

QUARTERLY ANALYSIS:
The Progress of Monetary, Banking and Payment System
Quarter I – 2012

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The Indonesian economy in the First Quarter 2012 grew by 6.3% (yoy). The main source of economic growth came from domestic consumption that remained strong and in line with consumer optimism (which also remained high), and investments (PMTB) supported by a conducive business climate with the potential for increased funding. Meanwhile, export growth slowed down due to the performance of the continuing global economic downturn which has depressed the absorption of the main trading partner countries. Amid the sluggish performance of exports, imports still grew fuelled by a strong domestic demand. Looking ahead, Indonesia's economic outlook remains strong overall in 2012 ranging from 6.3 to 6.7% growth amidst many risk factors.

Indonesian balance of payments (BOP) during the First Quarter 2012 showed an improvement with a smaller deficit than the performance in the Fourth Quarter 2011. Improvement is supported by the capital and financial re-run surplus so as to cover most of the growing current account deficit. With these developments, the amount of reserves at the end of March 2012 was USD110.5 billion, which is equivalent to 6.2 months of imports and government's foreign debt payments.

The exchange rate weakened during First Quarter 2012. The Rupiah on point-to-point was lower by 0.87% (qtq) at a level of Rp 9.139/USD or fell by average an 1.03% (qtq) to Rp 9.066/USD. Despite the weakening, the exchange rate volatility was still maintained at a lower level compared with other countries in the region. These conditions cannot be separated from the exchange rate stabilization measures taken by Bank Indonesia, either by interventions in the foreign exchange market and the purchase of Government Securities (*Surat Berharga Negara*, SBN) from the secondary market, which had maintained the stability of the rupiah exchange rate movements. Based on the factors that influenced it, the pressure on the rupiah, among others, comes from the foreign investor portfolio adjustments due to the influence of global sentiment and expectations of rising domestic inflation. In addition, the demand for foreign currency tends to increase with the strength of imports, including oil and gas imports for domestic fuel consumption, also raises the pressure on the exchange rate.

CPI inflation during the First Quarter 2012 remained subdued and was still low by 0.88% (qtq) or 3.97% (yoy), despite a slight increase compared to the previous quarter. The sources of

inflationary pressure mainly came from the volatile food inflation, while the core inflation and administered prices remained low. Pressure from volatile foods inflation was caused by the high price of rice and the increase in commodity prices of spices. Core inflation was still low and influenced by the sustained supply of goods and services, despite the rising global non-food commodity prices and the depreciation of the rupiah that caused a little increase in pressure. Meanwhile, inflation on administered prices remained low in the quarter despite government reports on an increase of the cigarette excise tax rate. With the development of CPI inflation slightly up the first Quarter 2012, Bank Indonesia estimates that inflation is still consistent with the target of 4.5% + 1% in 2012 and 2013. However, inflation risks stemming from the increase in inflation expectations triggered by the uncertainty of the subsidized fuel oil (BBM) adjustment plan will be monitored.

In line with the macroeconomic performance, the stability of the financial system remains under control. Stability of the financial system is supported by the banking sector performance maintained its industry dominance of Indonesia's financial system. The capital adequacy ratio (CAR) was high, reaching 18.41% in February 2012, well above the minimum CAR of 8%. High bank capital was achieved through an increase in bank profitability. In the meantime, banking intermediation continued to improve which was reflected in credit growth by the end of February 2012 at 24.2% (yoy). Bank lending was more aimed at the productive sectors as seen from the high growth investment credit (33.2% yoy), while the Working Capital Loan and Credit Consumption grew by 23.4% (yoy) and 19.6 % (yoy), respectively.

Indonesia's economic performance was also supported by the reliability of the payment system and fulfillment of the community currency. The payment system, as part of the financial system, continued to maintain its performance during the First Quarter 2012.

Value and volume of payment systems transaction during the First Quarter 2012 showed an increase in line with the increase in economic activity. The increased transaction payment system was supported by the availability of the Bank Indonesia - Real Time Gross Settlement (BI-RTGS) System, the Bank Indonesia - Scriptless Securities Settlement System (BI - SSSS), and the Bank Indonesia Clearing System (SKNBI), which reached 99.97%. In addition, the processing system performance of the Card Payment Instruments (*Alat Pembayaran Menggunakan Kartu*, APMK) and the Electronic Money held by parties other than Bank Indonesia were also well maintained. In terms of circulation of money, the currency needs of the community were still quite high. A high demand for the currency was followed by an increase in Circulated Money (UYD) during the First Quarter 2012.