.2 Counter-cyclical fiscal stimulus

The past episodes of sudden stops have demonstrated that countries with tighter fiscal policy experienced sharper contractions than those with a looser stance (Ortiz, et.al. (2009)). Particularly, given the limitation of the monetary policy discussed earlier, the role of the fiscal stimulus is critical, not only in terms of minimizing the impacts of the crisis, but more importantly in stimulating economic recovery. Facing drastic changes in the amounts allocated for energy subsidies, a rise in the fund needed to cushion the impact of global financial crisis, and a potentially much slower economic growth, the government of Indonesia has resorted to Article 23 of Law 41/ 2008 to facilitate access to the parliamentary hearing on the 2009 budget in mid-January 2009. The Article 23 of Law 41/2008 stipulates that the government can return to parliament and proposes for budget revisions under three circumstances. First, economic growth is expected to fall more than below 1 percent of the assumed growth, and other key macroeconomic indicators deviate more than 10 percent from initially projections. Second, there is a sharp decline on the third-party liabilities of the banking system. Third, there is a drastic rise in the yields of the government bonds.

The Minister of Finance unveiled a stimulus package for 2009, worth around Rp73.3 trillion (or around US$ 6.4 billion), to boost the economy amid the threat of economic downturn. The package is broken down into three major categories, namely income tax cuts, waives of tax and import duties, and subsidies and government expenditure. Aiming to stimulus more spending by the household and corporate, around 60 percent of the Indonesian fiscal stimulus has been allocated to cover cuts in income taxes. To minimize the effects of the global financial crisis, the government cuts individual income tax from 35% to 30% as well as corporate income tax from 30% to 28%. Recognizing the high dependency of the local industries (both on tradable and non-tradable sectors) on imports, as discussed earlier, around Rp2.5 trillion would finance waives of import duties for raw materials and capital goods. This is part of over Rp13 trillion package on tax and duties, about 18% of total stimulus package, to predominantly support businesses. To help reduce the operation cost of businesses, the stimulus package also cover diesel and electricity subsidy. Last but not least, close to Rp12.2 trillion will be allocated to support infrastructure and rural sector development.

In view of the measures above, the government has committed to raise its fiscal deficit to 2.5 percent of GDP in 2009. The flexibility of the Ministry of Finance to revise and to more than double the initial committed expansion highlights the successful effort by the country to reduce public debt and thus create the necessary fiscal space (Figure 9). At the end of 2000, the public debt level was reported to be close to 90 percent of the GDP. By September 2009, the country has seen its public debt level to drop to 30 percent of the GDP. Furthermore, the country's revised target rate of budget deficit is well within the ranges of the expanded fiscal stimulus carried out by the neighboring Southeast Asian economies (Figure 9). At the highest end, Malaysia has amended its stimulus package and aimed at around 4.8 percent budget deficit for 2009. As one of the worst-hit economies by the recent global slowdown, Vietnam projected a budget deficit of around 3.5 percent in 2009. Facing limited fiscal space, Thailand had committed the most modest budget deficit at around 1.7 percent of GDP.

However, critics have long been pointing out that the government of Indonesia has often underestimated tax revenue growth, while overestimating its ability to targeted projects. The speed of government spending continued to be hampered by bureaucratic inefficiencies, and lack of institutional capacity, partly due to the devolution of power to provincial and district-level governments in recent years. At the end of 2008, the budget deficit was only of 0.1% of GDP, much lower than its 2.1% target. In November 2009 hearing before the XI Commission of the Parliament, the Minister of Finance reported that only less than 45% of the total stimulus package has been fully disbursed in the economy. On the expenditure stimulus, initially targeted around Rp12.2 trillion, the estimates show that only around 36% of the total amount has been fully absorbed by the local economy. The shortcoming is found in almost every key ministries and government agencies. For instance, the Ministry of Public Works has been allocated a stimulus package of around Rp.6 trillion, and yet only 44% has been implemented by end of third quarter of 2009. Similar trends are reported from the other key ministries, such as the ministry of energy and mining, the ministry of agriculture, and the ministry of trade. The most encouraging result was reported by the ministry of health, with over 75% of allocated package has been fully disbursed.

Similarly, by July and December 2008, the regional government of the capital city, Jakarta, for instance, had managed to disburse only 17 and 64 percent of its annual budget, respectively (Basri and Siregar (2009)). Two factors were blamed for this: the late budget approval and the fears of improper disbursement following the Supreme Audit Agency’s discovery of irregularities in the 2007 budget. Despite some improvements in the submission of the approved local government budget for the last two years, we still see quite a few local government budgets (APBDs) were not approved until later in the year. Until end of January 2009, only around two thirds of the total local governments, or 318 local governments, have reported the finalization of their 2009 budgets, and more than 192 local governments have not reported the finalization of their budgets to the central governments (Gunawan and Siregar (2009)).

The fiscal effort has however been benefited from the two elections, the parliamentary and the presidential, taken place in 2009. In their recent study, Resosudarmo and Yusuf (2009) highlight the stimulus consequence of the election-related spending of the government. It is estimated the total election budget for both parliamentary and presidential elections was around Rp47.9 trillion, of which about Rp18.6 trillion was included in the 2008 budget and Rp29.3 trillion in the 2009 budget. It is estimated that the government spent about Rp50 trillion over a period of one year, compared to around Rp1000 trillion of total government expenditure in 2008. In the other words, financing election expenditure should have boosted government spending by around 5%.

4. Dismal Stage of Infrastructure

Going forward, the dismal stage of infrastructure must be addressed for the country to have any chance in achieving its potential economic growth. The latest Global Competitiveness Report (the World Economic Forum (2009)) listed the country's inadequate supply of infrastructure as one of the investors' top-most concerns on the prospects of doing business in Indonesia (Figure 10). The problem of deficiency in infrastructure is worsened by the fact that it is wide-ranging, encompassing different aspects of infrastructure provisions. From roads to ports to electricity supply, investors surveyed by the World Economic Forum in its latest Global Competitiveness Report ranks Indonesia's infrastructure quality at 96th out of the 133 countries.

These findings demonstrate the dire state of the country's infrastructure. In many ways, the current inadequacy of infrastructure facilities in the country stem from the long period of under-investment by the government in the decade or so after the 1998 Asian Financial Crisis.

According to a World Bank study[4], public infrastructure investment before the crisis stood at 5-6% of GDP. This figure fell dramatically in the years after the crisis, to about 1% of GDP in 2000. Although infrastructure investment has picked up since then, to about 3.4% of GDP by 2007, the amount of government spending on infrastructure is still significantly below the pre-crisis levels.

The minimal investment into road building, for instance, is unfortunately more of a norm than an exception. Between 1997 and 2006, the length of roads nationwide increased by a meager 15 percent, with 52,000 kilometers or so being added. In comparison, the number of vehicles nearly tripled over the same period, increasing by as much as 28.5 million vehicles. The pace of increase in the provision of road facilities simply could not match the needs of the economy at all (Figure 11)

A similarly bleak picture can be witnessed in the electricity market. Between 2004 and 2007, electricity supply increased by an average of 3.4% per annum. Over the same period, however, demand for electricity accelerated at double the pace of supply, increasing by 7.6% per annum on average (Figure 12). There is little wonder then that latent blackouts plague many parts of the country, and have even started to occur on Java Island, which has traditionally been better off in terms of infrastructure provisions. Even the capital city of Jakarta, the nation's economic and political center, has to suffer rolling blackout during the second half of 2009, much to the disappointment of foreign factory owners who have to contend with production disruptions.

All these deficiencies will make it that much harder for the country to attract and convince foreign investors to set up their factories and businesses. In an era where neighboring

[4] World Bank (2007).

countries are gearing up their efforts to capture the limited pool of foreign investments by offering a sophisticated set of incentive measures such as coordinated tax breaks and high-level infrastructure such as broadband connectivity, it is extremely unfortunate that Indonesia is struggling to even provide the very basic electricity and transportation needs.

To be fair, the government has been active in at least initiating a number of programs in their attempt to alleviate the infrastructure problems. During his first term in office from 2004-2009, President Susilo Bambang Yudhoyono's government had embarked on several initiatives to kick-start infrastructure development. In 2005, for example, the government announced plans to construct 1,000 kilometers of toll roads across the archipelago. A year later in 2006, the 10,000 megawatt power crash program was launched in 2006 to meet the fast-growing demand for electricity. Some other key infrastructure projects that were initiated during this period include areas of public housing, water supply, and a particularly ambitious plan to install fiber-optic networks in all of the country's 33 provinces. [5]

Progress has been painfully slow, however. Only 10% of the 1,000-km toll road project has been completed to date. The 10,000-MW Power Crash program looks to fare slightly better by comparison. Even then, only a quarter of the targeted capacity has been completed thus far. The major stumbling blocks affecting the progress of such infrastructure projects remain land acquisition and cost recovery uncertainties. Land acquisition remains a major hurdle in road construction projects, particularly in the more densely populated Java Island. Acquisition of suitable land sites for projects are regularly hit with lengthy negotiations with residents, in part due to legal uncertainties on ownership of land.

[5] http://www.forbes.com/feeds/afx/2009/10/27/afx7046555.html

Another major factor which has deterred would-be investors in infrastructure projects has been the lack of clarity on cost recovery after the projects are completed. Infrastructure projects require hefty initial investments that can only pay off in increments over extended periods of time after the completion of the projects. The pay-off for the investors comes in the form of electricity tariffs (in the case of power plant project) or tolls (in the case of toll road construction). These tend to be highly regulated by the government and are often subjected to politically-driven changes. As a whole, the situation adds to the degree of uncertainty and constitutes a deterrence factor for any potential investors.

The president appears to understand such constraints well. Soon after assuming his second term in office, the buzzword for the new cabinet has been “de-bottlenecking”. The government, rightly, sees the need to remove a number of constraints that have prevented the economy from enjoying a more rapid growth. As a reflection of the priorities they give to these issues, the president has even set up a new office called the Presidential Delivery Unit that is headed by a well-respected technocrat, Kuntoro Mangkusubroto. This office is singularly tasked with the removal of structural economic growth constraints, such as land acquisition mentioned earlier.

At the end of the day, implementation remains the key. Fruitful results cannot be accomplished by plans alone. The early signs may be promising. On the issue of land acquisition, for instance, the government is adding a new provision which would involve setting up a revolving fund to purchase land from the original owners, aiming to reduce risks for the investors. Foreign investors are watching the latest spurt of measures by the government closely, to see if the momentum of positive reforms can be sustained, and if the bottleneck of infrastructure inadequacy can indeed be removed. All eyes are on whether the president’s second-term in office will yield more than the first one, in terms of improving the country's overall investment climate and attracting more direct investments.

5. Concluding Remarks

The Sub-prime financial crisis has abruptly and severely slowed the economic growth of many countries in the world, including the emerging markets in Asia (Table 1). It is therefore remarkable that the Indonesian economy has managed to continue growing and avoid balance of payment crisis of the 1997 East Asian crisis. The overall balance of payment in the country was in deficit only in the last quarter of 2008, driven predominantly by the sudden reversal of capital. In a sharp contrast, the country had to endure persistently fragile balance of payment position for full two years after the initial outbreak of the past East Asian financial crisis in the middle of 1997 (Figure 13). In addition, the country's relatively less reliance on trade and diverse trading partners contributed to the strength of the country's current account balance.

As found in other economies in different corners of the globe, the experience of Indonesia during the recent global financial meltdown has also accentuated the country's commitment to coordinated macroeconomic policies as a primary determinant of the robust economic growth. However our study has shown that the effectiveness of both monetary and fiscal policies has largely been hampered by a number of limitations. Further studies, therefore, are warranted to examine how much the country's robust economic growth during the recent crisis has indeed been due to good policies.

Following the announcement of their election, President Susilo Bambang Yudhoyono (SBY) and his vice president, Boediono, promptly announced a set of soci-economic targets, including an annual growth rate of 7 percent by 2014 (the end of SBY's second term) and unemployment at around 5-6 percent (Resosudarmo and Yusuf (2009)). It is clear however that the country must address its dire stage of infrastructure, if it were to have any real chance to achieve the set of targets outlined by the current government.

References:

Basri, M. Chatib and Reza Y. Siregar (2009), "Navigating Policy Responses at the National Level in the Midst of the Global Financial Crisis: The Experience of Indonesia", *Asian Economic Papers, MIT Press*, Vol. 8(3), pp. 1-35, October.

Fitzgerald, Alison (2009), "Greenspan Says Banks Still Have a 'Large' Capital Requirement", Bloomberg, May 21, http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aiOYLnM2WxuA

Ghosh, Atish, Marcos Chamon, Christopher Crowe, Jun I. Kim, and Jonathan D. Ostry (2009), "Coping with the Crisis: Policy Options for Emerging Market Countries", *IMF Staff Position Note*, SPN/09/08, April 23.

Gunawan, Anton and Reza Siregar (2009), "Survey of Recent Developments", *Bulletin of Indonesian Economic Studies*, Vol 45 (1), pp.7-36, April.

Martin, C., and C. Milas (2008), 'The Sub-Prime Crisis and UK Monetary Policy', *Working Paper 31-08*, The Remini Centre for Economic Analysis.

Ortiz, Alberto, Pablo Ottonello, Feder ico Struzenegger and Ernesto Talvi (2009), "Monetary and Fiscal Policies in a Sudden Stop: Is Tighter Brighter?" in *Dealing with an International Credit Crunch: Policy Responses to Sudden Stops in Latin America*, ed. By Eduardo Cavallo and Alejandro Izquierdo (Washington: Inter-American Development Bank).

Resosudarmo, Budi P. and Yusuf, Arief A. (2009), "Survey of Recent Developments", *Bulletin of Indonesian Economic Studies,* Vol. 45, No.3, pp.287-315.

Siregar, Reza Y. (2005), 'Interest Rate Policy and Its Implication on the Banking Restructuring Programs in Indonesia during the 1997-Financial Crisis: An Empirical Investigation", in F. Sjoholm and J. Tongzon (eds), *Institutional Change in Southeast Asia*, Routledge Press, pp. 72-90.

Siregar, Reza Y. and Siwei Goo (2009), 'Effectiveness and Commitment to Inflation Targeting Policy: Evidences from Indonesia and Thailand', *Journal of Asian Economics* (forthcoming).

Taylor, J. (2009), 'The Financial Crisis and The Policy Responses: An Empirical Analysis of What Went Wrong', *NBER Working Paper*, 14631, Cambridge, MA.

World Bank (2007), S*pending for Development: Making the Most of Indonesia's New Opportunities,* Washington D.C., December.

World Economic Forum (2009), *The Global Competitiveness Report 2009-2010*.

Table 1: Growth Performance of Selected Countries

	2009 GDP Growth Projection	
Country	**Initial**	**Revised**
Malaysia	4.8	0.2
Thailand	4.5	2
Australia	2.2	1.7
Indonesia*	**6**	**4.5**
USA	0.1	-0.8
UK	-0.1	-1.3
Singapore	3.5	-5
Japan	0.5	-0.2
South Korea	3.5	2.5
India	6.9	6
China	9.3	8

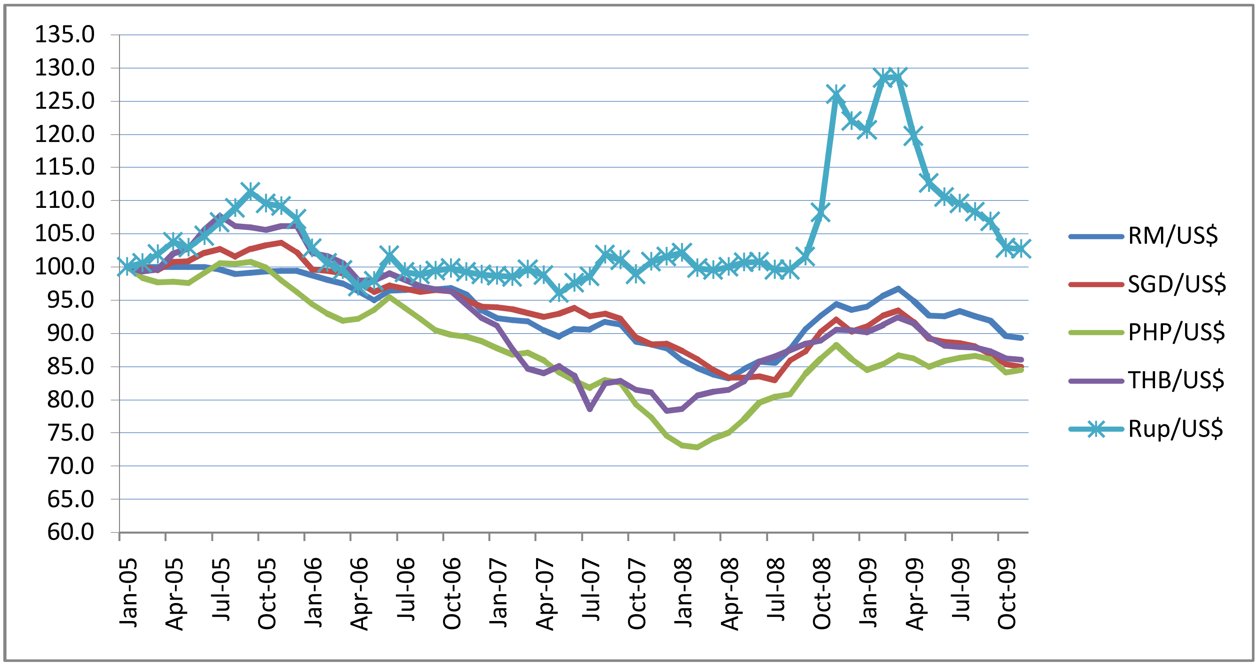
Source: CEIC Database

Table 2: Emerging Market Bond Index (EMBI)

	Indonesia	Malaysia	Philippines	Vietnam	China
Q1-2007	186	72	180	122	53
Q2-2007	144	71	138	101	52
Q3-2007	234	109	204	178	87
Q4-2007	271	120	208	203	121
Q1-2008	321	143	272	278	152
Q2-2008	338	141	244	366	132
Q3-2008	398	172	293	389	174
Q4-2008	837	396	566	797	230
Q1-2009	788	350	452	657	178
Q2-2009	419	179	301	353	87
Q3-2009	309	178	271	330	98

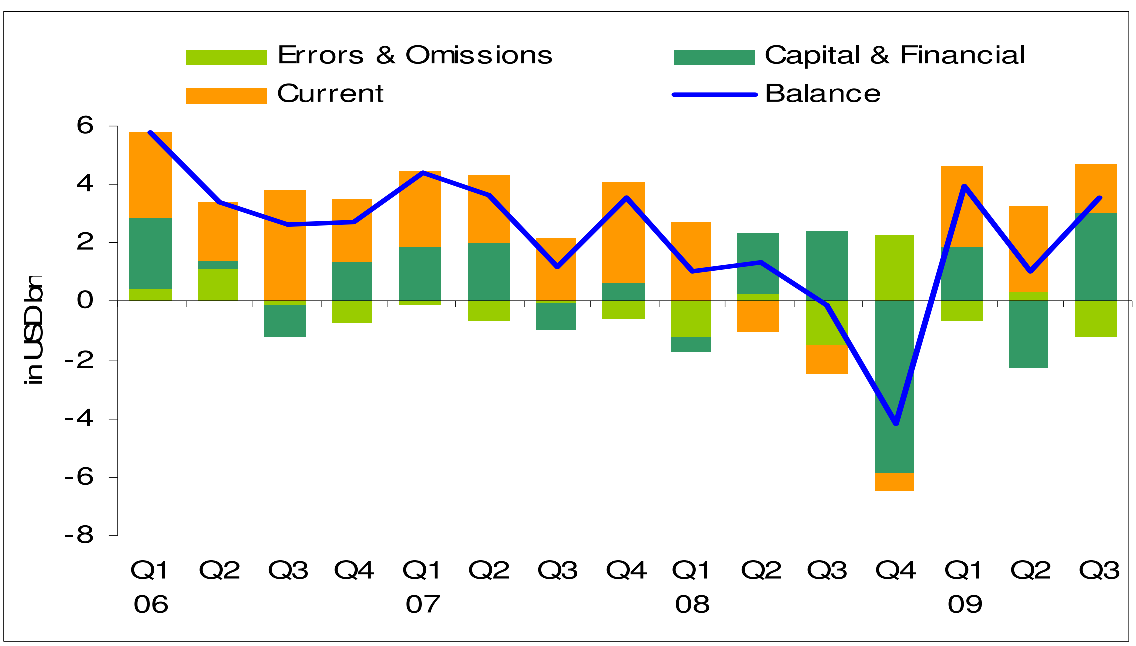
Source: CEIC Asia-Database

Figure1: Bilateral Nominal Exchange Rate against the US dollar
(Monthly average and January 2005=100)



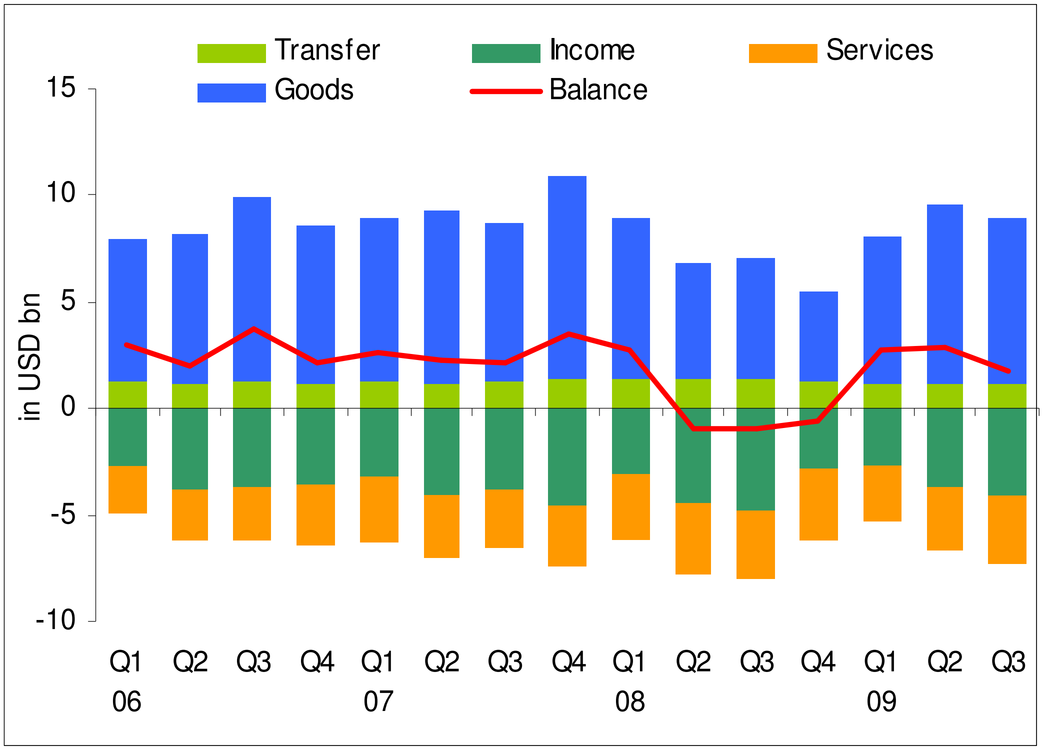
Source: The University of British Columbia, Sauder School of Business, Pacific Exchange Rate Service Database (http://fx.sauder.ubc.ca/data.html)

Figure 2: Balance of Payments



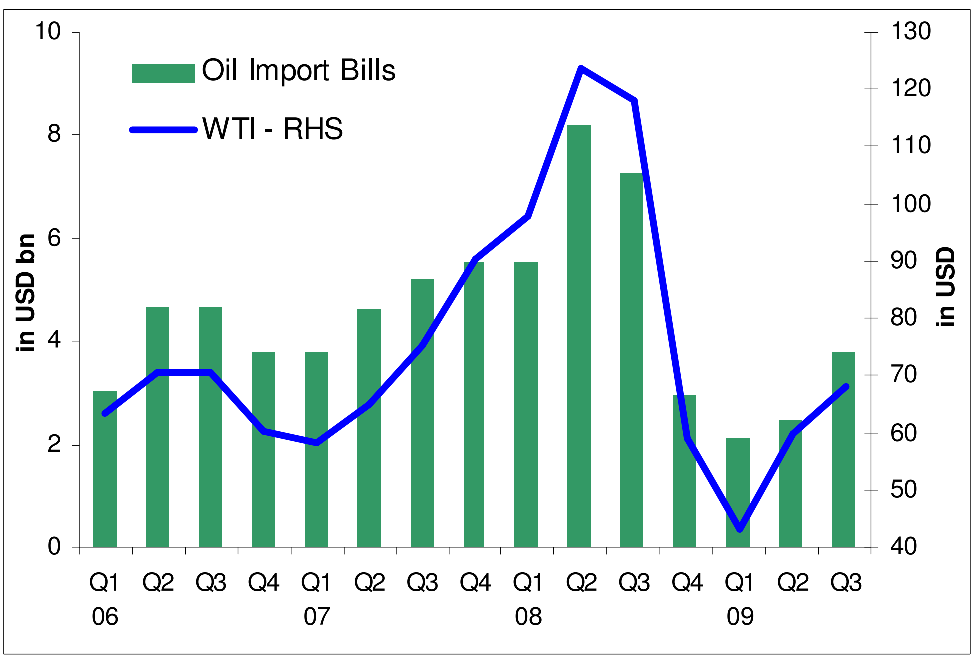
Source: CEIC Asia-Database

Figure 3: Current Accounts



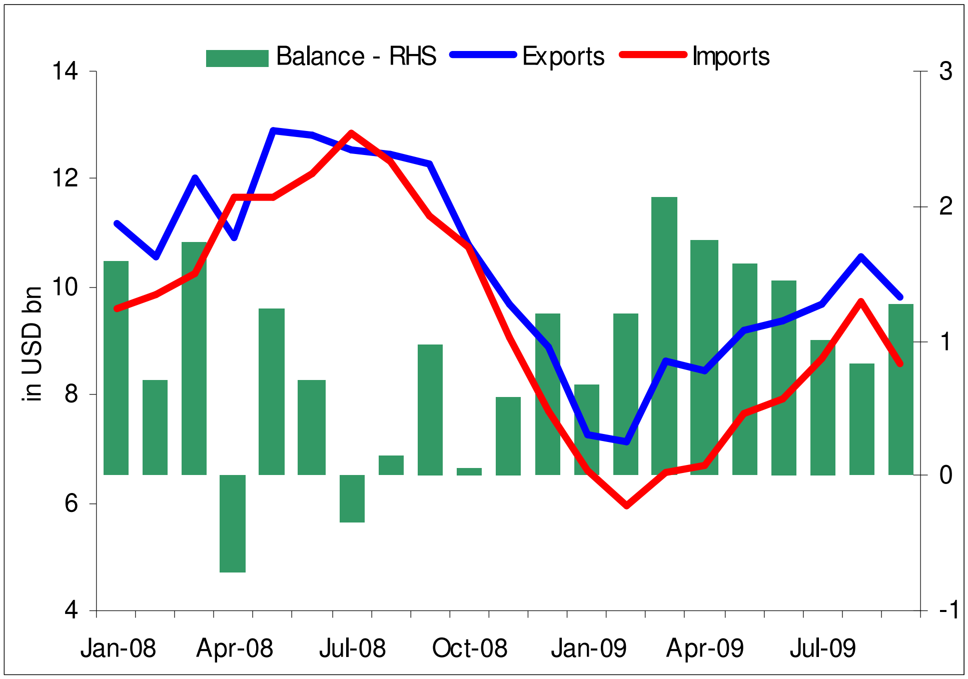
Source: CEIC Asia Database

Figure 4: Oil Import Bills and Global Oil Price



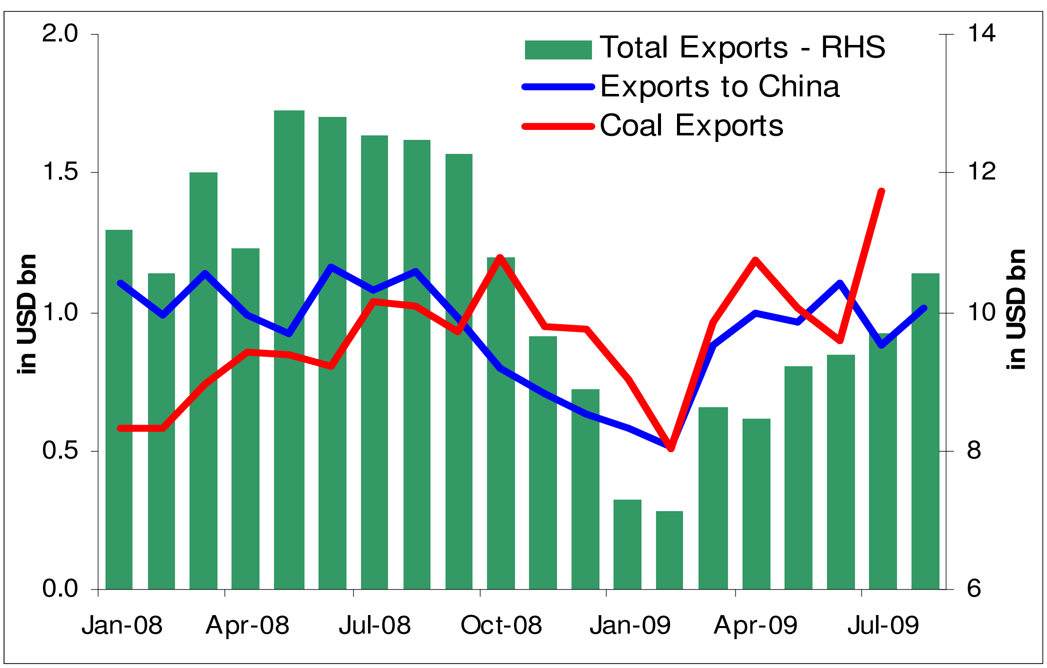
Source: CEIC Asia Database

Figure 5: Trade Balance



Source: CEIC Asia Database

Figure 6: Export Drivers

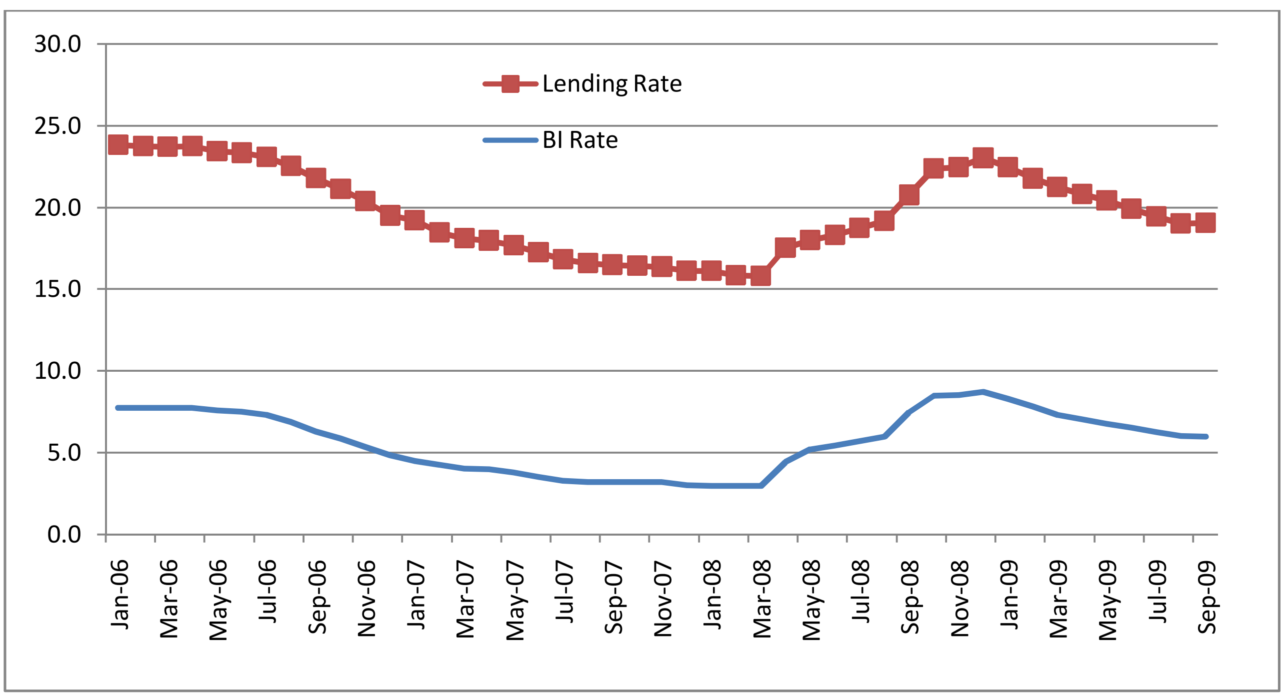


Source: CEIC Asia Database

Figure 7: Libor-OIS Spread

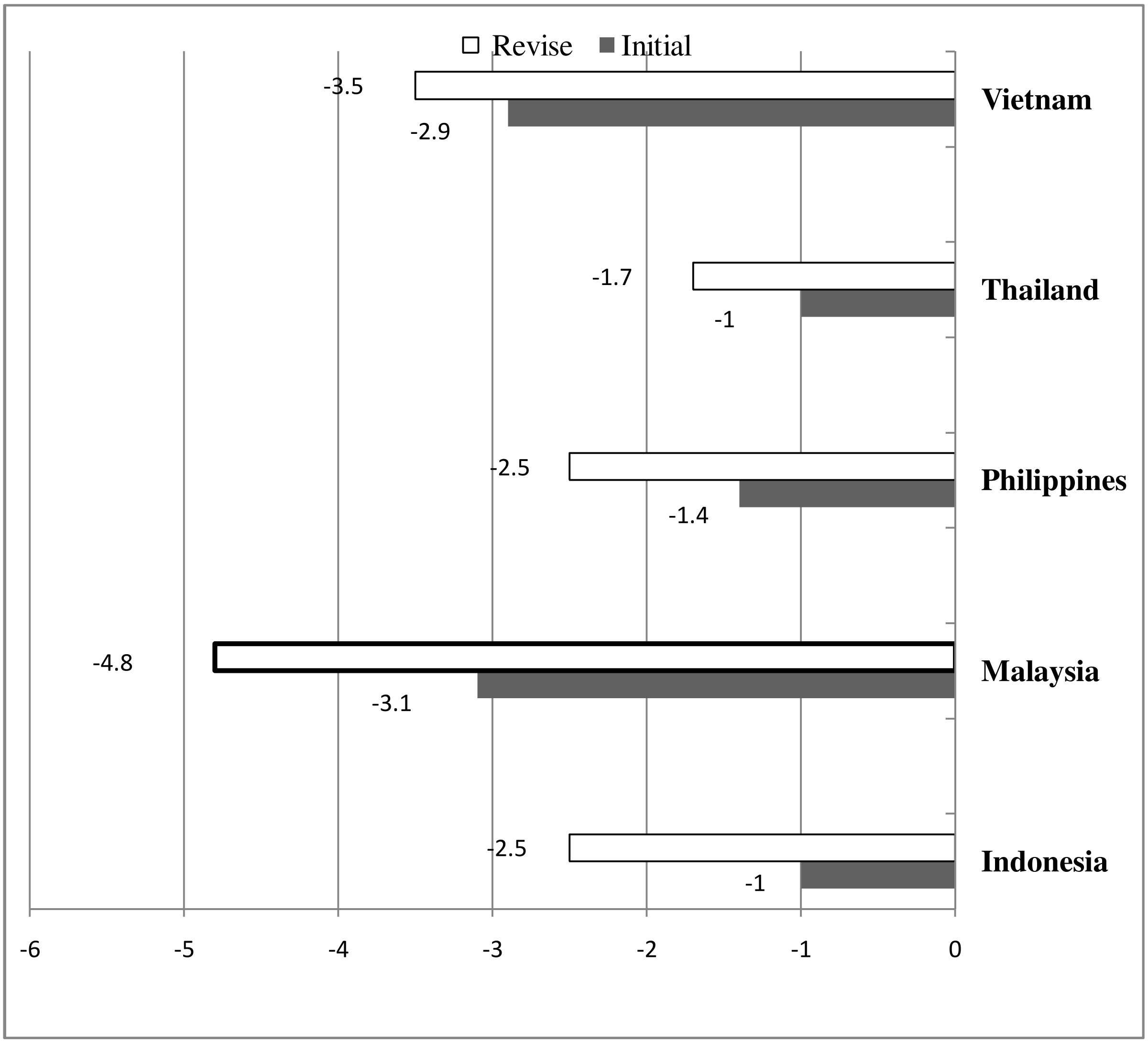
Source: Bloomberg.

Figure8: BI Rate and Lending Rate



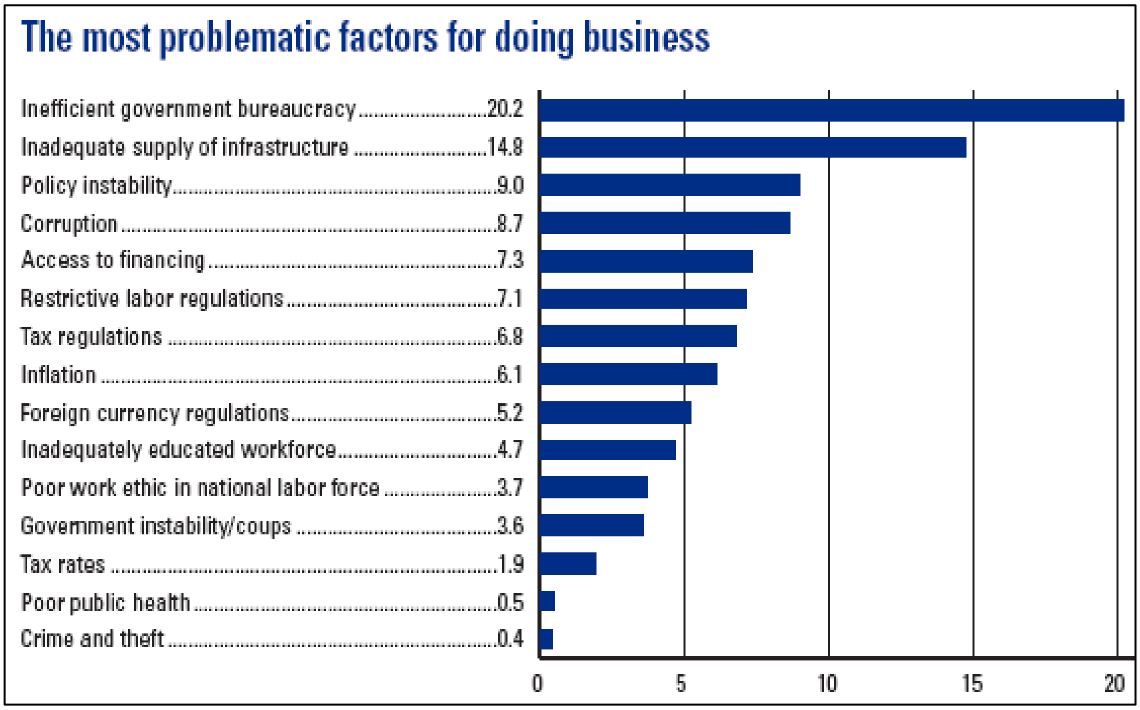
Source: CEIC Asia Database

Figure 9: Budget Deficit (in % of GDP) for 2009



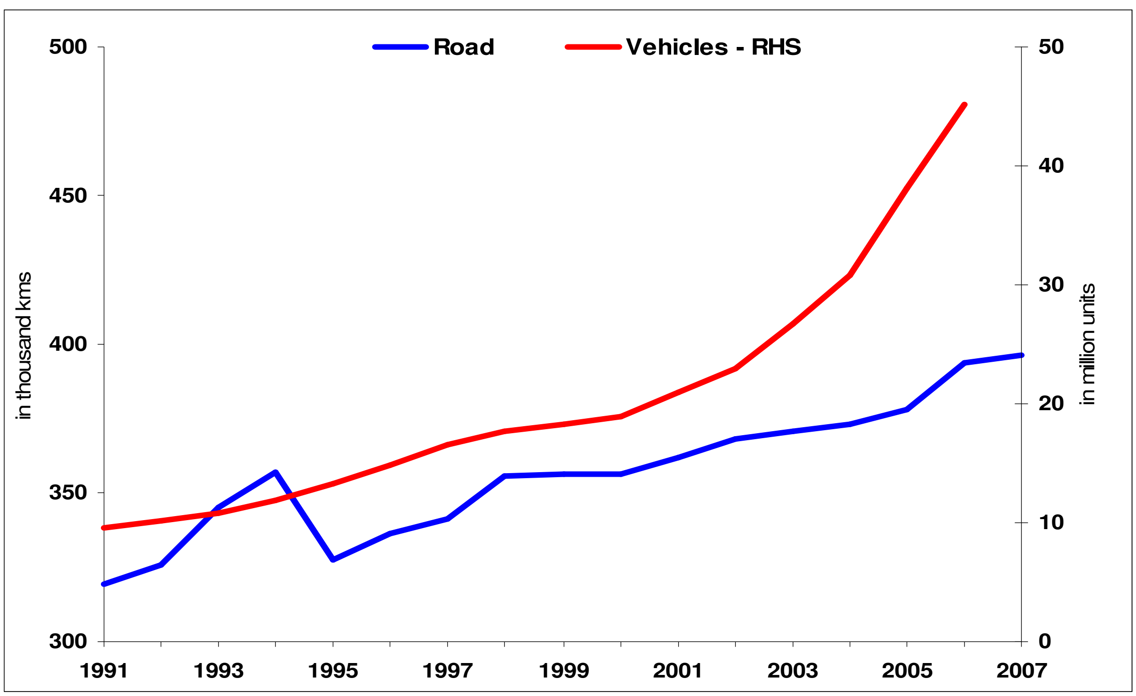
Source: Bloomberg, CEIC Asia Database

Figure10: Investors' Concerns about Doing Business in Indonesia



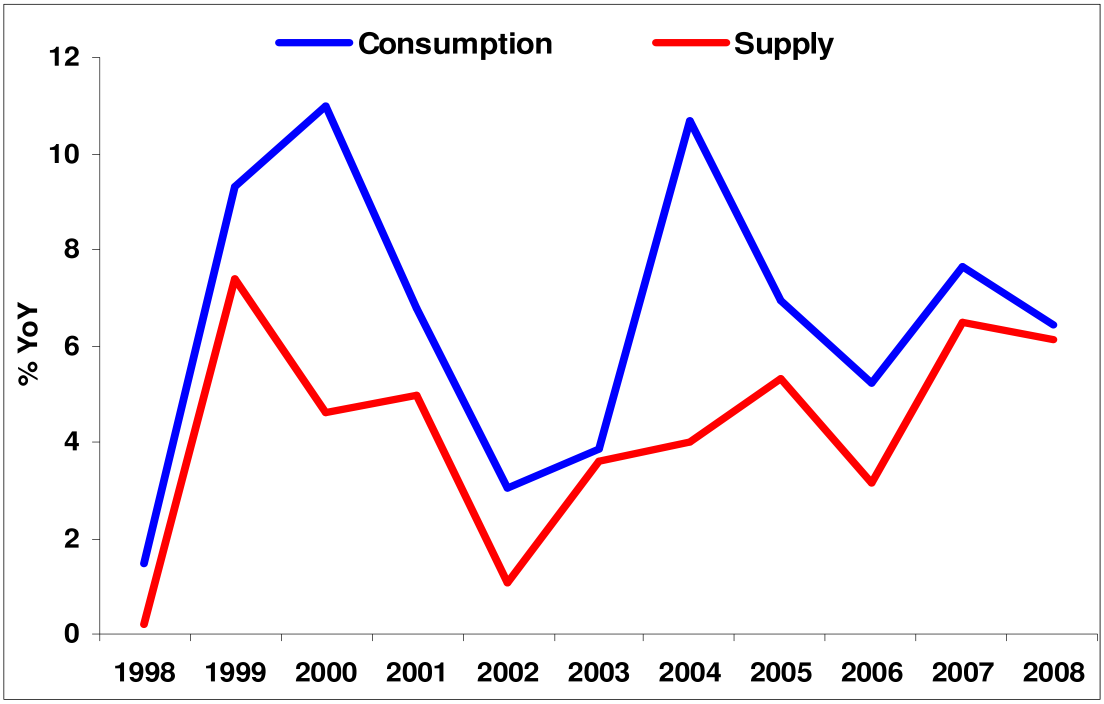
Source: Global Competitiveness Report 2009, World Economic Forum.

Figure11: Road transport infrastructure



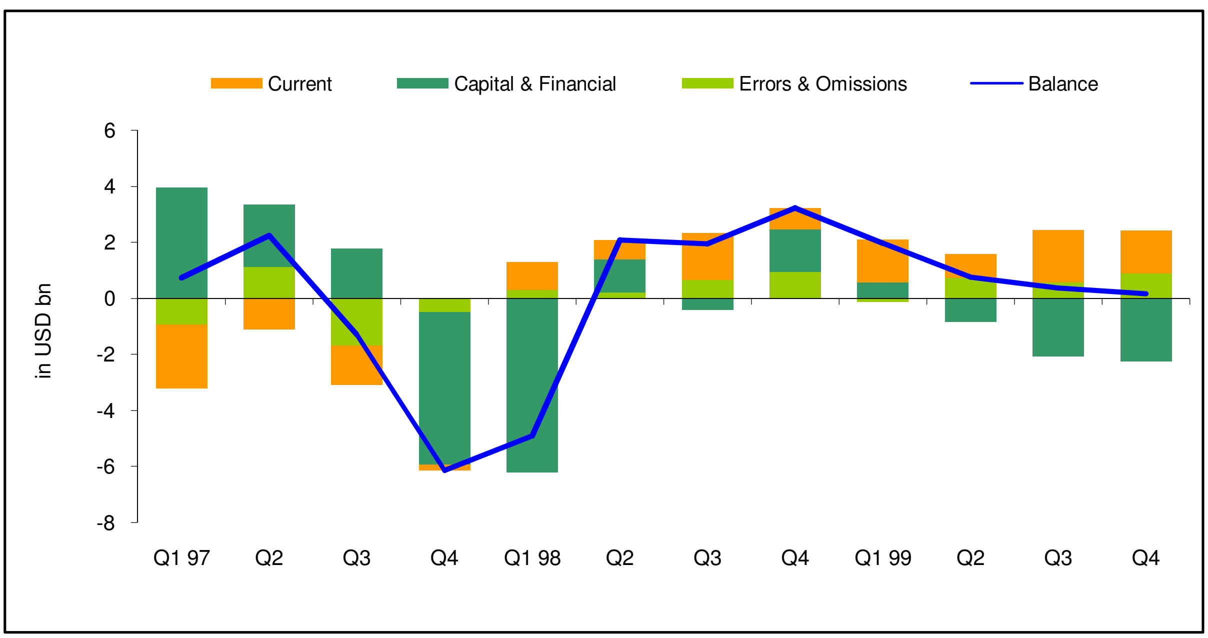
Source: CEIC Asia Database.

Figure 12: Electricity



Source: CEIC Asia Database.

Figure 13: Balance of Payment Position during the 1997 East Asian Crisis



Source: CEIC Asia database.