



Maintaining Stability, Sustaining National Economic Development

2007 Economic Report on Indonesia

Economic Report on Indonesia 2007



Vision

“To be recognized, domestically and internationally, as a credible bank through the strength of our values and achievement of low, stable rates of inflation”

Mission

“To achieve and maintain price stability by maintaining monetary stability and by promoting financial system stability for Indonesia’s long term sustainable development”

Values

“Competence, Accountability, Integrity, Cohesiveness, Transparency”

“Amid increasing hefty challenges and turmoil, it is very heartening to see economic achievement in 2007. It is not an overstatement to say that there is now greater resilience in the national economy...”

(Burhanuddin Abdullah, Governor of Bank Indonesia, 2007)

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Symbols, Reporting Period, and Source of Data

Revised figures	r
Provisional figures	*
Incomplete figures	**
Data are not yet available	...
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Nil or less than the last digit	--
United States Dollar	\$ (dollar)

Reporting period is January 1, 2007 to December 31, 2007
Source of data is Bank Indonesia unless mentioned otherwise.

Board of Governors of Bank Indonesia



Above:

Burhanuddin Abdullah (Governor)

Middle 2 (left-right):

Miranda S. Goeltom (Senior Deputy Governor)

Hartadi A. Sarwono (Deputy Governor)

Siti Ch. Fadrijah (Deputy Governor)

Middle 3 (left-right):

S. Budi Rochadi (Deputy Governor)

Muliaman D. Hadad (Deputy Governor)

Below (left-right):

Budi Mulya (Deputy Governor – as of November 29, 2007)

Ardhayadi Mitroatmodjo (Deputy Governor – as of November 29, 2007)

Bunbunan E.J. Hutapea (Deputy Governor – until November 21, 2007)

Aslim Tadjuddin (Deputy Governor – until November 21, 2007)

Foreword



Burhanuddin Abdullah
Governor

The year 2007 is of particular significance in the history of the Indonesian economy, marking the tenth year since the Asian crisis. In the last decade, we have witnessed many important developments that have taught useful lessons for our journey together in building a stronger Indonesian economy at this early stage in the 21st century. In the last five years, Indonesia has passed through a transition from the depths of the multidimensional crisis to a renewed consolidation of economic development to strengthen the key foundations of our national economy. The fruits of this consolidation process have begun taking shape with the various economic achievements of 2007.

In 2007, for the first time since the Asian crisis, economic growth climbed past 6% per annum. This growth was characterized by more balanced supply and demand, reflected in the resilience in consumer spending followed by encouraging developments in investment. In fact, we are also able to point to quite strong early indications of the beginnings of resolution of the structural obstacles at the microeconomic level that have hampered progress to date.

Externally, the balance of payments posted another surplus, reinforcing the trend established over the past 3 years. Key to the positive showing in the balance of payments are inflows of portfolio capital into the financial market, foreign direct investment, net imports and net remittances from Indonesia's migrant workers. The sustained high level of non-oil and gas exports amid economic pressures in developed economies attests to the early results of diversification of export

destinations. The outstanding performance in the balance of payments over the past 4 years has created added space for financing development, built a stronger position through increased international reserves, and most importantly, helped us to maintain resilient domestic demand through net remittances from Indonesia's migrant workers.

The improved equilibrium in economic growth, the balance of payments surplus and robust international reserves at USD56.9 billion (equivalent to 5.7 months of imports and servicing of official debt) at end-2007 have contributed greatly to the stability in the rupiah, particularly in the medium and long term. At the end of 2007, the average value of the rupiah stood at Rp9,140/US\$, representing a modest appreciation from the 2006 level of Rp9,167/US\$. The stability in the rupiah provided vital support to the series of measures for achieving the national inflation target in 2007. At the end of 2007, the annual measure of CPI inflation reached 6.59%, little changed from 2006 and within the inflation targeting range established by the Government and Bank Indonesia. These stable macroeconomic conditions paved the way for Bank Indonesia to announce steady reductions in the reference interest rate. At the end of 2007, the BI Rate stood at 8% p.a., having eased 175 basis points from the end-2006 level of 9.75% p.a.

In the banking system, the year 2007 saw healthy progress in banking indicators throughout 2007, building on the upward trend under way since at least 2004. A key point to note is that our banking system at

the end of 2007 had shifted to being part of the solution to the economic problems of the nation. This contrasts with the first 5 years of the post-crisis period, when the banking system was still part of the problem. Our banking industry, now in much sounder and functioning condition, has also established itself on more robust foundations, as evident from its ability to absorb the various shocks in the economy.

These achievements are a source of tremendous encouragement, having been forged amid various trials and difficulties, both domestically such as with the repeated natural disasters that have struck our nation, and from external shocks, such as the subprime mortgage crisis. We can quite fittingly say that at the end of 2007, a deeper and more robust resilience had become embedded into our macroeconomic structures and national financial system. Similarly, without exaggerating any claims, this resilience is bolstered in many respects by growing confidence among domestic and international economic agents in the ability of our nation to formulate and implement public policy on a self-reliant basis.

Even so, in the coming years we must not allow ourselves to be dazzled by these past achievements and lapse into complacency. During the past few years, we have also witnessed fundamental changes in the dynamics of the economy, which in many ways represent the secondary effects of the rush for economic globalization. As civilization has advanced, no country in the world has been able to isolate itself or withdraw from this progress. The world economy

has moved into an accelerating transition towards a single large market, one that will inevitably give rise to excesses.

The excess now affecting us all is the global warming caused by continued accumulation of waste from production processes that is outstripping the absorption capacity of the earth's environment. The impact of this excess on those of us in developing countries is very real. Global warming has led to climate change that in recent years has begun disrupting our pursuit of economic development, with the food crops sector worst affected. Amid signs that global warming is impacting food productivity in developing nations, including Indonesia, we also face the other reality of the simultaneous escalation in energy and foodstuff prices. As is obvious, we must respond to this on very serious level, given that the impact of all this is to dash the hopes of the majority of our nation's people to better their lives and in turn kindle fears at an existential level, with fundamental questions on the context and meaning of our nationhood.

The transition in the world economy into a global market with all its excesses has also given rise to far reaching impact on human behavior in the sense of homo economicus. We can sense the changes under way in the preferences and vision of economic agents for the lives that they live in this global era. For public policy makers, these changes can be alarming. In fact, for those who have struggled long with these phenomena, it is necessary to go through a process of deconstruction and reconstruction of the various

underlying assumptions in public policy. Within this context, public policy ultimately demands wisdom, maturity, intuition and courage to take risks in the broader public interest.

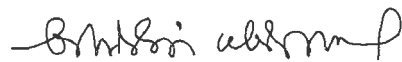
Now, ten years after the crisis and after various periods of transition, it is time for us to march forward into the coming decade with a more robust collective effort in the spirit of mutual support to expand the scope of possibilities for our nation. Indeed, this task is very

much linked to vital foundations for the advancement of human civilization. The words spoken by Bung Hatta in a speech more than 60 years ago still hold tremendous relevance for us today, as we enter the next stage in the post-Asian crisis era:

“Let us use our present moment of transition to the best of our ability to plant the seeds for the future history of our nation. This important moment will determine our destiny as a nation for centuries to come.”

(Radio speech by M. Hatta, 17 July 1946: Eleven Months of Independence)

Governor of Bank Indonesia



Burhanuddin Abdullah