



Presentation to Financial Club

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The views expressed in this presentation are those of the author and should not be attributed to the International Monetary Fund, its Executive Board, or its Management

A Growing Crisis of Confidence

Private Debt

- Subprime crisis originates in US banks

Banking

- Systemic banking crisis spreads from US to Europe

Sovereign

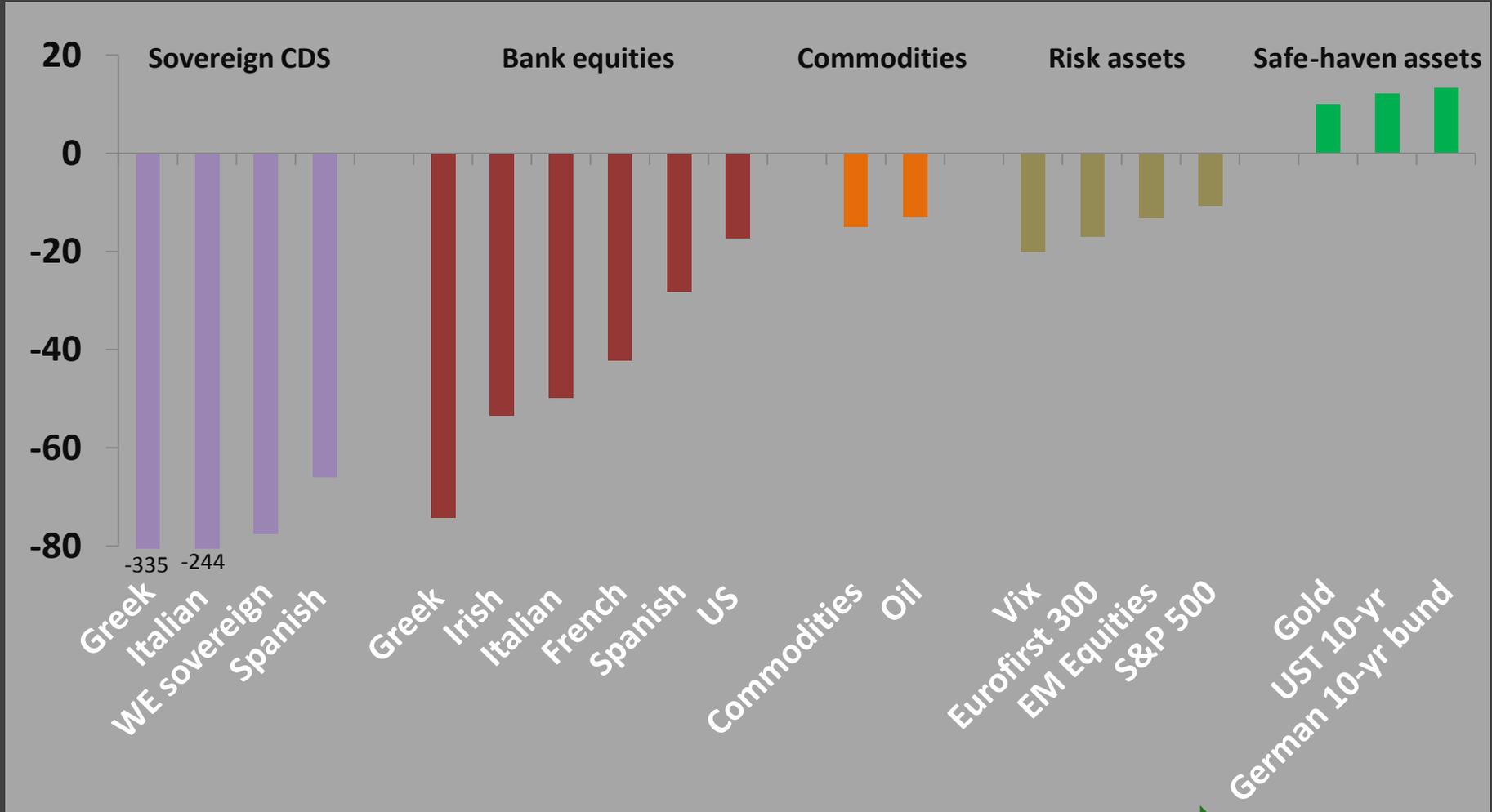
- Problems in euro periphery sovereign debt
- Medium-term debt burdens in core AE

Political

- Difficulty in reaching political consensus on fiscal consolidation and adjustment

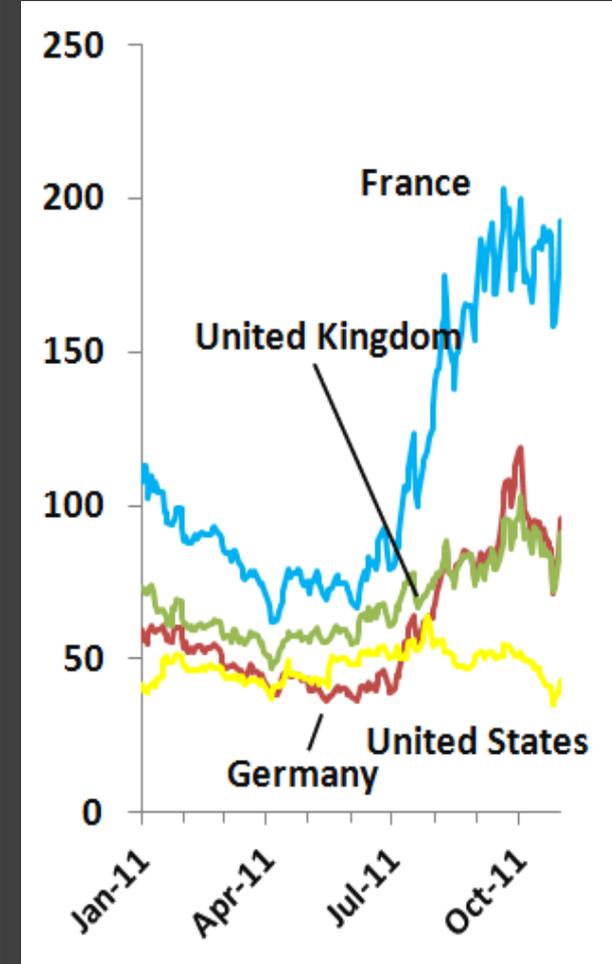
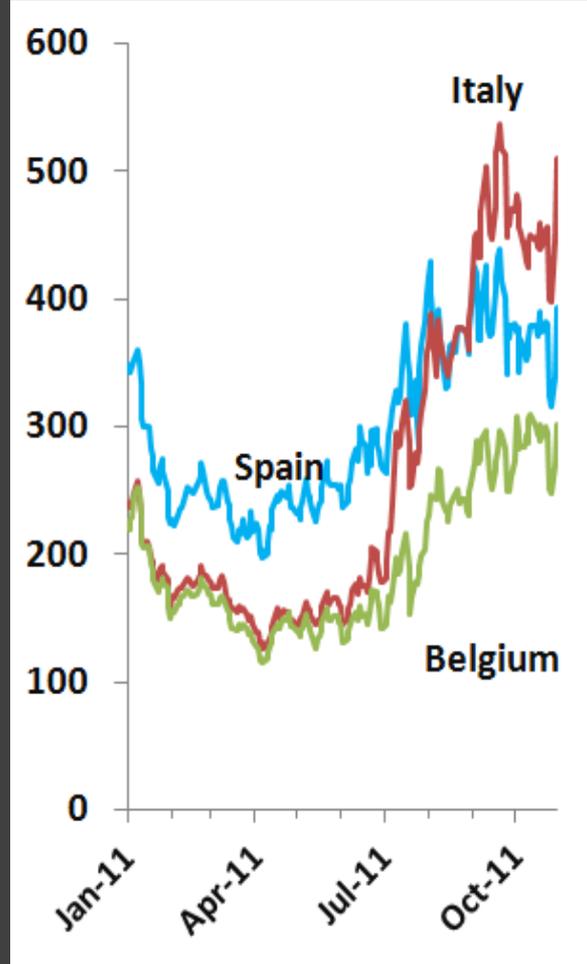
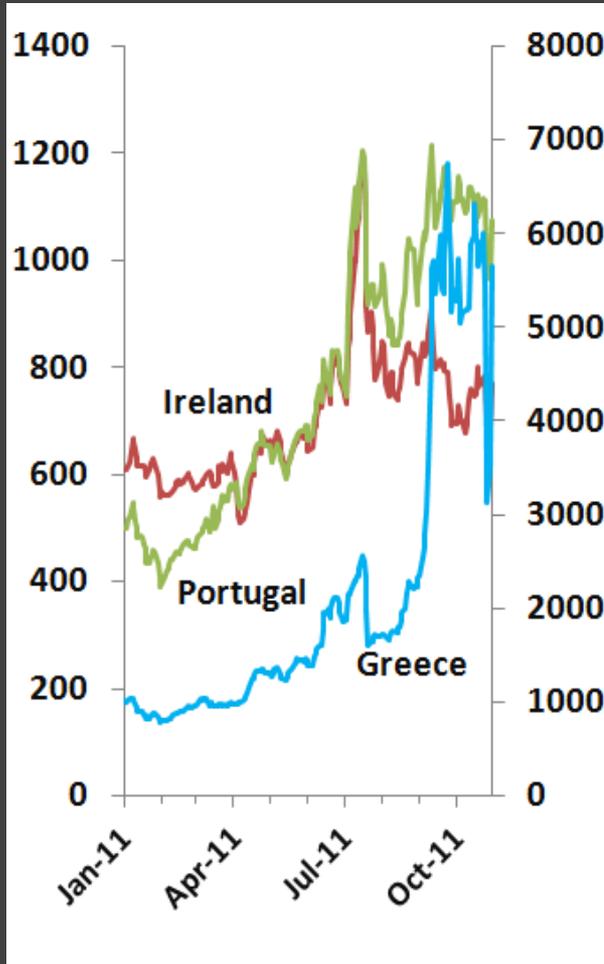
... Prompting a Flight to Safe Assets

Asset Price Performance since April GFSR
(percent, VIX in percentage points; VIX and sovereign CDS inverted)



Sovereign Strains Becoming More Widespread ...

Credit Default Swap Spreads
(basis points)



Euro Area Risk-free Debt Has Shrunk By Half

Spreads as of April 2010
(end-2009 debt)

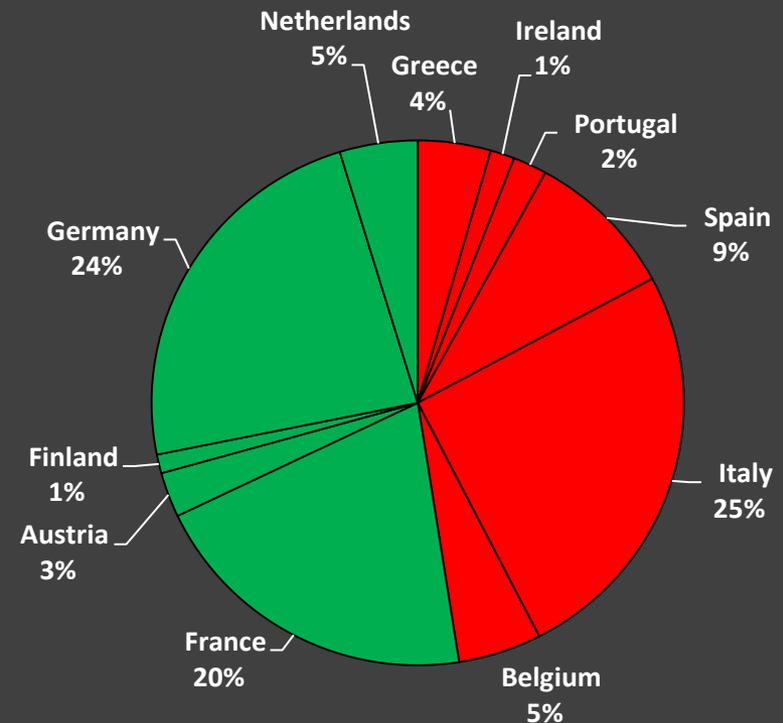
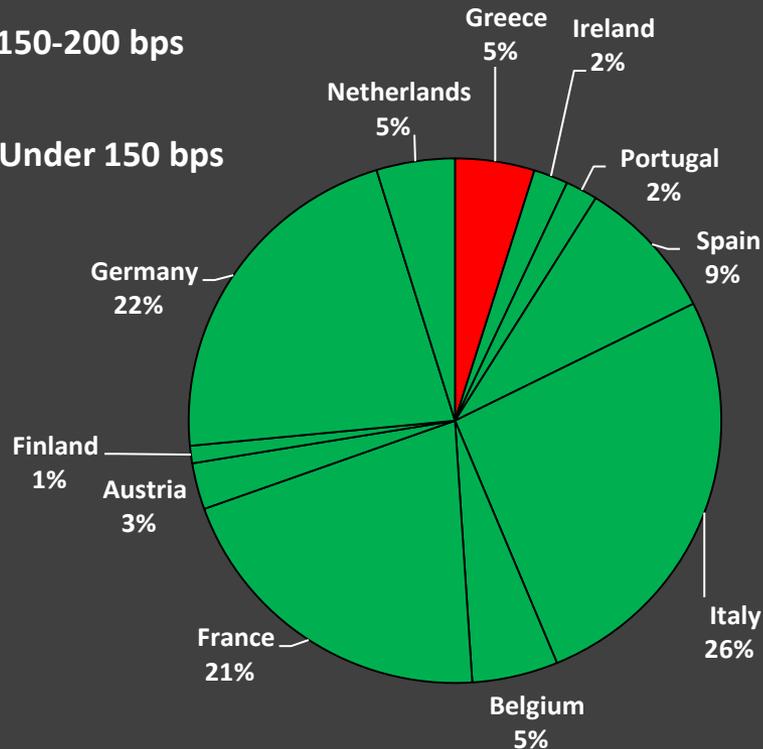
Spreads as of August 2011
(end-2010 debt)

Sovereign CDS spreads

Over 200 bps

150-200 bps

Under 150 bps

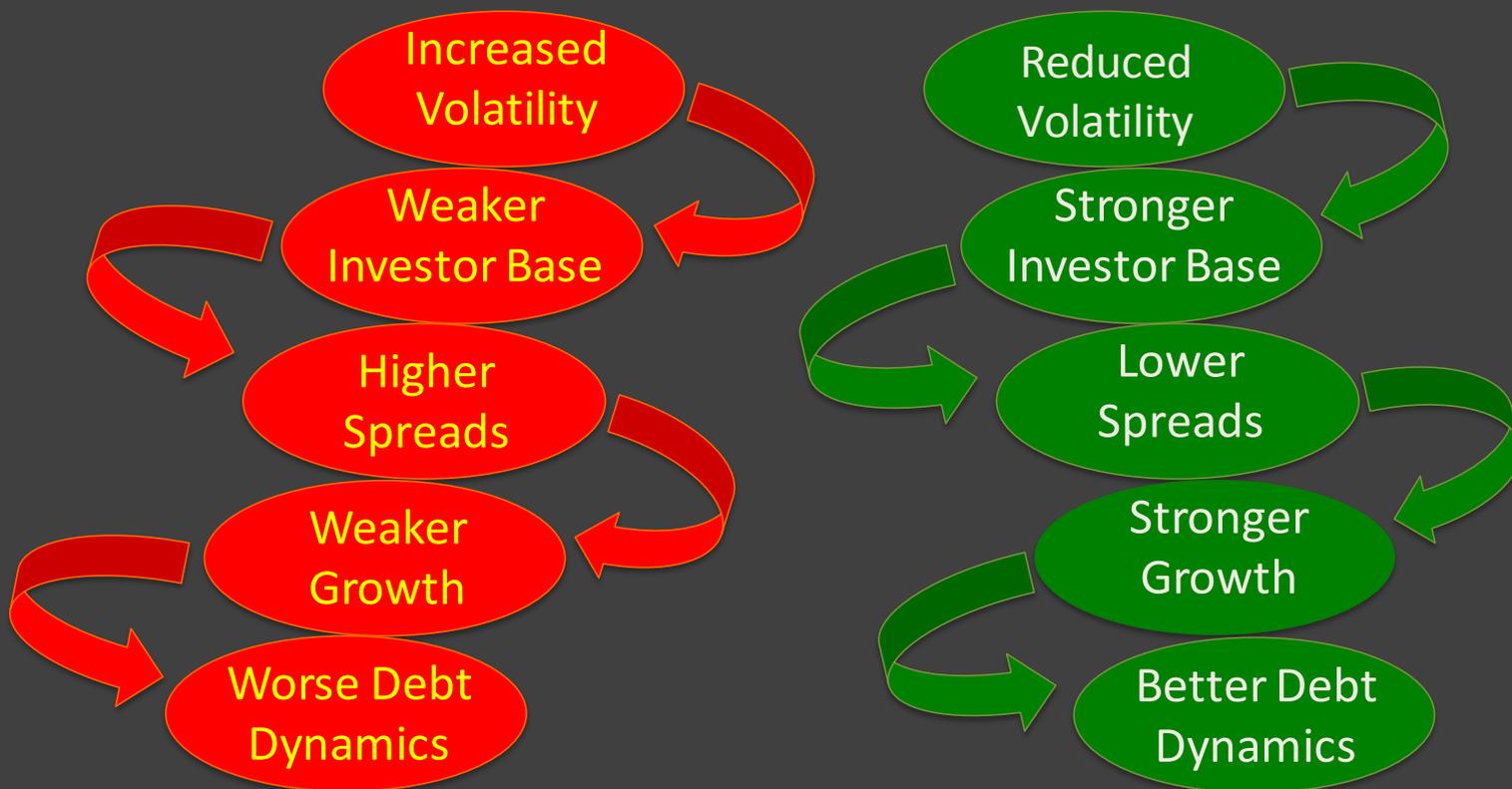


... Threatening a Shift Towards a Bad Equilibrium

**Shock to Debt Dynamics for
Vulnerable Sovereign**

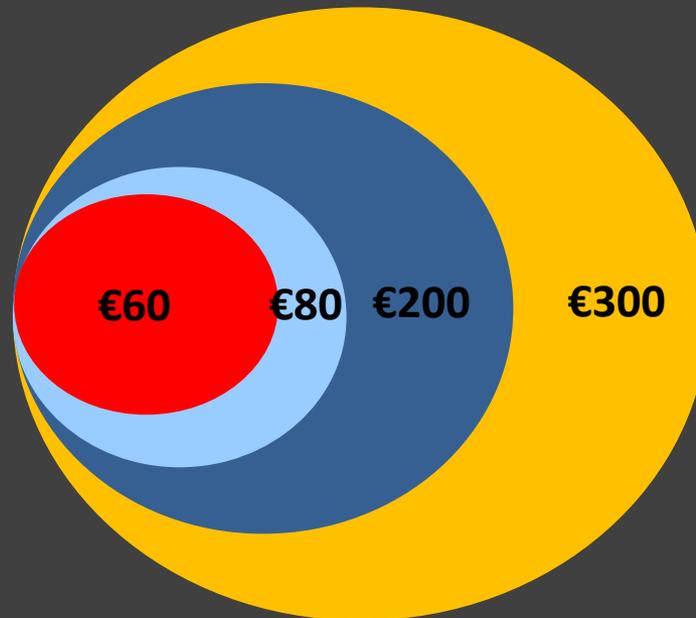
Bad Equilibrium
Inadequate
Policy Response

Good Equilibrium
Adequate
Policy Response



Euro Area Sovereign Risks Have Spilled Over to The EU Banking System ...

Cumulative Spillovers from High-Spread Euro Area Sovereigns to the European Banking System (€ bn)

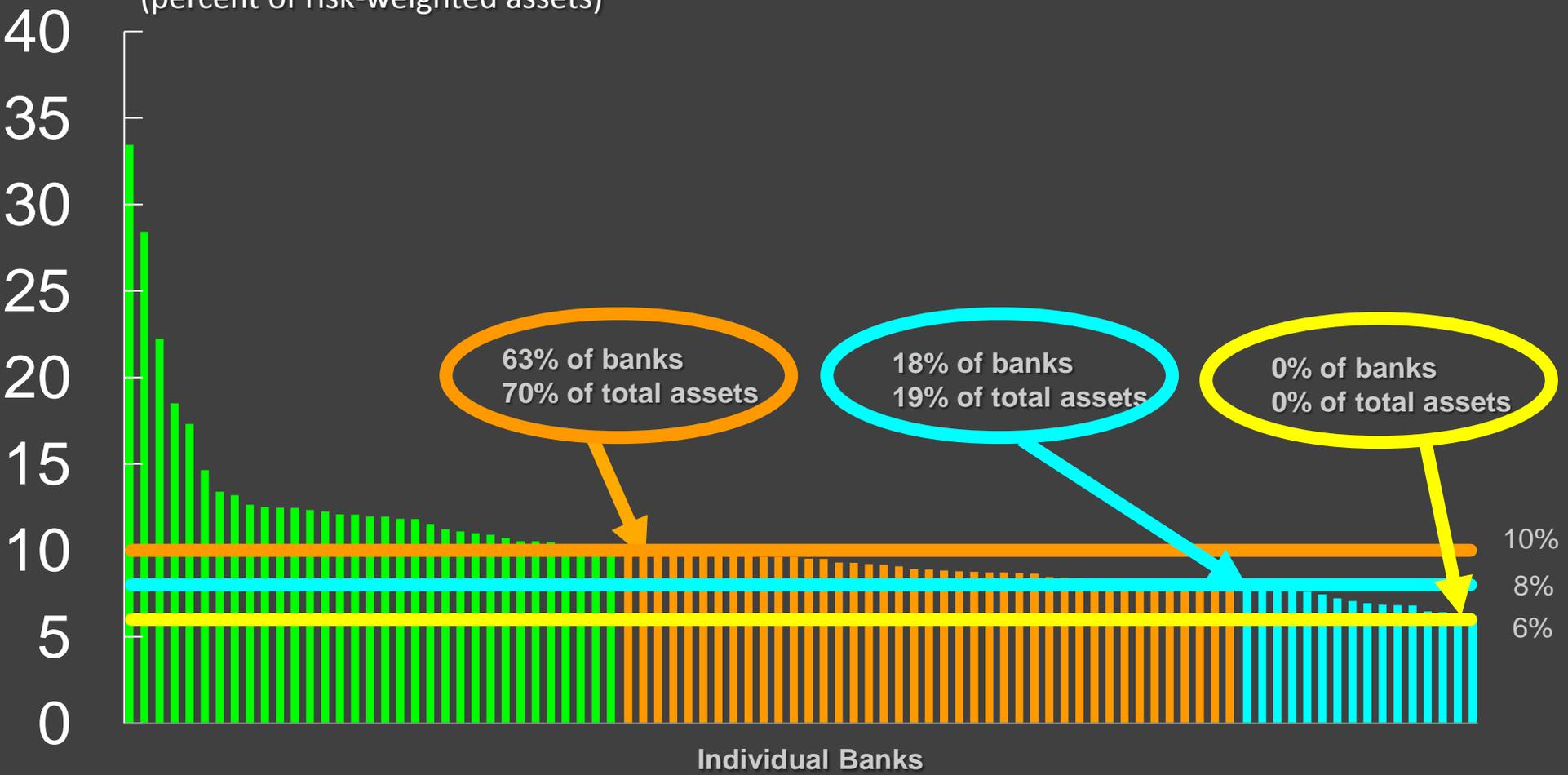


Spillovers from . . .

- Greek sovereign
- Irish & Portuguese sovereign
- Belgian, Spanish & Italian sovereign
- High-spread euro area banking sector

EU Banks Capital: Work in Progress

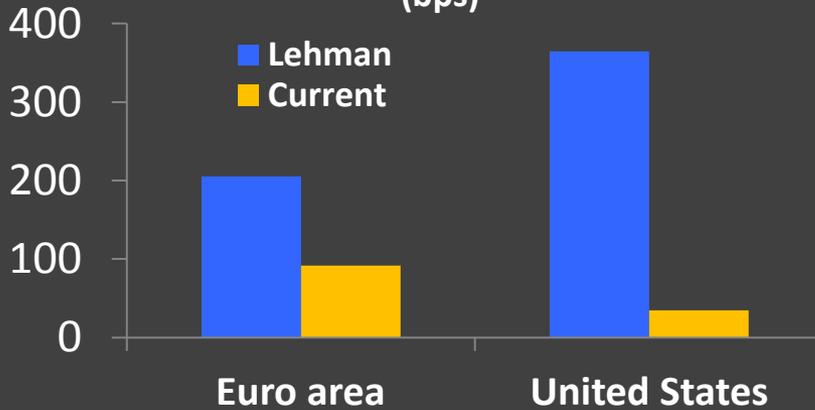
European Bank Core Tier 1 Ratios
(percent of risk-weighted assets)



What's Different From "Lehman"?

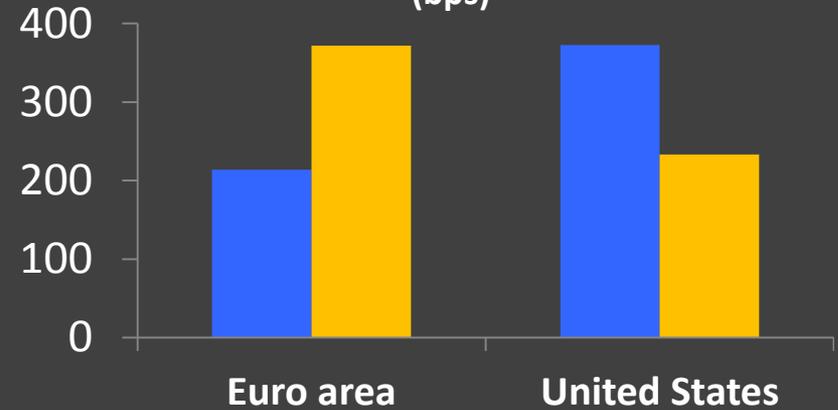
Interbank funding stress is less, while ...

Libor – OIS Spreads
(bps)



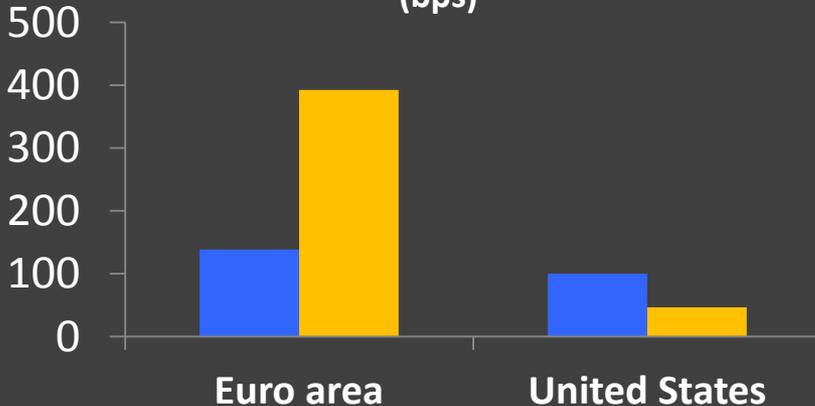
... risk perceptions are greater for European banks ...

Bank CDS Spreads
(bps)



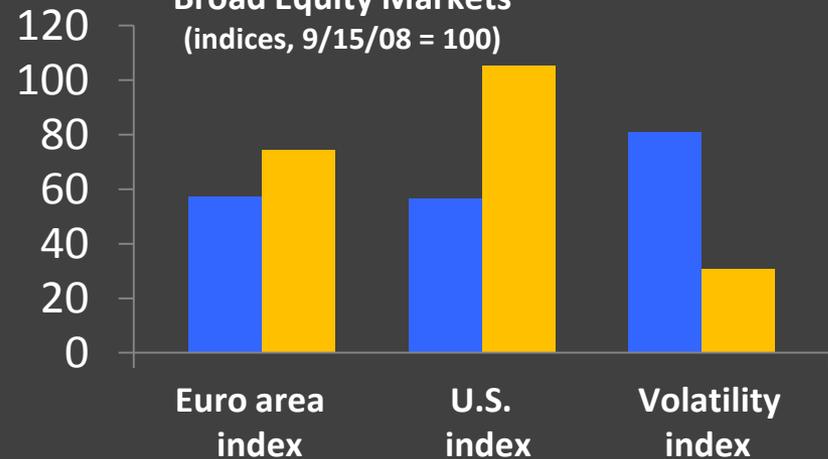
... partly due to sovereign strains ...

Sovereign CDS Spreads
(bps)

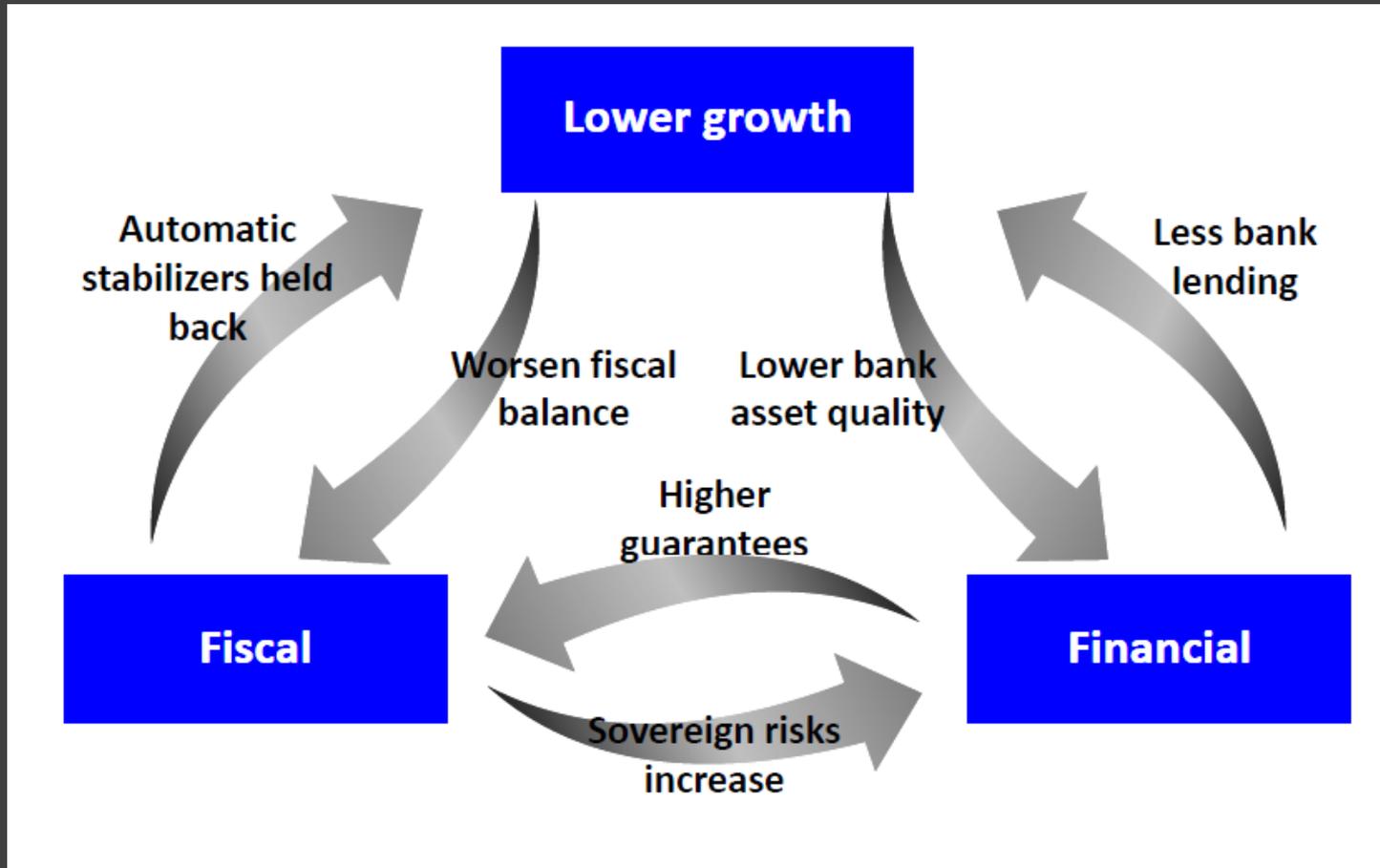


... with stress rising on broad markets ...

Broad Equity Markets
(indices, 9/15/08 = 100)

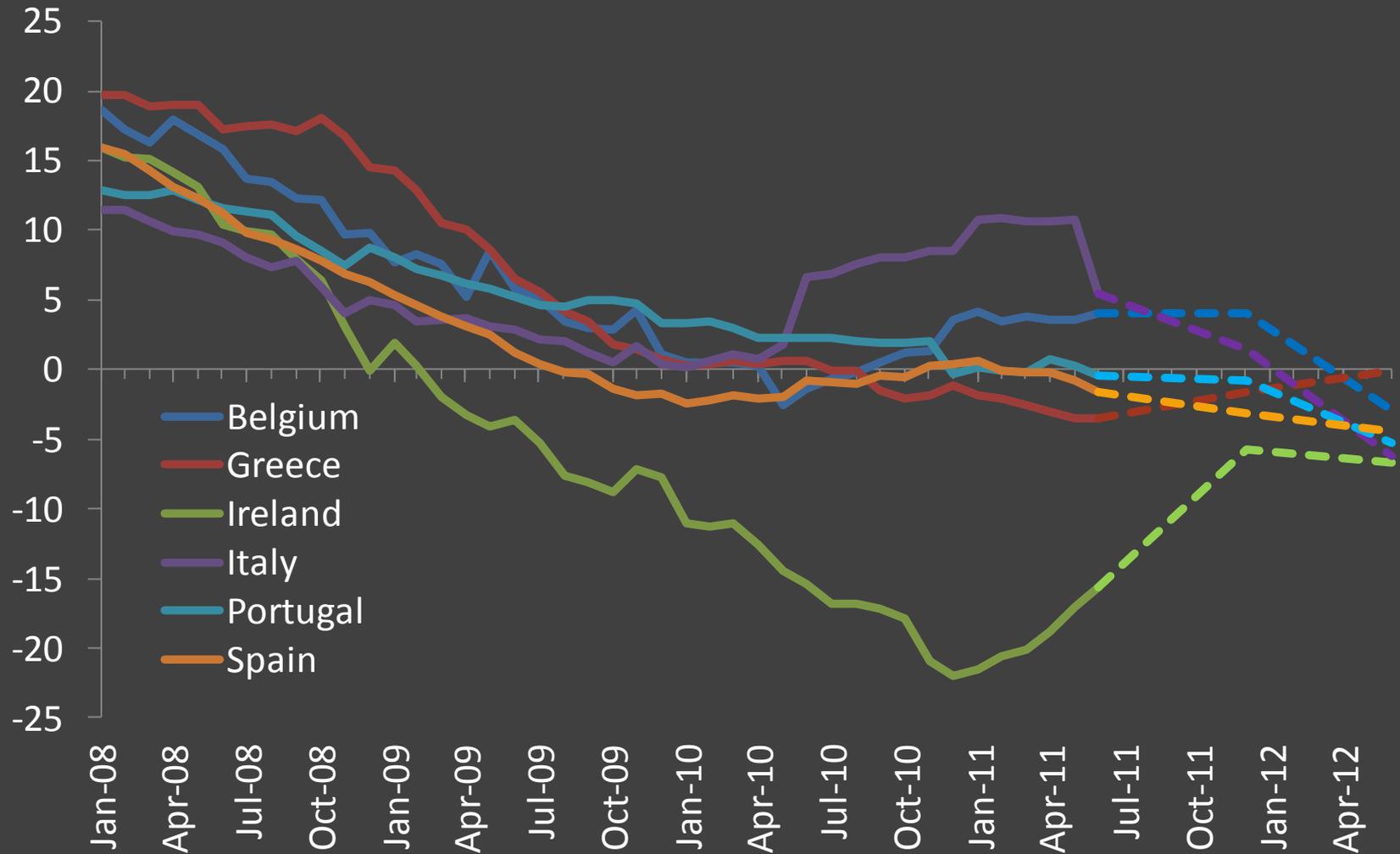


Risks — Negative Feedback Loops

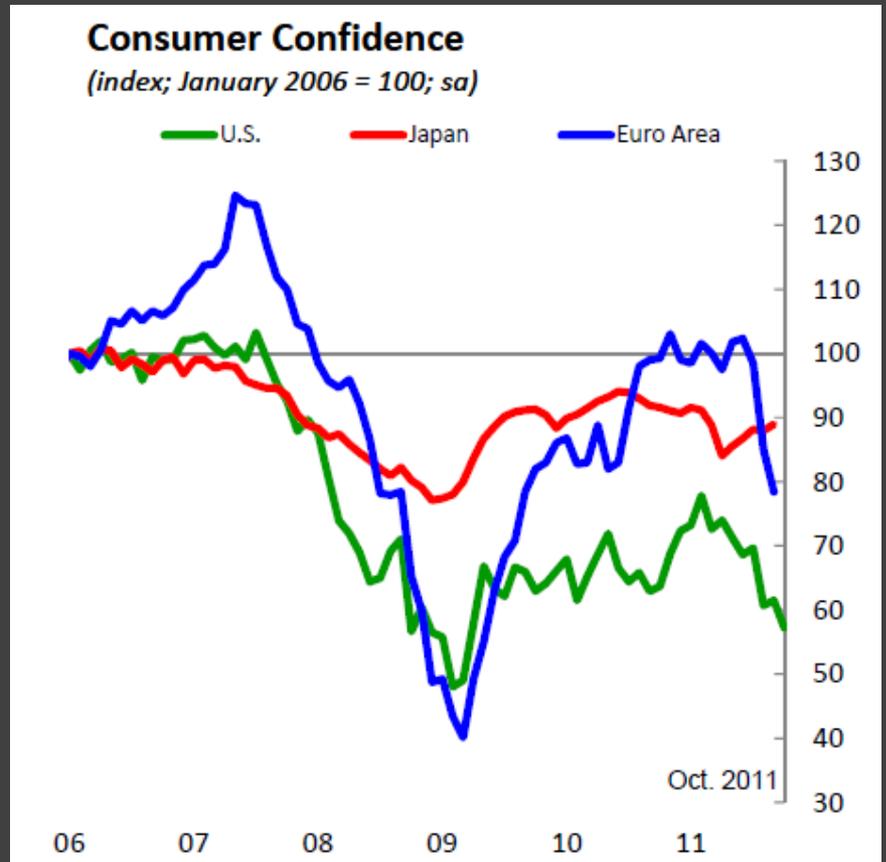
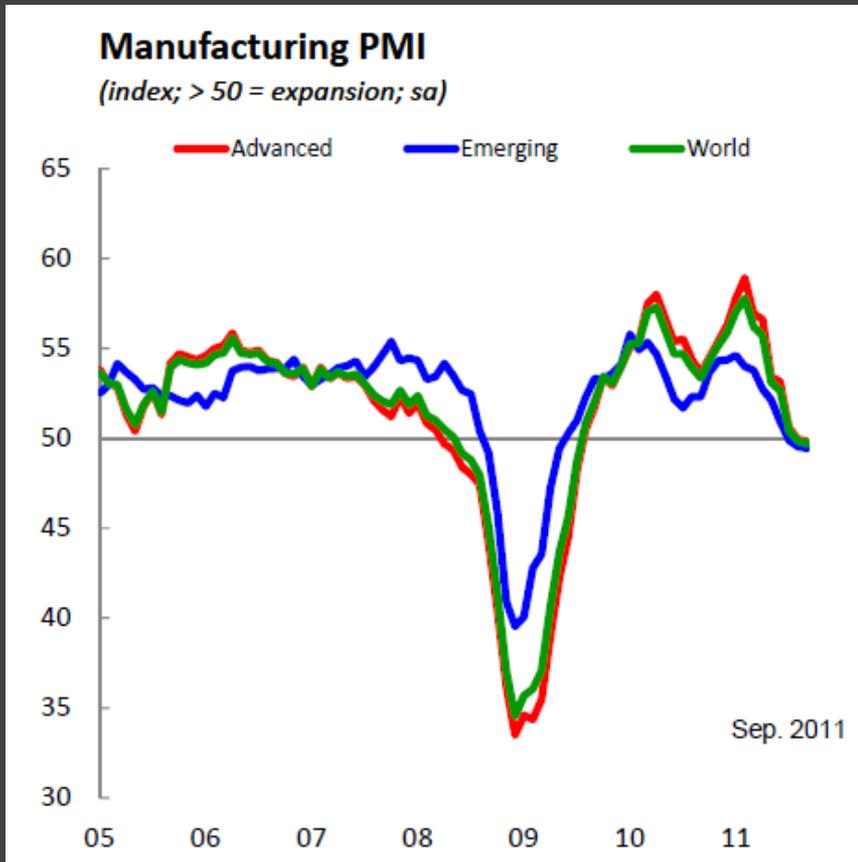


Real Economy Impact From Deleveraging?

Bank Credit to the Nonfinancial Private Sector Under a Deleveraging Scenario
(In percent year-on-year)



Global Activity Has Weakened as Confidence Has Fallen



Weakness is Projected to Persist

WEO Real GDP Growth Projections
(percent change from a year earlier)

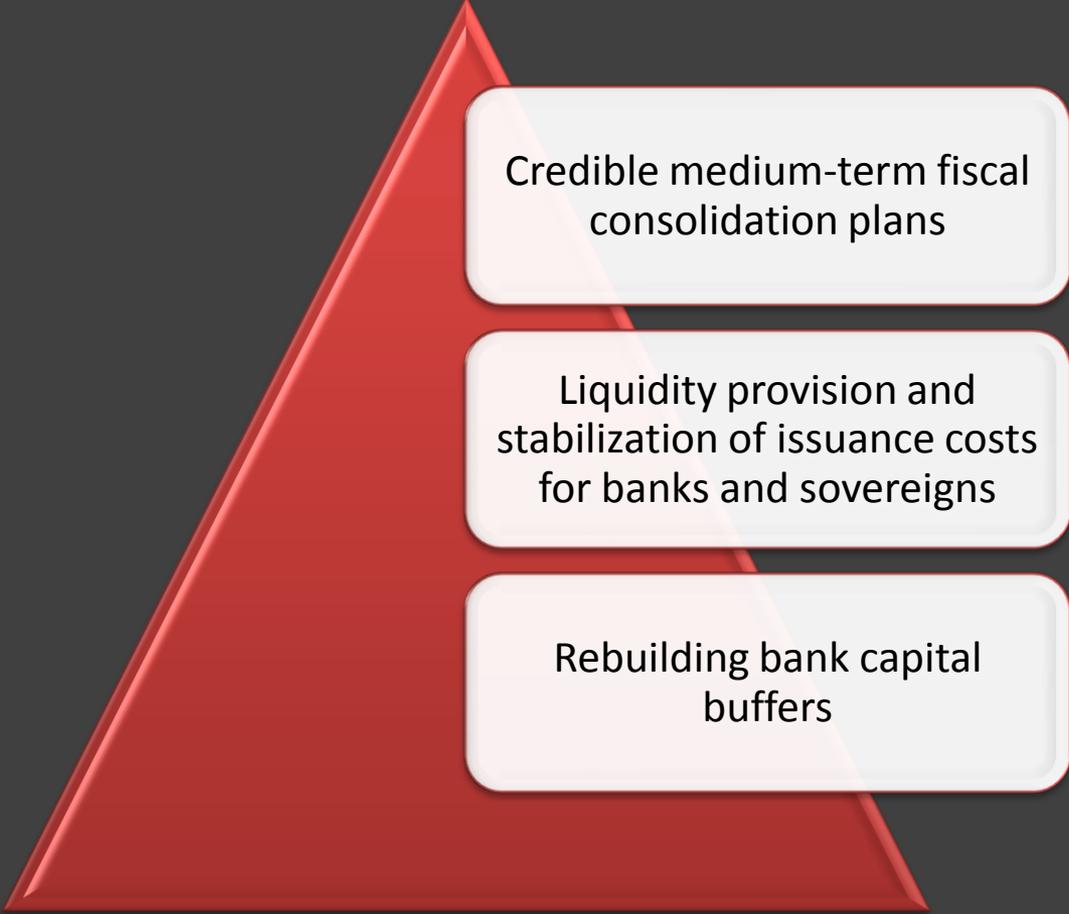
	World	Euro area	Adv. APEC	U.S.	Japan	Emg. APEC	China	Russia	Mexico
2011 (Sep 2011)	4.0	1.6	1.6	1.5	-0.5	7.6	9.5	4.3	3.8
2011 (Apr 2011)	4.4	1.6	2.8	2.8	1.4	7.8	9.6	4.8	4.6
2012 (Sep 2011)	4.0	1.1	2.3	1.8	2.3	7.3	9.0	4.1	3.6
2012 (Apr 2011)	4.5	1.8	2.9	2.9	2.1	7.7	9.5	4.5	4.0

WEO FORECAST AND RISKS

Key assumption underlying the baseline: financial recovery delayed not derailed.

1. Euro area crisis does not run out of control.
2. Global financial volatility does not escalate.
3. No major tightening of bank lending conditions.

Policy Imperatives

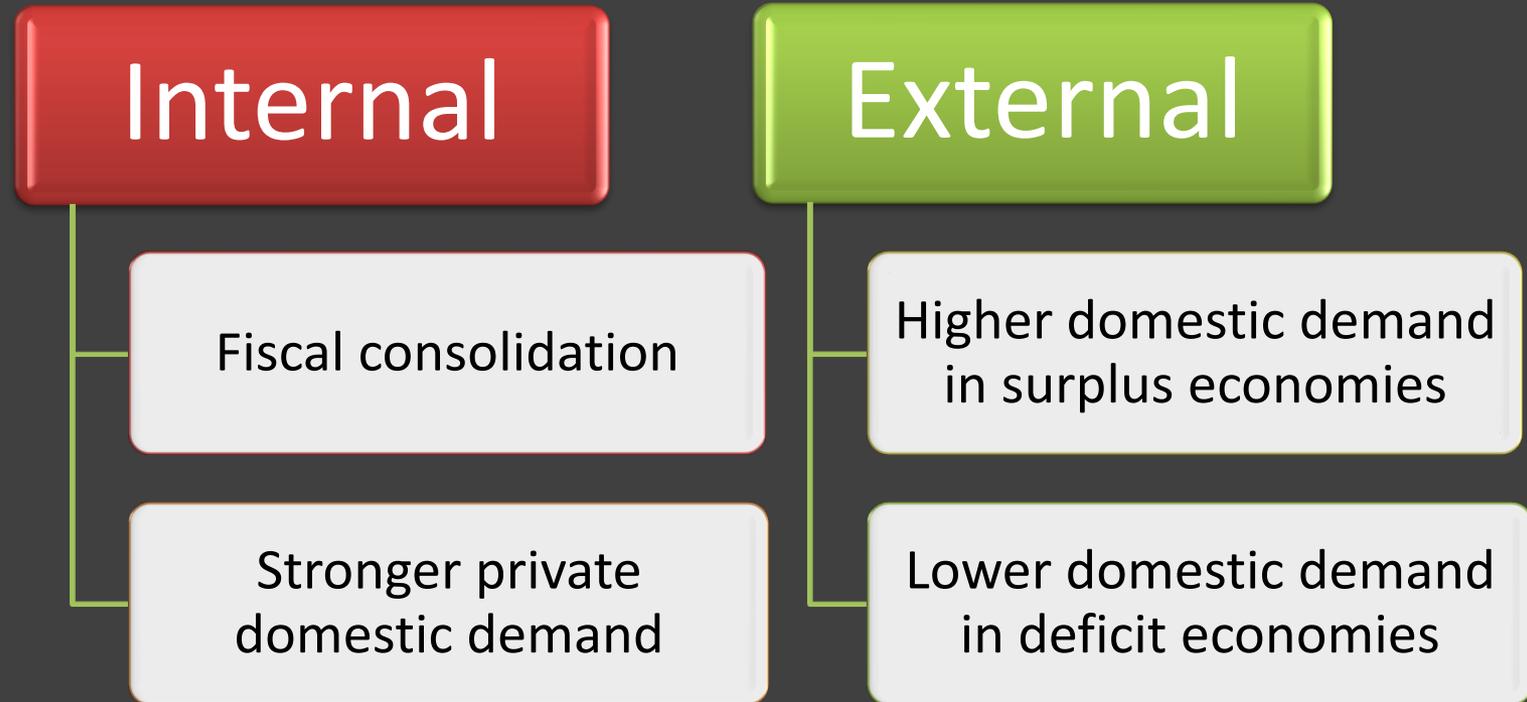


Credible medium-term fiscal consolidation plans

Liquidity provision and stabilization of issuance costs for banks and sovereigns

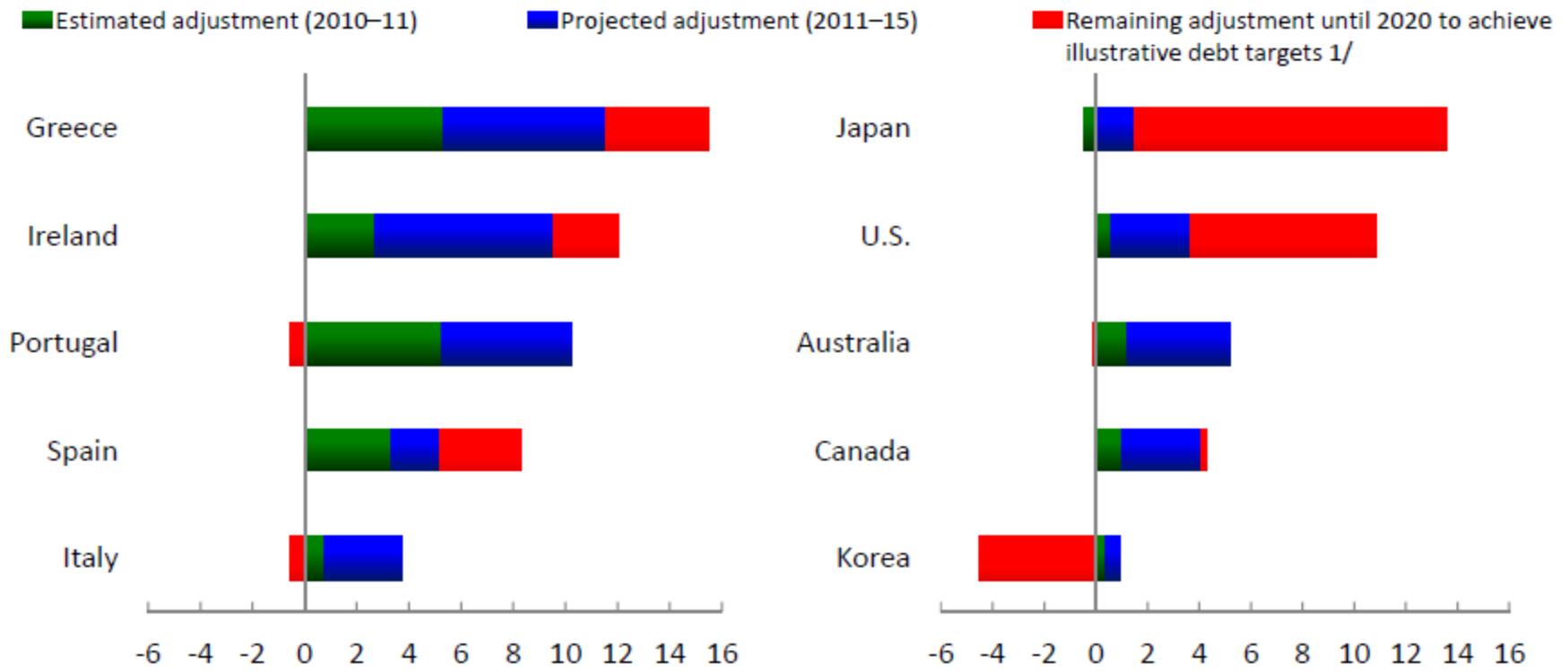
Rebuilding bank capital buffers

Two Rebalancing Acts



Fiscal Consolidation: Proceeding, But a Long Way to Go

Change in Cyclically-Adjusted Primary Balances
(percent of GDP)



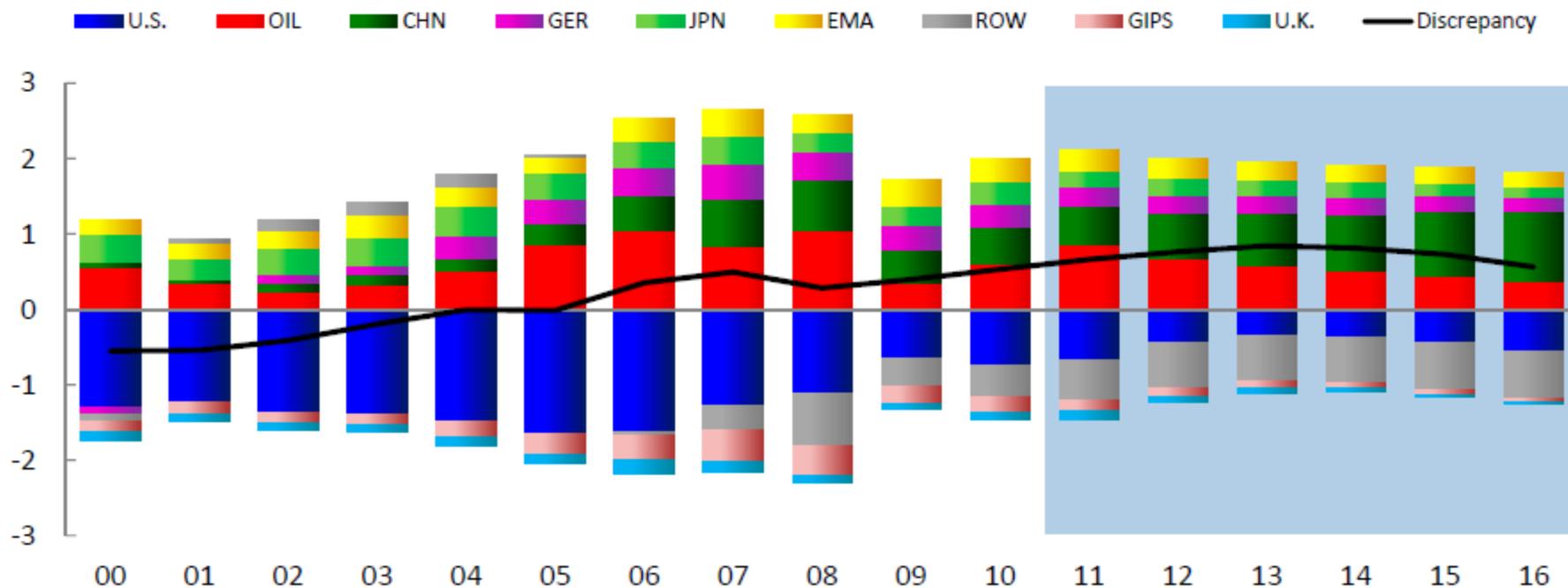
1/ Total required adjustment to reduce the gross debt ratio to 60 percent by 2030 (net debt target of 80 percent for Japan). After 2020, the primary balance must be maintained constant at the prevailing level until 2030.

Private Demand Weak in Advanced Economies

- Timid policies
- Slow bank balance sheet repair
- Sovereign debt concerns
- Low confidence
- Slow growth prospects
- Financial market stress
- Tighter financial conditions
- Mutually reinforcing concerns
- Particularly acute in Europe, but felt elsewhere as well

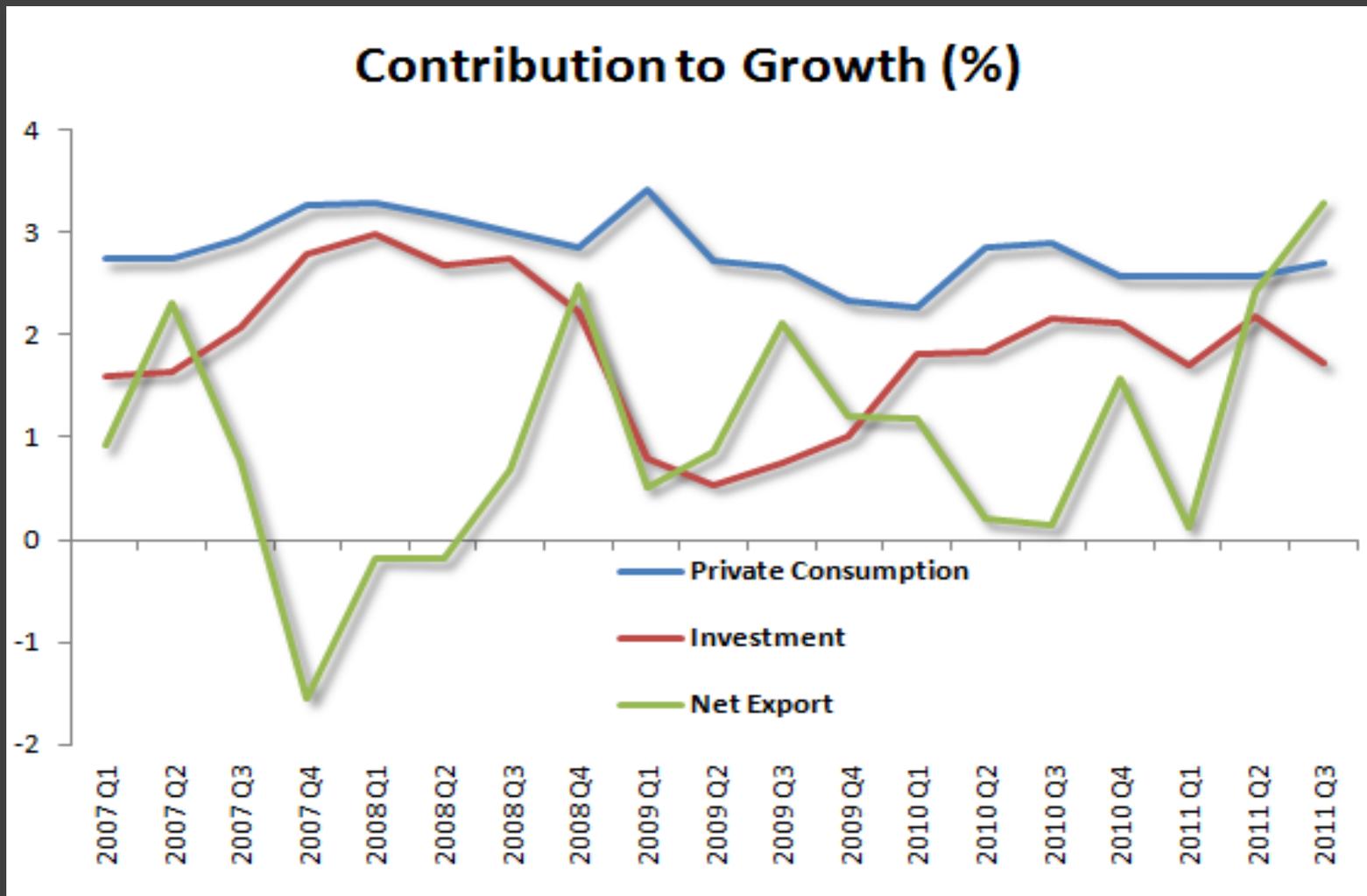
External Rebalancing Stalling

Global Imbalances 1/
(current account; percent of world GDP)

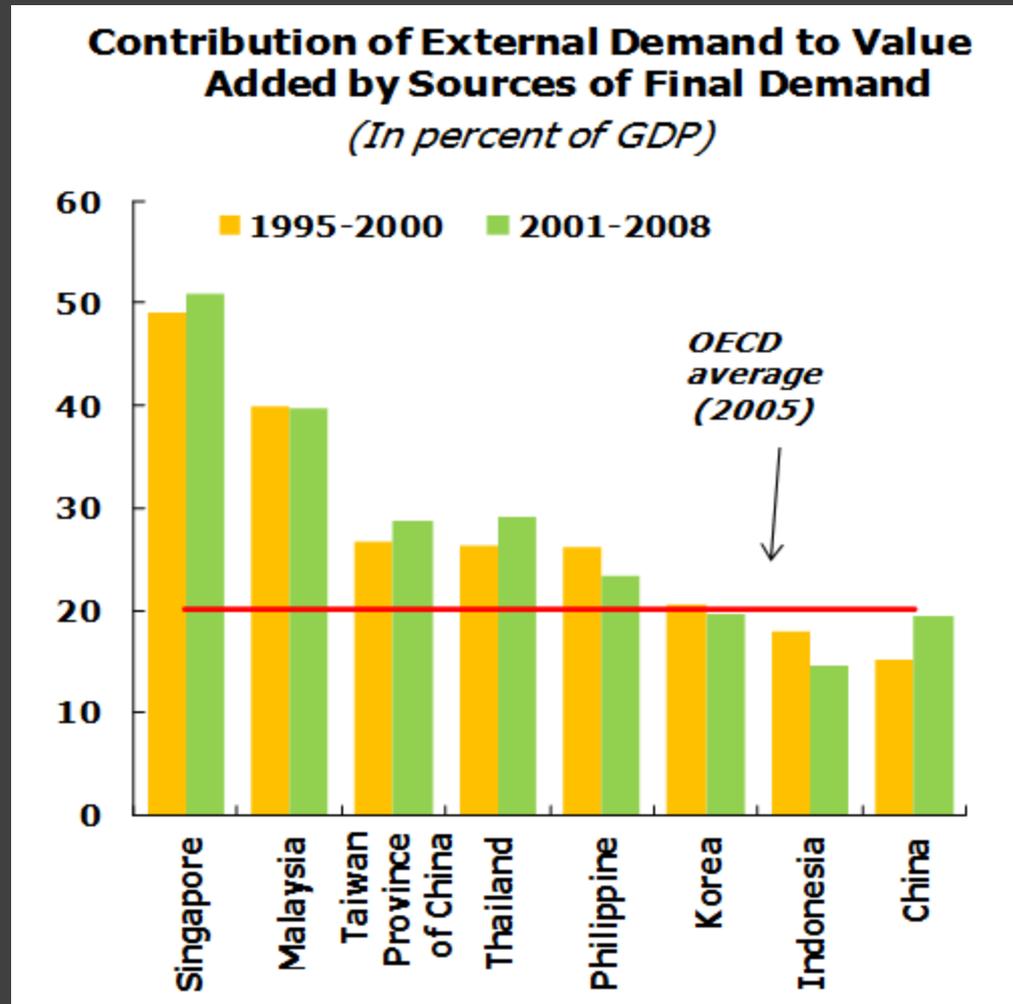


1/ OIL = Oil-exporting countries; EMA = Emerging Asia excluding China; ROW = Rest of the World; GIPS = Greece, Italy, Portugal, and Spain

Indonesia—Strong Short-term Growth Momentum



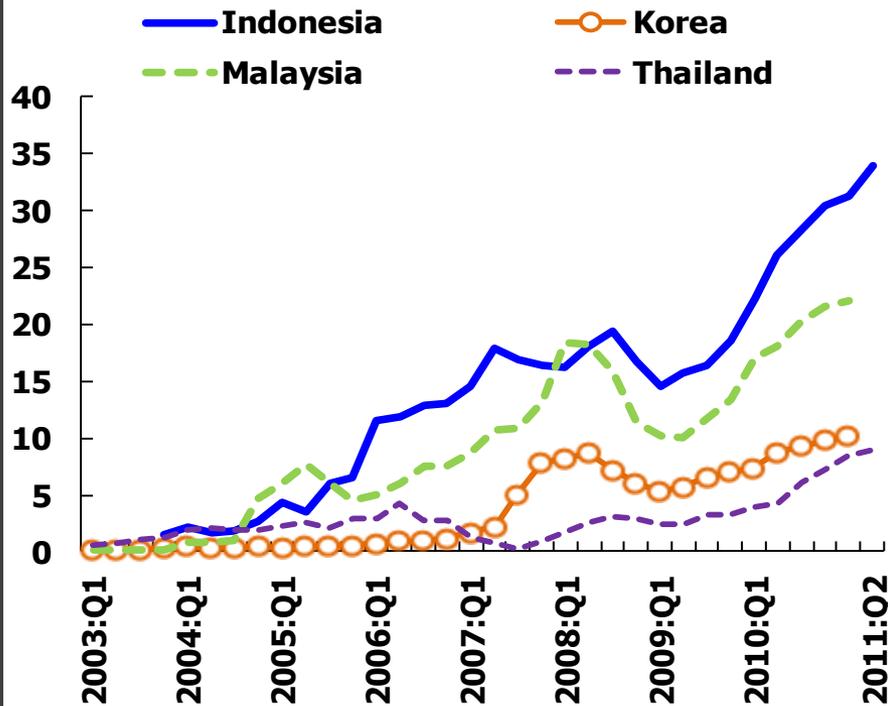
Indonesia Less Vulnerable to Trade Spillovers than Other Asian Countries



Low Exposure to European Banks, but Large Foreign Holdings of Government Debt

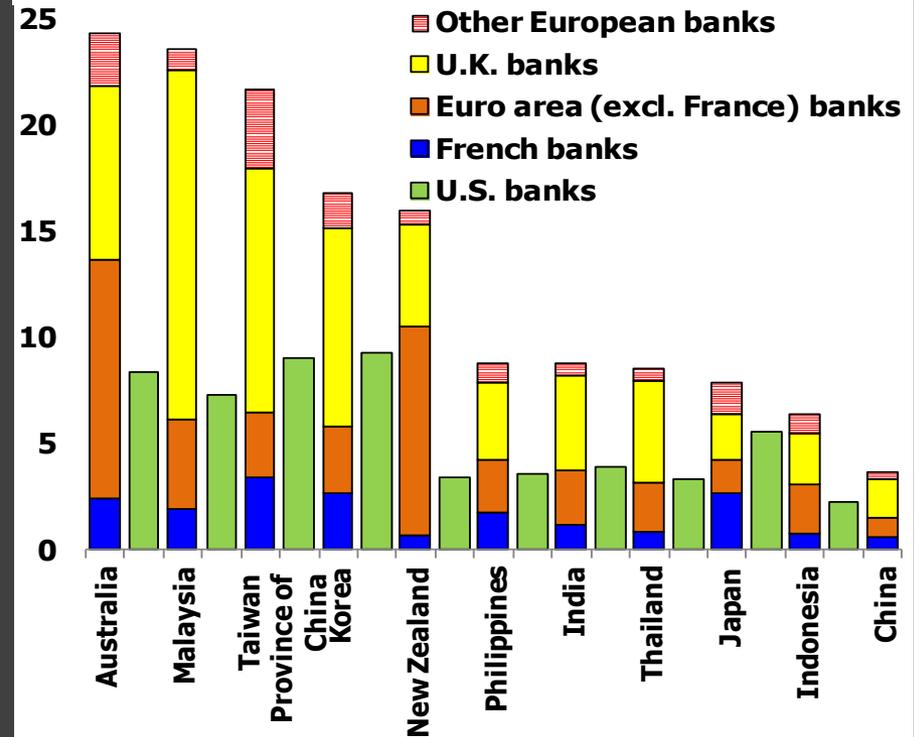
Selected Asia: Foreign Holdings in Local Currency Government Bonds

(In percent of total outstanding local currency government bond)



Consolidated Claims of European and U.S. Banks on Selected Asia

(In percent of GDP)



Note: Claims are on immediate borrower basis. Uses sum of quarterly GDP in U.S. dollar between 2010:Q2 and 2011:Q1 in the denominator.

Conclusion

Global economy has entered dangerous phase with sovereign debt problems and financial stress having a direct impact on economic activity and employment.

Bold and coordinated policies can still restore stability and solid growth.

Indonesia has strong macroeconomic fundamentals and can get through global financial turmoil and slowdown relatively less affected than other countries, but it has not decoupled from the global economy.

The IMF in Indonesia

www.imf.org

www.imf.org/external/country/IDN/rr/index.htm

Twitter: @IMFIndonesia



Thank You