



# Subprime Mortgage Crisis: Impacts to Indonesian Economy 2007-2009

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10th Grade English Literature



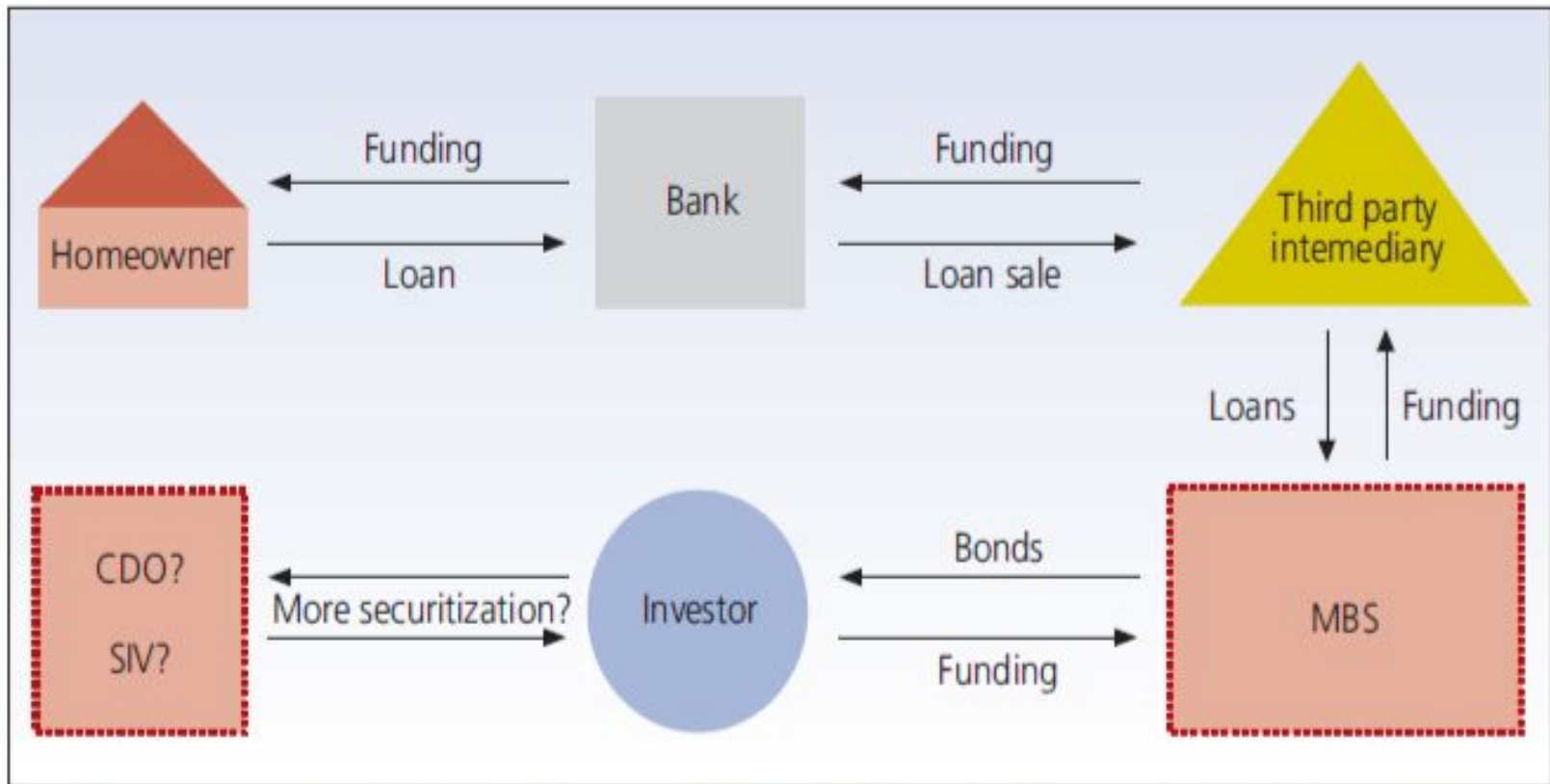


# Introduction

# What is Subprime Mortgage Crisis?

Subprime means the adjective relating to or for people with a poor credit rating, while mortgage means a legal agreement for lending between two or more sides.

In other words, subprime mortgage crisis means the event when people who have problems for paying credit, but still afford something big by taking more credit, and end up they can't pay the debt anymore and impact the other sides.



Notes: MBS means mortgage-backed security. CDO means collateralized debt obligation. SIV means structured investment vehicle.  
 Source: The Federal Reserve Bank of Chicago, Chicago Fed Letter : "The role of securitization in mortgage lending" , November 2007

**Diagram 3.1. Mortgage Funding Process**

# Subprime Mortgage Crisis--Timeline

**2005:**

The new loan system started --the low-interest mortgage

**2007:**

Subprime mortgage crisis -- U. S. Economy crashed

**2006:**

Houses price fall

**2008:**

Global financial crisis -start affecting Indonesia

# Why did it happen -in U.S and in the world?

The banker on Wall Street prediction

House owners love cheap loans

Most of the taxpayer subsidized the housing loans

High correlation of international markets

Poor monetary policies of emerging markets countries

Global imbalances

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**Illustration**

# Imagine.....

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This is Robin



Always buys new expensive phone



Borrows Marie's money





# Imagine.....

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His phone as guarantee



He can't pay anymore



He loses all of his phones



# Imagine.....

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Marie has a lot of phones    Marie needs to sell it    Everyone already have phone



# Imagine.....

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Marie has friend, Budi



Budi always sells shoes to Marie



Marie doesn't buy shoes



# Imagine.....

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Budi loses his job as shoemaker



Budi can't buy soybean from Anna



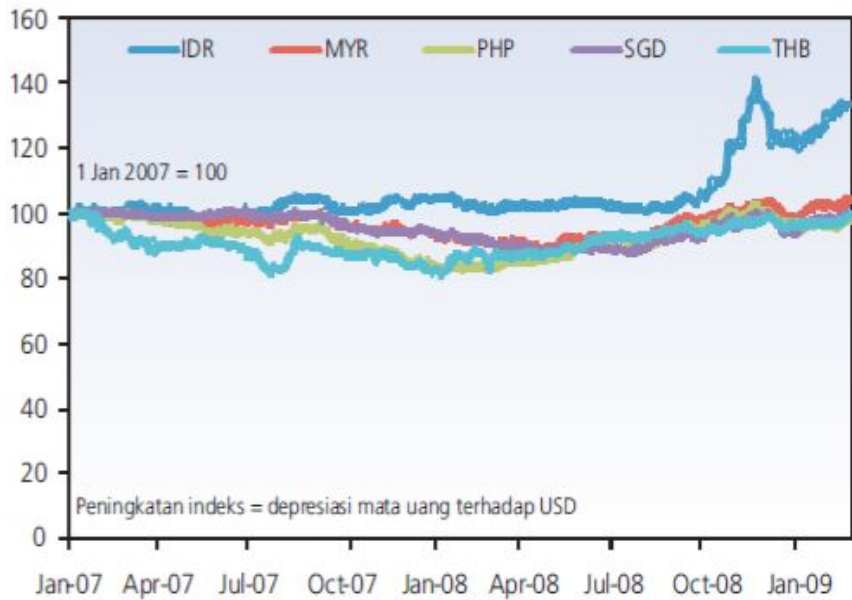
... and the  
cycle goes on.

# **Subprime Mortgage Crisis & Indonesia**



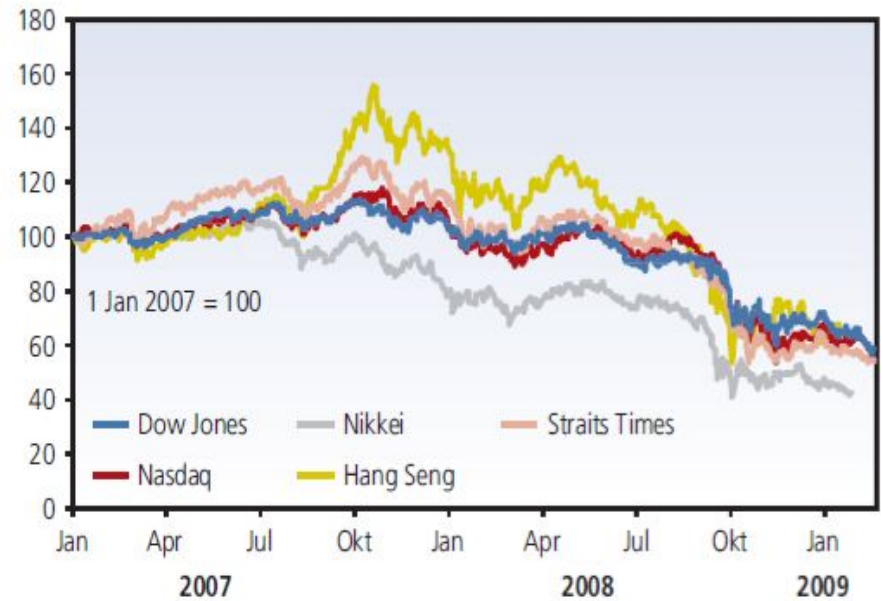
# How did it affect Indonesia? -- Indonesia: emerging market country

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- Financial Channel *direct way*:
    - High exchange rates of Rp to US \$
    - Stock market crashed
  - Trading Channel
    - Macroeconomic
    - Export & import lower
    - Unemployment rate
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Sumber: Bloomberg

**Grafik 3.5. Perkembangan Nilai Tukar Regional**



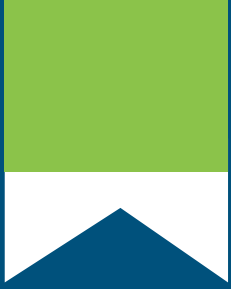
Sumber: Bloomberg

**Grafik 3.6. Perkembangan Bursa Saham**

Regional Exchange Rate Development

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Stock Exchange Development



# How did Indonesia overcome the crisis?

- Monetary and fiscal policies
- Banking system
- Real sectors



# Conclusion



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# Conclusion

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Subprime mortgage crisis affected Indonesia in most of the macroeconomic part, caused by:

1. Indonesians who connected/participated directly to the international market were mostly businessmen.
2. Businessmen held big influence to the Indonesian economy because they offered work field and engaged actively to every changes that happened.

The Indonesian economy got impact from the subprime mortgage crisis but not as big as it affected United States because of the policies that Indonesian Government made to protect the economic went successfully.



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