

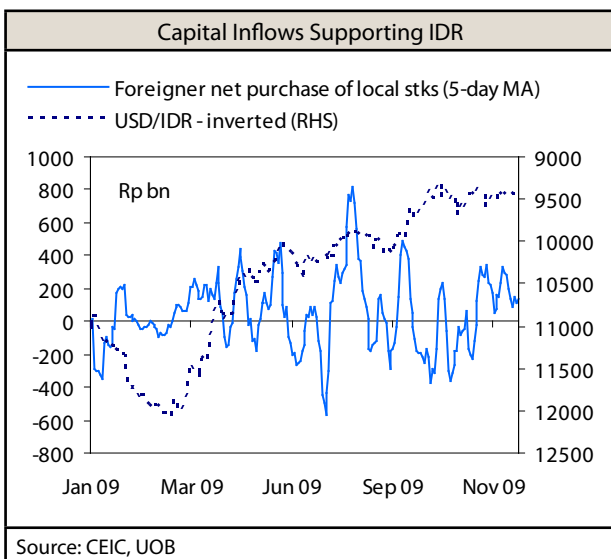
# Indonesia

UOB Economics Projections	2007	2008	2009F	2010F
GDP	6.3	6.1	4.4	5.2
CPI (average, y/y)	6.4	9.8	4.8	5.5
Unemployment (end-4Q)	9.1	8.4	8.4	8.3
Current account (% of GDP)	2.4	0.0	1.9	0.9
Fiscal balance (FY, % of GDP)	-1.3	-0.1	-2.3	-1.5

- While we remain positive on Indonesia's growth prospects into the longer-term, further downside on USD/IDR from here will be limited in the coming months. Aside from intervention risks, the strong current account position will also ease in 2010 as imports recover at a faster rate given higher commodity prices and consumer demand. Linger risks in the market such as the Greece debt issue could work against emerging market currencies including the IDR, should the concerns rise. While there could be more volatility, we are expecting USD/IDR to end slightly lower at around 9,350/USD by the end of the first quarter.
- We are expecting interest rates to rise above 5%/y in 2Q and low base effect could push the monthly CPI to above 6%/y in the later part of 2010. This could prompt the BI to begin normalising its interest rates as early as 2Q10.
- Robust growth in the first three quarters of the year indicated that the Indonesian economy is tracking full year growth of 4.4% in 2009. We expect GDP growth to rise to around 5.2% in 2010, in line with the central bank's forecast of 5.0-5.5%.

IDR was the best performing currency in Asia this year making gains of around 16% against USD YTD on the back of capital inflows due to the political stability and relatively resilient domestic economy. Current account surplus surged to US\$7.4bn in the first three quarters of 2009 compared with just US\$126mn for the whole of last year, led by strong goods balance. As a result, USD/IDR moved steadily lower from its high of 12,065 in early-March to under 9,500 for most parts of 4Q09. While we remain positive on Indonesia's growth prospects into the longer-term, further downside on USD/IDR from here will

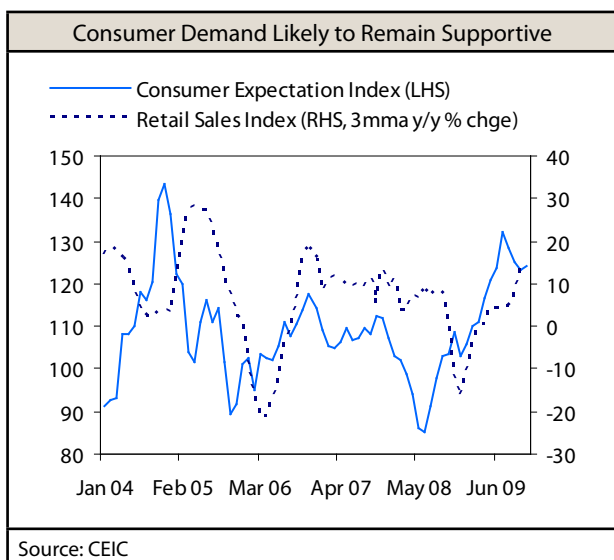
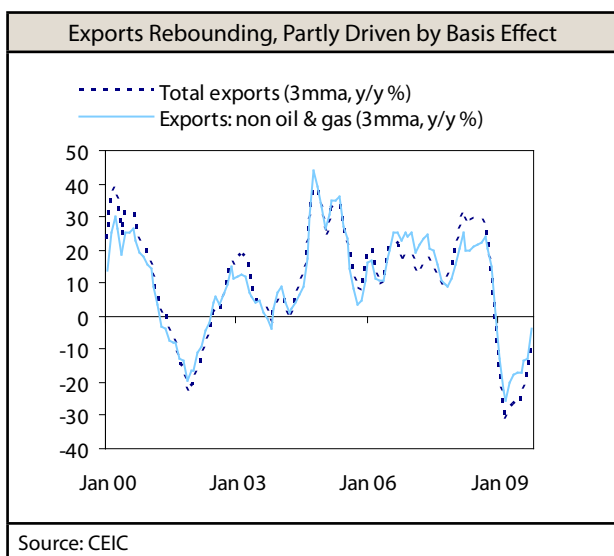
be limited in the coming months. Following the sharp strengthening in the IDR, the BI has recently said that it will try to keep the exchange rate near 9,500, on consideration for export competitiveness. Nonetheless, we do not expect the BI to implement measures to control capital inflows despite some speculation earlier that the central bank could limit foreign ownership of its short-term notes. The strong current account position will also ease in 2010 as imports recover at a faster rate given higher commodity prices and consumer demand. Linger risks in the market such as the Greece debt issue could work against emerging market currencies including the IDR, should the concerns rise. While there could be more volatility, we are expecting USD/IDR to end slightly lower at around 9,350/USD by the end of the first quarter.



### Inflation has Undershot Our Expectation

Strong IDR has kept the country's inflation rate below our expectation and under 3% since July this year. Headline inflation rate at 2.4%/y in November was the slowest pace of increase in nearly a decade. The subdued inflationary pressure should result in year-end CPI at around 3% and full-year averaging 4.8% in 2009. Going forward, we expect the headline inflation to recover towards 5-6%/y in 2Q10. Commodity prices pose some upside risk to inflation next year and one key domestic factor is whether the government will be able to push through the electricity and fuel price hike. The government and the parliament have agreed to cut the electricity subsidy in the 2010

Source: CEIC, UOB



budget.

**But a Pick-up in Inflation Rate from 2Q10 Could Trigger the Rate Normalisation**

Dovish comments and weaker-than-expected inflation

rates in Indonesia in recent months have not changed our forecast for the BI to start to tighten interest rates in 2Q10 with total move of around 125bps for the whole of 2010. BI acting governor Darmin Nasution has said that the central bank may keep its interest rates unchanged for 2010 if inflation comes in within forecast of 4.0-6.0%. We are expecting inflation rates to rise above 5%/y/y in 2Q and low base effect could push the monthly CPI to above 6%/y/y in the later part of 2010. Despite the BI's comments, we felt the 5-6%/y/y inflation rate in 2Q10 could prompt the BI to begin normalising its interest rates in order to maintain a spread of around 1-2ppt with its benchmark interest rate.

**3Q09 GDP Suggests Full-year Tracking Above 4% Growth**

Indonesia's 3Q09 GDP growth was in line with market's expectation at 4.2%/y/y, slightly higher than 4.0% growth in 2Q09. On a q/q basis, the growth momentum strengthened further to 3.9% compared with 2.4% in 2Q. The key growth driver was still consumption although both private and government spending eased in the quarter. In particular, government consumption is likely to continue moderating in coming quarters following the conclusion of the Presidential election in July. Fixed investment growth improved to 4.0%/y/y, contributing 0.9ppt to the overall growth in 3Q09. The recovery in global growth prospects would likely spur more capital investments ahead although this would take place at a moderate pace. Other encouraging signs include the easing in exports contraction to single-digit level in 3Q09 and the continued re-stocking in the country which suggests that growth in the country has started to broaden out. Exports growth returned to positive in October for the first time in 12 months as the low base effect kicked in and this meant GDP growth could strengthen further in the next two quarters on a y/y basis.

Robust growth in the first three quarters of the year indicated that the Indonesian economy is tracking full year growth of 4.4% in 2009. We expect GDP growth to rise to around 5.2% in 2010, in line with the central bank's forecast

# Indonesia

3Q09 GDP: Growth Begins Broadening Out							
	2008	3Q08	4Q08	1Q09	2Q09	3Q09	3Q09
	y/y % change						Ppt Cont
GDP	6.1	6.4	5.2	4.4	4.0	4.2	4.2
Consumption	5.9	6.3	6.4	7.3	6.3	5.4	3.5
Public	10.4	14.1	16.4	19.2	17.0	10.2	0.8
Private	5.3	5.3	4.8	6.0	4.8	4.7	2.6
GFCF	11.7	12.2	9.1	3.5	2.6	4.0	0.9
Change in stocks (as % of GDP)	0.2	0.3	-0.4	-0.3	0.3	0.4	0.1
Net Exports	7.3	9.0	25.5	12.1	22.5	39.8	3.4
Exports	9.5	10.6	1.8	-18.7	-15.5	-8.2	-4.0
Imports	10.0	11.0	-3.5	-26.0	-23.9	-18.3	-7.4
Source: CEIC, UOB							