The Board of Governor Meeting of Bank Indonesia on October 11, 2011 decided to lower the BI rate by 25 bps to the level of 6.5%. Bank Indonesia will also maintain the stabilization of Rupiah particularly from the impact of global financial market shock. The decision is in line with the inflation expectation of below 5% on current and next year. Furthermore, these policies are meant to anticipate and to mitigate the negative impact of the global economic and financial slowdown on Indonesian economy. Looking ahead, the Board of Governor will continue to evaluate the global economic and financial performance and use the interest rate as well as the mix of monetary and the other micro prudential policies to mitigate the possible slowing down of Indonesian economic performance, especially on achieving the inflation target of 5% ± 1% in 2011 and 4.5% ± 1% in 2012.

The Board of Governor put a high concern on the high risk and uncertainties in global financial market and the trend of global economic slowdown due to the debt and fiscal problem in Europe and US. Main attention is addressed to the short term impact through the financial channel in the form of the stock market weakening, the increase of debt risk indicator, and the capital reversal pressure by global investor from emerging countries, including Indonesia. Meanwhile, the global economic performances also weaken as indicated on the slowing production activities and retail sale, accompanied by the decrease of consumer’s confident in developed countries and also numbers of correction on international commodity prices. On the other side, the inflation pressure has decreased, although the inflation of emerging countries remains high hence shifts the monetary policy response to neutral or accommodative.

Looking ahead, on general the Board of Governor foresee a slower output growth in developed countries, the lower international trade volume, and lower global commodity prices. Meanwhile, the large excess liquidity and risk perception of investor will still drive high capital inflow into emerging countries, including Indonesia, both in foreign direct investment (FDI) or in portfolio investment.
The Board of Governor considers the fundamental of national economic and banking in Indonesia are still strong among higher concern about the world economic prospect. The output growth on 2011Q4 is predicted to be higher, especially driven by consumption and investment that the output will reach 6.6% in 2011. So far, the impact of global economic shock is limited to the financial sector, while the real sector is relatively not affected. However, the slowing global economic is predicted to influence the domestic economic performance in 2012, both on financial market and international trade.

The domestic economic growth in 2012 is predicted to be in the range of 6.2% - 6.7%. The source of this growth is driven by strong consumption and increasing investment. On Sectoral level, all sectors are predicted to have positive growth. The main growth contributors are Manufacture, Trade Hotel and Restaurant, and Transport and Communication.

The Balance of Payment (BOP) in 2011Q4 is predicted to gain surplus following the high pressure due to the capital outflow in previous quarter. In aggregate for 2011, BOP is predicted to have a large surplus. The main sources of this surplus are the increasing surplus of capital and financial transaction, both in the form of portfolio and direct investment. In line with this the reserve on the end of September 2011 was USD114.5 milliard or equivalent to 6.5 months of import and government debt service payment. This reserve is more than enough to support the stabilization of Rupiah.

The exchange rate of Rupiah in 2011Q3 experience a pressure, especially on September 2011 where the Rupiah depreciate by 2.42% (ptp) to the level of Rp8,790 per USD with increasing volatilities. However, this depreciation is in line with other currencies on regional peer’s member. Among several factors, the pressure on Rupiah is caused by the increase of global risk due to the increasing concern on the global economic prospect. In addition, the increase of foreign exchange demand to pay import also contributed to the pressure of Rupiah. Looking ahead, Bank Indonesia will continue to keep the stability of Rupiah’s exchange rate to support the macroeconomic stability.

The inflation pressure continues to decrease. CPI inflation on 2011Q3 was 1.89% (q tq) or 4.61% (yoy), lower than the previous year. The lower inflation pressure came from the volatile food and administered price, along with the supply improvement, the lower international food prices and the minimum government intervention concerning strategic commodities. Meanwhile, the core inflation pressure excluding the hike of gold price is relatively well managed, because of the appreciation of Rupiah on previous period and the sufficient supply. With these facts, in 2011 the inflation will be lower than 5%.
In 2012, the inflation will be under control and is expected to be lower than 5%, along with the correction on international commodity prices and the weakening of world economy. The stability of banking system will be also maintained with better intermediary function, despite of the global financial shock. Banking industry stability are also well maintained as reflected on the Capital Adequacy Ratio (CAR) which is far above the requirement 8% and Non-Performing Loan which is lower than 5% gross. In addition, the distribution of credit continues to finance the real economic activities where its growth reached 23.8% (yoy) until the end of September 2011. Bank Indonesia maintains the banking system stability and encourages its intermediary function while still keeping the prudent banking practice by directing the credit allocation for productive sectors in order to optimize the economic growth among the uncertain of global economic.

The reliability and efficiency of payment system also contributes on macroeconomic performance in Indonesia. The support of the payment system is indicated on the availability of the Bank Indonesia Real Time Gross Settlement (BIRTGS), Bank Indonesia-Scrip less Security Settlement System (BI-SSSS), and National Clearing System that reach 100%. Besides, the reliability of card payment system and electronic money, arranged and processed outside Bank Indonesia are also well maintained. Bank Indonesia can also supply the fiat money even though there was significant increase of money demand during the Holy Month of Ramadhan and 'Idul Fithri.