

A young man with dark hair, wearing a red and blue uniform with yellow accents, is focused on working on a car. He is holding a blue tool or part of the car's body. The background is slightly blurred, showing what appears to be a workshop or garage setting.

INDONESIA
ECONOMIC
QUARTERLY

December 2013

Slower growth; high risks

Ndiame Diop, Lead Economist & Economic Advisor

World Bank Indonesia

BKPM, December 16, 2013



THE WORLD BANK | BANK DUNIA

Sharing Development Solutions
for an Emerging Indonesia

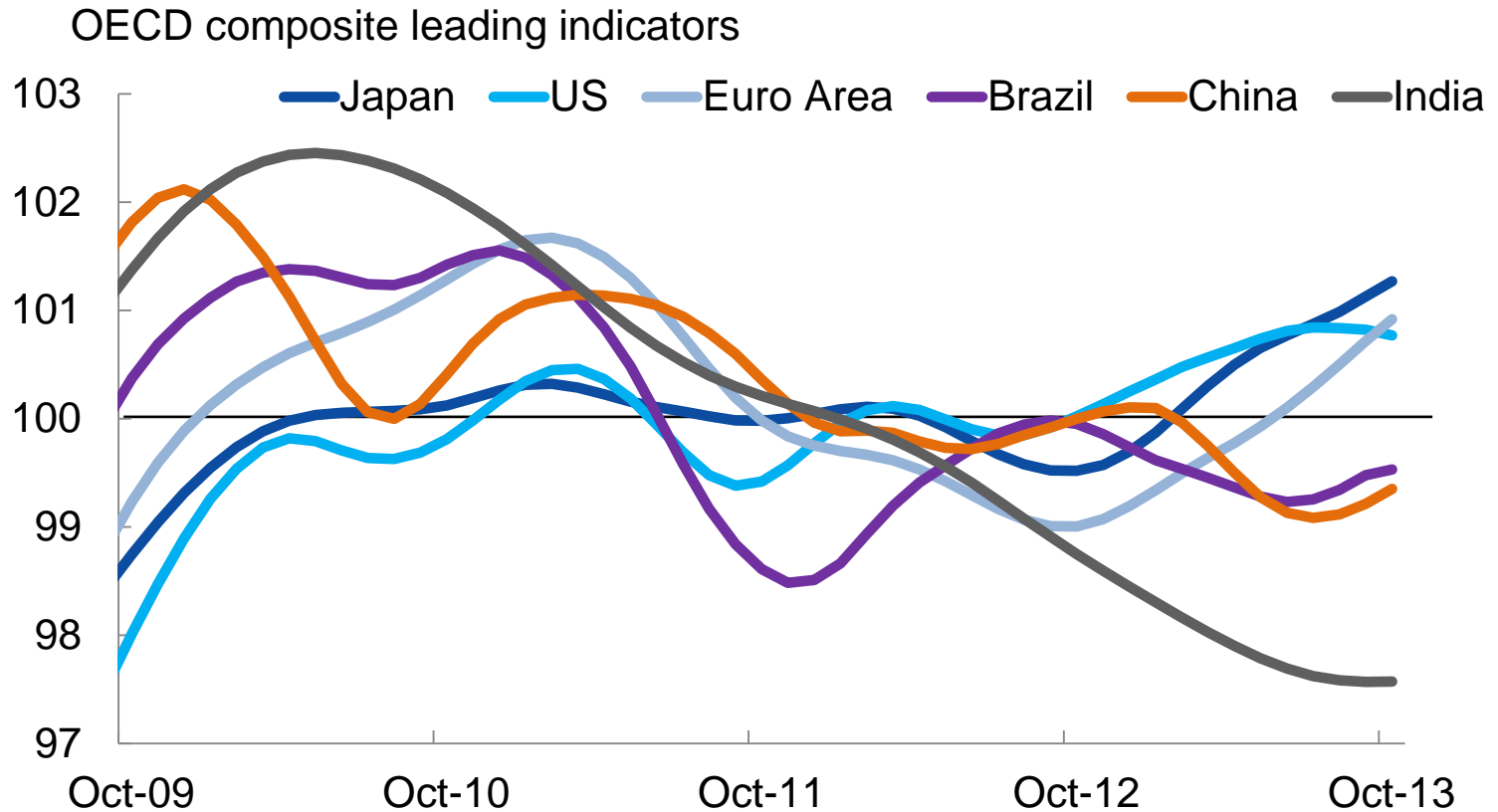
Overview of recent economic developments

**Framing the policy choices for the current account
and growth in 2014**

2014: outlook and policies

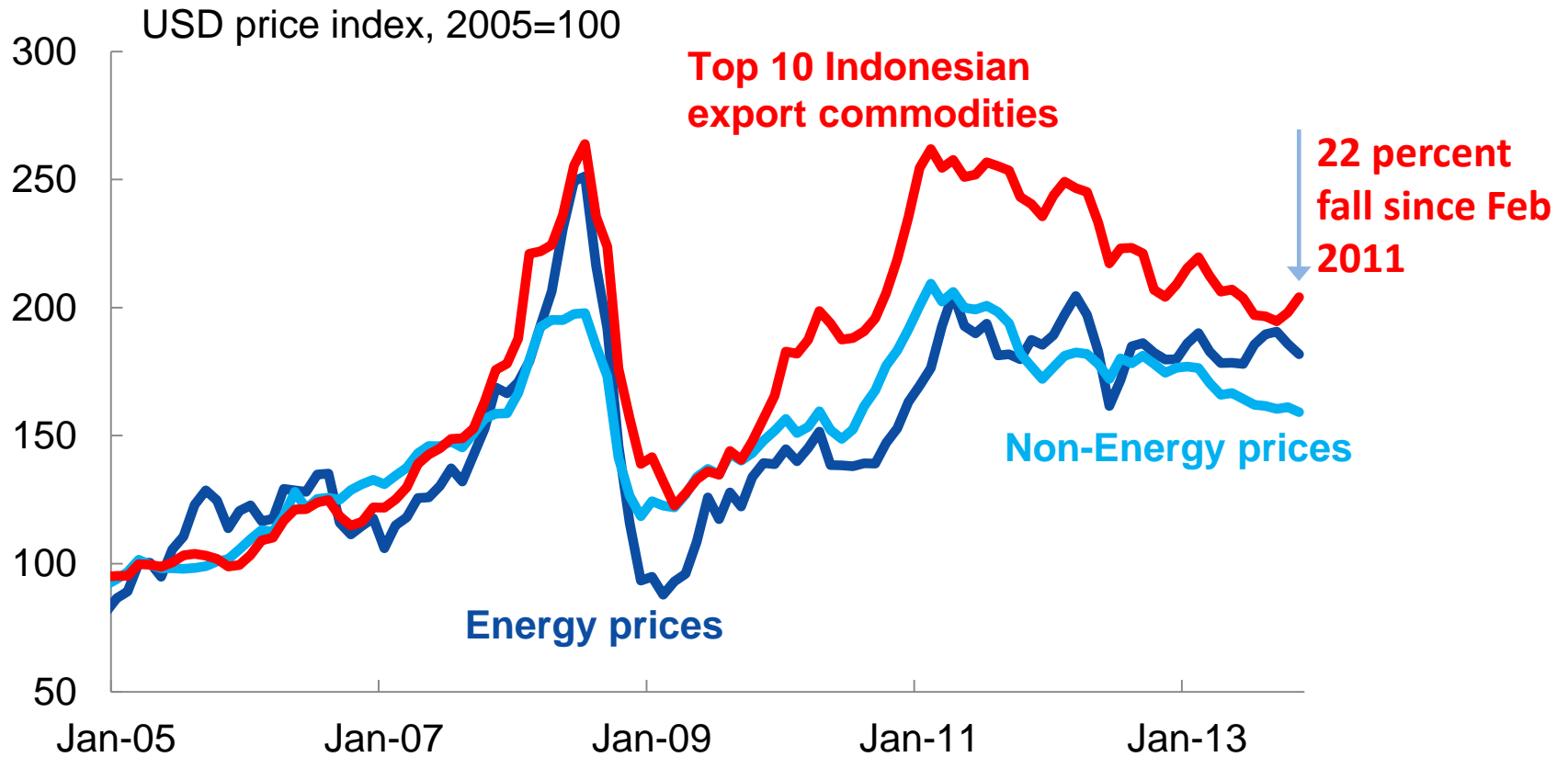


GLOBAL ECONOMY IMPROVING



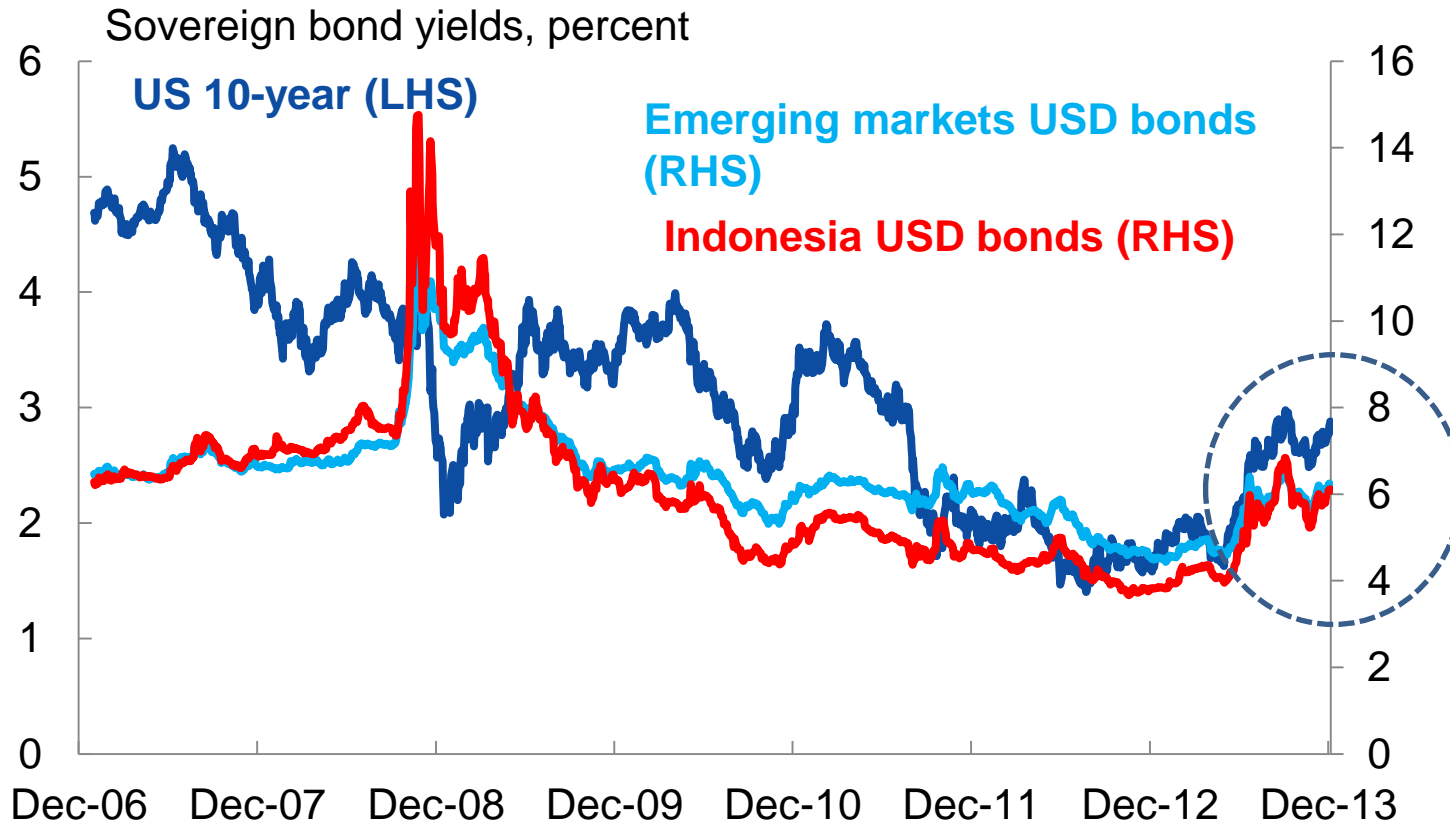
Source: OECD

COMMODITY PRICES STABILIZING



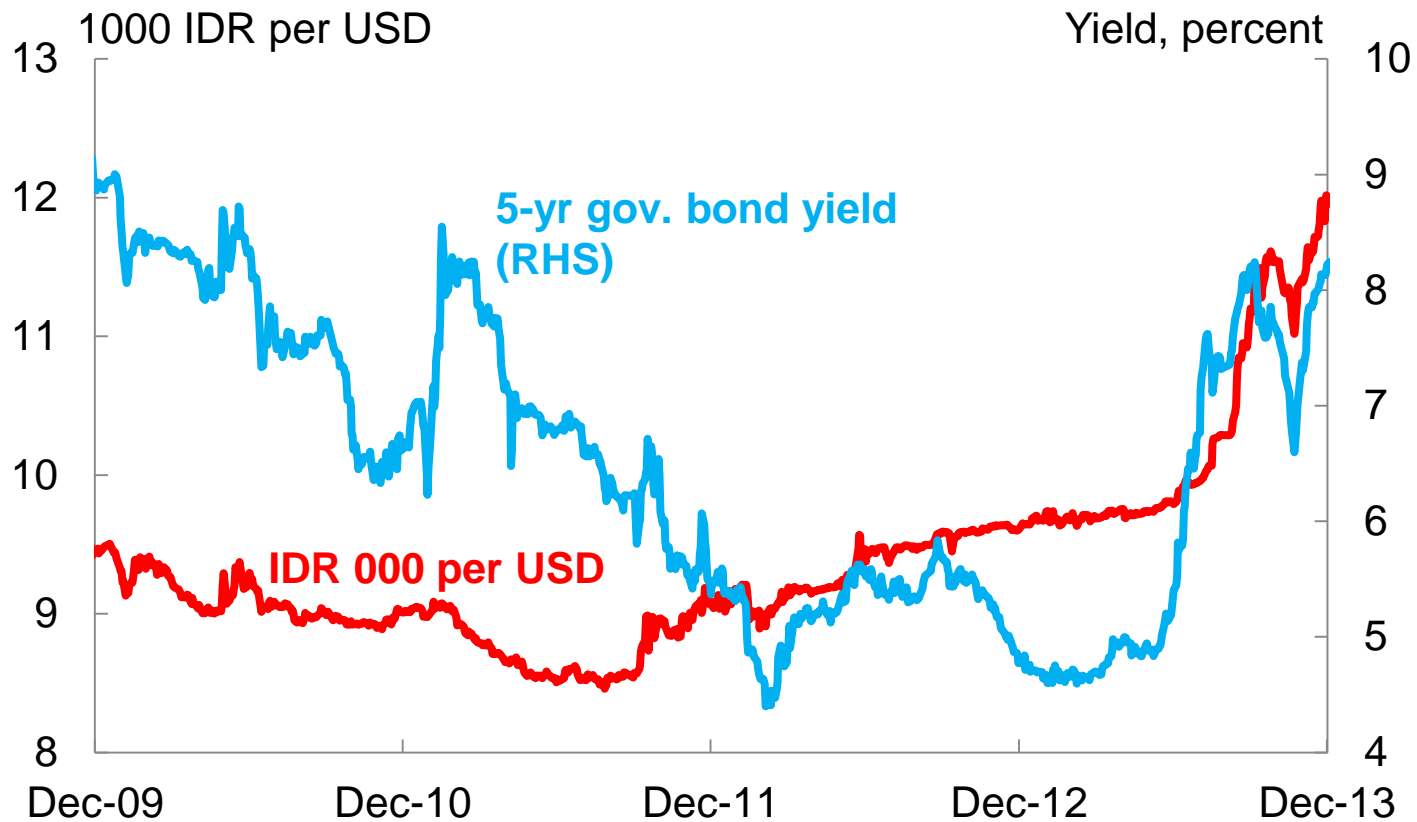
Source: World Bank

GLOBAL POLICY UNCERTAINTIES STILL HIGH



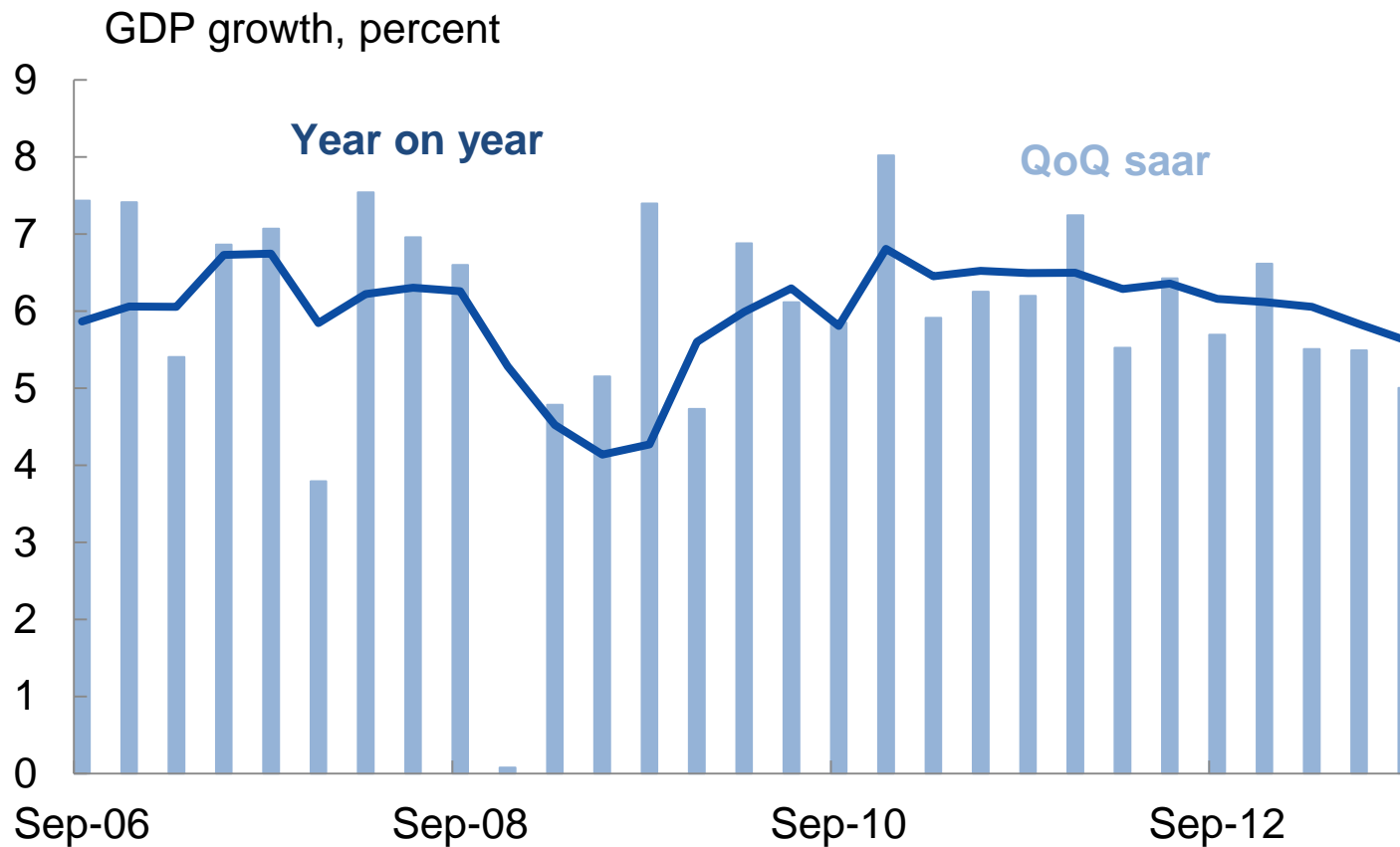
Source: JP Morgan

RUPIAH AND INTEREST RATES ADJUSTING



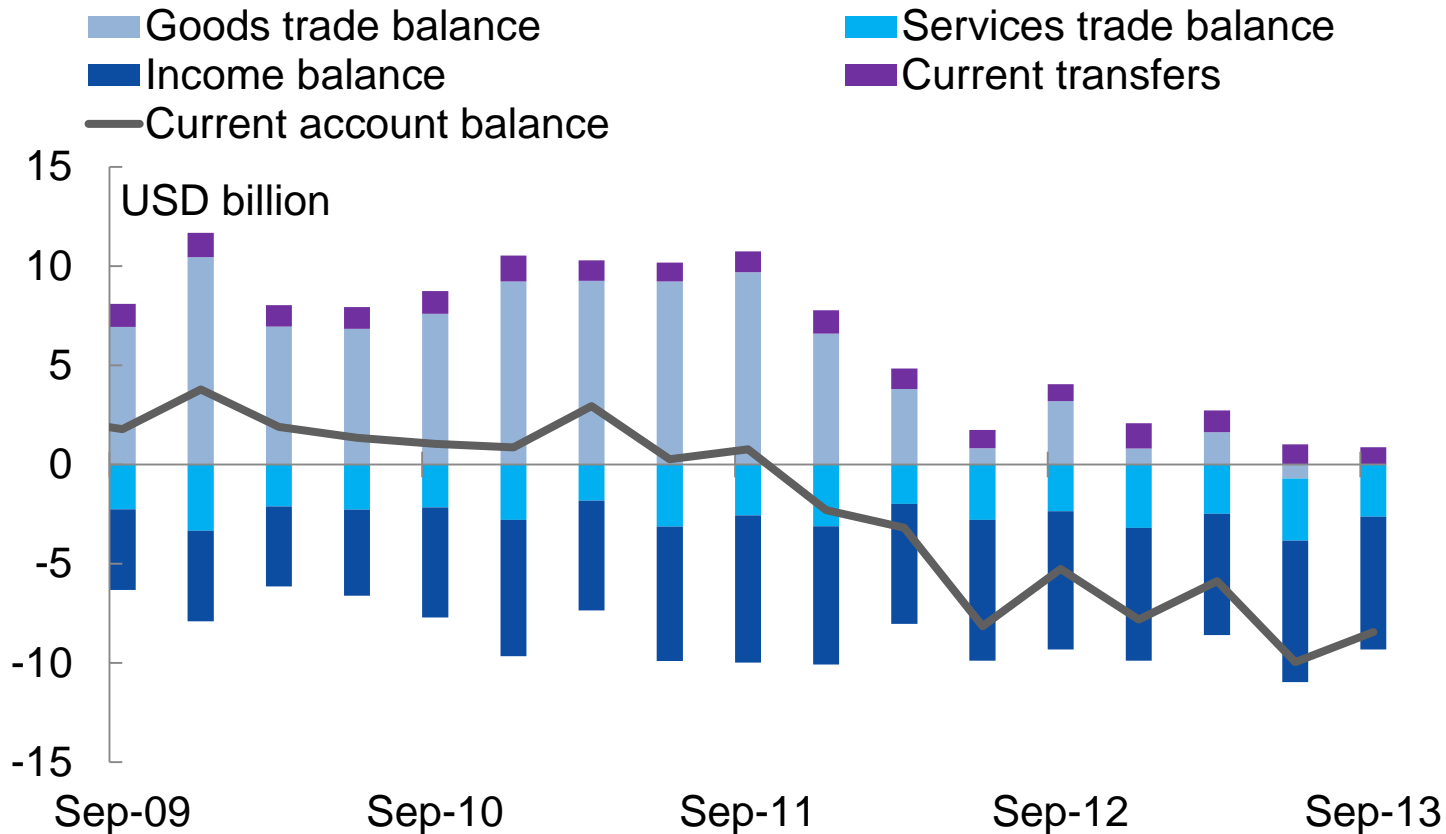
Source: CEIC

AND GROWTH MODERATING



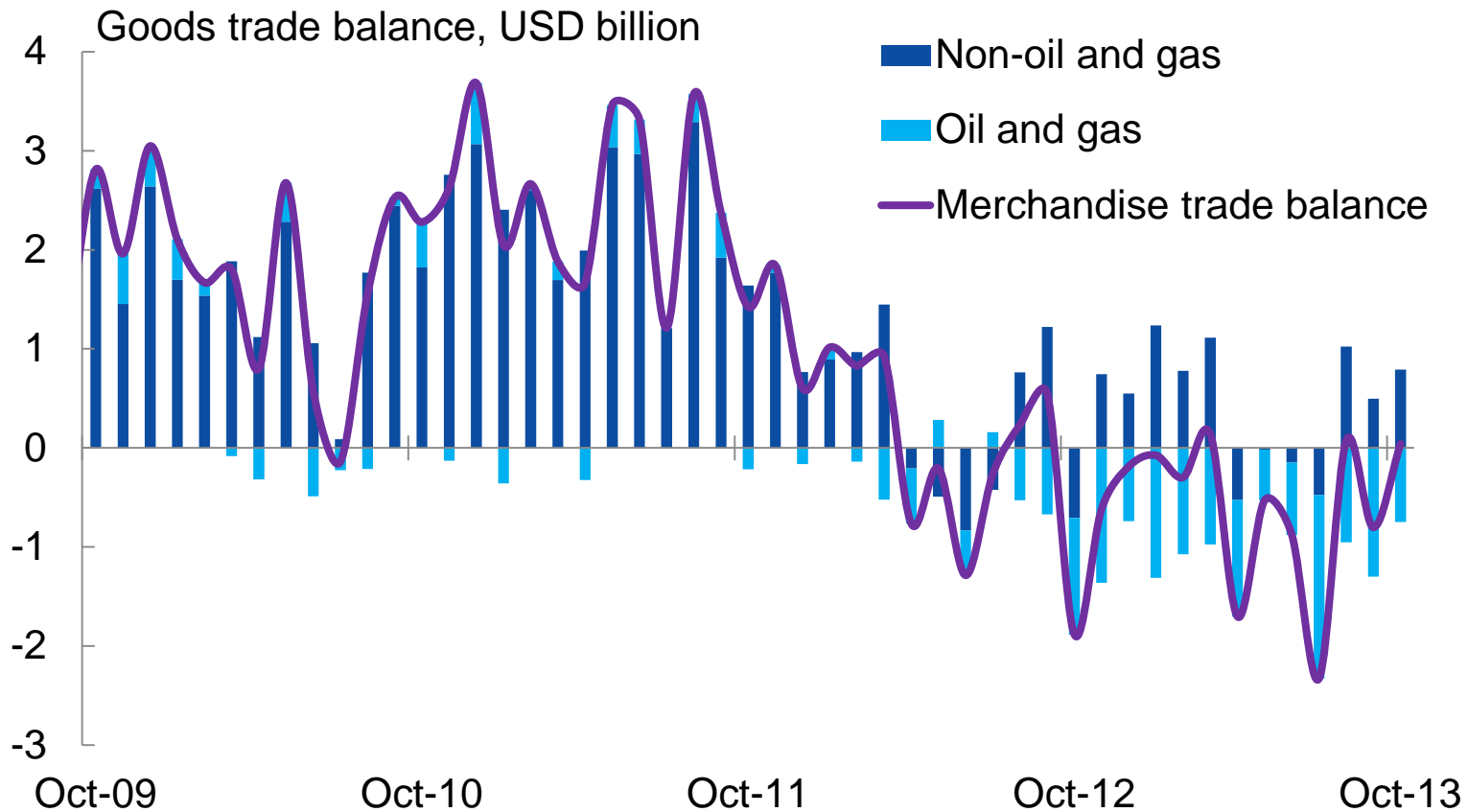
Source: BPS; World Bank staff calculations

THE CURRENT ACCOUNT DEFICIT STABILIZING



Source: BI

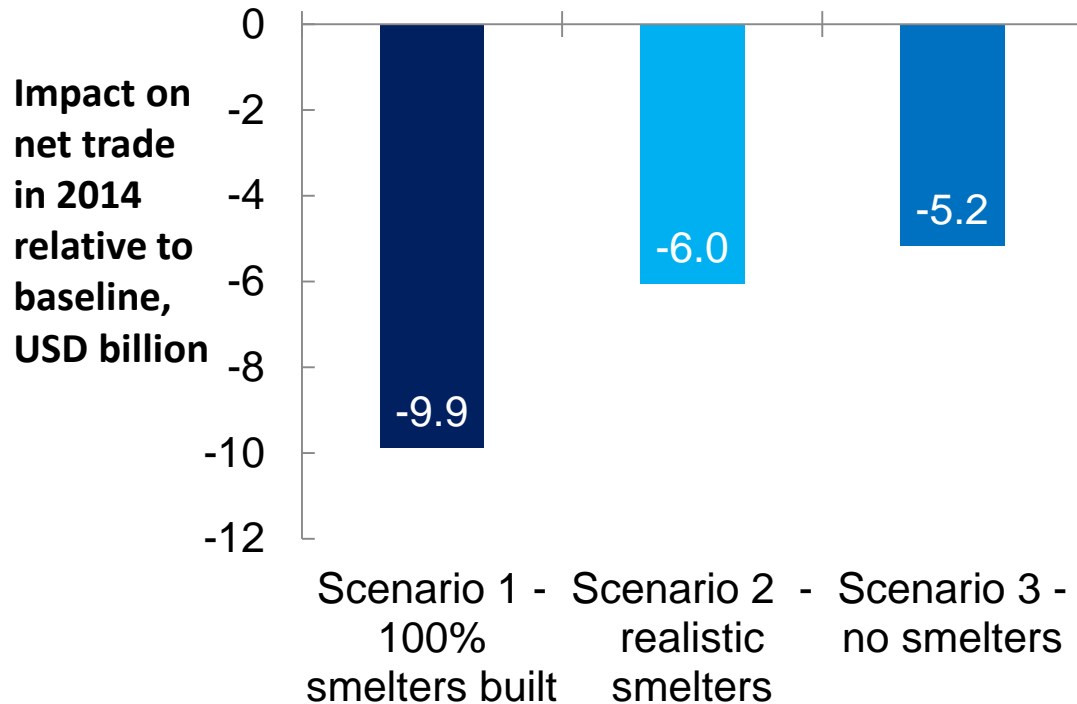
THE TRADE BALANCE RECOVERY NASCENT



Source: BI

EXPORT BAN MAY HURT TRADE IN THE SHORT TERM

- Net trade impacts from the raw mineral export ban are expected to be negative in the near-term



Scenario 1: the export ban is fully enforced and 100% of proposed smelters in the pipeline are built and operate to full capacity.

Scenario 2: As Scenario 1 except only the proposed additional smelters that are considered realistic by the SEADI (2013) export ban study are built.

Scenario 3: The export ban is fully enforced but none of the proposed smelters in the pipeline are built and become operational over 2014-2017.

- Under Scenario 2 the projected negative impact on net trade in 2014 is around 0.6 percentage points of GDP, moving the current account deficit projection up to 3.2 percent of GDP
- The longer-term distortionary implications of the export ban could be sizeable

Overview of recent economic developments

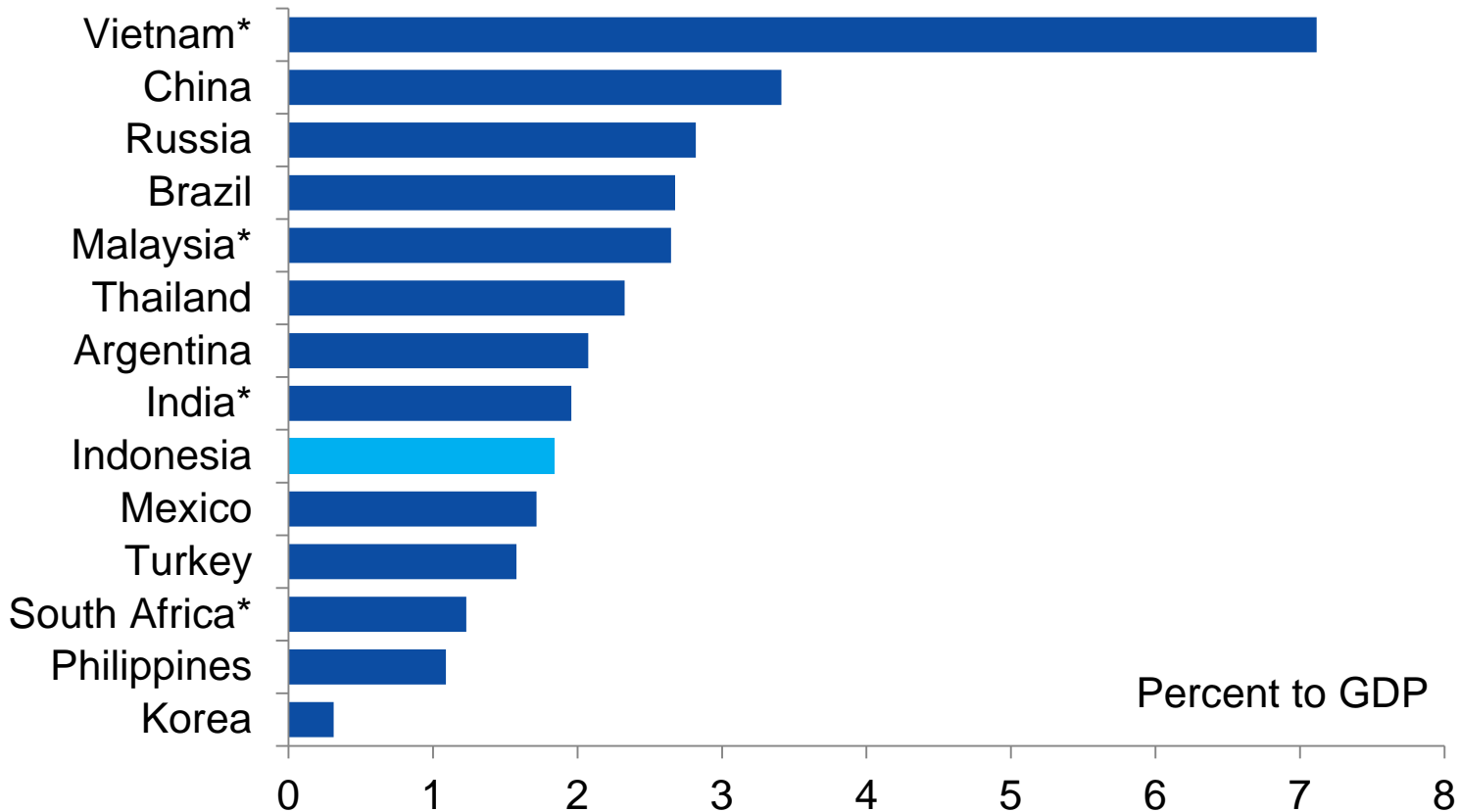
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2014: outlook and policies



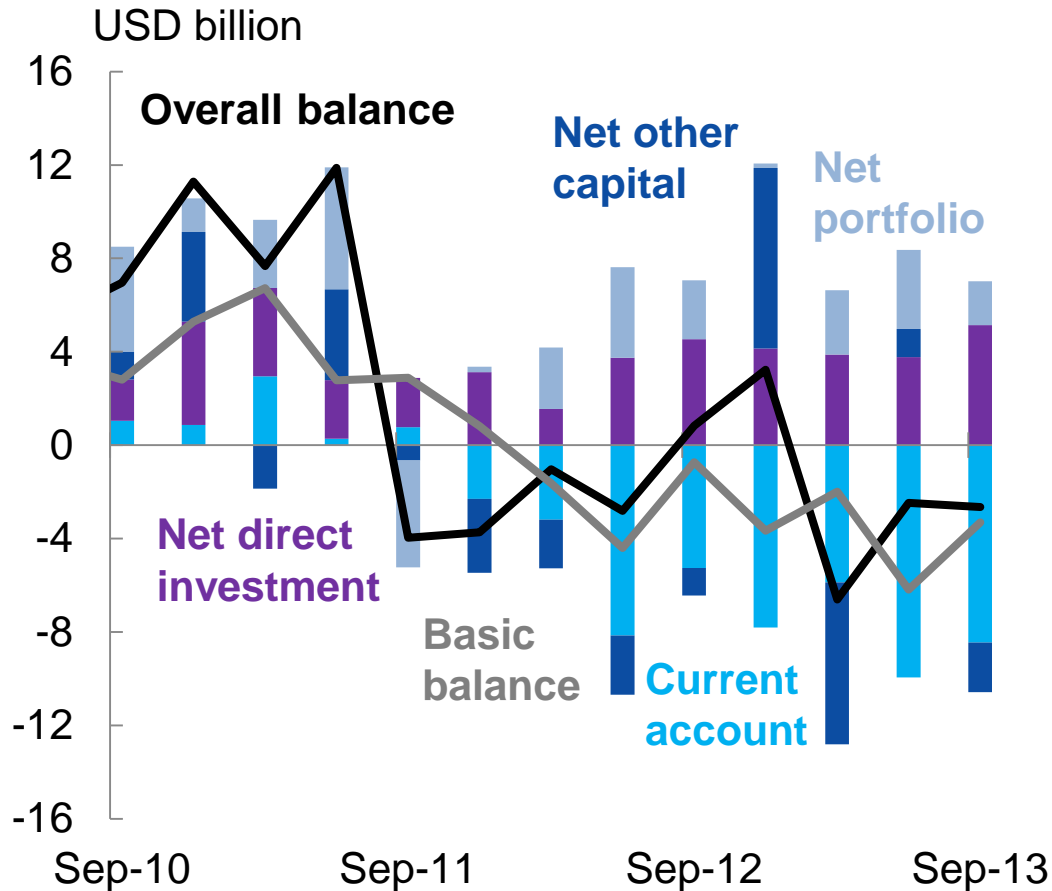
MYTH #1: INDONESIA GETS ENOUGH FDI

Foreign direct investment as a share of GDP (2009-2012 average)



*Data through 2011
Source: World Bank

FACT: MORE FDI NEEDED, QUITE URGENTLY

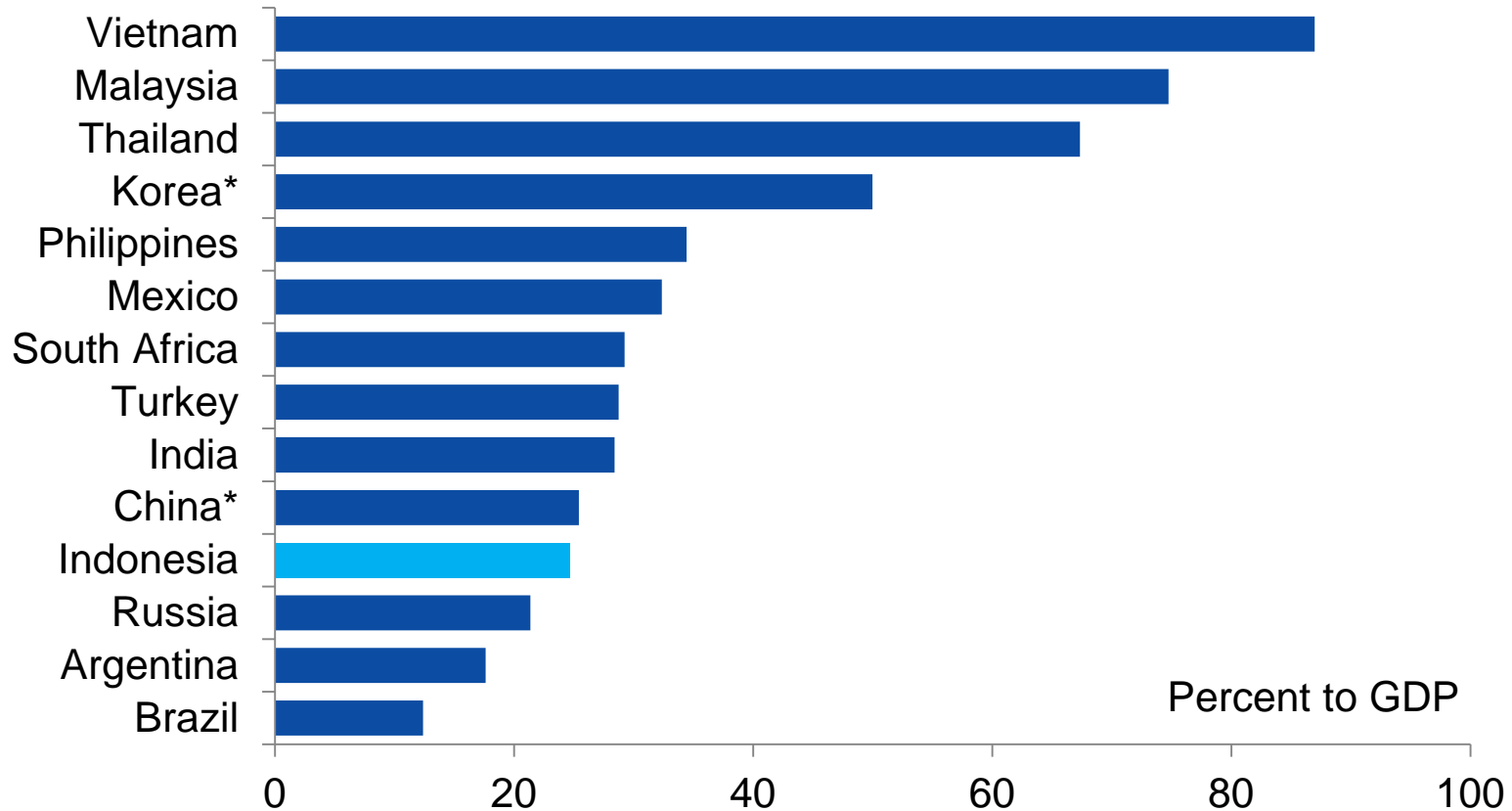


Policy options:

- Implementation of August package investment measures
- Implementation of the good “Doing Business” measures announced
- Higher regulatory and policy certainty – e.g. mining

MYTH #2: INDONESIA IMPORTS TOO MUCH

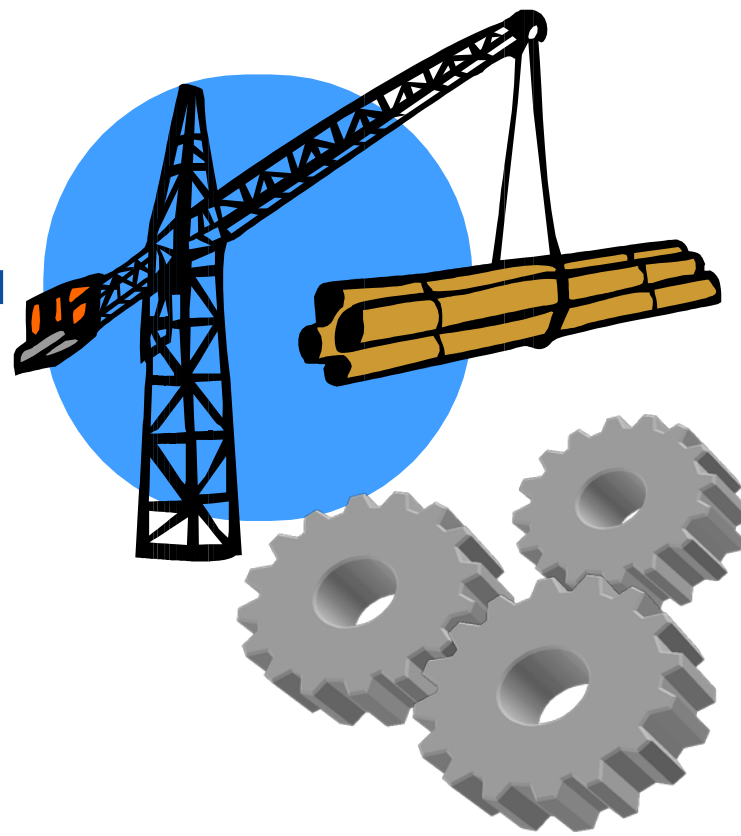
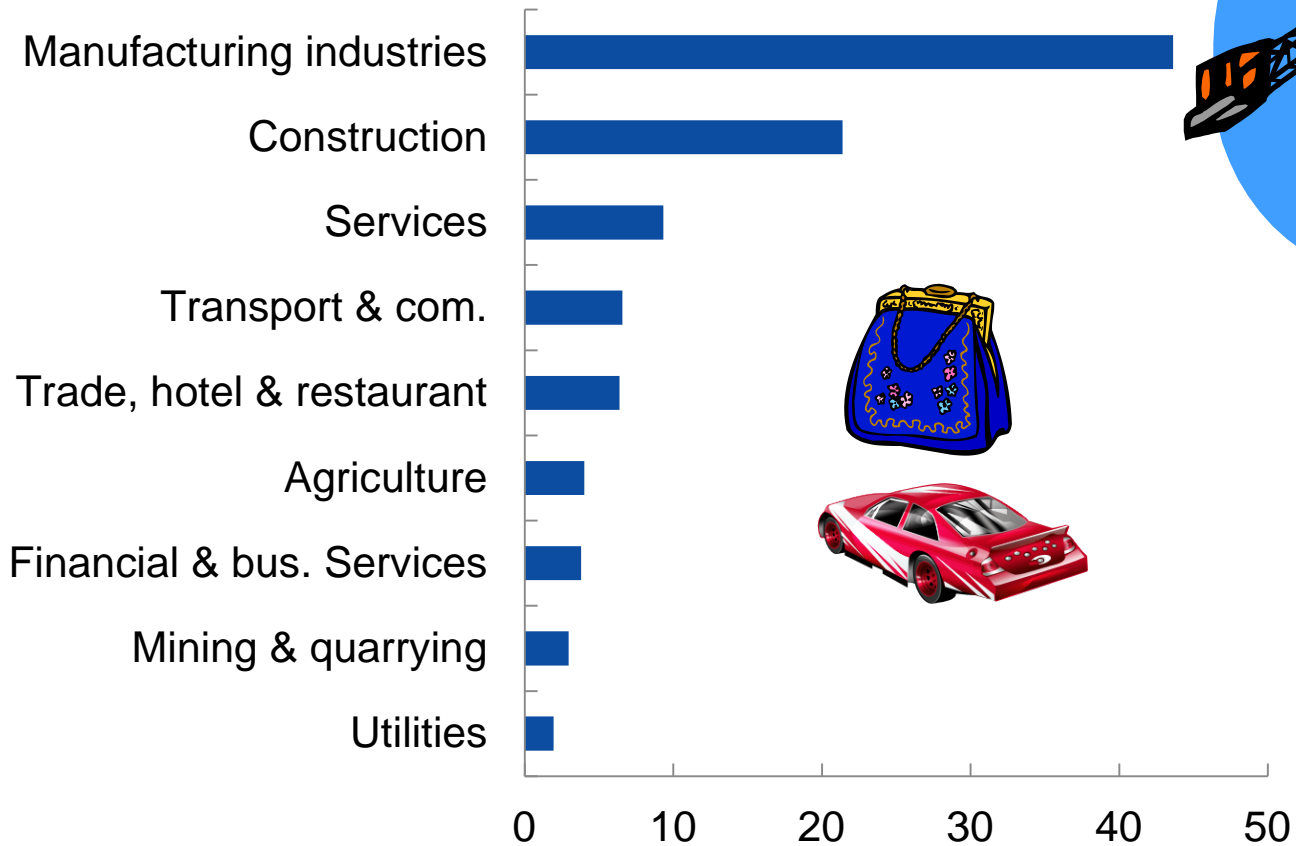
Imports of goods and services as a share of GDP (2009-2012 average)



*Data through 2011
Source: World Bank

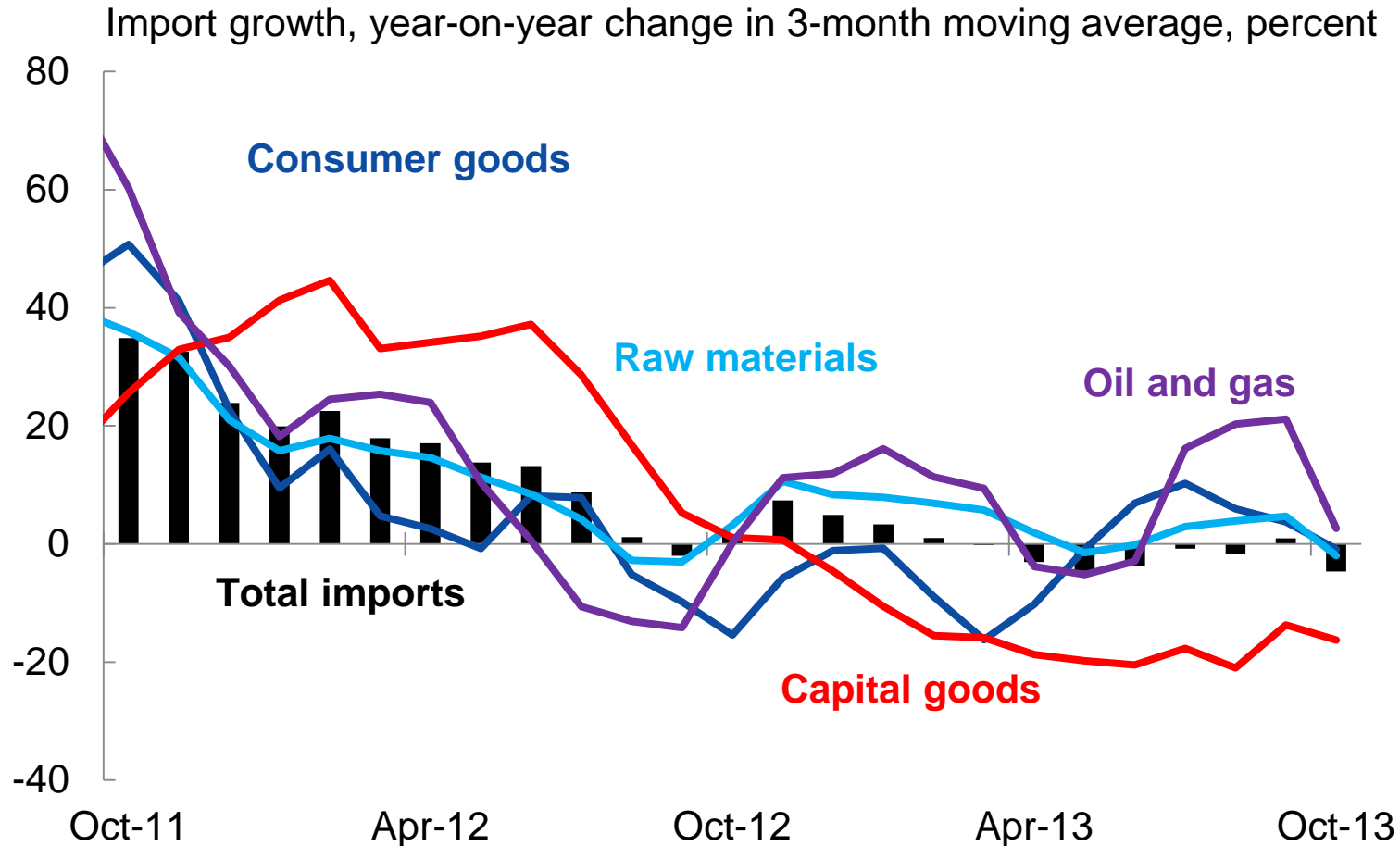
FACT: IMPORT COMPRESSION HURTS GROWTH...

Destinations of imports by sector, percent



Source: World Input-Output database 2011

...AND IT IS HAPPENING ALREADY

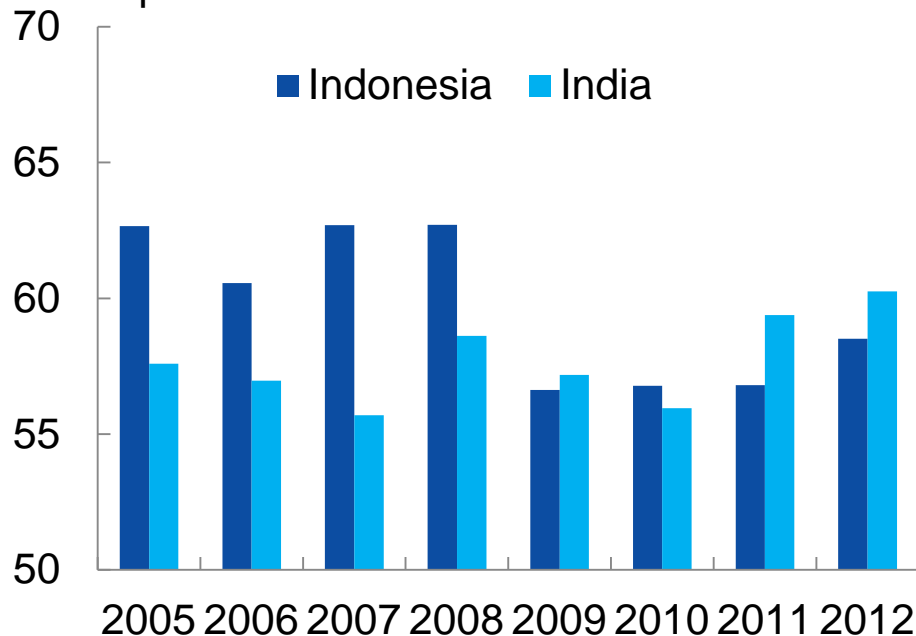


Source: BPS; World bank staff calculations

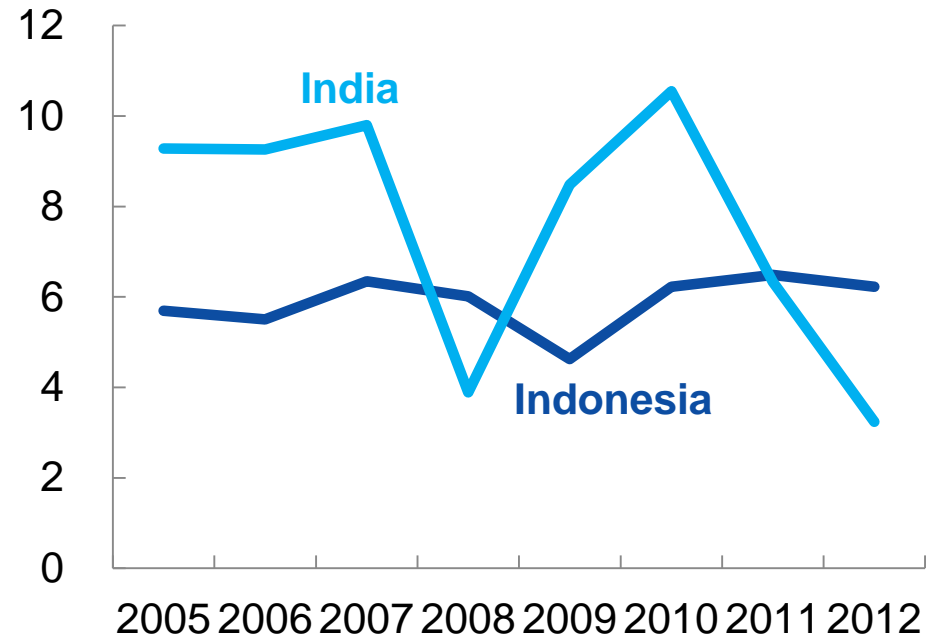
MYTH #3: A LARGE BASE OF CONSUMPTION ASSURES STRONG GROWTH

FACT: THE CURRENT RISKS ARE REAL

Household final consumption expenditure, percent of GDP



Real GDP growth, percent



Source: World Bank

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2014: outlook and policies



SLOWER GROWTH IN 2014 THAN 2013

						December IEQ		Previous (Oct)	
		<u>2011</u>	<u>2012</u>	<u>2013p</u>	<u>2014p</u>	<u>2013p</u>	<u>2014p</u>	<u>2013p</u>	<u>2014p</u>
Real GDP	(% change)	6.5	6.2	5.6	5.3	5.6	5.3	5.6	5.3
Consumer price index	(% change)	5.4	4.3	7.0	6.1	7.3	6.7	7.3	6.7
Current account balance	(% GDP)	0.2	-2.8	-3.5	-2.6	-3.4	-2.6	-3.4	-2.6
Major trading partner GDP	(% change)	3.6	3.4	3.4	3.9	3.4	3.9	3.4	3.9

Source: World Bank

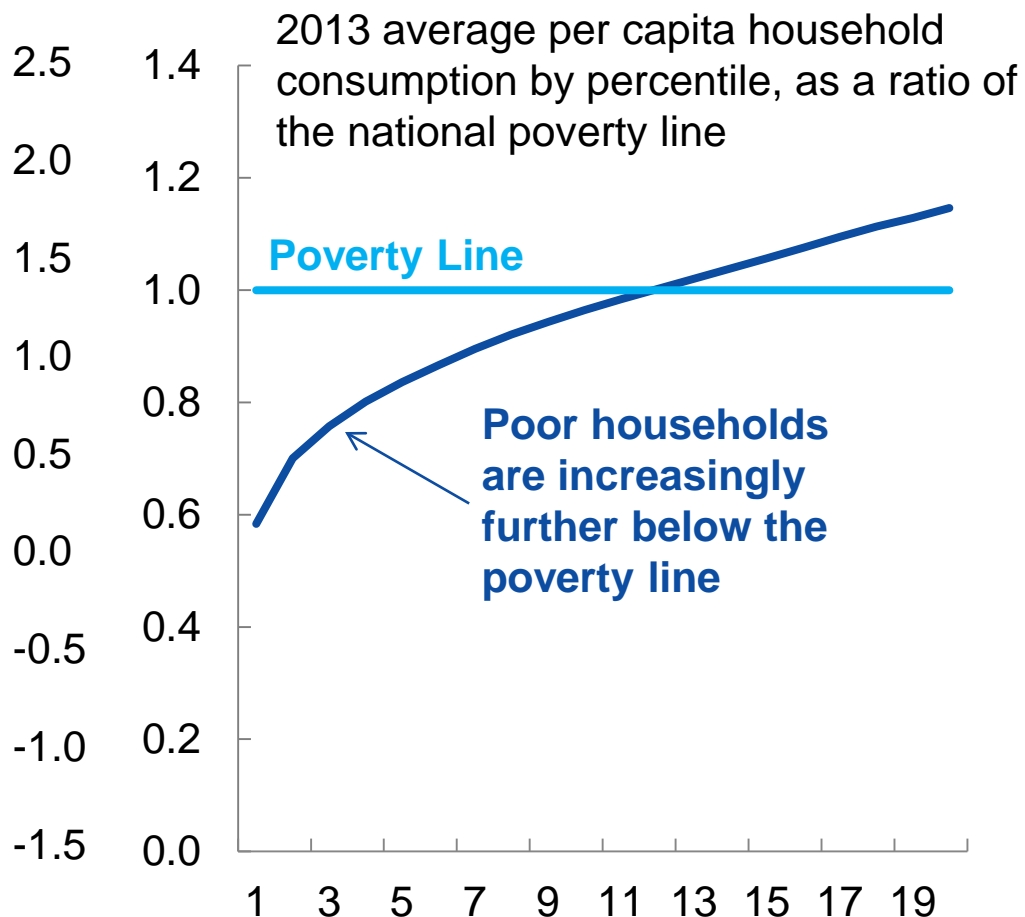
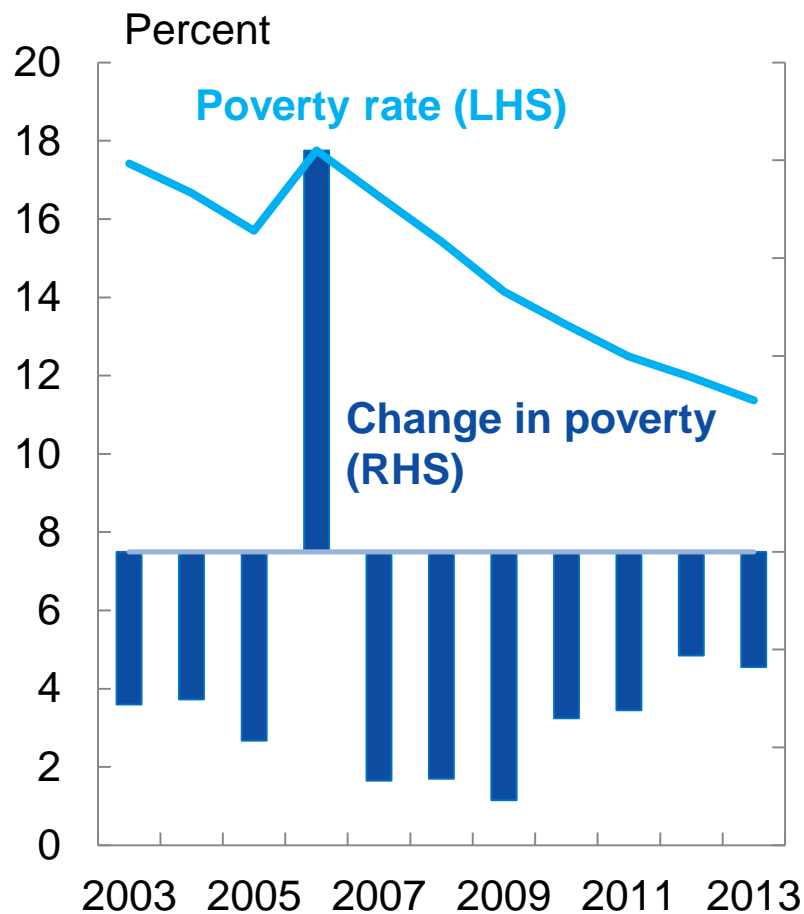
...WITH GROWTH RISKS TO THE DOWNSIDE

- **Material risk of growth falling below 5 percent, due to:**
 - **External financing constraints bite harder**
 - **More marked deceleration in domestic demand than expected in the base case as private consumption and investment are affected by:**
 - Higher interest rates
 - Higher import prices
 - Wealth and sentiment effects



SLOWER PACE OF POVERTY REDUCTION...

MORE ENTRENCHED POOR



Source: BPS; World Bank staff calculations

SUPPORTING GROWTH AND MINIMIZING RISKS IN 2014

Maintaining macroeconomic stability

- Currency flexibility
- Monetary and fiscal policy coordination
- Building policy buffers and contingency planning

Supporting investment, including inward direct investment

- Pro-investment DNI revision
- Implementation of “doing business” measures
- Improving policy and regulatory certainty: process and implementation

Supporting exports

- “Quick wins” in trade facilitation and logistics
- Plugging infrastructure and skills gaps for longer-term competitiveness



ALSO IN THIS DECEMBER 2013 IEQ EDITION

- Analysis of the **2014 Budget**
- An update on **poverty trends**
- An update on **labor market trends**
- New survey results on **local governance capacity**

On the web:

<http://www.worldbank.org/en/news/feature/2013/12/16/indonesia-economic-quarterly-slower-growth-high-risks>

