

# **QUARTERLY ANALYSIS: The Progress of Monetary, Banking and Payment System Quarter III – 2012**

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The domestic economy is still growing quite well despite a slight slowdown. Indonesia's economic growth in the third quarter of 2012 grew by 6.2%, slightly lower than previous forecasts due to a continuing decline in the performance of the external sector. Although consumption and domestic-orientated investment demand remains high, falling exports have resulted in decreased production and export-oriented investment. Looking ahead, economic growth is expected to rise again, driven by domestic consumption and investment which remains strong. Exports are predicted to also improve in line with the improving economy with some major trading partners, though it will still be shadowed by uncertainties in the global economic conditions. With these developments in the Indonesian economy for the entire year of 2012, the economy in 2013 is forecasted to grow 6.3% in rising into the range of 6.3% -6.7%.

Indonesia's balance of payments (BOP) in the third quarter 2012 is forecasted at a surplus, supported by an improved and greater current account surplus in the capital and financial accounts. The current account deficit in the third quarter 2012 was lower than expected compared to second quarter 2012. This was indicated in August 2012 when the trade balance recorded a surplus. On the other hand, the capital and financial accounts surplus were expected to increase along with capital inflows and a substantial portfolio inflow of foreign direct investment (Foreign Direct Investment / FDI) that remained high. As a result, the amount of reserves at the end of September 2012 increased compared to the end of the previous month, reaching U.S.D 110.2 billion, equivalent to 6.1 months of imports and government foreign debt payments.

The exchange rate in September 2012 moved according to market conditions with an intensity that decreased with depreciation. This is in line with the policy adopted by Bank Indonesia to stabilize the exchange rate in accordance with the fundamental levels. The Rupiah point-to-point weakened by 0.37% (mtm) to Rp9,570 to the U.S. dollar, or on average weakened by 0.64% (mtm) to Rp9,554 to the U.S. dollar. Pressure on the exchange rate came mainly from the high demand for foreign exchange from import demands. Pressure on the rupiah dropped due to the greater inflow of foreign capital in line with a positive sentiment in the global economy and the outlook for a strong domestic economy.

Inflationary pressure tended to decrease and be controlled at a low level. CPI inflation in September 2012 was 0.01% (mtm) resulting in an annual rate of 4.31% (yoy). Core inflation was at the lowest level at 4.12% (yoy), in line with an easing post-holiday demand, a correction in global commodity prices, and controlled expectations. Food inflation (food volatility) also decreased, driven by significant lower prices of food commodities, and a sustained supply and hardline policy adopted by the Government in controlling food prices. On the other hand, inflation on administered prices was also controlled in the absence of government policy on the prices of strategic goods and services.

In line with the macroeconomic performance that was maintained, the stability of the financial system and banking intermediation function were properly maintained. Solid industry performance was reflected in the high capital adequacy ratio (CAR), which was well above the minimum 8% and the maintained ratio of gross non-performing loans (NPL) under 5%. Meanwhile, credit growth to the end of August 2012 reached 23.6% (yoy), which was down from 25.2% (yoy) of the previous month. The slowdown was mainly on working capital loans that grew by 23.2% (yoy), while consumer loans had relatively stable growth at 19.9% (yoy). Investment credit growth was quite high, at 29.8% (yoy), and is expected to increase the capacity of the national economy.

Solid economic performance in Indonesia cannot be separated from the support of a reliable payment system. In economic activities, the strategic role of the payment system is to ensure the implementation of various payment transactions of economic activity and other activities undertaken by both the public and the private sectors. During the third quarter of 2012, the payment system demonstrated a positive performance. The value of the payment system and the transaction volume during the quarter remained relatively robust in 2012 in line with the solid economic activity. In addition, the payment system transactions increased and were also supported by Bank Indonesia's policy directed to ensure the implementation of an efficient, fast, secure, and reliable payment system. On the other hand, the circulation of money, currency outside banks as a means of payment, still played an important role in the society. This is reflected in the high growth of currency in circulation (UYD) during the third quarter of 2012 along with the growth of economic activity that remains solid.