



eBar

economic barometer survey
indonesia

October 2009

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Highlights



This report summarises the views of 137 Indonesia based senior executives in relation to the local economy, the world economy and their own businesses as at July 2009 and over the next 12 months.

The survey results indicate respondents are generally adopting an optimistic outlook towards business growth over the next 12 months. Respondents' attitudes toward the Indonesian economy are more positive than their views of the world economy. This partly due to the fact that Indonesia has a sizable domestic economy to support business growth.

Among the key findings of the survey:

Positive outlook

Attitudes towards Indonesia are relatively bullish, with 80% of senior executives surveyed optimistic about prospects for the Indonesian economy. In contrast, attitudes towards the prospects for the global economy are split between neutral (40%), optimistic (38%) and pessimistic (22%). Political stability, a calm and successful presidential election and continuous tax reforms are perceived to have a positive correlation with economic growth.

Uncertainty of regulations and laws is the top concern

Respondents said that political changes, taxation policies, investment rules and regulations are very likely to have an impact on their businesses looking forward. However, all industry sectors view the chief barrier to growth over the next 12 months as being the uncertainty of regulations and laws. An uncertain legal environment discourages new investors. In addition, the investment rules and regulations are seen to act against further investment by existing businesses. Competition is also being seen to be well and truly alive in all sectors.

Optimism in revenue growth projection

Amid the promising Gross Domestic Product (GDP) growth, business players in all sectors found the level of competition is heating up. Thus the revenue growth is expected to be shared among the existing players. Of those surveyed, 77% projected positive domestic revenue growth, with 35% expecting double-digit growth.

Profit margins under pressure

Despite a positive outlook toward the state of the economy and the prospect of business growth over the next 12 months, only 47% of senior executives surveyed expect any increase in their profit margins, 25% expect zero growth and 24% project a slight decrease. More than half of the respondents expect increases in operating costs, consistent with the general perception that inflation levels will be above 6%.

Invest in existing market to grow business

More institutions (82%) plan to invest in their existing businesses rather than to conduct mergers and acquisitions or set up new joint ventures / strategic alliances in pursuit of business growth. They look to be adopting a cautious approach, focusing on strengthening existing capabilities rather than transformative deals. There seems to be no urgency to do deals – indeed, more institutions are looking to organic growth to expand.

Among survey respondents actively seeking the opportunity to grow their businesses in the next 12 months, 54% intend to do so by increased penetration of existing markets. This expansion is expected

to be primarily financed through internally generated cash flows (56%) and traditional banking arrangements (23%). This is in contrast to the more mature markets, where financing is primarily sourced from the debt and equity markets.

Reduced demand from overseas

The global financial crisis has thrown Indonesian exporters (and those in other territories) into disarray. Those in the consumer and industrial products and services sector focusing on the export market anticipate a slowdown in demand. The financial services sector providing businesses support to these businesses is also expecting to be affected.

Workforce projections up

Looking ahead for the next 12 months, 45% of senior executives surveyed plan to hire new personnel. This implies real business growth expectations by a significant proportion of business.

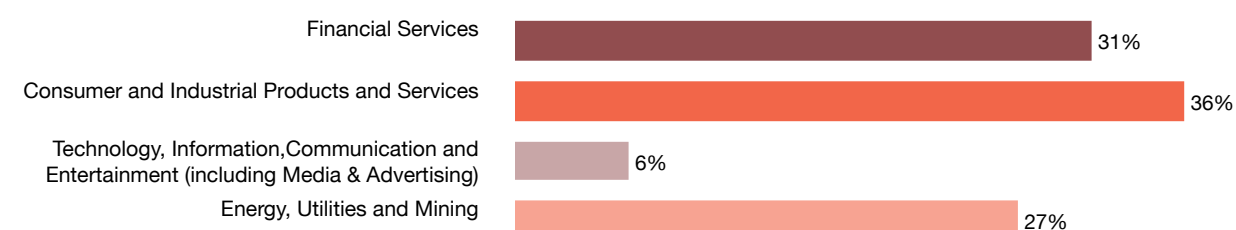
Forward looking

Business players are expecting that more friendly investment rules, a better legal environment and clarity concerning tax regulations as well as an ongoing, continuous fight against corruption will attract the interest of more investors.

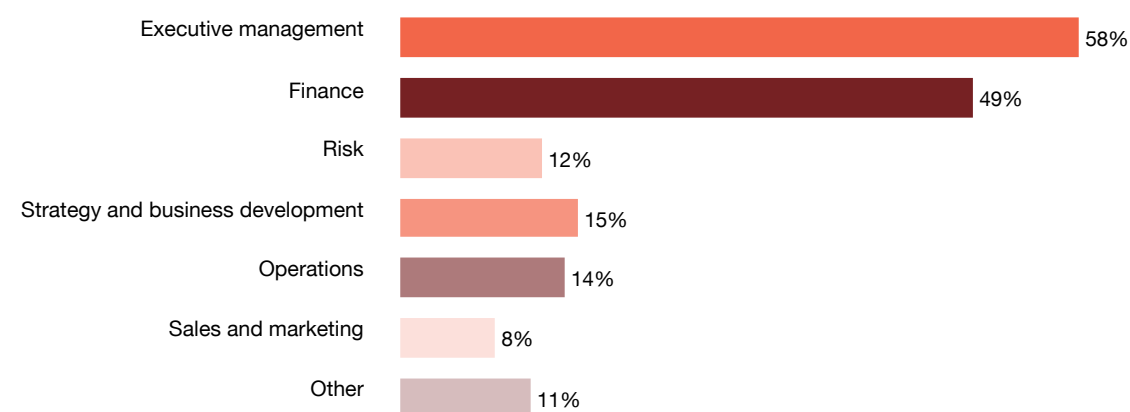
Survey demographics



Primary industry sector

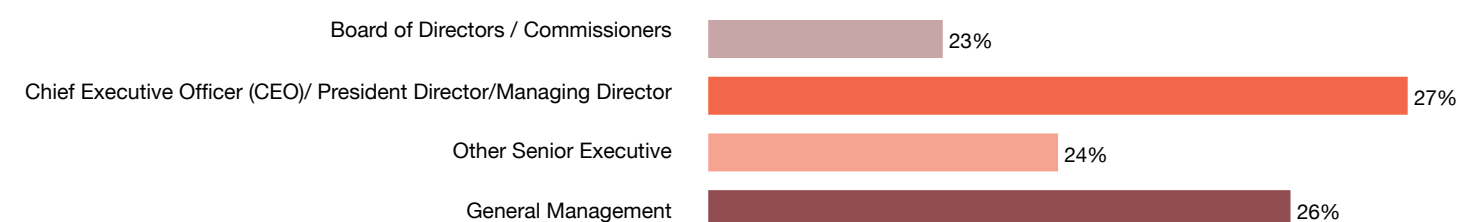


Main functional roles

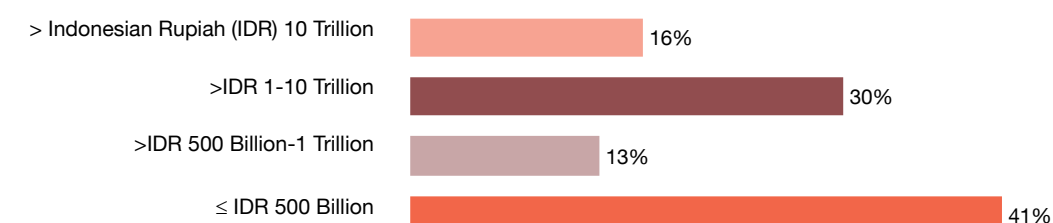


Notes : Some respondents have more than one functional role

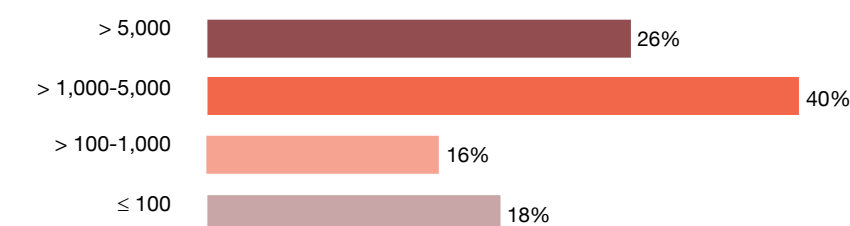
Title



Size of business - revenue (Indonesian operations only)



Size of business - direct employee numbers (Indonesian operations only)



About the survey

eBar is a bi-annual web based survey carried out by PricewaterhouseCoopers Indonesia. Our survey panel consists of senior executives from a cross-industry sample of large multinational and local companies based in Indonesia. The survey provides a view on the outlook of up to 12 months outlook of these senior executives on the state of the Indonesian and World economies, as well as their expectations of business growth. The results of the survey are also available online from www.pwc.com/id/en/publications/ebar

Section 1 | View of the Indonesian economy

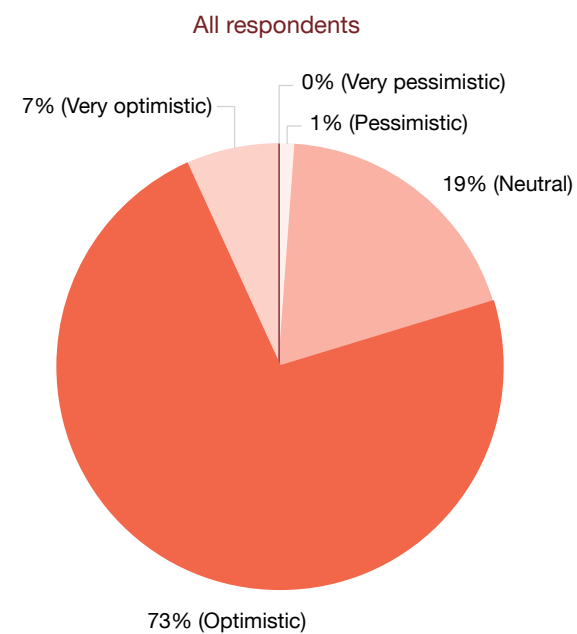


1

Feeling on prospects for the Indonesian economy in 12 months time

Despite the global economic turmoil, an overwhelming 80% of respondents expressed optimism about the 12 months outlook for the Indonesian economy, 19% were neutral and only 1% were pessimistic.

This message is consistent over size of business and industry sector.



View of the Indonesian economy

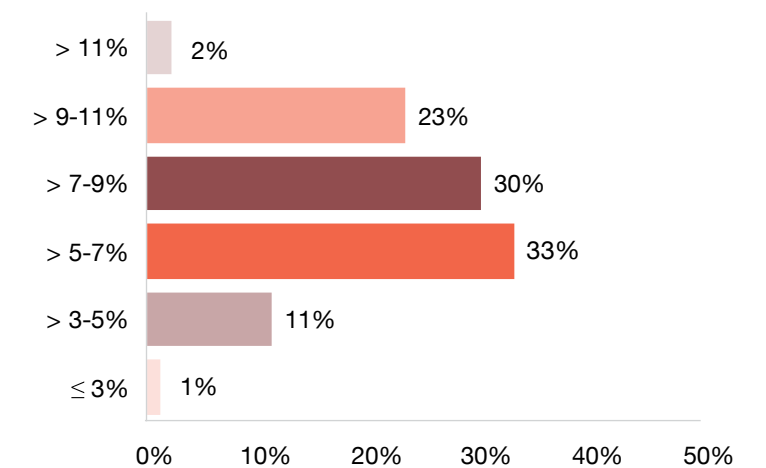


2_a

Expectation of the growth rate in the following areas over the next 12 months:

Inflation rate (July '09 = 4%)

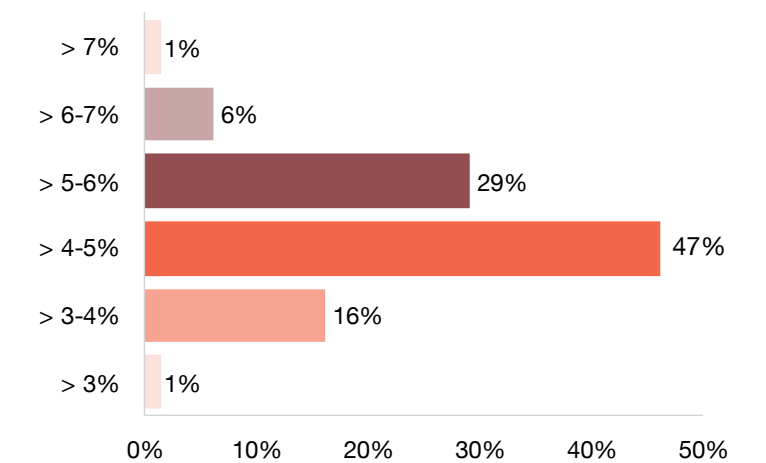
The majority of respondents expect the inflation rate to increase from the July 2009 year on year level.



2_b

Gross Domestic Product (Q1 '09 = 4.4%)

In general, respondents believe GDP growth will exceed 4% with more than a third expecting growth rates in excess of 5%.

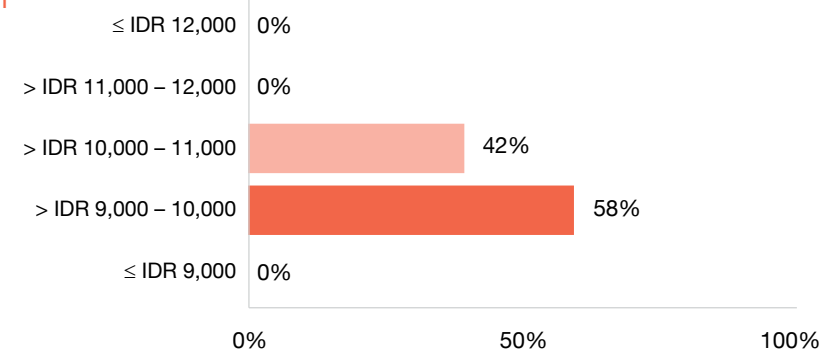


3_a

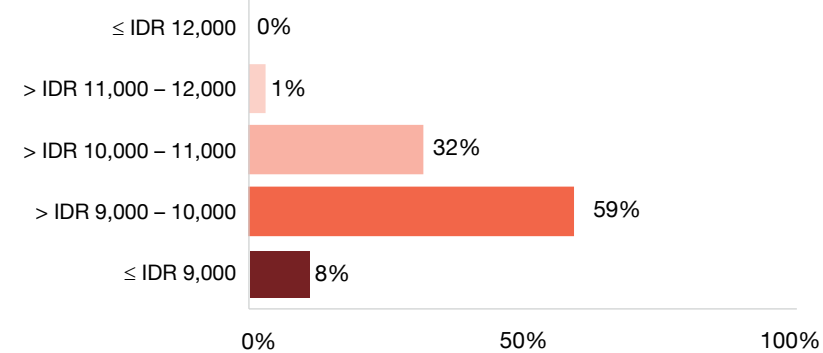
Expectation of the Indonesian Rupiah rate as against the United States Dollar (USD)
(July '09, USD1 = IDR 10,225):

in 6 months' time

The majority of respondents expect the IDR to be stronger than IDR 10,000 against the USD in 6 months time.

3_b

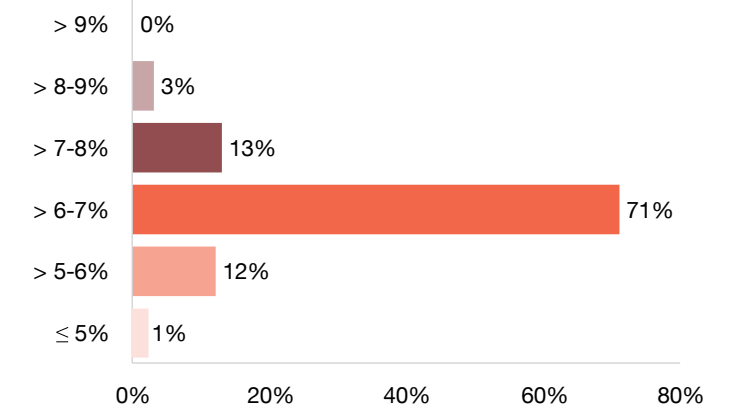
in 12 months' time
The six month trend is expected to continue with the IDR strengthening further against the USD.

4_a

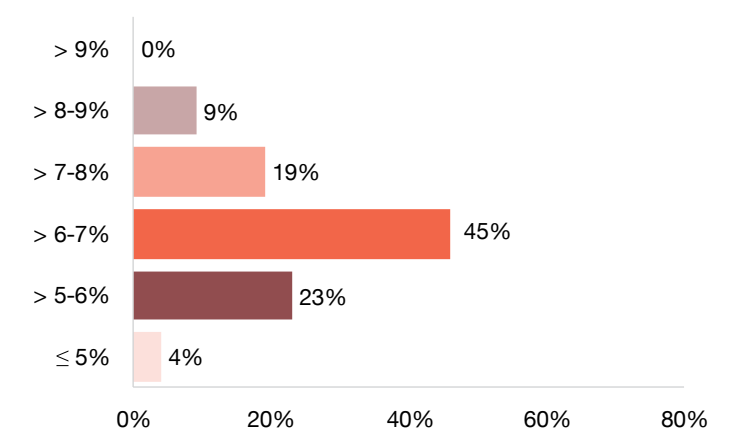
Expectation of the Bank Indonesia (BI) rate (July '09 = 6.75%):

in 6 months' time

Nearly 2/3 of respondents believe the BI rate will be in the 6%-7% range in January 2010.

4_b

in 12 months' time
There is less consistency from respondents about what the BI rate might be in July 2010.



5

Impact of the following factors on business over the next 12 months

Political changes

Most respondents believe political changes over the next 12 months will be positive for business, with 73% of big business being particularly positive.

The Technology, Information, Communication and Entertainment sector and the Energy, Utilities and Mining sector feel rather more positive about political changes than the other sectors.

Board of Directors and Board of Commissioners respondents tend to be more pessimistic about political changes compared to other groups.

Taxation policy

Whether from small or large sized businesses, 44% of respondents believe taxation policies will positively impact their own businesses. This could imply policies are improving.

The Financial Services sector and the Technology, Information, Communication and Entertainment sector were significantly more positive regarding taxation policies than the Energy, Utilities and Mining sector and the Consumer and Industrial Products and Services sector.

Laws and regulatory

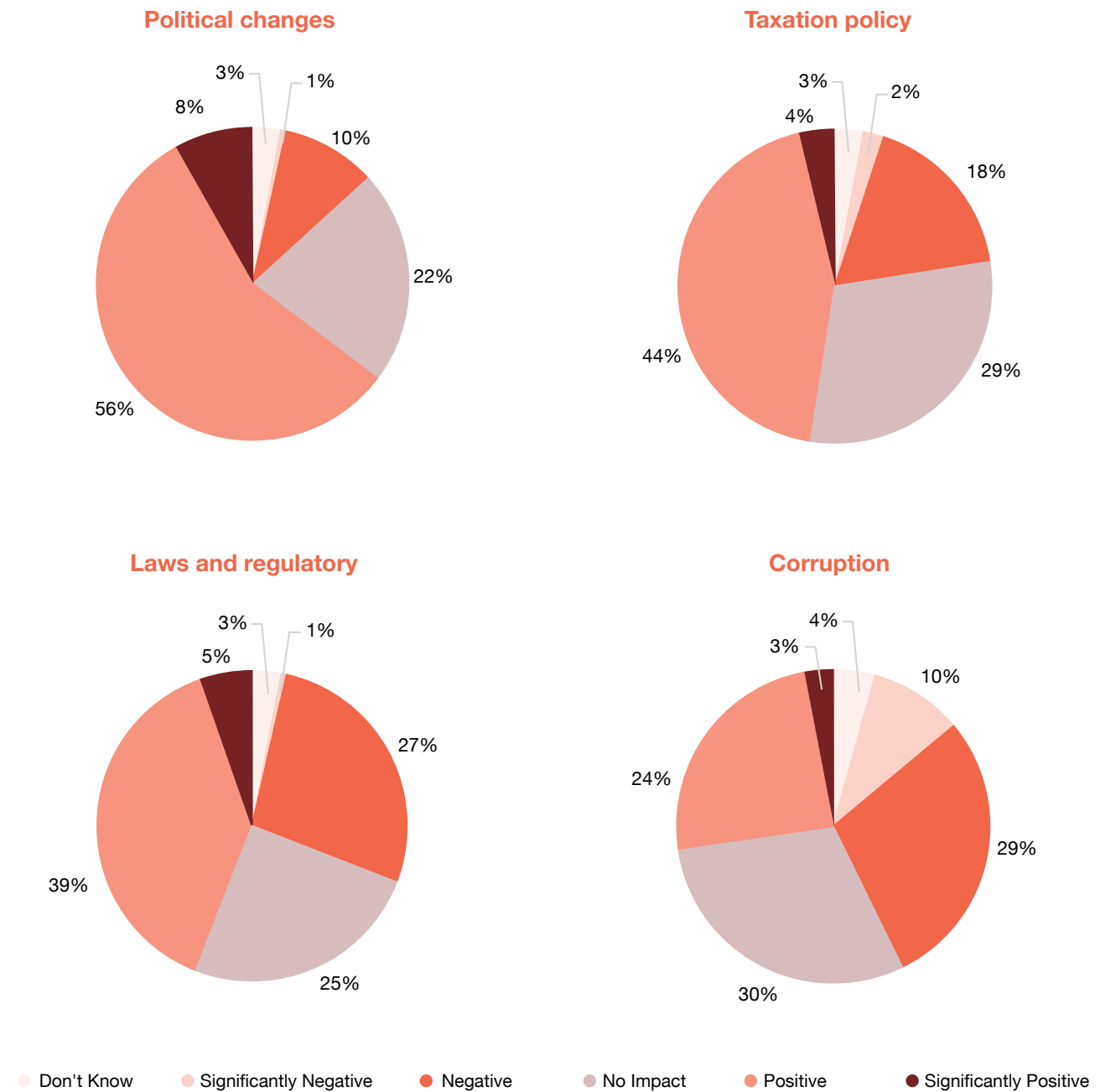
Nearly 50% of big business believes laws and regulations impact negatively on their business.

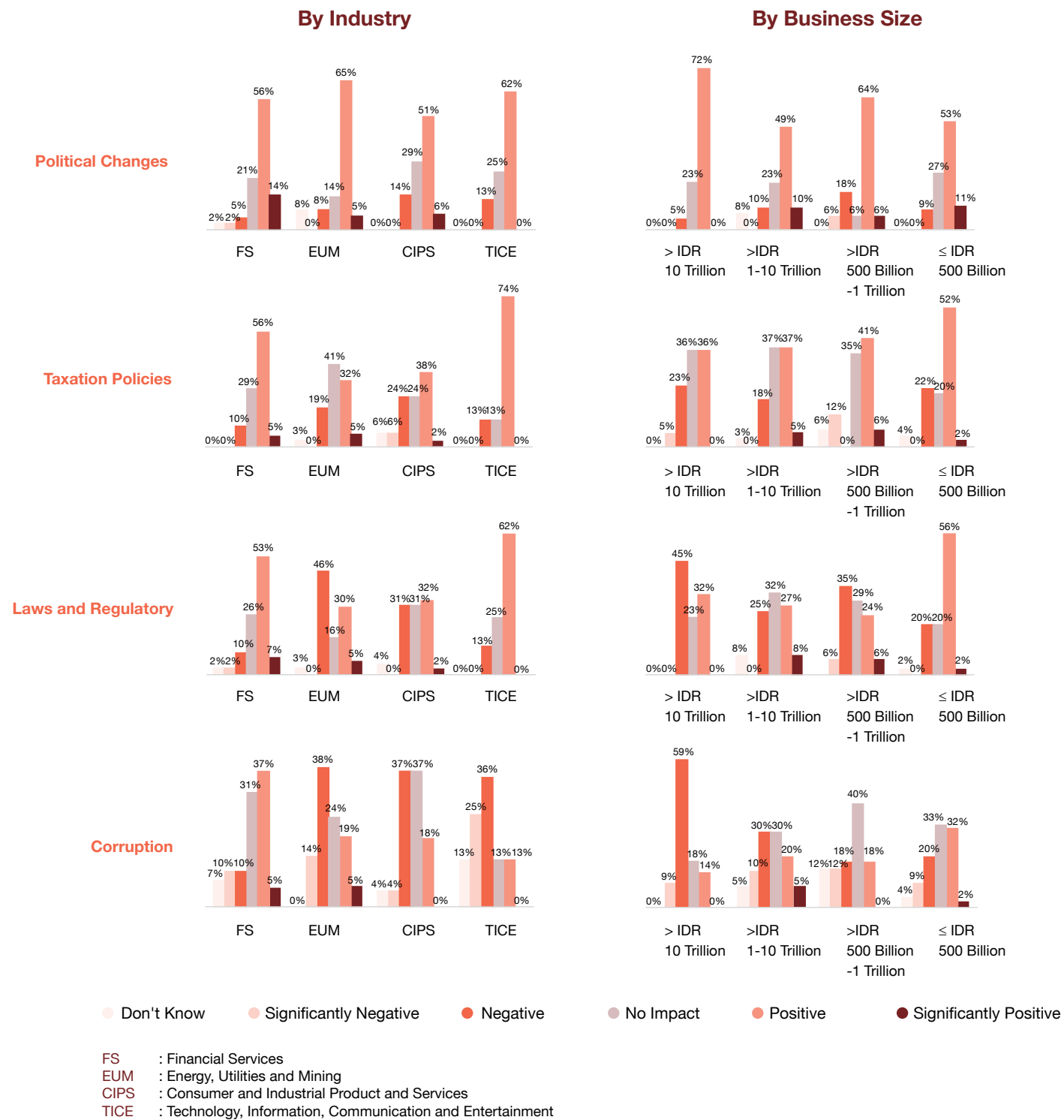
The Energy, Utilities and Mining sector is significantly more negative towards laws and Regulations compared to other industries.

Corruption

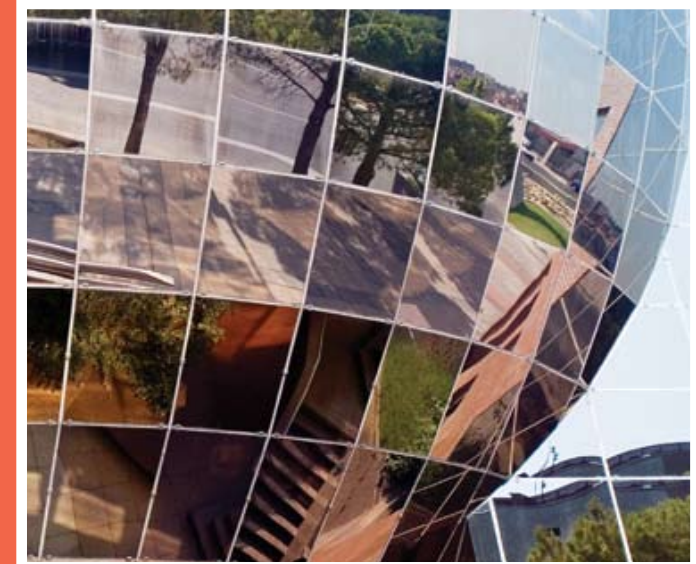
Corruption remains a concern for 68% of big business.

The financial services sector is more positive than the others that efforts against corruption will be beneficial to their business.





It's about bringing fresh perspectives*



Section 2 | View of the world economy

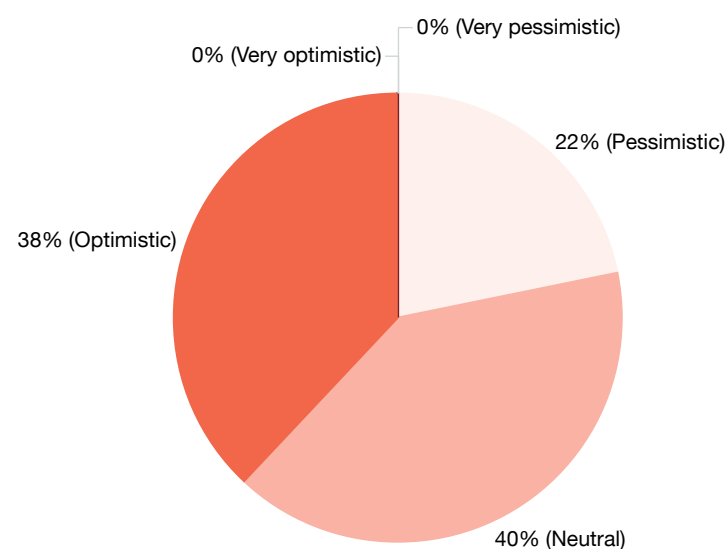


1

Feeling on prospects for the world economy over the next 12 months

38 % of respondents are optimistic about the prospects for the world economy over the next 12 months. This is well below the 73% of respondents that are optimistic about the prospects for the Indonesian economy.

Small business is more optimistic than big business about the world economy, while CEOs in general are more cautious about the world economy than their teams.



View of the world economy

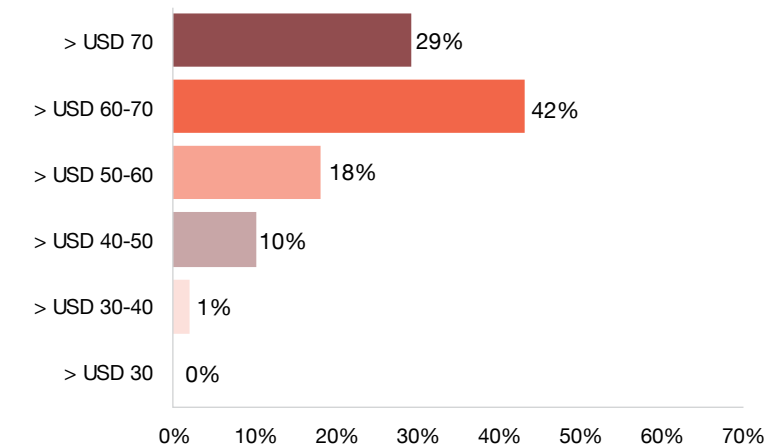


2

Expectation of oil price (USD per barrel) in 12 months' time (July '09 = USD64)

71% of respondents from small and big business expect oil price to be stable or rise over the 12 month period.

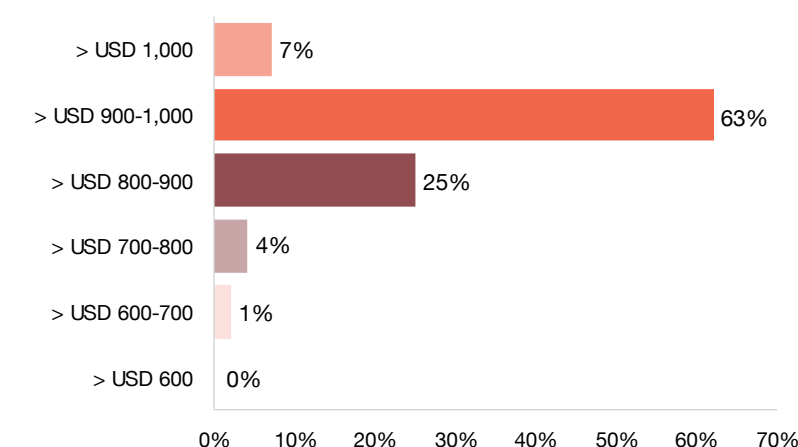
Big business expects oil prices to rise more significantly.



3

Expectation of gold price (USD per troy ounce) in 12 months' time (July '09 = USD939)

Gold prices are seen to remain relatively stable over the next 12 months.



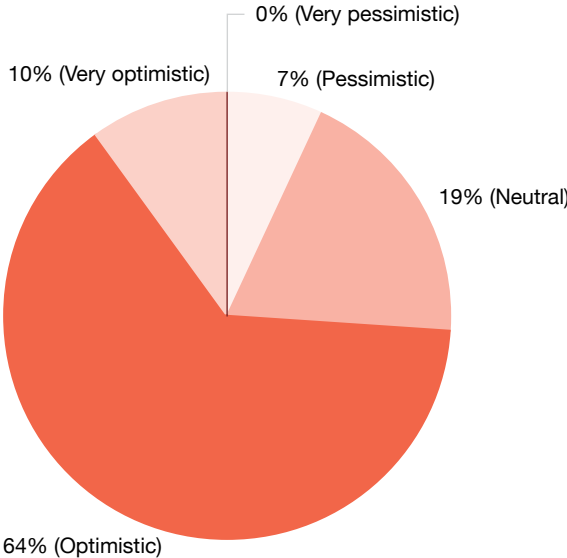
Section 3 | View of company performance



1 Level of confidence in the prospect for revenue growth in business over the next 12 months

Looking ahead at the next 12 months, 74% of all respondents are optimistic about revenue growth in their business.

CEOs and directors are even more optimistic about revenue growth of the industry sectors. The Energy Utilities and Mining Sector is the least optimistic about revenue growth with 16% expressing a pessimistic view regarding business growth.

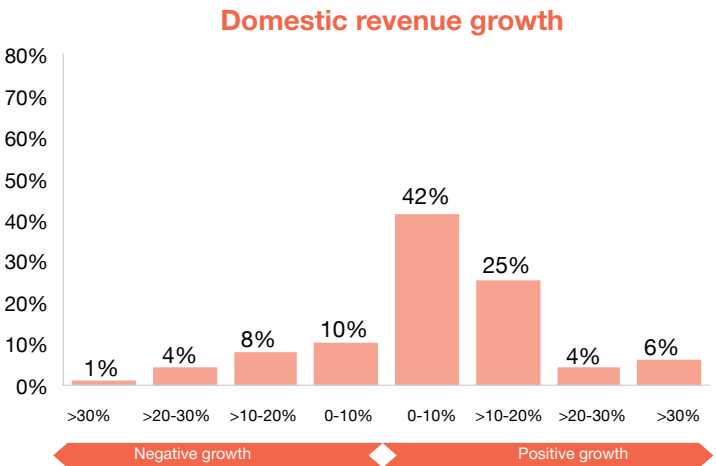


2 Estimated company revenue growth (per cent) rate for the next 12 months

a. Domestic revenue growth

77% of respondents estimated positive growth, with more than 35% expecting double digit growth.

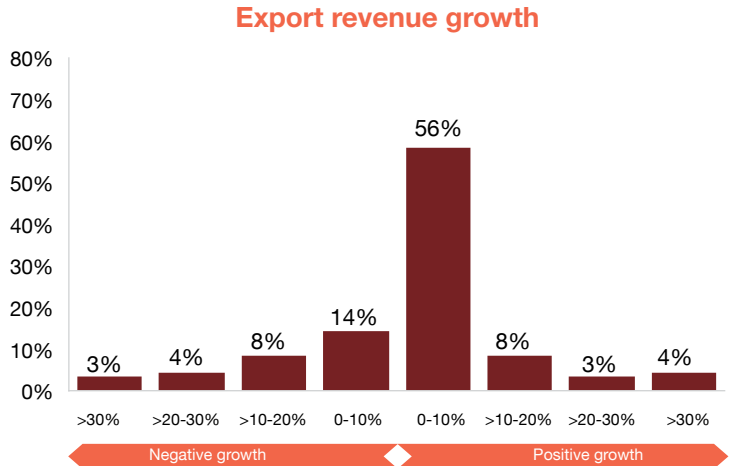
Among the primary industry sectors, the Financial Services and Technology, Information, Communication and Entertainment sectors are most optimistic about growth in domestic revenues.



a. Export revenue growth

International markets showed strength, with 71% of respondents selling abroad projecting positive growth.

Not unexpectedly with commodity prices depressed, those in the Energy, Utilities and Mining sector have the greatest expectation of negative growth in export revenues.

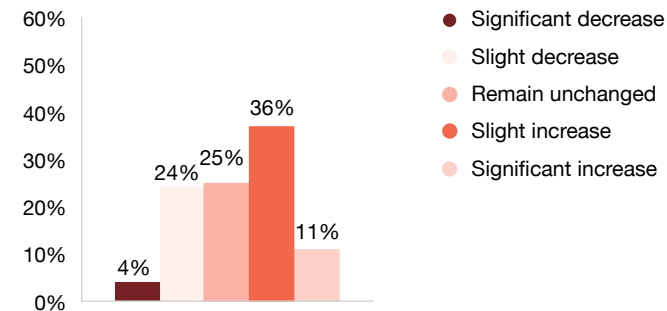


3

Estimated movement in company profit margins for the next 12 months

Looking at the next 12 months the majority of respondents expect margins to improve or at least remain unchanged.

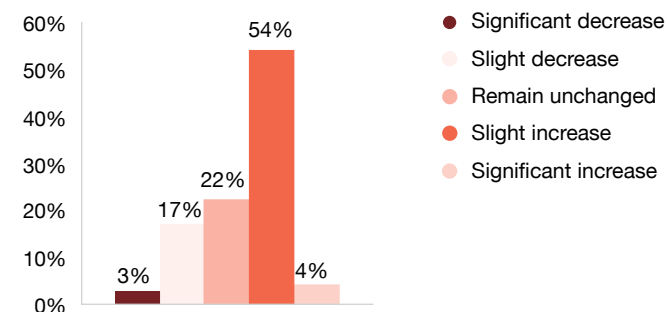
The Technology, Information, Communication and Entertainment sector expects margins to stay flat or decrease.



4

Expected movement in company operating costs for the next 12 months

58% of all respondents are expecting increases in corporate operating costs over the next 12 months.



5

Extent to which the following barriers will have impact on your business' growth

85% of respondents predict the chief barrier to growth over the next 12 months will be the uncertainty of regulations and laws. Especially, over 90% of Financial Services and Energy, Utilities and Mining sector respondents feel this factor to be a significant barrier to their business growth.

Concern about competition and lack of demand followed as potential barriers to growth, along with investment rules and regulations.

55% of large businesses say access to funding will have an impact on their business growth, with approximately 65% of respondents in the Energy, Utilities and Mining and Financial Services sectors saying it will limit their business growth.

Quality of infrastructure is a key factor for those businesses in the consumer and industrial products and services sector. 84% of respondents playing in this sector are concerned the quality of infrastructure needs improving to support their business growth.

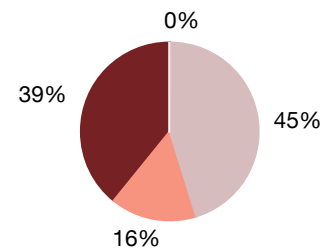
The Technology, Information, Communication and Entertainment sector and the Financial Services sector respondents are impacted by strong competitive forces.

All groups show concern regarding a lack of demand for goods and services impacting future growth.

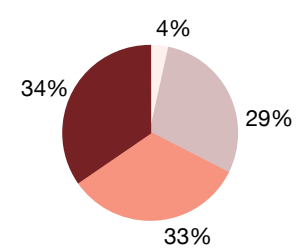
Most of the respondents (67%) viewed a shortage of suitably qualified workers as presenting a barrier to their business growth. High demand for quality talent with an accounting and finance background is affecting the financial services sector unfavorably.

Big business believes environmental concerns are a greater barrier to growth than smaller business does.

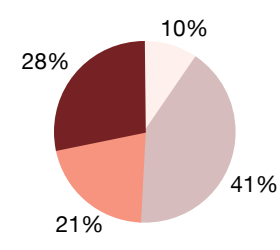
Availability of funding



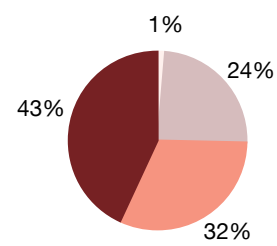
Quality of infrastructure



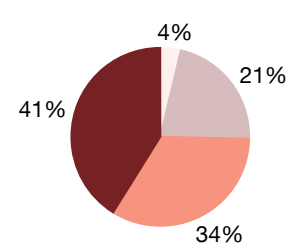
Availability of inputs



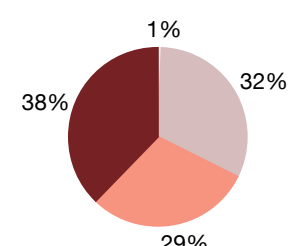
Competition



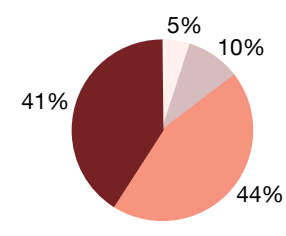
Lack of demand



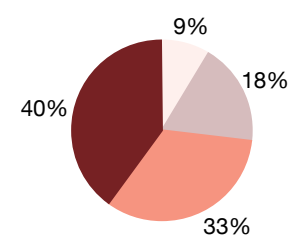
Lack of qualified workers



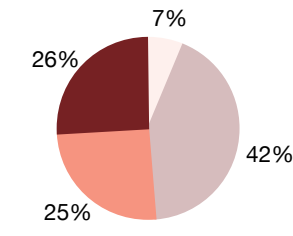
Uncertainty of regulations and laws



Investment rules and regulations



Environmental concerns



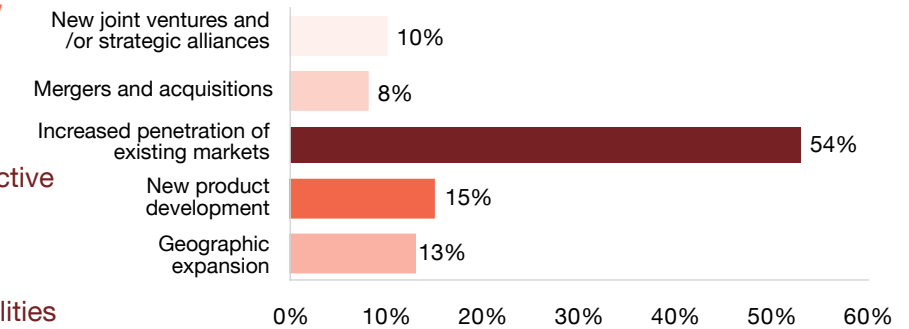
Don't know response No Impact Some impact Significant impact

6

Main areas of opportunity to grow business in the next 12 months

Over the next 12 months, increased penetration of existing markets is seen as the most attractive way/option to grow business, cited by 54% of respondents.

However, over 40% of Energy, Utilities and Mining sector respondents expect business growth to come from mergers and acquisitions, joint ventures or strategic alliances whereas the majority of respondents in other sectors believe it will come from the existing markets.

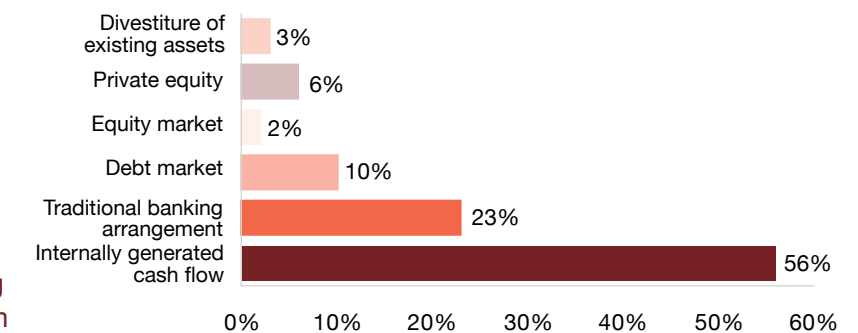


7

Financing the growth strategy

56% of respondents are planning to finance their growth strategies from internally generated cash flows.

An even higher proportion of Consumer and Industrial Products and Services respondents are looking to finance their growth strategies from internally generated cash flows.

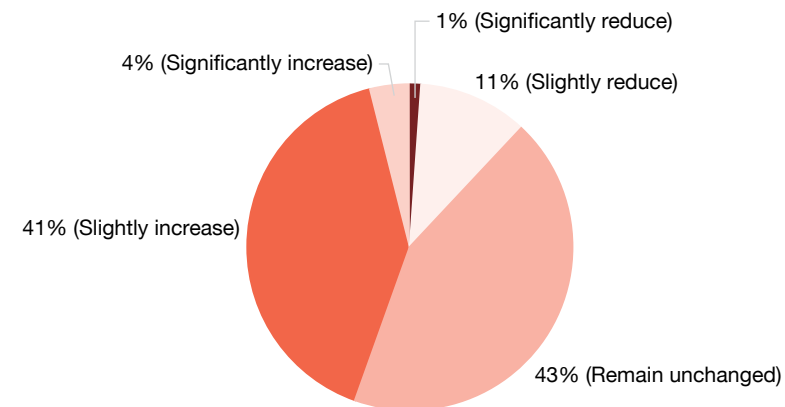


8

Changes expected in number of employees over the next 12 months

45% of respondents expect to see an increase in the number of employees in their business while only 12% plan to reduce the number of full-time-equivalent employees. This is consistent with the general view on business expansion.

57% of Financial Services sector respondent expect their employee numbers to increase.



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