Managing Capital Flows: The Case of Indonesia

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Abstract

This paper describes Indonesia's experiences in managing foreign capital flows after the 1997 financial crisis. It highlights several differences in types and magnitude of capital flows from the pre-crisis period and reviews the determinants of capital flows including government policy and regulatory framework to respond to the influx of capital flows. The paper concludes that the country's policy still focuses on ways to mobilize foreign (and domestic) capital to return in order to finance the resource gap by maintaining macroeconomic stability, improving the investment climate and enhancing prudential supervision of foreign capital flow utilization, particularly by the banking and private sectors.

JEL Classification: E52, F21, F41

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I. INTRODUCTION

A closer look at Indonesia's economy after the East Asian financial crisis reveals a mixed picture of its performance. On the one hand, various macroeconomic indicators show that the economy is doing fairly well. The government has done a good job in maintaining macroeconomic stability and sound fiscal performance: inflation is down, although it is still high for the regional standard, and the fiscal deficit is under control, slightly above 1% of GDP in 2006. In addition, the financial sector is stable with the banking sector in better shape compared to the pre-crisis period: capital adequacy ratio (CAR) remains high (around 20%) and non-performing loans (NPLs) are on a declining trend. The capital account is in surplus and foreign reserve is currently over US$50 billion.

On the other hand, GDP growth and the investment rate remain low compared to pre-crisis. Capital flows into Indonesia tumbled following the crisis and the net inflow of foreign direct investment (FDI) turned positive only in 2004. Although Indonesia had never been a favorite foreign investment destination in the way that the People's Republic of China is today, the level of FDI before the crisis was quite significant. There are a number of factors that may explain this phenomenon. One of the often-mentioned factors is the unfavorable investment climate, which, in turn, depends on a host of other factors, such as, inadequate infrastructure, lack of contractual enforcement, draconian labor regulations, etc. As for the portfolio investment, it is reported that foreign investors dominate trading in the Jakarta Stock Exchange (JSX). It seems that they have been lured in by lower dollar prices of the stocks traded there. In short, different forces and constraints are at work to channel the flows of different types of capital into various directions.

Also, as noted, 10 years after the crisis, Indonesia's investment rate is still below the pre-crisis rate (ADB, 2007). A number of factors have been identified as proximate causes for the prolonged decline of investment, e.g., a fall in the real prices of capital goods and shifts in the composition of output. While the real price of capital goods has indeed fallen in recent years, the reduction has been rendered insufficient to explain the decline of investment. As for the change in the structure of the economy, it is noted that in Indonesia, services have overtaken industry in contribution to GDP growth. Arguably, services require less investment than industry. However, a more recent claim, yet to be confirmed, suggests that the restrictive labor law mentioned above has actually driven investment away from labor intensive industries and toward more capital intensive industries.

This study has four main objectives, namely:

(i) to determine the magnitude and types of capital inflows and outflows since the crisis;

(ii) to examine the determinants of capital flows including policy and regulatory factors and behavior of different types of investors;

(iii) to analyze the uses or allocation of capital inflows to various sectors of the Indonesian economy including the financial sector;

(iv) to analyze the impacts of capital flows and current transfers on domestic liquidity, credit, exchange rate, inflation and the real sector of the economy.

To address the above objectives, we propose to do the following:

Structural change and foreign investment

The main purpose is to provide a brief review of development after the crisis. As hinted, the economy has experienced a structural change after the crisis. By decomposing the aggregate economic growth into sectoral growths, we can identify the contribution of each sector to the total growth. Meanwhile, using investment data, we will trace the flows of foreign investment into various sectors. This will allow us to see whether there is correlation between the sectoral growths and foreign investment. The idea is to see whether or not foreign investment activities are associated with high growth sectors. One potential problem is that the sectors from these two exercises may not be the same. Data on both portfolio investment and on aggregate outstanding (hence, stock and not flow) external debt of banks is available. This will allow us to examine the exposure of the banking sector to foreign debt. However, data on the allocation of short term capital is not readily available.

Capital flow management

The monetary authority has undertaken some measures to improve the management of capital flows into and out of the country. For example, people are now required to notify the relevant authority when they bring in or take out of the country a certain amount of capital. Before the crisis this was not the case. It should be noted that Indonesia adopted open capital account in the early 1970s, long before the crisis. At that time, people were not required to notify the authority when they brought capital either into or out of the country, regardless of the amount the capital in question. The rationale was that to attract foreign investment, investors needed to be assured that they were free to repatriate the proceeds from their investment activities. We will identify and assess all measures that have been adopted since the crisis to manage capital flows. In addition, we will also identify and assess policy measures undertaken at the regional level, such as the Chiang Mai Initiative (CMI), that will help the country to respond to any event of possible massive flows of capital.

Mini crisis 2005

In August 2005, Indonesia experienced a “mini crisis” when the rupiah weakened to almost Rp11800/US$, mostly due to concerns over rising world oil prices and the sustainability of the government budget to finance fuel subsidy. The Indonesian Central Bank and the Government of Indonesia (GoI) immediately issued a policy package to curb speculative moves from the domestic banking sector, to increase the Bank of Indonesia Certificate (SBI) rate and to limit state-owned enterprises’ (SOEs) (particularly, Pertamina) purchase of foreign exchange. The study will examine this period closely to make an assessment of the effectiveness of the policy responses.

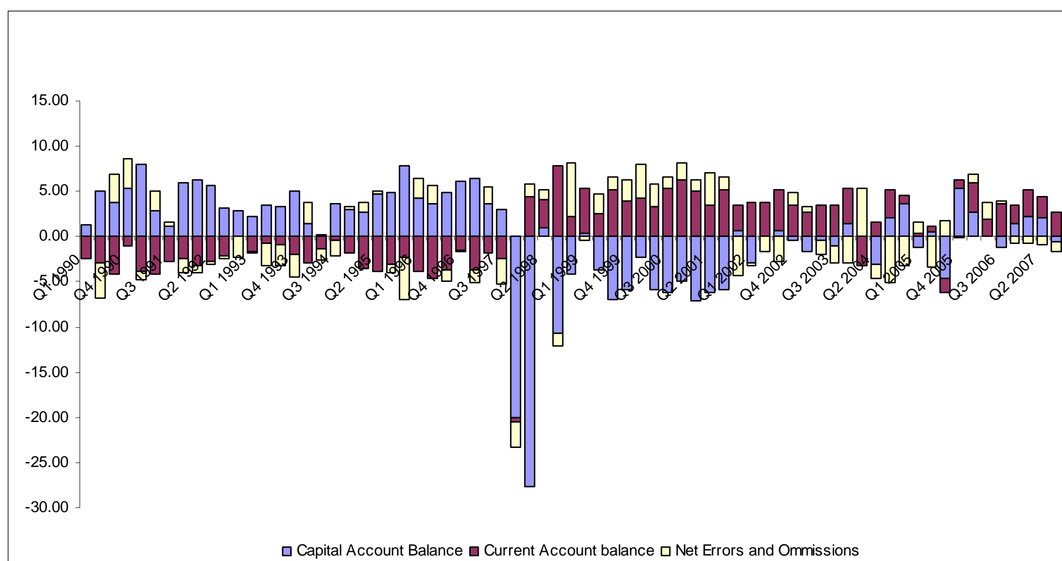
The study compiled various data sources such as from Bank Indonesia (Indonesia’s Financial Economy Statistics monthly/weekly publications), Ministry of Finance, Indonesia Stock Exchange (previously, Jakarta/Surabaya Stock Exchange) for portfolio investment data and the Central Bureau of Statistics. Since Bank Indonesia modified its balance of payments (BoP) format in 2004, previous data were taken from the International Financial Statistics (a publication of the IMF) since no compatible data could be found at the Central Bank.[1] Due to limited availability of allocation of capital flows by sectors, we use FDI data from the Investment Coordinating Board to illustrate structural changes in post-crisis economic growth. Data on allocation of portfolio investment by economic sectors is not available.

[1] Bank Indonesia modified its BOPs format in 2004.

II. POST-CRISIS CAPITAL FLOWS TO INDONESIA

After the 1997 crisis, the overall balance of payments has recorded a surplus since 2002. With exception of the "mini crisis" period in 2005, the surplus was contributed to by both current account and capital account surpluses. Since 1998, the current account was already in surplus and, recently, it has been supported by record-level exports which partly resulted from booming world commodity prices. In 2007, the current account surplus is expected to reach 2.5% of GDP (approximately US$10.8 billion). The capital and financial account remains in positive territory since 2004 due to a large surplus in public/government account, reflecting excess proceeds from government sales of securities after the government decided to make early repayment to the IMF in 2006. A small deficit was booked for capital and financial accounts in 2007 due to portfolio investment outflow that occurred during July–August 2007—at the same time that the US subprime mortgage crisis started to break. Both accounts produced an accumulated US$52.8 billion in net international reserves at the end of September 2007.

Figure 1: Indonesia: Summary of BoP, 1990–2007 (as % of GDP)



Note: Since 2004, Capital Account Balance comprised of capital account and financial account.

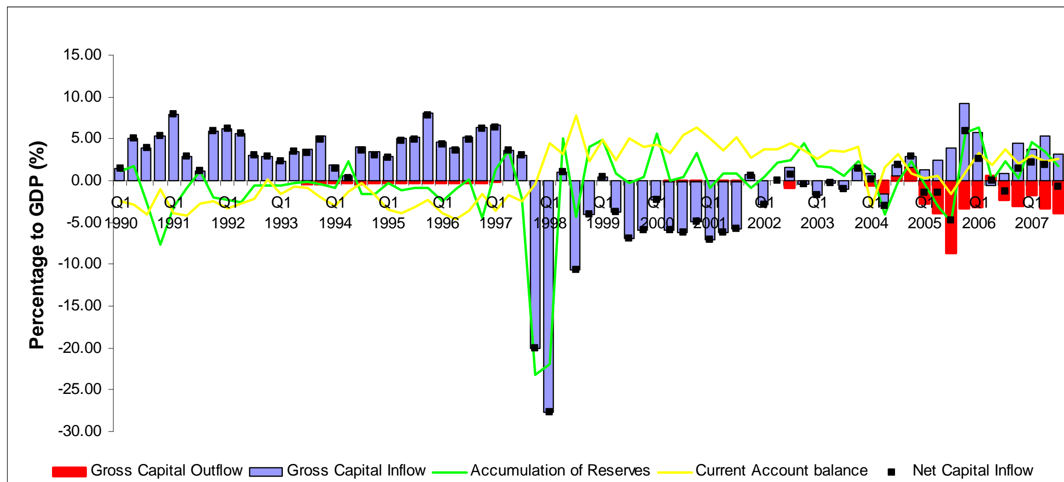
Source: IFS (IMF) and Bank Indonesia.

Looking back to the 1990s, the capital account surplus dominated the overall BoP up to the period of crisis. Both domestic demand and imports increased strongly. The current account was in deficit for most of the decade. The subsequent crisis in 1997–98 set off flight of foreign (and domestic) capital out of the country. At the same time, huge depreciation of the rupiah suppressed import demand, and, as a result, the current account has been in surplus territory since 1998.

Figure 2 demonstrates the recent buildup of foreign reserves fueled by the current account surplus and (occasionally) by net capital inflows. While the current account surplus has been more or less stable on the positive side, net capital flows have had a rather mixed performance to date. In 2002, net capital inflows recorded positive numbers for the first time in the post-crisis period. Net capital inflows slumped in the third quarter of 2005. Rising expectations that the country's macroeconomic environment would deteriorate due to its

heavy subsidy on domestic oil prices[2] resulted in significant gross capital outflow. To date, net capital inflows are still below pre-crisis level.

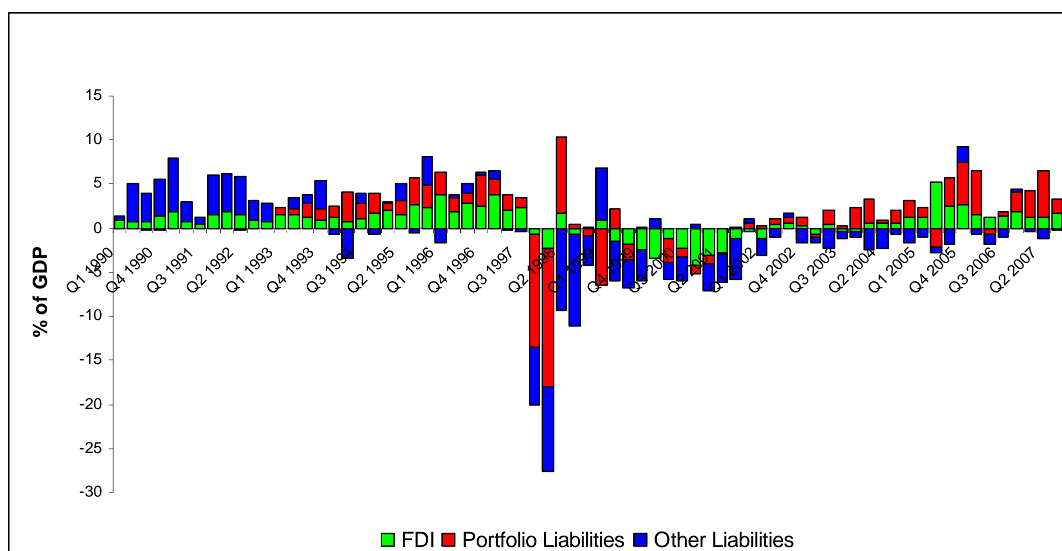
Figure 2: Indonesia: Gross Capital Flows, Current Account Balance and Reserve Accumulation (as % of GDP), 1990–2007



Source: IFS (IMF) and Bank Indonesia.

On the inflow side (see Figure 3), the dominance of other investment (external debt, loan repayment, etc. from both private and public sectors) inflows in the 1990s has been taken over by FDI and portfolio investment flows after 2005. Post-crisis portfolio investment inflow was initially recorded in 2002. Although FDI inflow started to grow in 2004 and remained more or less on a positive trend, the overall picture of capital inflows is still dominated by portfolio (and other) investment flows.

Figure 3: Indonesia: Gross Capital Inflow (as % of GDP), 1990–2007

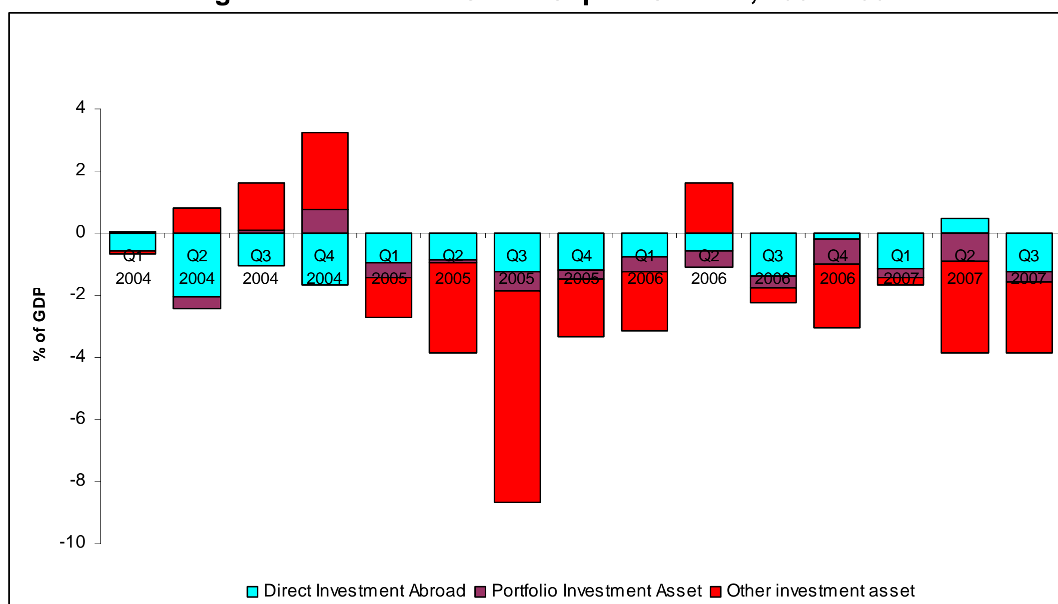


Source: IFS (IMF) and Bank Indonesia.

[2] International oil prices reached US$70/barrel in the first quarter of 2005. This created a confidence crisis toward net oil importing countries.

Gross capital outflows seemed to be recorded improperly until 2004. Figure 4 provides detailed observation that capital outflows were mainly attributed to transactions in other investment assets (records of external debt transactions from corporate and banking sectors). Sharp deficits in other investment assets in 2005 (US$10.4 billion) was due to increased assets (currency and deposits) holdings by the private sector[3] in foreign countries, particularly in the second and third quarters of 2005. Similar events took place recently, in July–August 2007, where other investment assets in the private sector increased from US$486 million (end of September 2006) to US$2.6 billion (end of September 2007). An increase in other investment assets has been detected from increased deposits in foreign countries by domestic banks (bank's nostro/foreign exchange account in foreign correspondence banks).

Figure 4: Indonesia: Gross Capital Outflow, 2004–2007

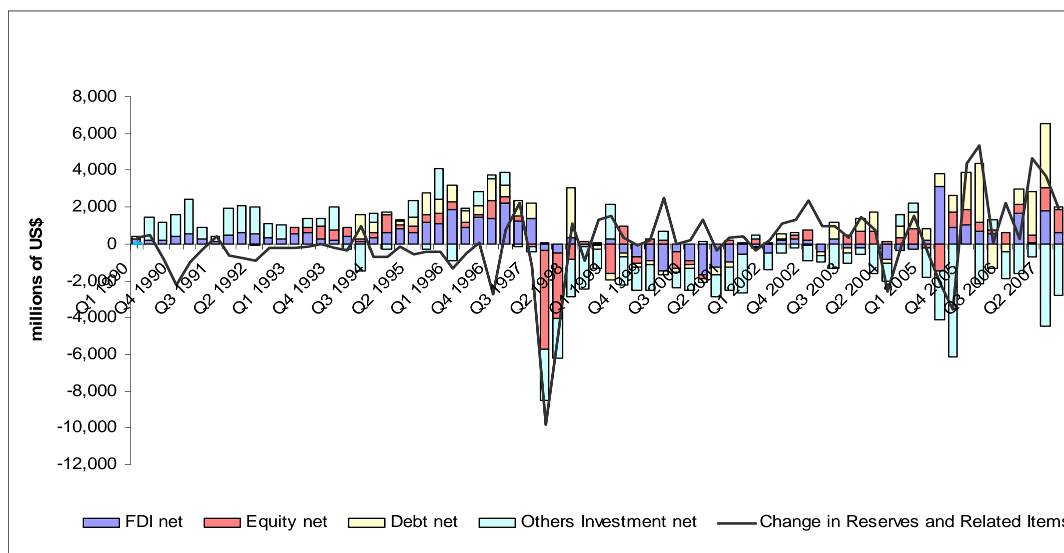


Source: IFS (IMF) and Bank Indonesia.

To examine the composition of the net financial account, Figure 5 and 6 present the breakdown of the net financial account. In the pre-crisis period, capital (and financial) account transactions depended on FDI and external borrowings (as reflected in net other investment flow). In the post-crisis period, the composition shifted more towards portfolio investment in the form of securities (equity) and bonds (debt) issued by government and corporate sectors.

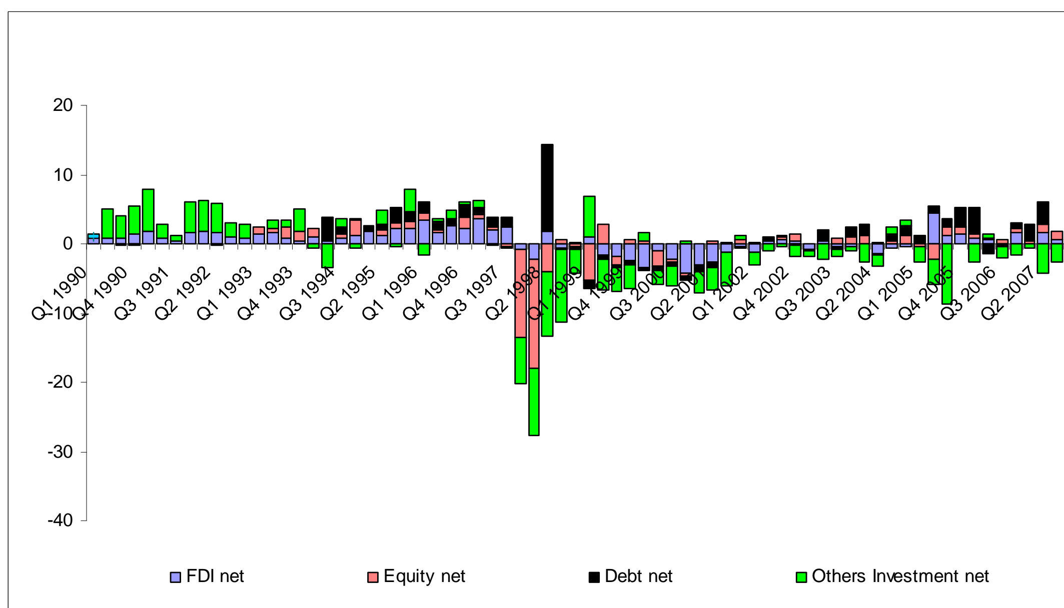
[3] Other investment assets by private sector accounts for US$9.6 billion while public sector's other investment assets amount to approximately US$850 million.

Figure 5: Indonesia: Net Financial Account (in millions of US$), 1990–2007



Source: IFS (IMF) and Bank Indonesia.

Figure 6: Indonesia: Net Financial Account (as % of GDP), 1990–2007



Source: IFS (IMF) and Bank Indonesia.

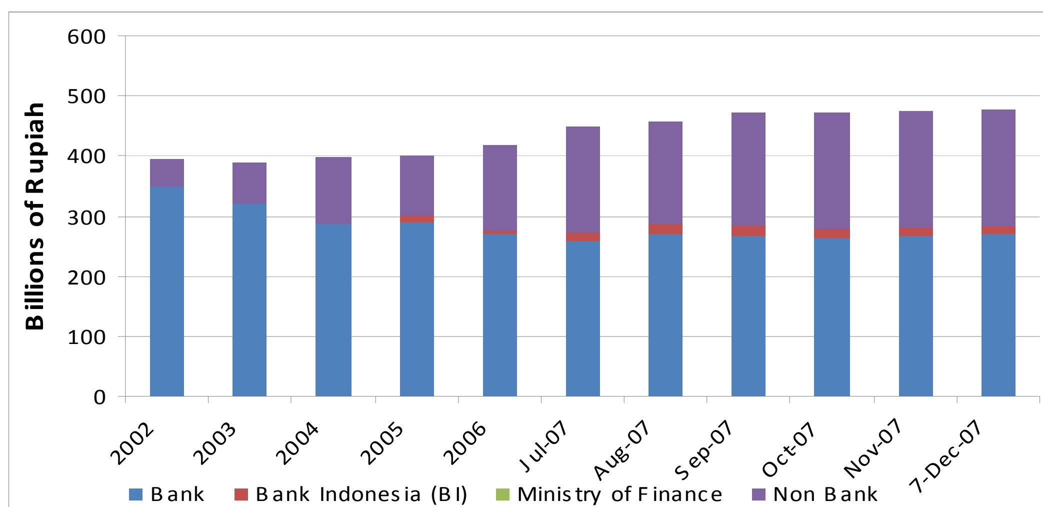
A. Public Sector Financial Account

In the public (government and monetary authority) financial account, the portfolio investment liabilities consist of government bonds (SUN) and Bank Indonesia Certificates (SBI) net purchases by foreign investors. Public portfolio investment transactions dominated the private counterpart in the overall financial account. Since their issuance in 2002, [4] Government Bonds holdings by the banking sector remained the largest, ranging between Rp259.92 billion and Rp348.40 billion for the period 2002–2007. They reached a peak in

[4] The government issued its first bonds, named “recap bonds,” to help ailing banks during the crisis.

2002 and dropped to the lowest level in July 2007. The Central Bank started taking ownership of the government bonds in 2005, in amounts ranging from Rp7.54 billion to Rp14.86 billion.

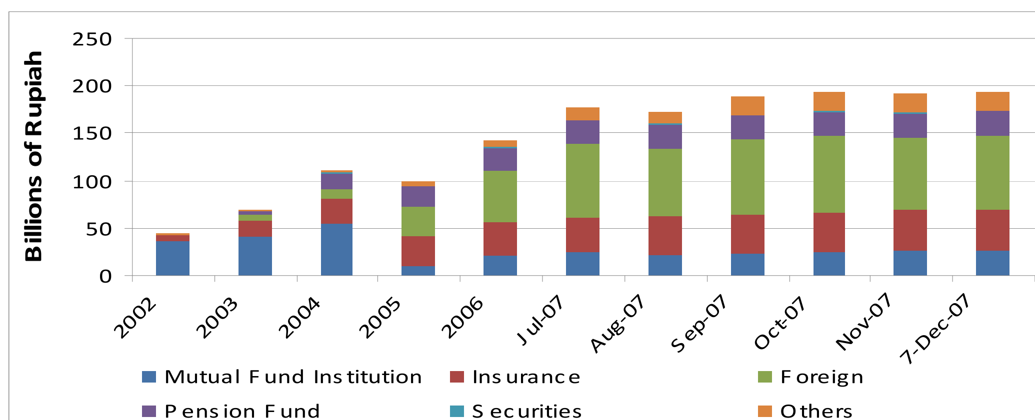
Figure 7: Government Bond (SUN) Ownership from 2002–7 December 2007 (Billions of Rupiah)



Source: Debt Management Office (DMO), Ministry of Finance Republic of Indonesia.

Figure 8 shows the Government Bond ownership by non-bank institutions from the year 2002 until 7 December 2007. Based on the figures, from 2002 until 2004, mutual fund institutions steadily held Government Bond in amounts ranging from Rp35.72 billion to Rp53.98 billion. In 2006–2007, among non-bank institutions, foreign investors have constituted the largest ownership of Government Bonds. The amount reached approximately Rp80 trillion at the end of October 2007. The purchase of government bonds to date has helped to finance budget deficits necessary to accelerate priority sector spending, mainly infrastructure, health and education.

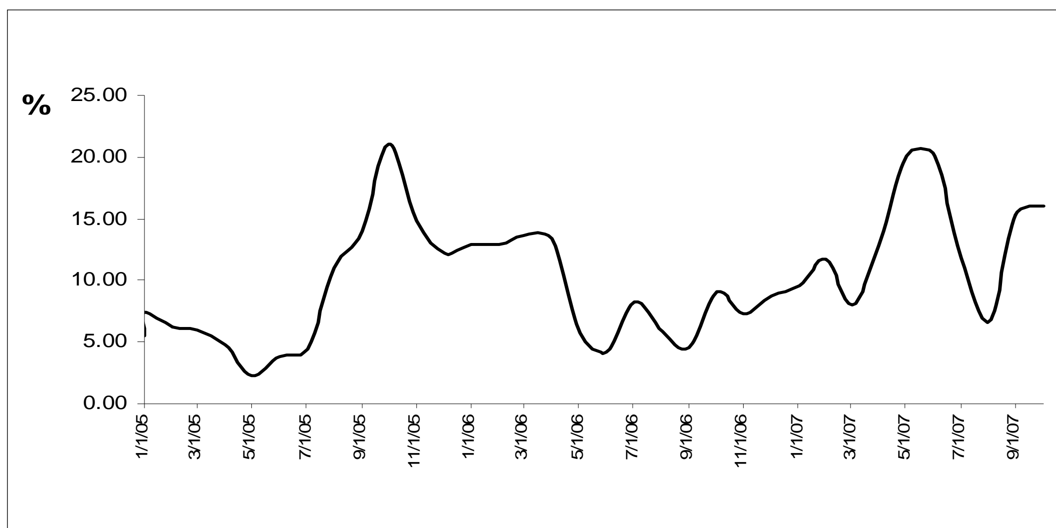
Figure 8: Government Bond (SUN) Ownership by Non-Bank Institutions 2002–7 December 2007 (Billions of Rupiah)



Source: Debt Management Office (DMO), Ministry of Finance Republic of Indonesia.

In early 2008, the Central Bank decided to cut the SBI rate from 8.75% to 8%. With inflation running 6.53% at the end of 2007, foreign ownership in SBI still managed to climb up to around Rp40 trillion (16%) out of a total Rp253 trillion.

Figure 9: Indonesia: Proportion of Foreign Ownership in SBI, 2005–2007

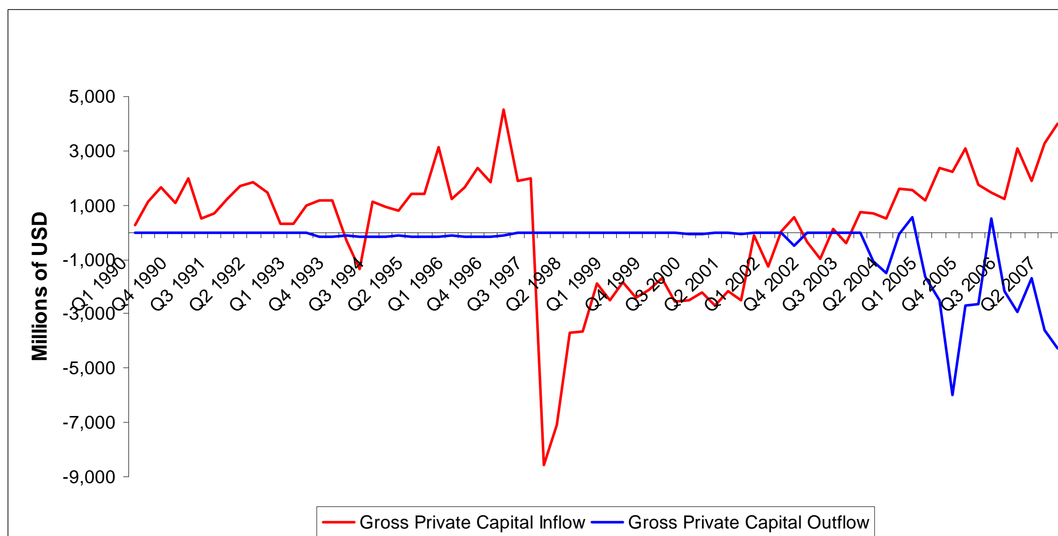


Source: CEIC.

B. Private Financial Account

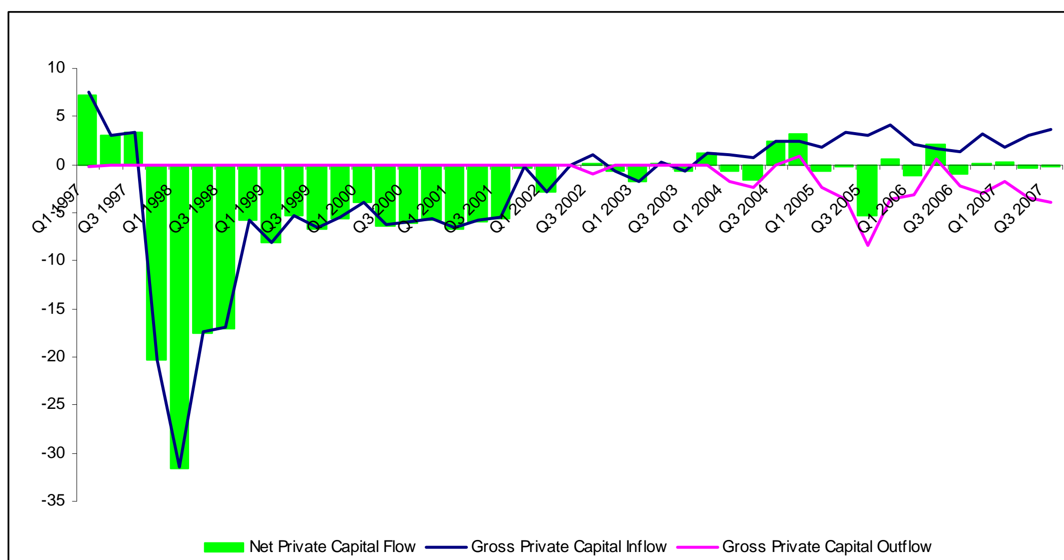
On the private sector side, the tendency since early 2007 has pointed to the offset of gross capital inflow with gross outflow—leaving a negligible amount of net private capital inflow to the country. The outflow from private financial accounts was mainly other investment assets—domestic banks' currency and deposit holdings in foreign countries.

Figure 10: Indonesia: Gross Private Capital Flows (in millions US$), 1990–2007



Source: IFS (IMF) and Bank Indonesia.

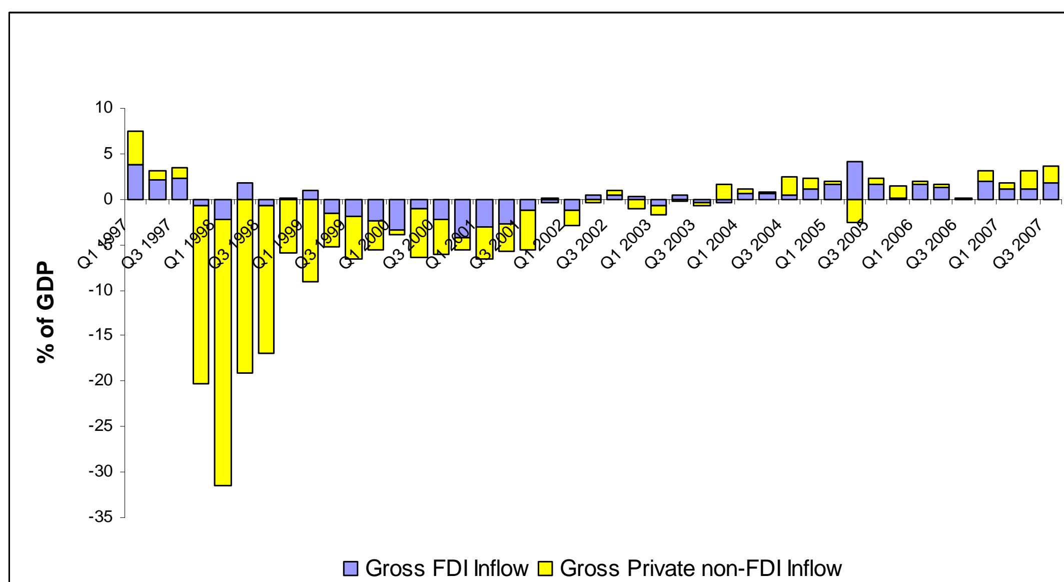
Figure 11: Indonesia: Gross and Net Private Capital Flows (as % of GDP), 1997–2007



Source: IFS (IMF) and Bank Indonesia.

More detailed analysis of the composition of private capital inflow reveals that FDI was the single largest component. Since FDI is a relatively stable part of the inflow, it certainly is good news for government efforts to build a more solid base for long-term growth.

Figure 12: Indonesia: Gross Private Capital Inflows (as % of GDP), 1997–2007



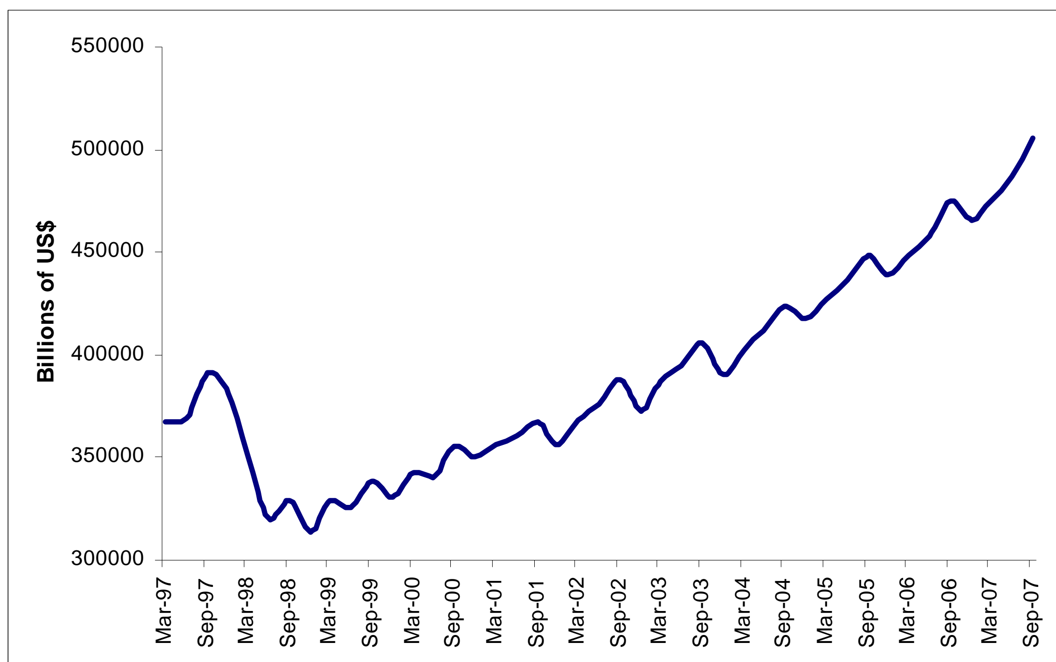
Source: IFS (IMF) and Bank Indonesia.

III. DETERMINANTS OF CAPITAL FLOWS TO INDONESIA

There are a number of "pull factors" attracting flows to Indonesia. Some are related to fundamental reasons such as improved macroeconomic position. Compared to other East Asian countries adversely affected by the financial crisis in 1997–98, Indonesia experienced the largest decline in economic growth. Year-on-year GDP growth (recorded at 4.3% in

1997) dropped 13.1% in 1998. Almost all sectors suffered output decline (most notably, construction: -36.5%, banking/finance: -34%). The collapse of the rupiah along with sharp increase in energy and food prices drove inflation up 78% in the same year. GDP growth recovered slowly in 1999, posting 0.8% in its year-on-year figure. Since then, economic growth rates started to climb and remain at the 4–5% range.

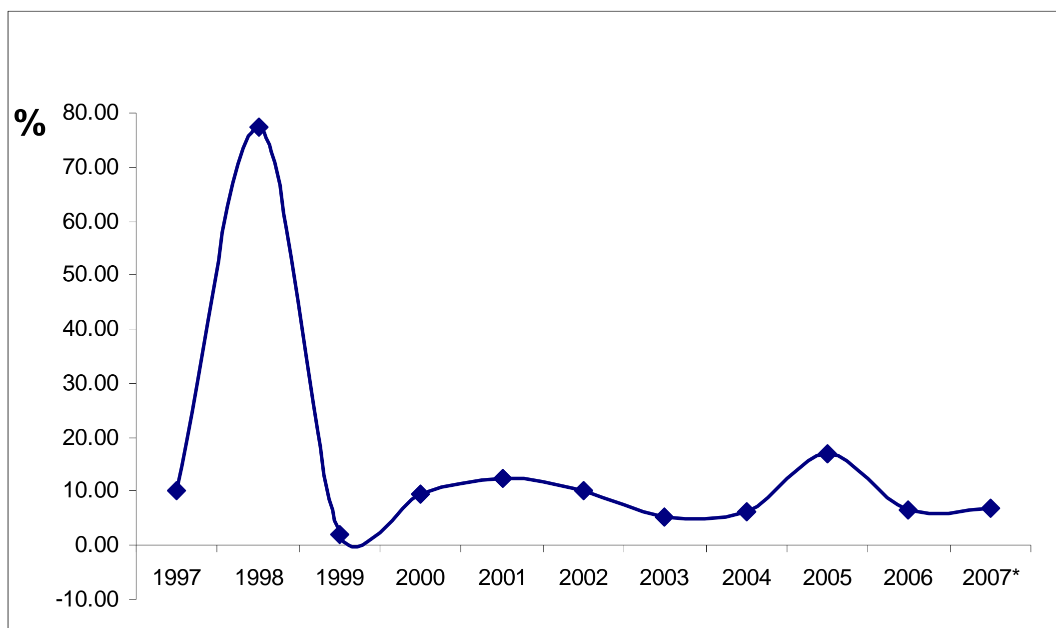
Figure 13: Indonesia: Gross Domestic Product (constant 2000 prices (Rp billion), 1997–2007)



Source: BPS.

Other macroeconomic numbers performed fairly well during the 10 year period. Inflation declined from 77.54% in 1998 to 6.4% in 2004. The inflation rate began to rise in 2005 and a 114% increase in fuel prices in October pushed the inflation rate to over 17% at the end of the year. In 2006, inflation decelerated rapidly and was back on track to record 6.6% at the end of the year. However, in 2007, there was a growing concern (again) over rising oil and food prices. Up to October 2007, the consumer price index has posted a 6.88% increase.

Figure 14: Indonesia: Changes in Consumer Price Index (%), 1997–2007

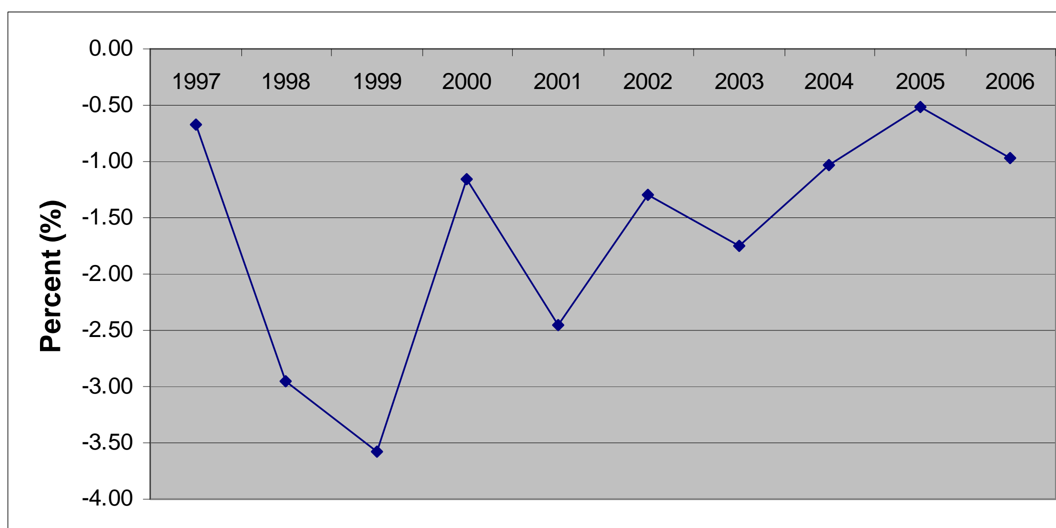


Note: * up to November 2007

Source: BPS.

In the fiscal domain, as briefly mentioned above, budget deficits continued to widen further. Fiscal deficits have narrowed from above 4% of GDP in 1998 to 0.5% in 2005. However, the deficit widened to 0.9% of GDP in 2006, and it was expected to widen further in 2007 (reaching up to 1.5% of GDP). The MoF has projected the deficits to expand to 1.9% of GDP in 2008.

Figure 15: Indonesia's Budget Deficit to GDP 1997–2006 (%)



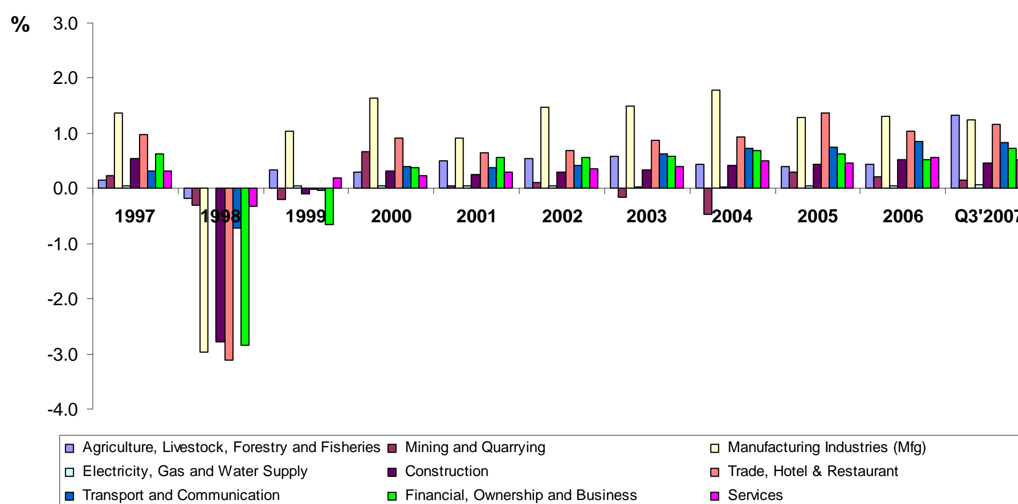
Source: International Financial Statistics (IFS), IMF.

Another "pull factor" related to macroeconomic fundamentals is reduced external debts. By the end of 2006, total external debt to GDP has declined to 33% of GDP. External debt is

currently split evenly between government and private debt. While the trend in external government debt[5] seems to be declining over the years, private debt is on the rise.

Growth in some economic sectors could also be considered a driver of another type of capital inflows: FDI. However, due to possibility of structural changes that have occurred since the crisis, the post-crisis FDI level remains at 70% of the pre-crisis level. For the decade before the financial crisis struck (1986–1996), Indonesia's annual GDP growth exceeded 8%—driven mainly by growth in industry (including manufacturing, mining manufacturing, utilities and construction) that contributed to more than 47% of output. The manufacturing industry alone contributed 31%. Agriculture and service sectors contributed 9.5% and 43.2%, respectively (Hayashi, 2005). Post-crisis period (1997–2006) data on sectoral sources of GDP growth demonstrates that agriculture, industry and the services sectors contributed 15.3%, 37.5% and 47.2%, respectively, to GDP growth. The services sector has overtaken industry as the largest contributor to GDP growth.

Figure 16: Indonesia: Sectoral Contribution to GDP Growth, 1997–2007



Source: BPS.

Table 1: Indonesia: Sectoral Sources of Growth, 1997–2007 (%)

Source of Growth	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Q3'2007
Agriculture, Livestock, Forestry &Fisheries	0.14	-0.19	0.34	0.30	0.51	0.54	0.58	0.43	0.40	0.43	1.33
Mining and Quarrying	0.24	-0.30	-0.20	0.66	0.04	0.12	-0.15	-0.48	0.30	0.21	0.16
Manufacturing Industries (Mfg)	1.36	-2.98	1.04	1.64	0.92	1.46	1.49	1.79	1.30	1.30	1.25
Electricity, Gas and Water Supply	0.05	0.01	0.05	0.04	0.05	0.06	0.03	0.03	0.04	0.04	0.08
Construction	0.55	-2.79	-0.11	0.31	0.25	0.30	0.34	0.43	0.43	0.53	0.46
Trade, Hotel & Restaurant	0.99	-3.12	-0.01	0.91	0.64	0.69	0.88	0.93	1.37	1.03	1.16
Transport and Communication	0.32	-0.71	-0.03	0.39	0.38	0.41	0.62	0.73	0.76	0.85	0.84
Financial, Ownership and Business	0.63	-2.84	-0.65	0.38	0.56	0.57	0.59	0.68	0.62	0.52	0.73
Services	0.31	-0.33	0.18	0.22	0.30	0.35	0.41	0.49	0.47	0.57	0.52
Total GDP Growth (with 2000p)	**4.59**	**-13.24**	**0.61**	**4.86**	**3.64**	**4.50**	**4.78**	**5.03**	**5.68**	**5.48**	**6.52**

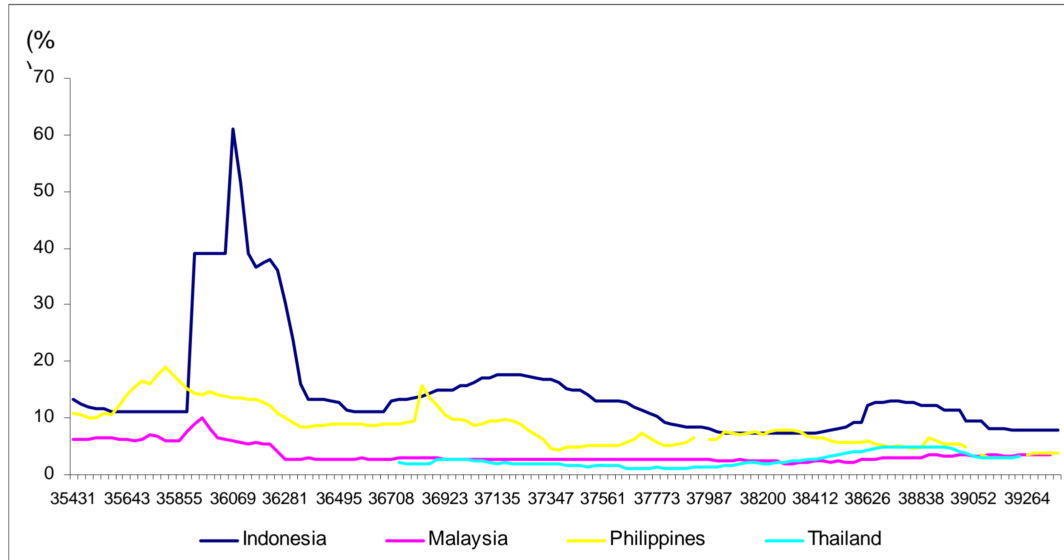
Source: BPS.

Since industry (a comparatively more capital-oriented sector) has had a slower growth rate after the crisis (services sector growth has been higher in the post-crisis period), it is safe to expect a lower investment ratio than the ratio in the pre-crisis period.

[5] Including official development assistance (ODA), non-ODA and commercial securities held by non-residents.

Another "pull factor" has to do with the short-term profit-making opportunity due to high interest rate in Indonesia. Figure 17 shows interest rates on each country's three-month (comparable) T-bills.

Figure 17: Treasury Bills, 90 days (%pa)

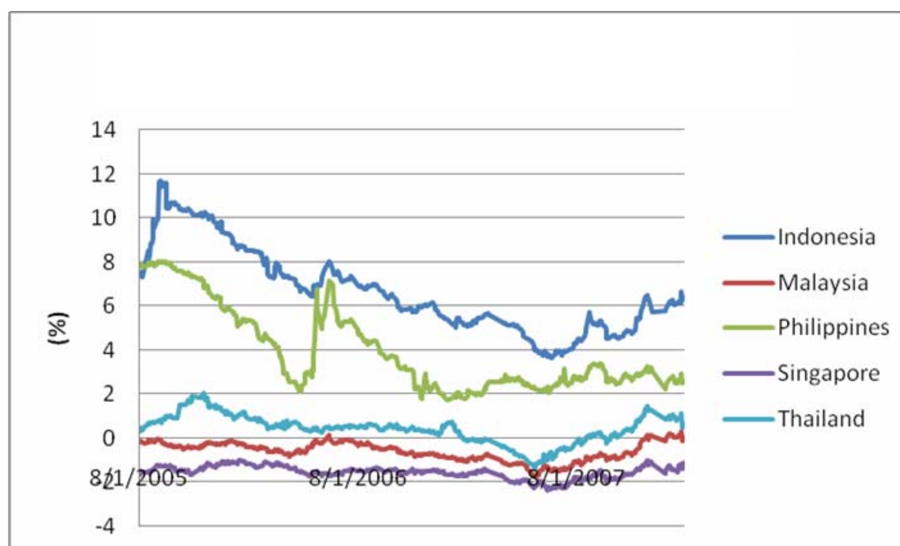


Source: Bloomberg.

Since the crisis hit Asia in 1997, almost all economies in Asia have had to overcome its deteriorating exchange rate to the dollar. The domestic interest rate (90 days) was kept at a very high rate, particularly in Indonesia. In the beginning of 1997, the rate was around 12% before it rose dramatically to a level 39% in the middle of 1998. The rate was raised to 61% in late 1998. Later, the rate fell sharply to 36% in April 1999 before it declined again to a level of around 13% in August 1999, similar to the period before the crisis.

Compared to other economies in Southeast Asia, particularly Malaysia, the Philippines, Singapore, and Thailand, Indonesia offered the highest yield in the domestic-currency investment from 1997 to the end of 2006.

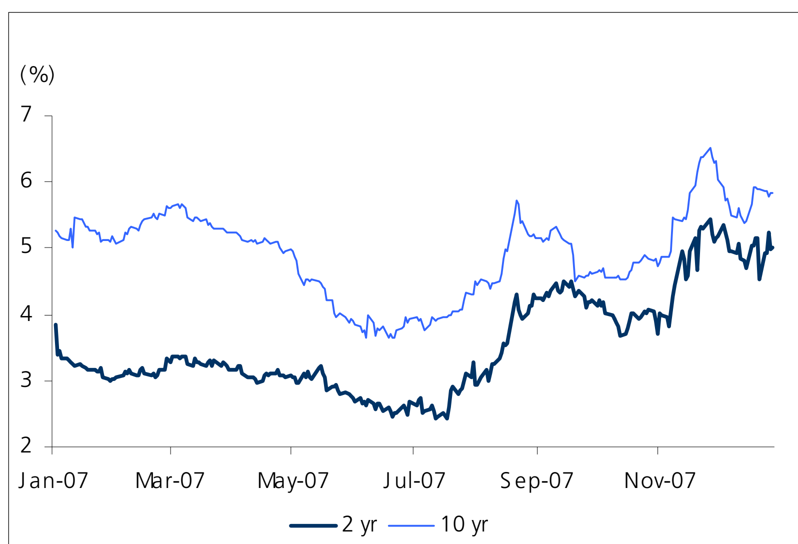
Figure 18: Yield Spread of Government Bonds ASEAN 5 to US T-Notes (10 years)



Source: Bloomberg.

During 2007, the yield spread between the Indonesia global bond and the US T-Notes for the two-year tenor stood at around 3% from January to May, before it fluctuated slightly and landed at 5.7% in November 2007. Meanwhile, the 10-year tenor spread between the Indonesia global bond and US T-Notes was higher than the two-year tenor, but it experienced a similar spread trend to that of the two-year tenor. A higher yield provided incentive for foreign investments.

Figure 19: Yield Spread Government Bond ID–US T Notes (%)



Source: Bloomberg.

IV. IMPACT OF CAPITAL INFLOWS TO FINANCIAL AND REAL SECTORS

Foreign capital inflows can have substantial macroeconomic and financial benefits. The inflows could provide investment funding for capital-constrained countries. In the long-term, inflows, particularly in the form of FDI, could speed up transfer of technology and managerial

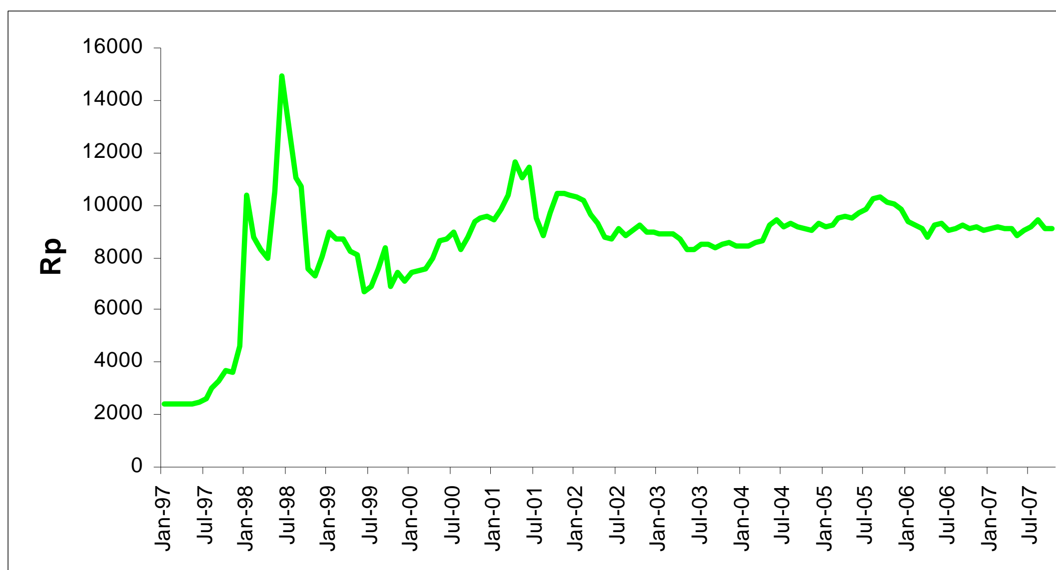
practices in order to create strong domestic productivity. However, large capital inflows produce difficulties in managing macroeconomic stability due to the pressure on domestic currency appreciation and demand-induced inflation. This could reduce the country's competitiveness.

Below are some macroeconomic implications of capital flows in Indonesia.

Exchange Rate Movement

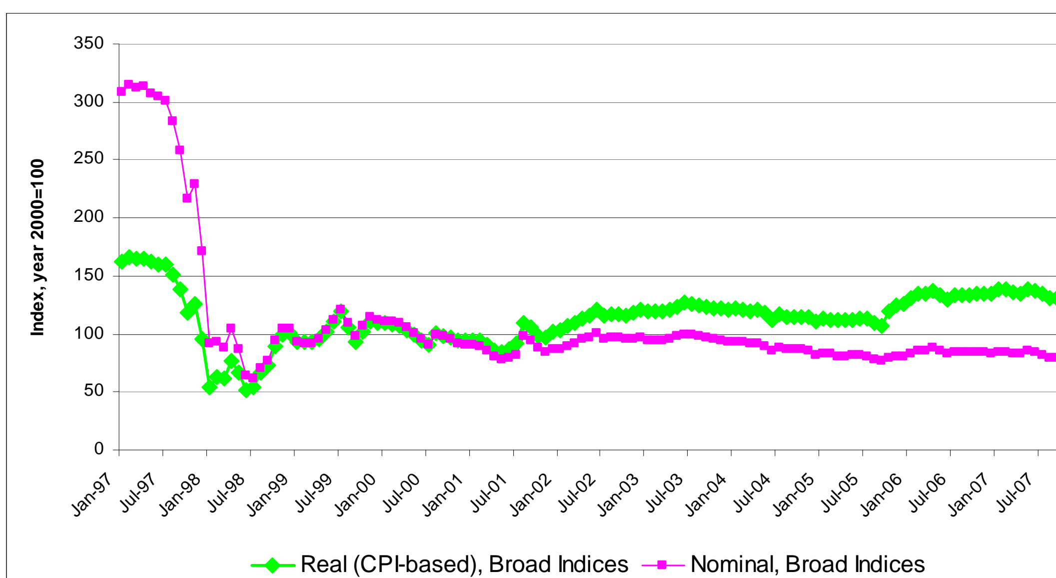
Since net capital inflows were detected in 2002, the rupiah has actually appreciated in real terms by approximately 6%. However, recently, the rupiah has been pressured downward due to capital outflows (with reasons discussed in previous section).

Figure 20: Indonesia: Exchange Rate Movement, 1997–2007



Source: Bank Indonesia.

Figure 21: Indonesia: Real Effective Exchange Rate, 1997–2007

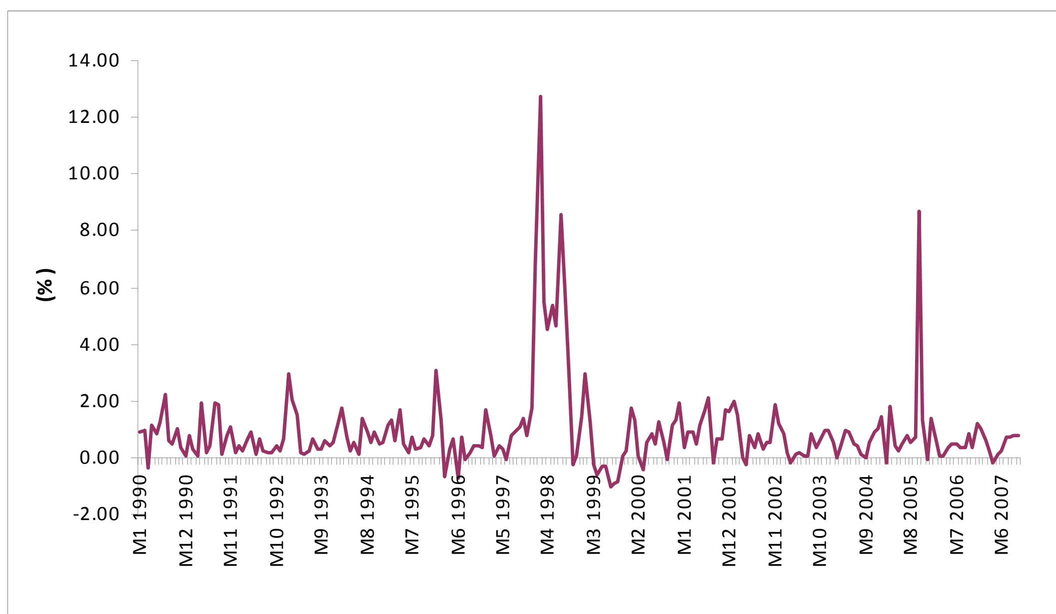


Source: BIS.

Inflation

Inflation rates have lingered on a rising trend. However, the rising trend is not due to demand-induced pressure (which, if any, has been put off by tight fiscal policy implemented by the government) as suggested in the event of large foreign capital inflows. The supply-side pressures (increasing international commodity prices and problems in real sectors such as high-cost economy, lack of infrastructure and labor problems) have been pointed to as the culprit. These problems already created difficulties in channeling excess liquidity in the domestic economy. Efforts to increase intermediary functions of the banking sector have been very complicated so far.

Figure 22: Indonesia: Month-to-Month Change in Consumer Price Index, 1990–2007

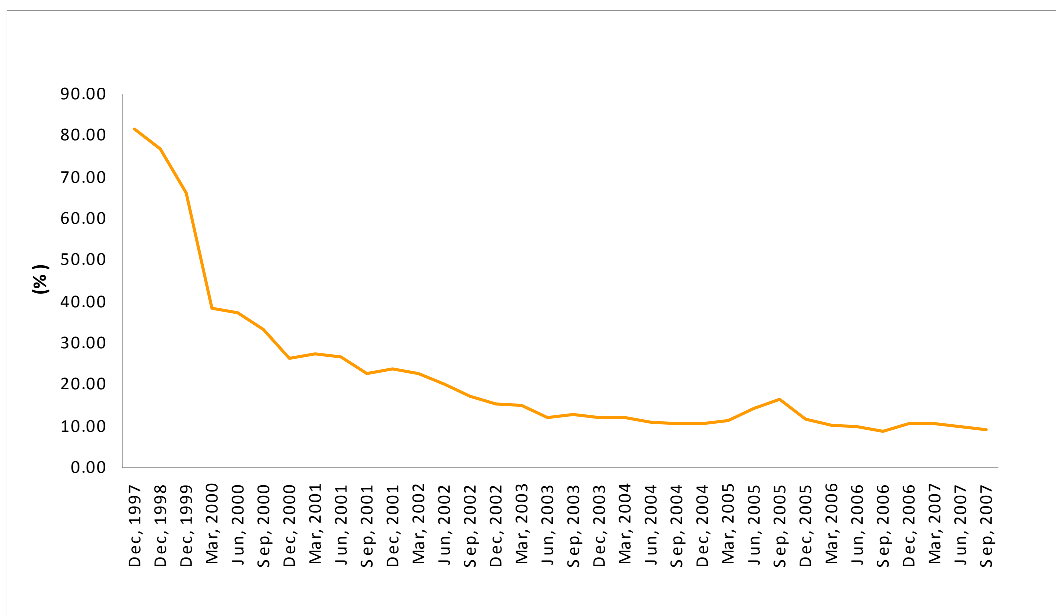


Source: IFS (IMF) and Bank Indonesia.

Banking Sector

Capital inflows contributed to increased exposure of domestic banks to foreign exchange risk through external debt and (indirectly) through accelerated credit growth. At the end of September 2007, the outstanding external debt to banks stood at 1.2% of GDP (note: the ratio of outstanding external debt to the GDP was approximately 32% in the third quarter of 2007, divided into private sector external debt—13.3% of GDP and the government's 19% at the same time). Outstanding external debts to banks showed declining trends, both by proportion to GDP and to outstanding international reserve (Figure 23).

Figure 23: Indonesia: Outstanding External Debt to Private Banks/International Reserve, 1997–2007



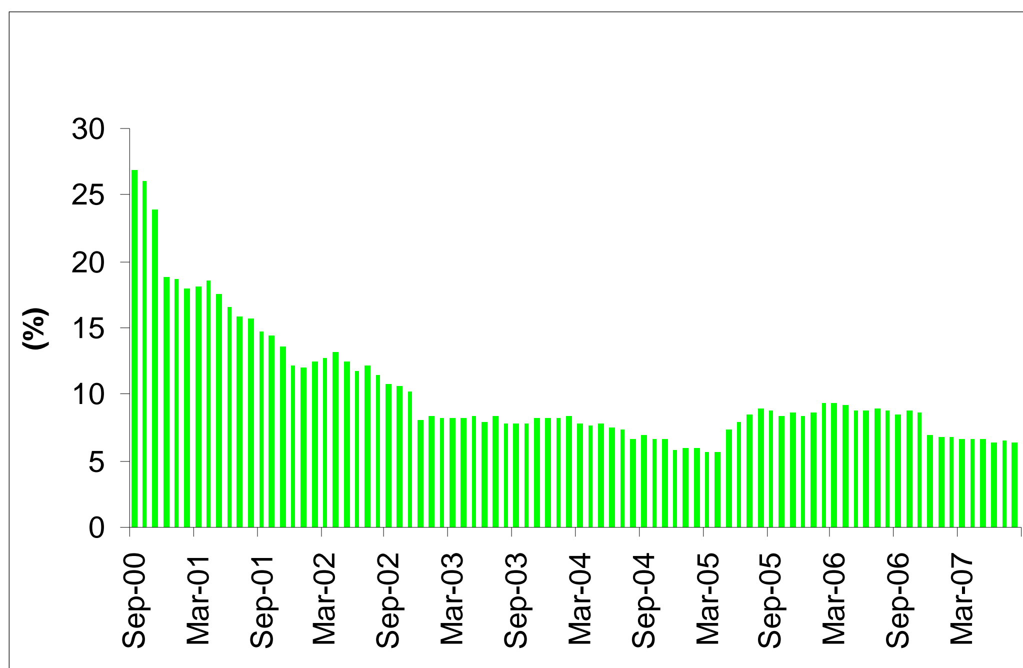
Source: CEIC

Figure 24 illustrates commercial bank loan growth that has been on the rise. Gross NPLs tended to be stable and declining. Post-crisis restructuring in the banking sector is expected to build more robust banks. There have been considerable improvements in financial ratios for the banking sector since the crisis.

Figure 24: Indonesia: Banks' Commercial Loan Growth (% y-o-y), 1992–2007

Source: CEIC.

Figure 25: Indonesia: Gross NPLs of the Banking Sector, 2000–2007



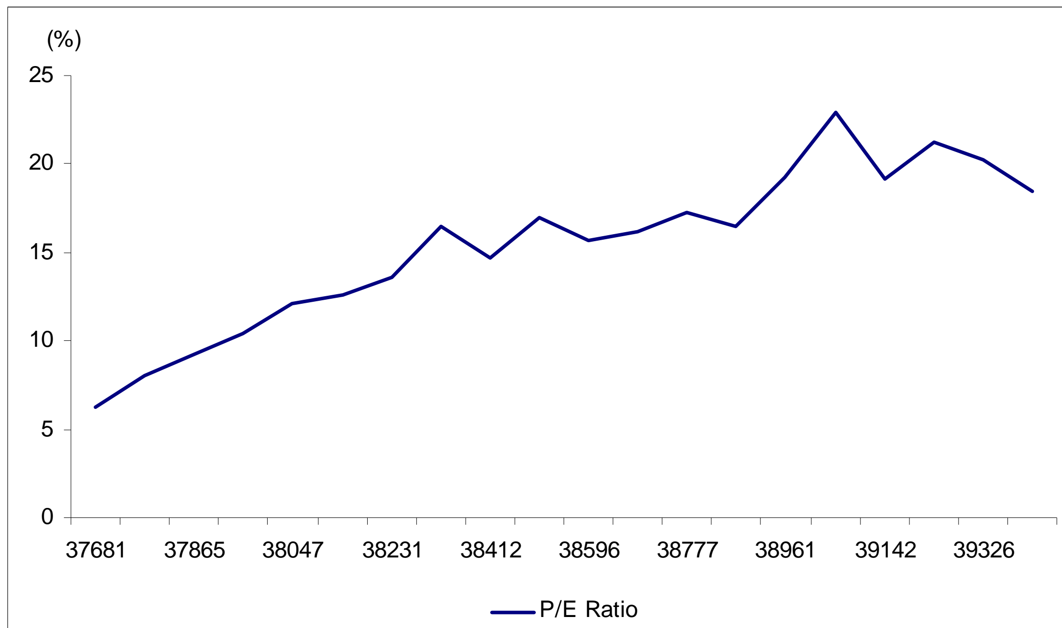
Source: CEIC.

Asset Prices

Large capital inflows could result in inflated asset prices. One of many indicators of inflated asset prices is the stock market price index. The increasing trend of the JSX Index reflected a surge in Indonesian stock prices, particularly after 2004. Last year, the JSX Index grew 52%. On one side, macroeconomic fundamentals provided strong support to the increase of the JSX index. But on the other side, corporate sector growth (the micro foundations) has not been strong enough to actually create a very bullish trend in stock prices. Figure 25 and 26 demonstrate that growth in listed companies' Price Equity Ratio (the PER) for December 2007 was approximately 18.5) could not entirely keep pace with the soaring JSX Index.

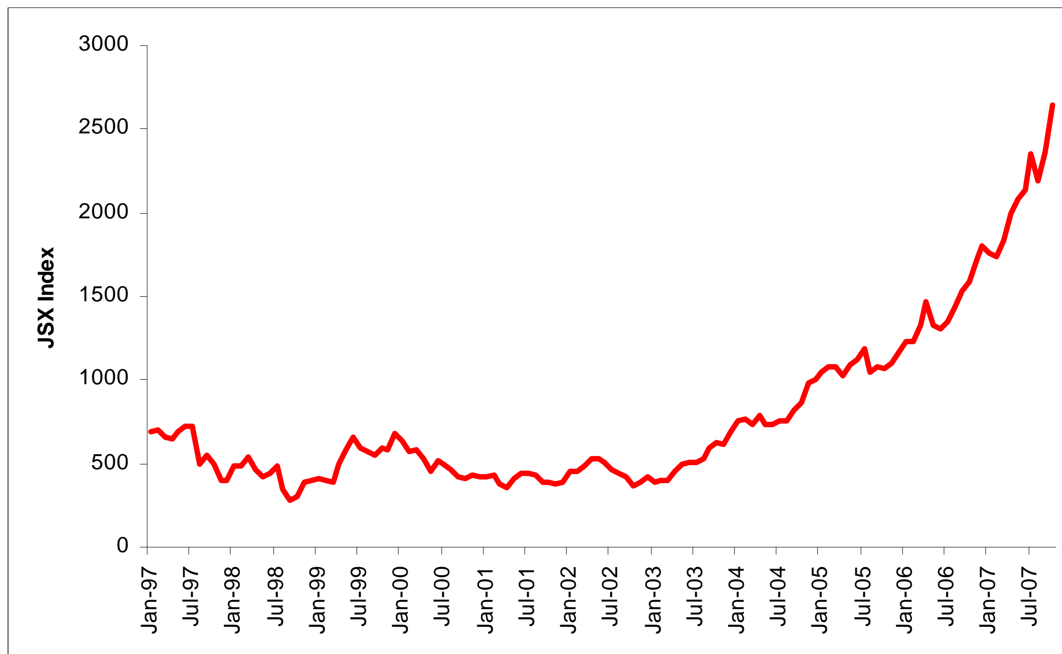
Surely, these numbers might not necessarily indicate that asset bubbles have been established and would burst anytime soon. However, the short-term nature of portfolio investment generates concerns that it could be drawn out of the country quickly and lead to the collapse of asset prices and depletion of reserves.

Figure 26: Indonesia: JSX Price-to-Equity Ratio, 2003–2007



Source: JSX.

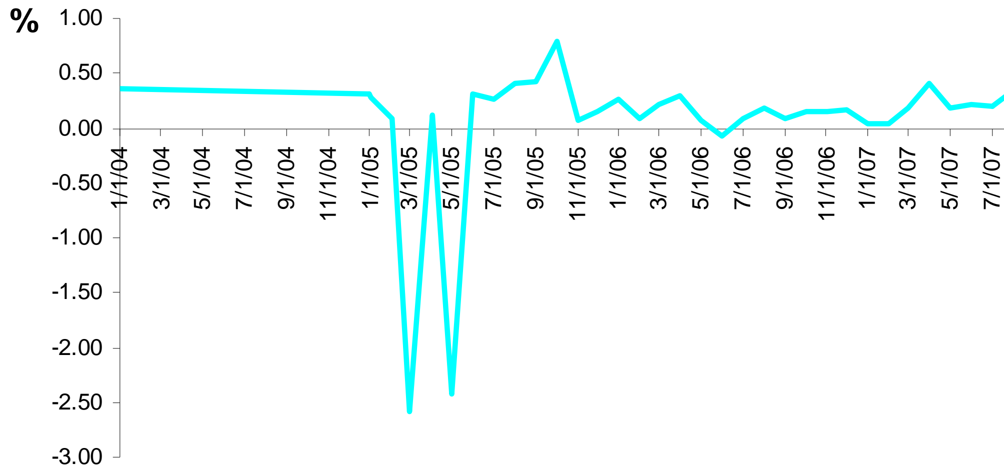
Figure 27: Indonesia: Jakarta Stock Exchange Index, 1997–2007



Source: JSX.

Domestic investors occupied a more dominant position than foreign investors. Figure 27 shows that the proportion of foreign net buy (to market capitalization) in the JSX remains a small positive number.

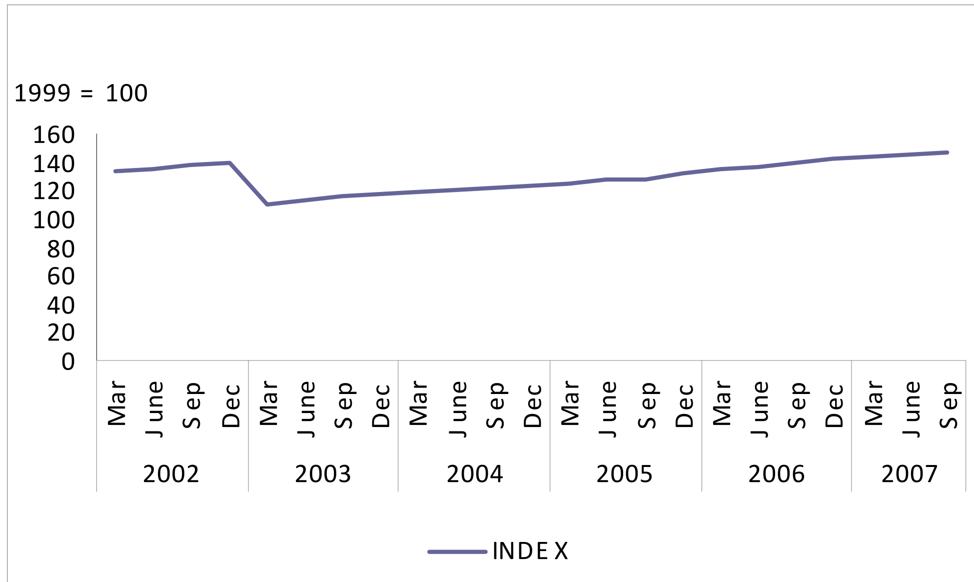
Figure 28: Indonesia: Proportion of Foreign Net Buy to Market Capitalization in JSX



Source: CEIC, JSX.

Another indicator to check inflated prices is the property price index. The Central Bank has conducted a quarterly property survey since 1999. Figure 29 shows that property prices have gradually (less than 10%) moved up. According to the survey, the increase has been attributed to higher prices of materials and the high cost of obtaining a construction license.

Figure 29: Indonesia Residential Property Price Index, 2002–2007



Source: Property Survey, Bank Indonesia.

V. POLICY RESPONSES

After hard lessons from the crisis, the government has worked on Indonesia's macroeconomic fundamentals and tightened financial sector regulation and supervision, including progress on regulatory changes in the banking sector (with regards to credit provisioning, capital adequacy and foreign exchange exposure risk). Coupled with a more flexible exchange rate regime, Indonesia has become less vulnerable to external shock such as that which occurred during 1997–98. The latest financial crisis (the US subprime mortgage problem) that has brought trouble to two major world financial institutions (Citicorp and Merrill Lynch) as of October 2007 appeared to have only small impacts on domestic financial markets, partly due to strong macroeconomic fundamentals and sound financial and corporate sectors.

Responding to the influx of capital flows, Indonesia did not opt for capital control measures. Besides being quite confident about its macroeconomic fundamentals and significant amount of reserve accumulation, Indonesia has improved prudential regulations[6] and supervision[7] as well as upgraded corporate governance regulations and practices. With regards to foreign exchange market, the Central Bank has moved to limit Rupiah Transaction and Foreign Exchange Credit (see Bank Indonesia Circular Note No. 7/23/DPD/2005) in order to restrict speculative movement. In addition to these policies, the authority decided to proactively develop financial markets and instruments to avoid heavy concentration in either the banking sector[8] or traditional financial instruments such as Bank Indonesia Certificates. On banking development, the Central Bank focused on consolidation in the banking sector by compelling minimum capital requirements for banks. The so-called "Single Presence Policy" expects some mergers and acquisitions. Regulation on this policy was issued in October 2006 (regulation no. 8/16/PBI/2006) to limit bank shareholders to controlling interest in only one bank. It is expected that by the end of 2010, bank owners with controlling interest in more than one bank will have to submit their respective plans (mergers, establish a holding company or sell one and keep the other with controlling interest). Yet implementation has been delayed and substantial amendments are expected. Other development was related to reducing the amount of insured deposits (from Rp1 billion to Rp 100 million) in March 2007 which happened without a hitch.

Since Bank Indonesia has committed to the Inflation Targeting (IT) monetary framework in 2005, available policy options to manage the impact of capital inflows are: allowing the exchange rate to appreciate, reducing the interest rate to curb inflows, and exercising administrative controls on capital flows. The impact of these policies would materialize in deteriorating export competitiveness (in turn, it would have adverse implications for external balance) and in case of excessive appreciation, undershooting of inflation targets. Another policy option in managing potentially disrupting capital inflows is to reduce the interest rate. However, interest rate reduction may also trigger accelerated banking sector's credit growth and increase pressure on short-term inflation targets.

The Indonesian monetary authority did allow the exchange rate to absorb the impact of capital inflow. The policy has been in line with the Central Bank's IT policy. However, from time to time, the Indonesian Central Bank has been more likely to be confronted by depreciation threats rather than appreciation. So far, policies to manage capital outflow performed quite well (see mini crisis episode), at least temporarily. The government and the Central Bank continue to find a more sustainable foreign capital supply, such as improving the investment climate, expanding sources of current account surpluses (reducing heavy

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[6] See IMF, 2004, "Assessing Indonesia's Banking Sector Reforms" in *Indonesia: Selected Issues* (Washington DC).

[7] Such as Bank Indonesia's Circular Note no. 7/22/DLN/2005 regulates External Debt Reporting Requirement.

[8] Currently, Indonesia's financial system remains dominated by the banking system—more than 75%.

reliance on surging commodity prices), and strengthening financial institutions and regulations.

Two major investment-related packages were introduced in late 2005 and early 2006. The infrastructure package was announced in November 2005 (Presidential Regulation no. 67/2005 on Cooperation between the Government and Enterprises in Infrastructure Procurement—revoking the previous Public-Private Partnership (PPP) in Presidential Decree no. 7/1998). The package attempted to assure private investors that the PPP process will be fair, open, competitive and transparent, while, at the same time, it recognized that projects must be based on mutual benefit of investors and the public. In other words, the new regulation deals with risk management and government support for infrastructure projects. In May 2006, the Ministry of Finance issued a regulation on the Technical Directives for Controlling and Managing Risks of Infrastructure Development (Regulation no. 38/MK/2006) which basically allow the government to offer financial or other forms of compensation to private enterprises participating in infrastructure projects subject to political, project performance (included land acquisition problem[9]), and demand risks exposure.

Following the general PPP framework provided by this regulation, the various industry sectors have their own set of relevant laws and regulations to facilitate private investment in sector projects—laws on toll roads, water supply, and sanitation have been enacted while draft laws for ports, airports, and railroads have been submitted to the parliament. These laws will phase out the monopoly of SOEs in the provision of infrastructure services in those sectors. In addition, the government has sought to improve the regulatory framework for various infrastructure sectors by unbundling the regulatory functions from main government entities operating the businesses in the sector. For instance, for toll roads, the government has unbundled regulatory functions from the main SOE (Jasa Marga) and transferred the responsibility to a new regulatory body. Oil and gas, electricity, and telecommunication sectors have undergone similar transformation. To reaffirm its commitment to infrastructure development and its stance on PPP, the government held its second annual infrastructure conference in November 2006 to boost investor confidence in the PPP program for infrastructure development.

The package launched in March 2006 aimed at improving the investment climate. The package involved a total of 85 individual action items that focuses on five areas: general investment policies/procedures; customs, excise and duties policies; taxation; labor; and SMEs finance. The reform package included the planned submission of a new investment law, completion of new tax law deliberation[10] and revision of a labor law[11] for parliamentary deliberation. Fifty-four of these items specified a target date for completion, ranging from March to December 2006. To date, 42 (or 78%) of these items were completed by the end of 2006. Some of these are:

- Creation of new tax incentives for investments in certain sectors and regions. Government Regulation No. 1/2007 specifies three types of tax incentive: loss carry forward, accelerated depreciation, and investment tax credits. For example, corporate income tax can be reduced by 30% of realized investment spread over a six year period (i.e., 5% per year).
- Establishment of a team to evaluate draft regional regulations in March 2006. As of December 2006, the team had recommended the cancellation of 130 non-business

[9] Due to the importance of the land acquisition problem, the government amended the presidential regulation that provides legal basis for the government to acquire infrastructure project land (and compensate landowners in the amount based on fair market valuation)—Presidential Regulation no. 65/2006).

[10] The Tax Administration Law has been passed recently.

[11] The government has put on hold revision of the manpower law due to pressure from labor unions.

friendly regional regulations, of which 70 had already been cancelled by the Ministry of Home Affairs.

- Improvement of the electronic data interchange system at Customs to reduce customs clearance time to 30 minutes in the green lane and three days in the red lane (August 2006).
- Cancellation of regional regulations imposing taxes and fees on the movement of goods, telecommunication towers, and roadside weigh stations (October 2006).
- Elimination of VAT on certain primary agricultural commodities to increase competitiveness (Government Regulation no. 7/2007).

The most important achievement in the package is the approval of the Investment Law in March 2007. The Law provides, among other things, equal treatment for domestic and foreign investors, binding international arbitration, the elimination of forced divestiture (considered a guarantee against nationalization), land use rights up to 95 years (from 35 years previously), and extended residency permits for foreign investors. In accordance with the Investment Law, the government plans to develop clearer, simpler, and more transparent criteria for a negative investment list.

In July 2007, the government issued Presidential Instruction (Inpres) no. 6/2007 which included major initiatives in streamlining business start-up and licensing procedures, cutting VAT refund time, launching a pilot project for National Single Window at the main port, improving risk profiling for customs clearance, and establishing 43 small taxpayer offices.

Data on sectoral allocation of FDI demonstrates that investment in the primary sector (including plantation, fisheries and forestry) booked an average 86.9% growth per annum over the 1997–2006 period. FDI to the secondary sector which groups most manufacturing industries (also includes utilities and construction) grew slightly, by 34% annually, during the same period. Investment in the tertiary sector—including communication and other major service industries—increased modestly at 43.7% (average per year). Table 2 shows average growth rates of FDI flows to economic sectors and the subsequent output growths in the sector.

Table 2: Indonesia: Average Annual Growth of FDI and GDP, 1997–2006

	Average Growth of FDI 1997–2006 (%)	Average Growth of GDP 1997–2006 (%)
Food Crops & Plantation	74.05	2.35
Livestock	32.44	2.47
Forestry*	6.52	-1.01
Fishery	38.06	4.82
Mining	16.10	0.03
Food Industry	6.27	2.56
Textile Industry, Leather Goods & Footwear Industry	6.95	2.11
Wood Industry	19.67	-4.21
Paper & Printing Industry	61.49	2.33
Chemical, Rubber & Plastic Industry	-11.16	4.07
Non Metallic Mineral Industry	9.27	2.14
Iron and Basic Steel	3.50	-3.46
Motor vehicles & Other Transport Equipment	4.10	3.09
Other Industry	33.84	0.05
Electricity, Gas & Water Supply	17.70	6.44
Construction	1.46	-0.34
Trade, Hotel and Restaurants	16.12	2.05
Transport, Storage & Communication	11.99	6.42
Real Estate, Industrial Estate & Business Activity	-0.34	0.56
Other Services	21.99	3.12

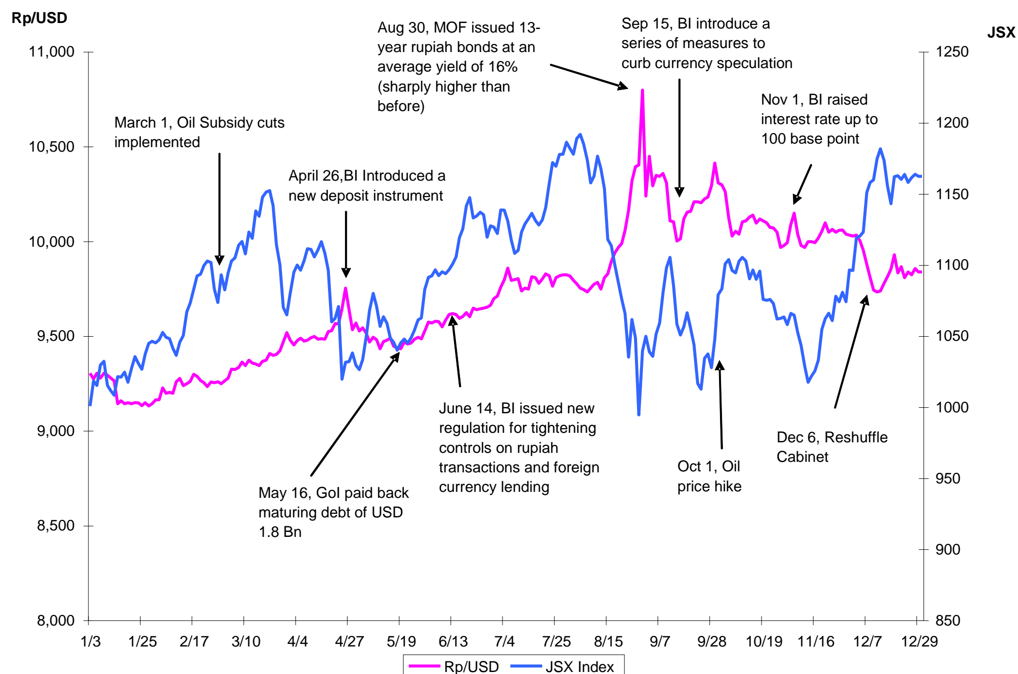
Source: BPS and BKPM (Investment Coordinating Board).

FDI in food crops and plantation, paper and printing industry, and electricity, gas and water supply grew more than 70% a year (average) for the period 1997–2006, albeit from very low initial values. Examination of Table 2 shows that growth in FDI did not translate proportionately to sectoral output growth (correlation coefficient: 0.09). Only electricity, gas and water supply (with annual growth rate of 74.33% on average) had significant output growth during the period 1997–2006.

Mini crisis 2005

A “mini crisis” occurred in Indonesia in 2005, due mainly to concerns over sustainability of the government budget to deal with rising world oil prices. Investors easily lost confidence as the government and the Central Bank did not appear to respond to their concerns. Figure 30 shows both the rupiah/US$ exchange rate and the JSX Index movements on a daily basis in 2005.

Figure 30: Indonesia: Daily Movement of Exchange Rate and JSX Index, 2005



Source: Bank Indonesia and JSX.

In fact, the rupiah had been under pressure since the Fed began raising its key interest rate in 2004. Pressures also came from increased imports for consumption and investment activities that had been sustained since late 2004. However, the government and monetary authority seemed to think that rupiah depreciation was a global phenomenon in which major currencies such as the euro and yen also depreciated. After world oil prices soared to an historic level in March 2005 (to US$70), the government and Bank Indonesia finally moved to respond to this changing external environment. The government decided to raise domestic fuel prices by 29% on average. Joint efforts of Bank Indonesia and the government set to curb pressures in the foreign exchange market by compelling SOEs (most importantly, Pertamina) to coordinate with the Central Bank to buy dollars. In April, Bank Indonesia issued a regulation to reduce Net Open Position of the banking sector from 30% to 20%. It also introduced the Fine Tuning Contraction (FTC) instrument that offered maturities of 1–14 days. The FTC rate was set at 5.75% for a four-day deposit, and for the two- and three-day rates, it was 3.6%.[12] Another short-term instrument available at the time was a seven-day Fasilitas Bank Indonesia (FASBI) deposit facility (FASBI seven-day rate was increased to 7.25% in early April), and one-month and three-month Bank Indonesia Certificates (interest rate was set at 8.25% and 8.05%, respectively). The Central Bank also resumed a weekly auction of SBI in May 2005 in order to soak up excess liquidity in the market. The following month, Bank Indonesia issued a regulation effective 14 July 2005 to restrict rupiah transactions and foreign currency lending (PBI no. 7/14/PBI/2005). Besides limiting foreign exchange derivative transactions against the rupiah to US$1 million and putting a ceiling on dollar purchases for forward transaction and swaps to US$1 million, Bank Indonesia also imposed a three-month minimum investment hedging period on foreign exchange transactions. As a result of implementation of PBI no. 7/14/PBI/2005, swap transaction

[12] These rates were capped at a one-week FASBI rate. At the time, it was below the rate for a two-day rupiah deposit (5–6% in interbank money market). The instrument was used in particular by some banks that could not enter the interbank market due to risk limits.

volume was reduced to an average of US$410 million/day for the second half of 2005—the previous half recorded an average volume of US$1.06 billion/day.

In another move to defend the rupiah, the government and Bank Indonesia agreed to supply dollar needs of Pertamina for oil imports directly out of the country's foreign exchange reserves (Policy Package 5 July 2005). Both also agreed to make SOEs place their foreign exchange earnings from exports in local banks.[13] To strengthen foreign exchange reserves, the government and Bank Indonesia agreed to increase its participation in Bilateral Swap Arrangement[14] (since 2000, Indonesia has participated in liquidity support mechanism at regional level under the Chiang Mai Initiative that involves the establishment of a bilateral swap arrangement (BSA) and the extension of the ASEAN Swap Arrangement).

Despite all these efforts, the rupiah continued to lose value against the dollar. It hit as low as Rp10,030/US$ on 22 August 2005—only days after the President delivered his speech on the draft of the 2006 State Budget. The fact that there were no dramatic changes in the government's fiscal priority the next year brought market distrust and uncertainty over policy direction. The government assumed average oil prices for the next year would be US$40/barrel, thus the fuel subsidy was budgeted around Rp68.5 trillion. This was seen as utterly unrealistic as the market assumed that oil prices would climb to US$55/barrel the next year, and, therefore, the government would be unable to maintain fiscal sustainability and the prospect of the country's balance of payments. A policy package was launched on 30 August 2005 to stabilize the rupiah, including increasing banks' statutory reserve (PBI no. 7/29/PBI/2005), regulating derivative transactions (PBI no. 7/31/PBI/2005), and on hedging swap transactions (PBI no. 7/36/PBI/2005). Bank Indonesia also issued a regulation to further minimize banks' foreign exchange risk exposure by classifying the Net Open Position item into two: NOP on the balance sheet and overall NOP (PBI no. 7/37/PBI/2005). Each was set at 20%.

Confidence returned to financial markets after the government increased domestic fuel prices by 114% on 1 October 2005. The inflation rate shot up to reach 17.1% at the end of 2005 with core inflation remaining reasonable at 9.7%. It was expected that inflationary pressure would ease quickly in the first quarter of 2006. In November 2005, the President managed to do a cabinet reshuffle to boost its credibility—the "mini crisis" reflects a case of poorly-managed escalating negative sentiment that turned into a self-fulfilling prophecy.

VI. CONCLUDING REMARKS

The Government of Indonesia has been a staunch supporter of capital account liberalization. Since 1970, the government has imposed no restriction on movement of foreign capital—underlining the importance of foreign capital flows since its early stage of economic development. During 1970–1980s, official development assistance was the largest single component of foreign capital inflow. Then, throughout the 1990s up to the point of the 1997 crisis, it was taken over by other types of capital, foreign direct investment and corporate/bank lending, which were recorded as other investment items. The overall balance of payments was characterized by a negative current account and a positive capital account since foreign capital inflows on the latter side created pressure for the domestic currency to appreciate, resulting in a negative current account balance.

The post-crisis period showed that foreign capital flows started to return to the country in 2002 in the form of portfolio investment. As the government tried to reduce its reliance on

[13] The regulation did not apply to private sector exporters since they could undermine or circumvent the regulation by under-invoicing their exports.

[14] BSAs Indonesia with Japan and the People's Republic of China were agreed in May 2005. BSA with Korea was signed since December 2003.

sovereign debt, it shifted its development financing towards the issuance of government bonds, which has attracted foreign capital inflows. Foreign direct investment also began to record positive figures two years later, but the overall level of foreign capital inflows has not reached its pre-crisis level. Nevertheless, the nature of the foreign capital flows remains volatile as in the case of the mini crisis in 2005. Thus, the government seeks to maintain a balance between attracting foreign capital flows and managing their volatility.

Currently, the government and the monetary authority direct their attention towards getting more solid economic fundamentals such as maintaining fiscal restraint and controlling inflation. The conduct of macroeconomic stability by credible policymakers would attract foreign capital inflows as well as reduce their volatility. In addition, the government and the monetary authority also focus on enhancing governance in the banking and corporate sectors through the adoption of international standards such as capital adequacy requirements, provisions of non performing loans for banks and corporate governance principles for private/public companies. Finally, the monetary authority has undertaken some measures to improve the management of capital flows into and out of the country. For example, people are now required to notify the relevant authority when they bring in or take out of the country a certain amount of capital. Before the crisis this was not the case. The main purpose of this requirement is to allow the monetary authority to monitor capital flows in both directions and, presumably, to improve its capability to react in a timely manner against any eventuality. It remains to be seen whether such a policy will indeed be effective.

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APPENDIX: INDONESIA: BALANCE OF PAYMENTS, 1990-2007

(in Millions of USD)

ITEMS	Q1 1990	Q2 1990	Q3 1990	Q4 1990	Q1 1991	Q2 1991	Q3 1991	Q4 1991	Q1 1992	Q2 1992	Q3 1992	Q4 1992	Q1 1993	Q2 1993	Q3 1993	Q4 1993	Q1 1994	Q2 1994	Q3 1994	Q4 1994
Current Account net	**-676**	**-816**	**-1,208**	**-288**	**-1,203**	**-1,304**	**-932**	**-821**	**-1,085**	**-952**	**-770**	**27**	**-596**	**-295**	**-382**	**-833**	**-1,230**	**-586**	**-158**	**-819**
Goods: exports f.o.b	6,055	5,596	6,654	8,502	7,391	6,987	7,524	7,733	7,470	7,891	8,776	9,659	8,977	8,906	9,380	9,344	8,874	9,555	10,760	11,034
Goods: imports f.o.b	-4,729	-4,673	-5,730	-6,323	-6,302	-6,162	-6,150	-6,220	-6,271	-6,546	-6,927	-7,030	-6,814	-6,656	-7,139	-7,767	-7,565	-7,480	-8,298	-8,979
Balance on Goods	**1,326**	**923**	**924**	**2,179**	**1,089**	**825**	**1,374**	**1,513**	**1,199**	**1,345**	**1,849**	**2,629**	**2,163**	**2,250**	**2,241**	**1,577**	**1,309**	**2,075**	**2,462**	**2,055**
Services: credit	465	637	679	707	548	709	769	796	607	848	965	971	871	983	1,071	1,034	1,005	1,131	1,344	1,317
Services: debit	-1,367	-1,477	-1,532	-1,680	-1,485	-1,605	-1,671	-1,803	-1,636	-2,142	-2,114	-2,208	-2,115	-2,152	-2,835	-2,744	-2,627	-2,778	-2,933	-3,079
Balance on Services	**-902**	**-840**	**-853**	**-973**	**-937**	**-896**	**-902**	**-1,007**	**-1,029**	**-1,294**	**-1,149**	**-1,237**	**-1,244**	**-1,169**	**-1,764**	**-1,710**	**-1,622**	**-1,647**	**-1,589**	**-1,762**
Income: credit	151	109	74	75	238	218	219	242	236	196	190	196	169	271	303	285	223	258	282	285
Income: debit	-1,363	-1,122	-1,474	-1,640	-1,652	-1,511	-1,666	-1,669	-1,648	-1,346	-1,807	-1,681	-1,804	-1,712	-1,285	-1,214	-1,298	-1,355	-1,470	-1,618
Balance on Income	**-1,212**	**-1,013**	**-1,400**	**-1,565**	**-1,414**	**-1,293**	**-1,447**	**-1,427**	**-1,412**	**-1,150**	**-1,617**	**-1,485**	**-1,635**	**-1,441**	**-982**	**-929**	**-1,075**	**-1,097**	**-1,188**	**-1,333**
Current transfers: credit	112	114	121	71	59	60	43	100	157	147	147	120	120	65	123	229	158	83	157	221
Current transfers: debit	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Balance on current transfers	**112**	**114**	**121**	**71**	**59**	**60**	**43**	**100**	**157**	**147**	**147**	**120**	**120**	**65**	**123**	**229**	**158**	**83**	**157**	**221**
Capital Account Net	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Capital account: credit	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Capital account: debit																				
Financial Account Net	**378**	**1,418**	**1,133**	**1,566**	**2,438**	**914**	**393**	**1,952**	**2,082**	**1,917**	**1,118**	**1,012**	**866**	**1,367**	**1,368**	**2,031**	**622**	**121**	**1,680**	**1,416**
FDI	**243**	**228**	**227**	**395**	**575**	**251**	**150**	**506**	**624**	**517**	**354**	**282**	**552**	**616**	**297**	**183**	**395**	**150**	**355**	**600**
Direct investment abroad	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-181	-175	-125	-155	-170	-159
Direct investment in Indonesia	243	228	227	395	575	251	150	506	624	517	354	282	552	616	478	358	520	305	525	759
Portfolio Investment	**0**	**-5**	**-48**	**-40**	**0**	**-5**	**-7**	**0**	**0**	**-88**	**0**	**0**	**325**	**250**	**669**	**561**	**501**	**1,471**	**799**	**1,106**
Portfolio investment assets	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Equity securities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt securities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Portfolio investment liabilities	**0**	**-5**	**-48**	**-40**	**0**	**-5**	**-7**	**0**	**0**	**-88**	**0**	**0**	**325**	**250**	**669**	**561**	**501**	**1,471**	**799**	**1,106**
Equity securities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	325	250	669	561	501	121	275	1,003
Debt securities	n.a.	-5	-48	-40	n.a.	-5	-7	n.a.	n.a.	-88	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1,350	524	103
Financial derivatives																				
Financial derivatives assets																				
Financial derivatives liabilities																				
Others Investment	**135**	**1,195**	**954**	**1,211**	**1,863**	**668**	**250**	**1,446**	**1,458**	**1,488**	**764**	**730**	**-11**	**501**	**402**	**1,287**	**-274**	**-1,500**	**526**	**-290**
Other investment assets	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Monetary authorities																				
General government																				
Private	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other investment liabilities	**135**	**1,195**	**954**	**1,211**	**1,863**	**668**	**250**	**1,446**	**1,458**	**1,488**	**764**	**730**	**-11**	**501**	**402**	**1,287**	**-274**	**-1,500**	**526**	**-290**
Monetary authorities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
General government	122	272	-461	541	439	416	-305	749	360	138	-327	687	235	139	-280	458	546	153	-88	-474
Private	13	923	1,415	670	1,424	252	555	697	1,098	1,350	1,091	43	-246	362	682	829	-820	-1,653	614	184
Change in Reserves and Related Items	**305**	**489**	**-820**	**-2,225**	**-984**	**-277**	**384**	**-651**	**-754**	**-890**	**-225**	**-200**	**-208**	**-135**	**-48**	**-204**	**-340**	**989**	**-700**	**-733**
Net Errors and Ommission	**-7**	**-1,091**	**895**	**947**	**-251**	**667**	**155**	**-480**	**-243**	**-75**	**-123**	**-839**	**-62**	**-937**	**-938**	**-994**	**948**	**-524**	**-822**	**136**
GDP current price	**27,575**	**28,198**	**29,591**	**29,029**	**30,757**	**31,500**	**33,175**	**32,695**	**33,212**	**33,962**	**36,104**	**35,802**	**37,536**	**38,726**	**40,753**	**40,949**	**41,330**	**43,197**	**45,963**	**46,318**

(in Millions of USD)

ITEMS	Q1 1995	Q2 1995	Q3 1995	Q4 1995	Q1 1996	Q2 1996	Q3 1996	Q4 1996	Q1 1997	Q2 1997	Q3 1997	Q4 1997	Q1 1998	Q2 1998	Q3 1998	Q4 1998	Q1 1999	Q2 1999	Q3 1999	Q4 1999
Current Account net	-1,688	-1,930	-1,609	-1,204	-2,034	-2,564	-2,111	-954	-2,192	-1,103	-1,393	-201	1,000	671	1,681	745	1,513	850	1,886	1,535
Goods: exports f.o.b	10,812	11,998	12,082	12,562	11,112	12,528	12,816	13,732	12,963	14,737	14,364	14,234	12,827	13,193	13,466	10,885	10,810	12,402	14,270	13,760
Goods: imports f.o.b	-9,365	-10,580	-10,668	-10,308	-9,946	-11,618	-11,473	-11,203	-11,525	-11,255	-12,188	-11,255	-8,006	-8,221	-8,367	-7,348	-6,771	-7,945	-7,926	-7,956
Balance on Goods	1,447	1,418	1,414	2,254	1,166	910	1,343	2,529	1,438	3,482	2,176	2,979	4,821	4,972	5,099	3,537	4,039	4,457	6,344	5,804
Services: credit	1,283	1,265	1,439	1,482	1,512	1,651	1,739	1,697	1,563	1,729	1,982	1,667	1,047	1,008	1,244	1,180	1,157	1,129	1,211	1,102
Services: debit	-3,173	-3,414	-3,385	-3,568	-3,481	-3,941	-3,807	-3,910	-4,001	-4,695	-4,202	-3,709	-3,177	-3,506	-3,066	-2,339	-2,316	-3,092	-3,353	-3,615
Balance on Services	-1,890	-2,149	-1,946	-2,086	-1,969	-2,290	-2,068	-2,213	-2,438	-2,966	-2,220	-2,042	-2,130	-2,498	-1,822	-1,159	-1,159	-1,963	-2,142	-2,513
Income: credit	316	402	367	221	326	284	284	316	446	390	499	520	454	462	494	500	441	438	481	531
Income: debit	-1,820	-1,804	-1,788	-1,768	-1,755	-1,682	-1,910	-1,871	-1,961	-2,201	-2,012	-2,013	-2,458	-2,578	-2,520	-2,543	-2,322	-2,752	-3,192	-2,622
Balance on Income	-1,504	-1,402	-1,421	-1,547	-1,429	-1,398	-1,626	-1,555	-1,515	-1,811	-1,513	-1,493	-2,004	-2,116	-2,026	-2,043	-1,881	-2,314	-2,711	-2,091
Current transfers: credit	259	203	344	175	198	214	240	285	323	192	164	355	313	313	430	410	514	670	395	335
Current transfers: debit	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Balance on current transfers	259	203	344	175	198	214	240	285	323	192	164	355	313	313	430	410	514	670	395	335
Capital Account Net	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Capital account: credit	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Capital account: debit																				
Financial Account Net	1,293	2,386	2,505	4,075	2,289	1,968	2,823	3,767	3,859	2,226	1,790	-8,478	-6,201	206	-2,309	-1,329	129	-1,279	-2,544	-2,249
FDI	847	614	1,178	1,104	1,862	873	1,474	1,385	2,214	1,242	1,375	-332	-502	367	-144	38	294	-536	-698	-925
Direct investment abroad	-131	-151	-166	-155	-128	-151	-166	-155	-128	-25	-17	-8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Direct investment in Indonesia	978	765	1,344	1,259	1,990	1,024	1,640	1,540	2,342	1,267	1,392	-324	-502	367	-144	38	294	-536	-698	-925
Portfolio Investment	375	819	1,586	1,320	1,327	919	630	2,129	1,009	1,103	646	-5,390	-3,548	1,840	107	-277	-1,994	771	-604	35
Portfolio investment assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity securities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt securities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Portfolio investment liabilities	375	819	1,586	1,320	1,327	919	630	2,129	1,009	1,103	646	-5,390	-3,548	1,840	107	-277	-1,994	771	-604	35
Equity securities	175	352	407	559	443	266	130	980	372	245	-181	-5,423	-3,548	-848	132	-107	-1,628	976	-385	255
Debt securities	200	467	1,179	761	884	653	500	1,149	637	858	827	33	n.a.	2,688	-25	-170	-366	-205	-219	-220
Financial derivatives																				
Financial derivatives assets																				
Financial derivatives liabilities																				
Others Investment	71	953	-259	1,651	-900	176	719	253	636	-119	-231	-2,756	-2,151	-2,001	-2,272	-1,090	1,829	-1,514	-1,242	-1,359
Other investment assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0	0	0	0	-5	-13	-13	-13	-13	-19	-20	-20
Monetary authorities																				
General government																				
Private	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-5	-13	-13	-13	-13	-19	-20	-20
Other investment liabilities	71	953	-259	1,651	-900	176	719	253	636	-119	-231	-2,756	-2,146	-1,988	-2,259	-1,077	1,842	-1,495	-1,222	-1,339
Monetary authorities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
General government	273	310	-344	-233	-151	-458	-9	-45	-558	362	-191	122	870	1,242	1,381	717	3,001	764	117	97
Private	-202	643	85	1,884	-749	634	728	298	1,194	-481	-40	-2,878	-3,016	-3,230	-3,640	-1,794	-1,159	-2,259	-1,339	-1,436
Change in Reserves and Related Items	-123	-581	-436	-433	-1,332	-529	69	-2,711	746	2,242	-1,290	-9,835	-4,911	1,090	-934	1,318	1,515	315	-90	175
Net Errors and Ommission	518	125	-460	-2,438	1,077	1,125	-781	-102	-921	1,119	-1,687	-1,156	290	214	-307	1,902	-127	744	570	890
GDP current price	48,221	50,034	51,782	52,015	52,856	54,967	58,264	61,212	60,668	61,302	58,480	42,253	22,428	21,299	21,569	32,511	30,906	34,287	36,855	38,282

(in Millions of USD)

ITEMS	Q1 2000	Q2 2000	Q3 2000	Q4 2000	Q1 2001	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004
Current Account net	**1,898**	**1,355**	**2,243**	**2,495**	**2,061**	**1,339**	**2,360**	**1,140**	**1,659**	**1,909**	**2,407**	**1,851**	**1,476**	**2,099**	**2,140**	**2,393**	**-1,993**	**972**	**2,038**	**545**
Goods: exports f.o.b	15,113	15,738	17,829	16,727	15,400	15,004	14,231	12,729	12,724	15,114	16,311	15,017	16,408	15,357	16,180	16,165	14,754	17,503	19,055	19,454
Goods: imports f.o.b	-8,849	-9,993	-11,661	-9,863	-9,221	-9,511	-8,587	-7,350	-7,505	-8,773	-10,181	-9,194	-10,571	-9,243	-9,740	-9,992	-11,629	-12,014	-13,086	-13,886
Balance on Goods	**6,264**	**5,745**	**6,168**	**6,864**	**6,179**	**5,493**	**5,644**	**5,379**	**5,219**	**6,341**	**6,130**	**5,823**	**5,837**	**6,114**	**6,440**	**6,173**	**3,125**	**5,489**	**5,969**	**5,568**
Services: credit	1,134	1,236	1,438	1,406	1,264	1,330	1,589	1,318	1,588	1,665	1,886	1,524	1,235	1,099	1,465	1,494	3,478	3,153	2,759	2,656
Services: debit	-3,678	-3,941	-4,080	-3,938	-4,287	-3,917	-3,874	-3,802	-4,171	-4,045	-4,475	-4,353	-4,539	-3,805	-4,968	-4,089	-6,541	-4,802	-4,368	-5,146
Balance on Services	**-2,544**	**-2,705**	**-2,642**	**-2,532**	**-3,023**	**-2,587**	**-2,285**	**-2,484**	**-2,583**	**-2,380**	**-2,589**	**-2,829**	**-3,304**	**-2,706**	**-3,503**	**-2,595**	**-3,063**	**-1,649**	**-1,609**	**-2,489**
Income: credit	646	600	569	642	621	529	515	339	400	318	304	296	285	197	344	228	405	511	510	570
Income: debit	-2,864	-2,787	-2,305	-2,944	-2,128	-2,490	-1,864	-2,458	-1,876	-2,708	-1,853	-1,928	-1,534	-2,222	-1,534	-1,981	-2,766	-3,652	-3,093	-3,402
Balance on Income	**-2,218**	**-2,187**	**-1,736**	**-2,302**	**-1,507**	**-1,961**	**-1,349**	**-2,119**	**-1,476**	**-2,390**	**-1,549**	**-1,632**	**-1,249**	**-2,025**	**-1,190**	**-1,753**	**-2,361**	**-3,141**	**-2,584**	**-2,832**
Current transfers: credit	396	502	453	465	412	394	350	364	575	475	574	587	310	543	518	682	612	600	537	684
Current transfers: debit	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-76	-137	-159	-98	-118	173	-125	-114	-306	-327	-276	-386
Balance on current transfers	**396**	**502**	**453**	**465**	**412**	**394**	**350**	**364**	**499**	**338**	**415**	**489**	**192**	**716**	**393**	**568**	**306**	**273**	**262**	**298**
Capital Account Net	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Capital account: credit	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Capital account: debit																				
Financial Account Net	**-1,017**	**-2,371**	**-2,550**	**-1,958**	**-2,888**	**-2,358**	**-2,630**	**260**	**-1,285**	**4**	**382**	**-202**	**-946**	**-202**	**-630**	**829**	**115**	**-1,894**	**1,245**	**1,931**
FDI	**-1,474**	**-448**	**-943**	**-1,686**	**-1,238**	**-1,022**	**-558**	**-159**	**-533**	**220**	**279**	**179**	**-406**	**257**	**-203**	**-245**	**-12**	**-869**	**-331**	**-300**
Direct investment abroad	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-360	-1,278	-679	-1,091
Direct investment in Indonesia	-1,474	-448	-943	-1,686	-1,238	-1,022	-558	-159	-533	220	279	179	-406	257	-203	-245	348	409	348	791
Portfolio Investment	**-23**	**-1,107**	**-385**	**-394**	**-443**	**-89**	**65**	**224**	**88**	**290**	**360**	**485**	**-189**	**907**	**121**	**1,413**	**1,747**	**-75**	**980**	**1,758**
Portfolio investment assets	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**36**	**-243**	**56**	**504**
Equity securities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6	-42	-19	-51
Debt securities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	30	-201	75	555
Portfolio investment liabilities	**-23**	**-1,107**	**-385**	**-394**	**-443**	**-89**	**65**	**224**	**88**	**290**	**360**	**485**	**-189**	**907**	**121**	**1,413**	**1,711**	**168**	**924**	**1,254**
Equity securities	212	-892	-156	-184	-35	169	30	279	47	41	217	572	18	9	442	662	706	159	334	844
Debt securities	-235	-215	-229	-210	-408	-258	35	-55	41	249	143	-87	-207	898	-321	751	1,005	9	590	410
Financial derivatives																				
Financial derivatives assets																				
Financial derivatives liabilities																				
Others Investment	**480**	**-816**	**-1,222**	**122**	**-1,207**	**-1,247**	**-2,137**	**195**	**-840**	**-506**	**-257**	**-866**	**-351**	**-1,366**	**-548**	**-339**	**-1,620**	**-950**	**596**	**473**
Other investment assets	**-20**	**-35**	**-45**	**-50**	**-20**	**-35**	**-45**	**-25**	**0**	**0**	**-500**	**0**	**0**	**-5**	**0**	**0**	**-65**	**504**	**998**	**1,612**
Monetary authorities																				
General government																				
Private	-20	-35	-45	-50	-20	-35	-45	-25	n.a.	n.a.	-500	n.a.	n.a.	-5	n.a.	n.a.	-65	504	998	1,612
Other investment liabilities	**500**	**-781**	**-1,177**	**172**	**-1,187**	**-1,212**	**-2,092**	**220**	**-840**	**-506**	**243**	**-866**	**-351**	**-1,361**	**-548**	**-339**	**-1,555**	**-1,454**	**-402**	**-1,139**
Monetary authorities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-8	-2	n.a.	-2
General government	934	441	201	518	219	110	-131	437	-25	-7	336	152	34	-308	-216	92	-1,235	-1,272	-1,241	-1,453
Private	-434	-1,222	-1,378	-346	-1,406	-1,322	-1,961	-217	-815	-499	-93	-1,018	-385	-1,053	-332	-431	-312	-180	839	316
Change in Reserves and Related Items	**2,463**	**-2**	**164**	**1,301**	**-359**	**327**	**371**	**-354**	**214**	**1,077**	**1,300**	**2,367**	**949**	**929**	**342**	**1,427**	**727**	**-2,568**	**-49**	**1,518**
Net Errors and Ommission	**1,582**	**1,015**	**471**	**762**	**469**	**1,346**	**640**	**-1,754**	**-160**	**-834**	**-1,489**	**720**	**418**	**-966**	**-1,168**	**-1,794**	**3,301**	**-952**	**-3,356**	**-2,098**
GDP current price	**43,869**	**40,584**	**41,413**	**39,628**	**40,692**	**37,724**	**45,132**	**41,155**	**44,211**	**50,679**	**53,678**	**52,290**	**55,982**	**59,284**	**62,003**	**60,328**	**63,357**	**62,704**	**65,019**	**65,673**

(in Millions of USD)

ITEMS	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007
Current Account net	**209**	**436**	**-1,165**	**797**	**2,803**	**1,718**	**3,525**	**1,892**	**3,020**	**2,460**
Goods: exports f.o.b	20,201	21,663	21,996	23,135	23,268	25,474	27,604	27,168	26,745	29,354
Goods: imports f.o.b	-17,024	-17,607	-18,495	-16,337	-16,569	-18,498	-19,008	-19,792	-18,823	-20,980
Balance on Goods	**3,177**	**4,056**	**3,501**	**6,798**	**6,699**	**6,976**	**8,596**	**7,376**	**7,922**	**8,374**
Services: credit	3,589	3,158	3,200	2,979	2,961	2,823	2,683	3,051	3,066	2,868
Services: debit	-5,500	-4,335	-5,505	-6,709	-5,273	-5,213	-5,161	-5,978	-5,982	-5,646
Balance on Services	**-1,911**	**-1,176**	**-2,305**	**-3,730**	**-2,312**	**-2,390**	**-2,477**	**-2,927**	**-2,906**	**-2,775**
Income: credit	570	584	609	575	548	592	729	708	622	734
Income: debit	-2,738	-4,048	-4,177	-4,301	-3,336	-4,658	-4,644	-4,404	-3,970	-5,101
Balance on Income	**-2,168**	**-3,464**	**-3,568**	**-3,726**	**-2,789**	**-4,066**	**-3,915**	**-3,696**	**-3,382**	**-4,440**
Current transfers: credit	1,393	1,340	1,471	1,788	1,459	1,511	1,573	1,536	1,654	1,566
Current transfers: debit	-282	-319	-265	-334	-254	-313	-252	-397	-268	-264
Balance on current transfers	**1,111**	**1,020**	**1,207**	**1,455**	**1,205**	**1,198**	**1,321**	**1,139**	**1,386**	**1,301**
Capital Account Net	**n.a.**	**33**	**100**	**200**	**72**	**49**	**97**	**132**	**43**	**127**
Capital account: credit	n.a.	33	100	200	72	49	97	132	43	127
Capital account: debit										
Financial Account Net	**-1,004**	**-281**	**-3,548**	**3,893**	**2,198**	**-23**	**-1,285**	**1,320**	**2,134**	**2,071**
FDI	**207**	**3,132**	**878**	**1,055**	**681**	**572**	**-18**	**1,642**	**75**	**1,774**
Direct investment abroad	-651	-615	-879	-920	-654	-517	-1,328	-204	-1,137	515
Direct investment in Indonesia	858	3,747	1,757	1,975	1,335	1,089	1,310	1,846	1,212	1,259
Portfolio Investment	**395**	**-805**	**1,738**	**2,862**	**3,726**	**-1,106**	**191**	**1,313**	**2,767**	**4,746**
Portfolio investment assets	**-339**	**-63**	**-462**	**-216**	**-392**	**-446**	**-332**	**-763**	**-284**	**-959**
Equity securities	-72	57	2	51	-23	-143	197	-120	66	-25
Debt securities	-267	-120	-464	-267	-369	-303	-529	-643	-350	-934
Portfolio investment liabilities	**734**	**-742**	**2,200**	**3,078**	**4,118**	**-660**	**523**	**2,076**	**3,051**	**5,705**
Equity securities	-180	-1,569	817	767	516	358	401	622	362	1,282
Debt securities	914	827	1,383	2,311	3,602	-1,018	122	1,454	2,689	4,423
Financial derivatives										
Financial derivatives assets										
Financial derivatives liabilities										
Others Investment	**-1,606**	**-2,608**	**-6,164**	**-24**	**-2,209**	**511**	**-1,458**	**-1,635**	**-708**	**-4,449**
Other investment assets	**-863**	**-2,048**	**-4,859**	**-1,389**	**-1,599**	**1,454**	**-486**	**-1,957**	**-278**	**-3,168**
Monetary authorities										
General government										
Private	-863	-2,048	-4,859	-1,389	-1,599	1,454	-486	-1,957	-278	-3,168
Other investment liabilities	**-743**	**-560**	**-1,305**	**1,365**	**-610**	**-943**	**-972**	**322**	**-430**	**-1,281**
Monetary authorities	-518	-2	-10	-2	-510	-2	-14	-2	-14	-2
General government	-443	-307	-899	1,333	-409	-870	-783	95	-574	-1,763
Private	218	-251	-396	34	309	-71	-175	229	158	484
Change in Reserves and Related Items	**-290**	**-2,165**	**-3,547**	**4,406**	**5,358**	**25**	**2,246**	**233**	**4,635**	**3,703**
Net Errors and Ommission	**916**	**-2,328**	**1,294**	**-61**	**711**	**1,636**	**301**	**-637**	**-782**	**-1,023**
GDP current price	**68,480**	**70,551**	**71,699**	**75,949**	**84,426**	**89,173**	**95,261**	**95,708**	**100,896**	**106,888**