

## Chapter IV

### OVERVIEW

#### A. Geographic condition

Indonesia is an archipelagic country which is based on latitude and longitude located between  $6^{\circ}$  LU -  $11^{\circ}$  LS and  $95^{\circ}$  BT -  $141^{\circ}$  BT. the northern Island is Weh Island which is crossed with latitude  $6^{\circ}$  LU, the southern Island is Roti island which is crossed by latitude  $11^{\circ}$  LS, Weh Island also crossed by longitude  $95^{\circ}$  BT, meanwhile longitude line  $141^{\circ}$  BT was crossing to the Irian Jaya and Papua.

The geographical of Indonesia is located between two Ocean they are Pacific Ocean and Hindi Ocean and also between two Continent they are Asia continent and Australia continent. There are several impacts because of the geographical condition of Indonesia they are

1. There is the climate of the season which is the influence of Asia and Australia.
2. Trade Activity, because of Indonesia is located on cross position, whereas this position is international trade cross and became ship stopover which takes the voyage between East Asia and South Asia, West Asia with Africa and also Europa.

3. Social culture of a diverse society, because of Indonesia is located close to the Asia continent, so that Indonesia accepted the culture from Asia continent. Besides that, after several years, Indonesia also accepted the culture from America and Europa Continent.

#### **B. The Demographic condition of Indonesia**

Circulation demographic of Indonesia was beginning, when occur higher fertility period and also accompanied by the number of mortality from period 1950 -1970. This condition has caused the population of society under 15 ages, so that proportion of young society in the two period is more than 40 % from the total population, but in another side, that phenomenon create the rejuvenation of workforce in 1970.

The phenomenon of the decreasing number of fertility continued until now. The development of economy social and KB program have avoided the number of fertility around 80 millions of society from period 1971 -2000, meanwhile KB program itself have avoided the number of fertility around 40 million of society.

The government always pays attention to welfare of society, one of regulation to increase the welfare of society is by creating KB program for reducing the number of fertility and also making the distribution of population evenly distributed among island in Indonesia. For example, the transmigration

from society in java to the outside, because the transmigration one of the way to create the welfare of society and also reducing population density in that island.

### **C. The Condition of Indonesian Economy**

Indonesia as the independent country has passed dark times from several years ago. Indonesian economy faced by monetary crisis twice in 1997 and 2008, meanwhile the cause of problem in 1997 is because rupiah depreciated dramatically toward dollar and foreign exchange still uses free system without any control from government. In 2008, the same condition faced again by Indonesia, the causes is because of economy of the world faced by new stage that is the failure stabilization of global economy, meanwhile financial crisis expanded to the several countries.

The incident which occurs at 1997 and 2008 became the valuable lesson for Central bank of Indonesia and also Indonesia's government to create and support the fundamental economy of Indonesia, meanwhile the economy of the world always show positive effect after monetary crisis. The growth of economic activity absolutely supports the economic activity in Indonesia. Central Bank of Indonesia encourages policy strategy for handling inflation through interest rate policy, exchange rate and also macroprudential policy for protecting macro economy stabilization and financial system in the middle of

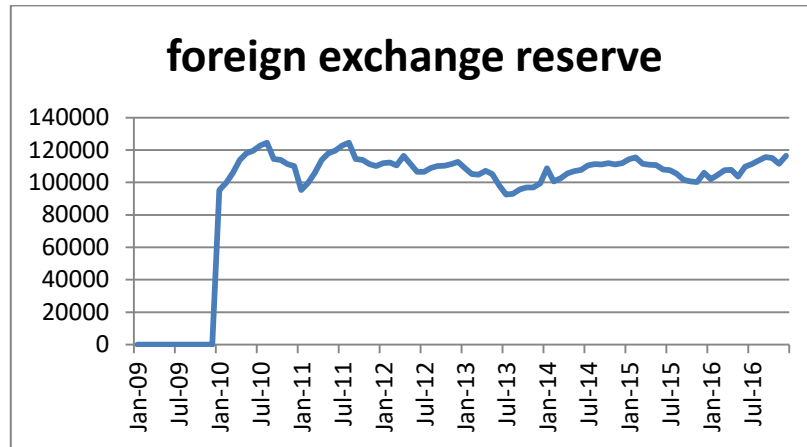
crisis economy globalization. Macroprudential depend on consideration with monetary stabilization and financial stabilization to face economic uncertainty and global financial which suddenly can threat macroeconomic stabilization and financial system in Indonesia.

The Indonesian economy estimated to be able to withstand shocks amid a slowing global economy. While, economy growth is increasing around 6.3% to 6.7% in 2012, the source of economic growth was supported by domestic demand, investment, and consumption. The Economy of Indonesia in the middle term estimated improved and have sustainability with protecting macroeconomic stabilization. Meanwhile, that condition is supported by investment growth, high domestic consumption and sustainable. The recovery of Indonesian's economic condition and the investment which has high growth in 2011 estimated can increase continuously in the future, including investment from infrastructure sector would increase national capacity and productivity. Indonesia economy in the middle term estimated can be able to grow around 6.6% -7.4% in 2016, meanwhile inflation decrease gradually from 4.0% to 1% in 2016.

#### **D. The Development of Foreign exchange reserve in Indonesia from January 2009 until December 2016**

There are several factors which have influence toward development of foreign exchange reserve in Indonesia. A few years ago in 1997, Indonesia face crisis monetary and still use free foreign exchange reserve system which means, the people have right for trading them in the market without any protection and supervision from government. That condition make foreign exchange reserve is feeble and cannot pay the ability of private debt which has high interest.

The new policy of foreign exchange reserve sector which is issued by the Central bank of Indonesia is about the policy from export and foreign debt source at September 2011. That policy based on the requirement of foreign exchange's liquidity, especially if suddenly occur capital reversal. The existence of foreign exchange can fulfill the demand of foreign exchange in the domestic market and also support macroeconomic stabilization especially exchange rate stabilization. There is two potential source of charity to add foreign exchange, they are withdrawal of foreign exchange from export source and withdrawal of foreign exchange from foreign debt source, furthermore Central bank of Indonesia issued the regulation about monitoring foreign exchange bank activity in PBI Number.13/21/PBI/2011 at 30 September 2011 and the regulation about obligation withdrawal foreign exchange report from domestic in PBI Number.13/22/PBI/2011 at 30 September 2011. As can be seen the movement of foreign exchange in table 4, from January 2011 until December 2016.



(Source: Bank Indonesia, 2016)

(Picture 4.1: figuring the growth of foreign exchange reserve from 2011:01-2016:12)

The development of foreign exchange reserve in several years ago after monetary crisis that occur in 2009 increased gradually. While, Foreign exchange reserve reach in the lower level, when Indonesia was attacked by monetary crisis in 2009, thereby foreign exchange reserve just enough for purchasing 3 until 4 months import liabilities. The movement of foreign exchange reserve from January 2010 always increasing around US\$ 69562,47 billions until July 2011, after that the trend is fluctuated from January 2012 until July 2012 and decreasing in June 2013 around US\$ -16108.94 billions. The decreasing of foreign exchange reserve in June 2013 is because of purchasing import liabilities and also interest rate of foreign debt payment is increasing, so that foreign exchange reserve sustain reduction in the end of June. The development of foreign exchange reserve in 2014 is increasing from January 2014 until July 2014, and after that decrease around US\$ -

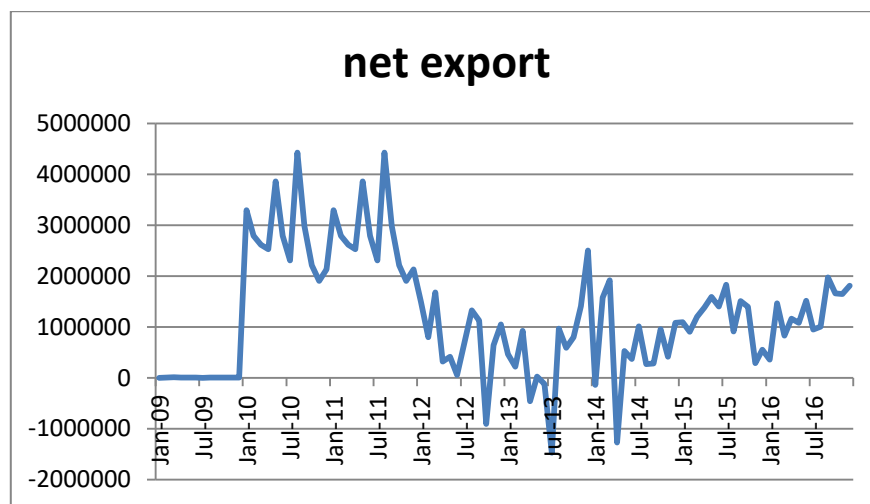
6696.52 billions in July 2015, but the condition in 2015 is better rather than 2013, the causes of decreasing foreign exchange reserve in several months of 2015 is because the dollar of America is appreciates and the economy of China is decreasing because price of commodity. The condition foreign exchange reserve at the end of November 2016 is lower than the condition at the end of October 2016. The decline in foreign exchange reserve at the end of November was due to foreign debt purchases and use them to stabilize the rupiah value, even though the foreign exchange reserve declined, but the position of foreign exchange reserve at the end of November 2016 is enough to pay 8,5 or 8,1 monthly import and government's foreign debt.

The Central bank of Indonesia examined that the position of foreign exchange reserve is secure at the international standard of adequacy around 3 monthly imports. Central Bank of Indonesia estimated if decreasing of foreign exchange reserve is temporary and always followed by increasing domestic economy and good performance from the export sector. They believe if foreign exchange reserve capable to support the resilience of external sector and protecting sustainability of Indonesia economy growth in the future

#### **E. The Development of Net Export from January 2009 until December 2016**

Net export has an important role toward the balance of payment, it as one of component to determine the calculation of the balance of payment and

foreign exchange reserve. The surplus or deficit in the total of net export depends on the several factors. Typically, net export deficit if import liabilities are greater than export expenditure, while net export are surpluses, if export spending more than import payments. It means the calculation net export is derived from the total of export expenditure reduced by import activity in that country. As can be seen in picture 6, the development of net export each month from January 2011 until December 2016



Source: Bank Indonesia, 2016

(Picture 4.2: figuring the development of net export from January 2009-December 2016)

The table above describes the development of net export since 8 years ago, the fluctuation remained stable from January 2009 until at the end of November 2011, although the development of net export at the beginning of January is lower, but that is still showed positive condition. The condition net

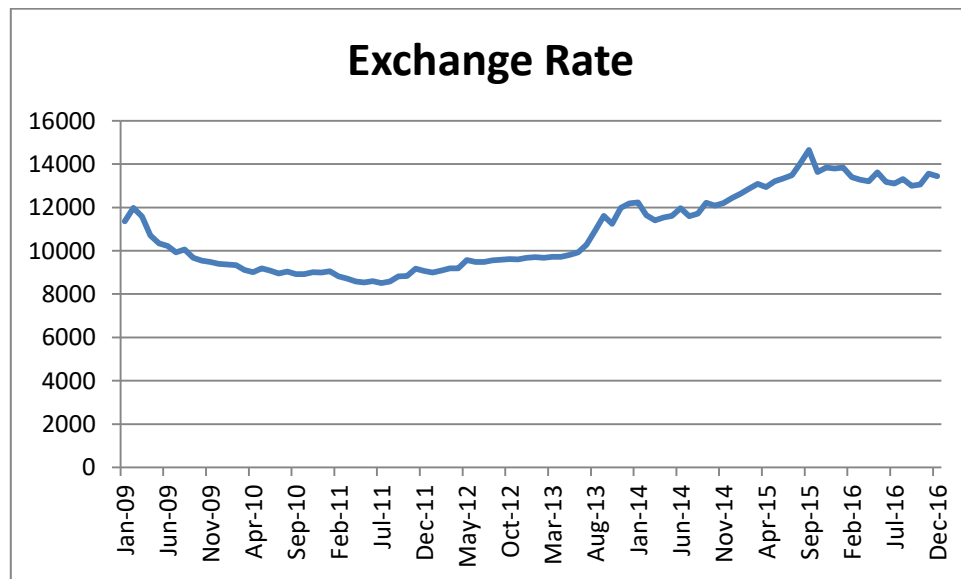


export after monetary crisis that occur in 2008 is still safe, although the oil imported higher rather than oil exported. The condition always fluctuate from 2010 until 2011, but there is the decline in the value of net export in 2012, the causes of decreasing value is due to weakening export performance, but the dominant reason is because import activity increased and made the deficit value in balance of payment. According to the Deputy Minister of commerce said if deficit value in the balance of payment is supported by increasing oil demand from abroad, meanwhile the oil adequacy in domestic is limited so that Indonesia must imported oil from abroad to sufficient oil demand in the country. The calculation net export in 2013 have same value as the decreasing value in 2012, the causes is because oil import activity is increasing rather than export activity, then the decreasing value in net export give impact to the deficit balance of payment in 2013.

The condition net export from 2014 until 2016 still show slowdown movement, because of oil demand from abroad is higher rather than non-oil demand. Meanwhile the domestic oil sector is lower than the domestic non-oil sector, so the export value is dominated by the non-oil sector, however there is increasing value of net export from nonoil sector around 1.22% in October 2016, an increase in non-oil and gas sector in October compared to the previous month, while export from oil sector still faced value reduction in October 2016.

## F. The Growth of Exchange Rate from January 2009 until December 2016

Exchange rate has role important toward the fundamental economy in Indonesia from monetary policy, because the meaning exchange rate itself is the Rupiah's relative price to the exchange rate in other countries, so that the fluctuation of the Rupiah depends on the value of the USD. The development of exchange rate from January 2009 until December 2016 fluctuates from month to the month, as can be seen the movement of the exchange rate in the table below.



Source: Central Bank Indonesia, 2016

(Picture 4.3: figuring the growth of exchange rate from January 2009 – December 2016)

The table above shows the development of exchange rate in several years ago, the condition of the exchange rate after monetary crisis from the beginning of January 2009 reached at the level IDR 11.355,00. This condition indicates that the Rupiah depreciates against the Dollar, it is caused by the condition after the monetary crisis, although that condition give influence to the exchange rate, but the exchange rate from early 2010 until to the end of October 2011 is steady at around IDR 8.000,00 againts dollar. Whereas, The condition of exchange rate faced pressure in the semester two in 2011 and, exchange rate depreciate toward dollar at the level IDR 9.069,00, the reason is due to the withdrawal of capital from a half of investor in Indonesia. In addition, Movement of exchange rate consistently depreciate toward dollar from the beginning of the year at the level IDR 9.000,00 until the end of the year at the level IDR 9.605,00. Indonesian exchange rate became the regional currency which has bad performance at that time, if comparing with other currency from several countries in Asia.

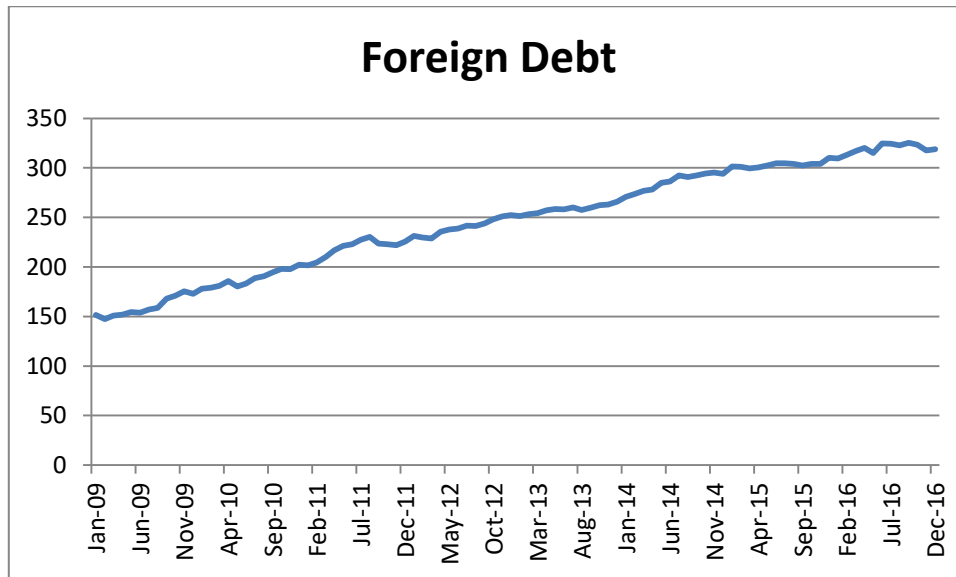
The position of the exchange rate is always depreciates against the dollar from December 2011 until December 2012, meanwhile the condition in 2013 actually faced the decreasing of the exchange rate is higher rather than the previous month in 2012. The causes of depreciation are because the inflation rate at that time reached in level 8.38% and import value is very high. Actually, the

depreciation problem of currency also is perceived with other countries except for Indonesia, almost the most of country whether development country or developing country face the similar problem as Indonesia's currency. Meanwhile, The condition of exchange rate face depreciation problem up to level 13.000,00 since 3 years ago. That condition recorded the depreciation of exchange rate value around 5.25% in quarter I 2015. The cause of currency depreciation is due to the global and domestic influence. Finally, the condition of the exchange rate from January until July in 2016 fluctuates from month to the month and exchange rate once faced appreciation at the level 12.998,00 in September 2016. Indonesian Central bank believed if that condition still normally because our country still use free foreign exchange and exchange rate system.

#### **G. The Growth of Foreign debt from January 2009 until December 2016**

Foreign debt is one instrument to help fiscal policy in the developing country. Moreover, foreign debt also is very important to sustain economic development in that country so that developing country can be reconciled toward developed countries. Indonesia as the developing country which use foreign debt to help economic development especially for increasing infrastructure such as bridge, street and other, However, borrowing much foreign debt caused the burden and disturb economy development in that country. As can be seen the

development foreign debt from January 2009 until December 2016 in the table below



Source: Indonesia Bank, 2016

(Picture 4.4: figuring the development of foreign debt from January 2009 until December 2016)

Based on the table above explain the development of foreign debt from the beginning of January 2009 always increasing until at the end of 2010, the causes is because the government covering budget deficit since 2009, and then foreign debt condition at the beginning of January 2011 until July 2011 is increasing around US\$ 25,853 millions. The causes of increasing foreign debt is because government debt and central bank debt is very higher rather than private debt. The total of foreign debt in 2012 is remained stable, and it still fluctuated from the beginning of the month until the end of the month. Meanwhile, the development of foreign debt showed the trend is slowing down until the end of the month in 2013, while the foreign debt

growth is slow whether in public sector or private sector. Foreign debt position in July 2014 began increased about U\$ 294,461 millions, that condition is increasing steadily about U\$ 295,331 millions until the end of November. Moreover, private debt increased from public debt in 2015, therefore foreign debt increased significantly in early 2015 to reach U\$ 301,387 millions, this condition is fluctuated until December 2015. The total of foreign debt always increase from January 2016 until foreign debt's calculation reach U\$ 320,018 millions in April 2016, that condition dominated by increasing private debt and government debt at that time and still fluctuated up to October 2016 and went down to about U\$ 317.694 millions in November 2016, even though foreign debt position is increasing from 2015 until December 2016, Central bank Indonesia estimates if the development foreign debt is still healthy and they still continue to monitor the development of foreign debt, especially foreign debt from private sector.