

INDONESIA ECONOMIC QUARTERLY

MARCH 2013



PRESSURES MOUNTING

Jim Brumby, PREM Sector Manager & Lead Economist
Paramadina Public Policy Institute, March 2013

www.worldbank.org/id

MARCH 2013 IEQ LAUNCH PRESENTATION

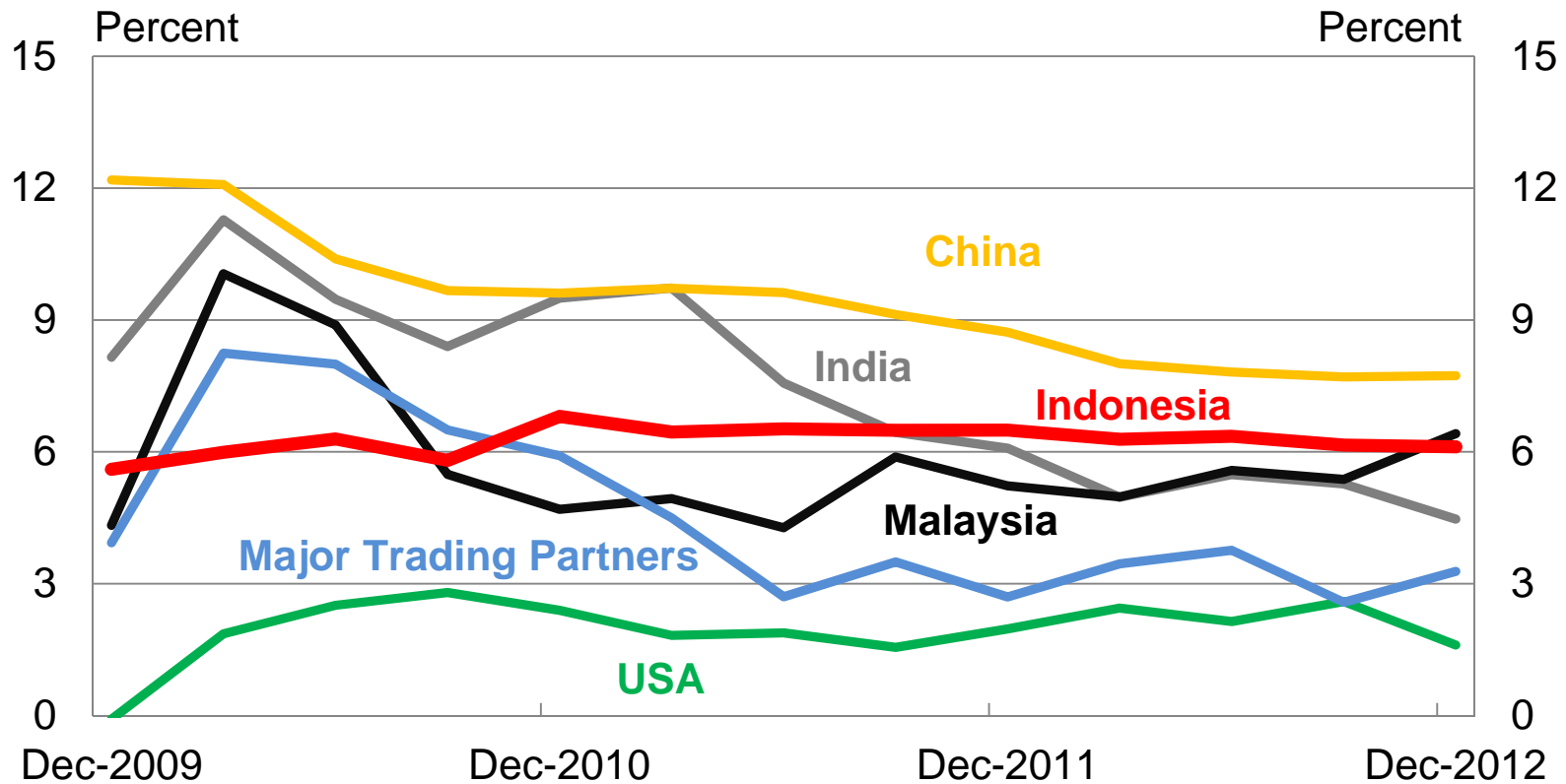
Steady recent economic growth, but pressures mounting

Strong performance can continue but will require policy progress in key areas

More evidence on the need and scope for progress in these areas

INDONESIA'S ECONOMY CONTINUES TO PERFORM WELL

Real GDP growth, year-on-year



Source: CEIC; World Bank Global Economic Prospects, January 2013, and East Asia Update, December 2012

MOUNTING PRESSURES

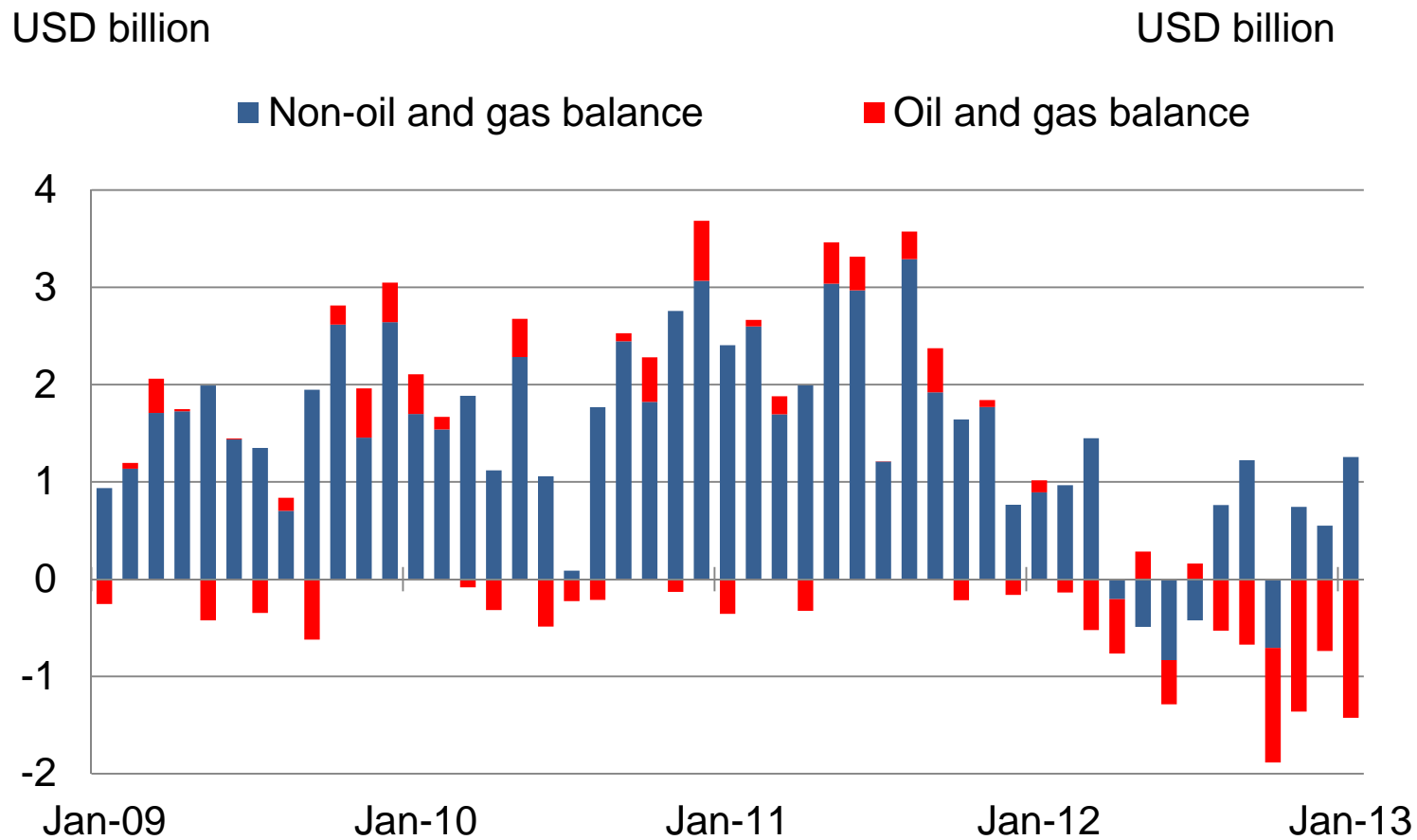
1. Investment growth cooling; public infrastructure lagging
2. Real sales and nominal GDP growth: moderating
3. External balances: no relief
4. Fiscal sector: burdened by energy subsidies
5. Poor and vulnerable households: slower pace of improvement

INVESTMENT GROWTH: MODERATING



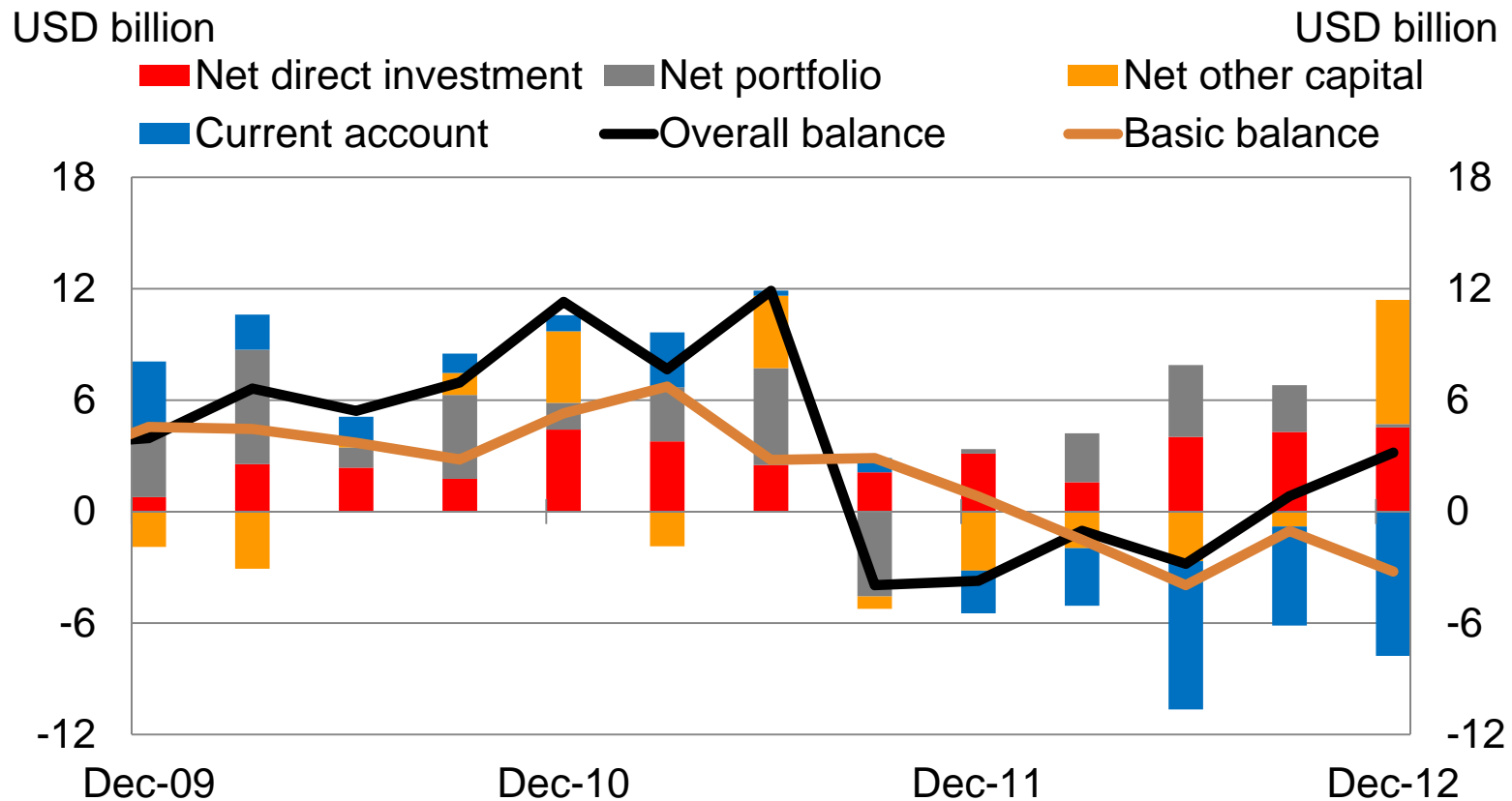
Source: CEIC; World Bank staff calculations

EXTERNAL BALANCES: STILL UNDER PRESSURE, RECENTLY DUE ESPECIALLY TO OIL & GAS TRADE DEFICIT



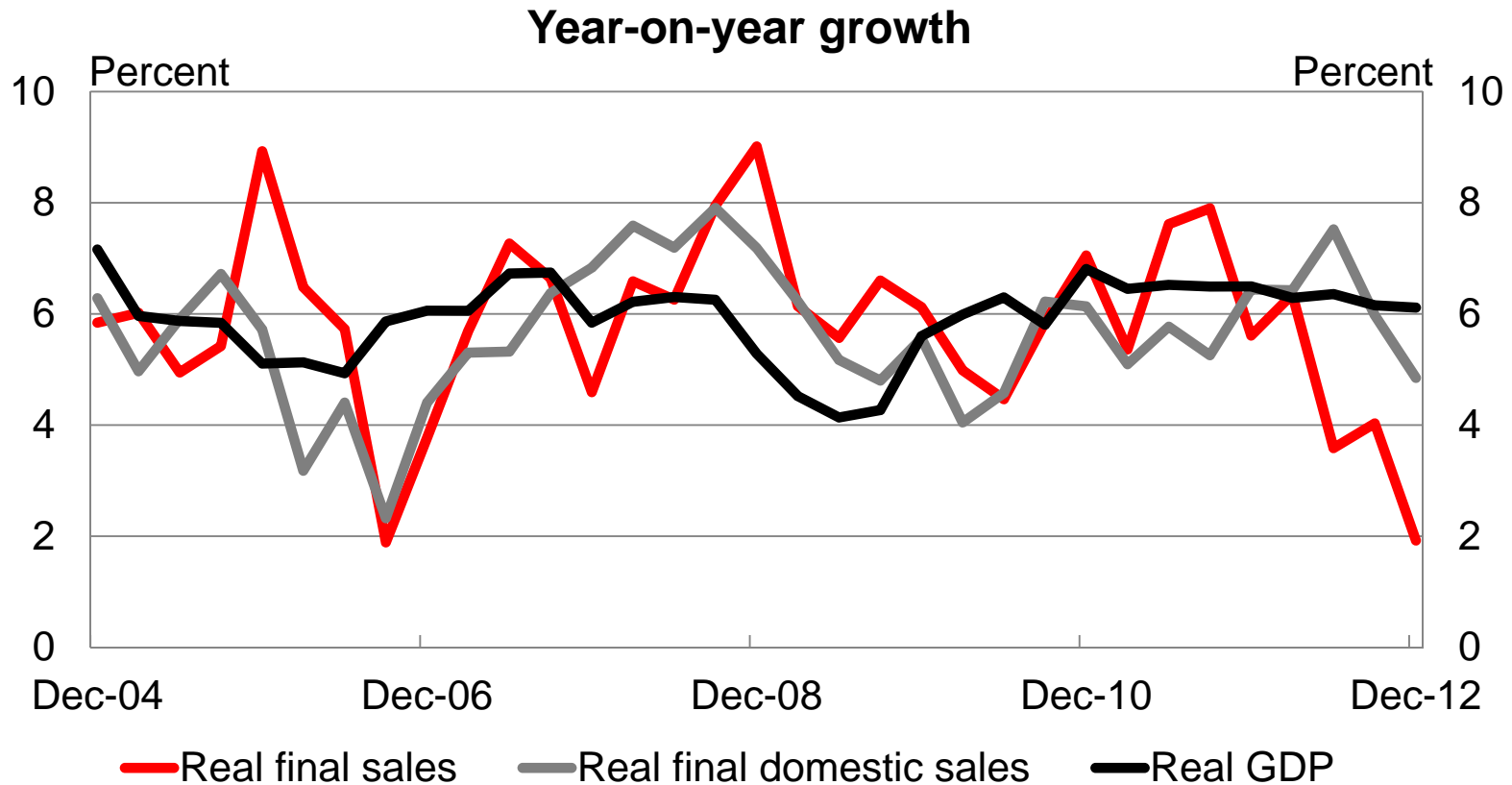
Source: CEIC; World Bank staff calculations

EXTERNAL BALANCES: KEEPING THE NEED TO SUPPORT FDI AND PORTFOLIO FLOWS IN FOCUS



Source: CEIC; World Bank staff calculations

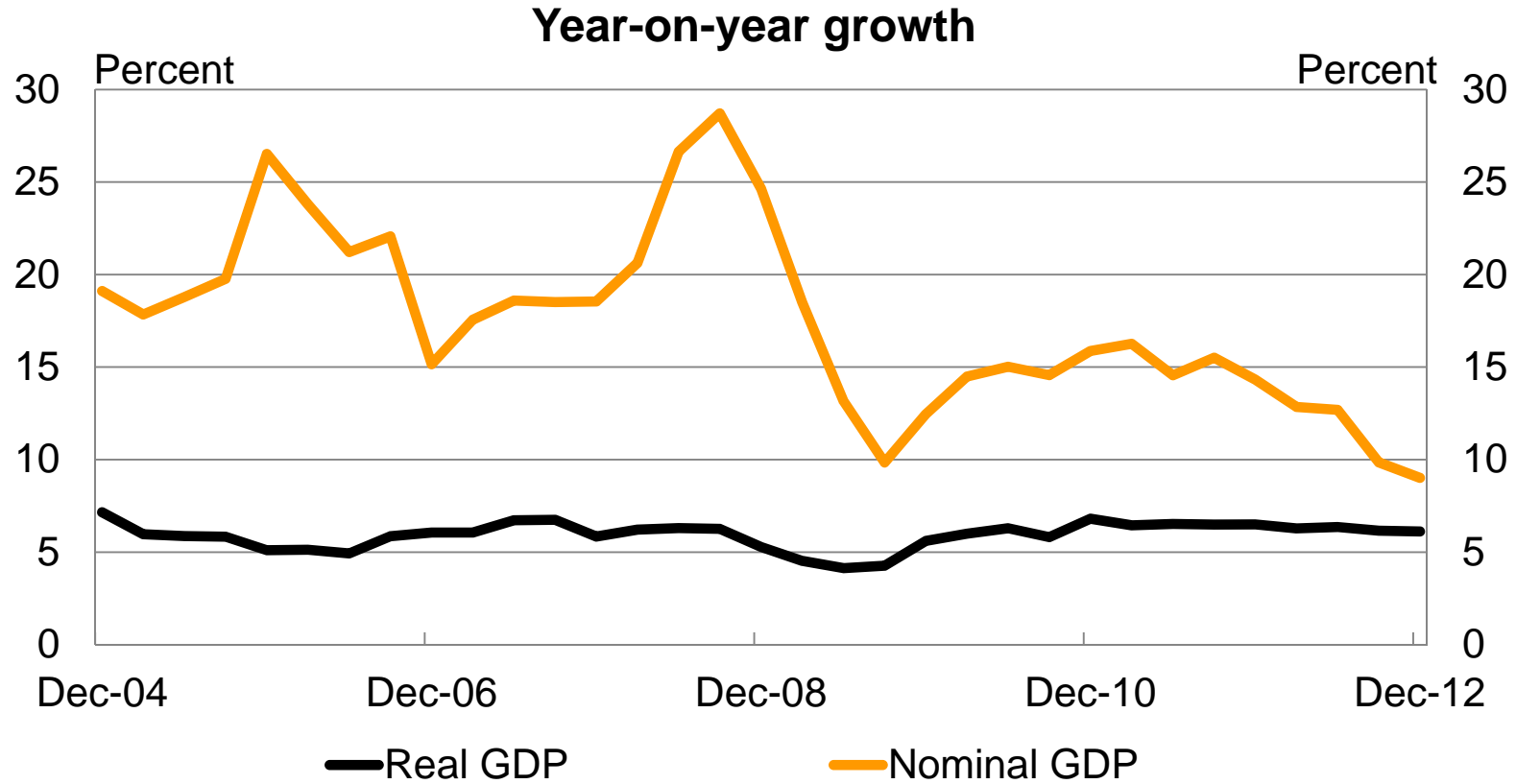
GROWTH OUTLOOK: MEASURED REAL FINAL SALES GROWTH DECLINING



Note: Real final (domestic) sales = Measured private consumption + government consumption + fixed investment + net exports (-net exports)

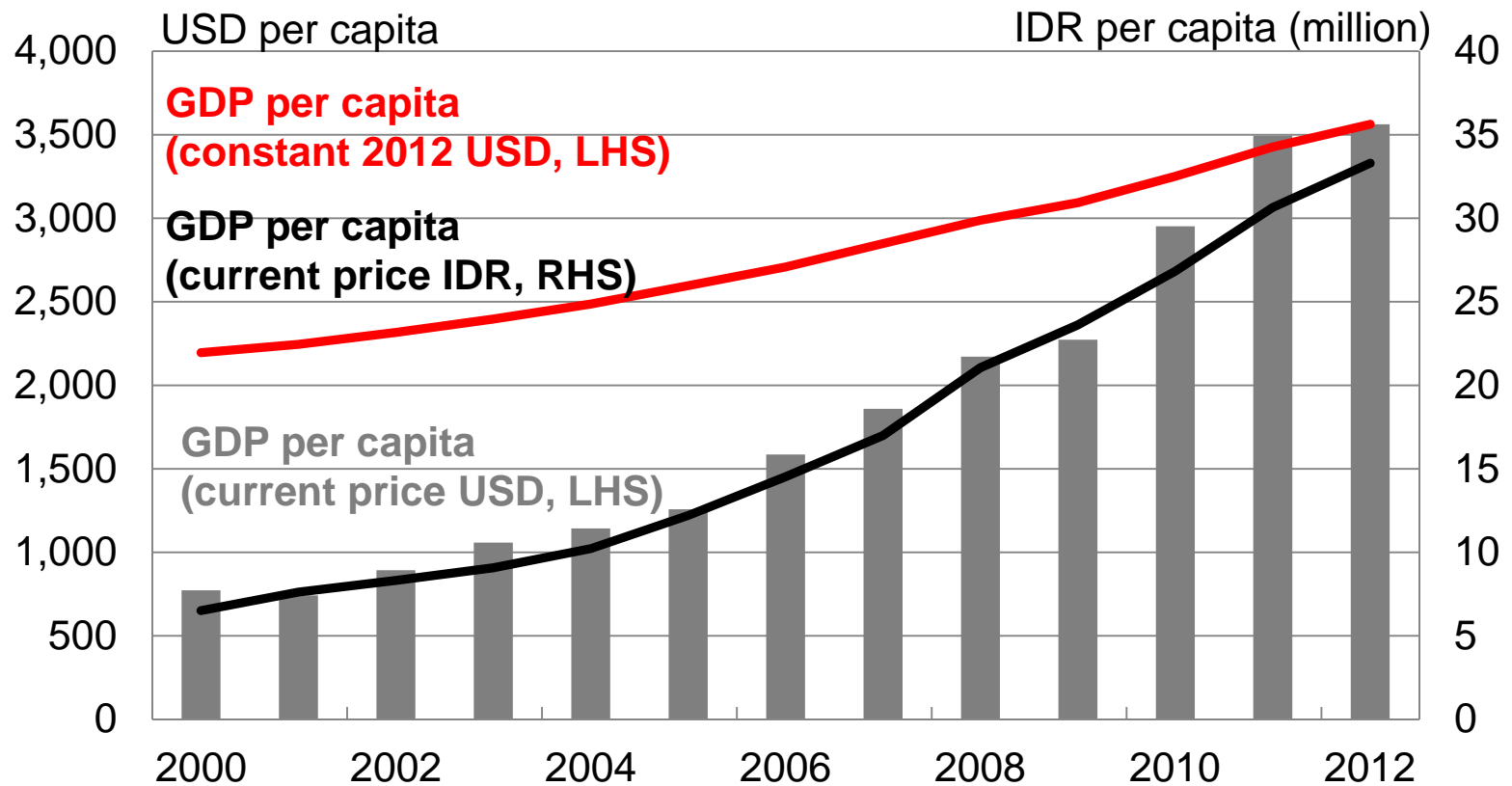
Source: CEIC; World Bank staff calculations

GROWTH OUTLOOK: NOMINAL GDP GROWTH MODERATING



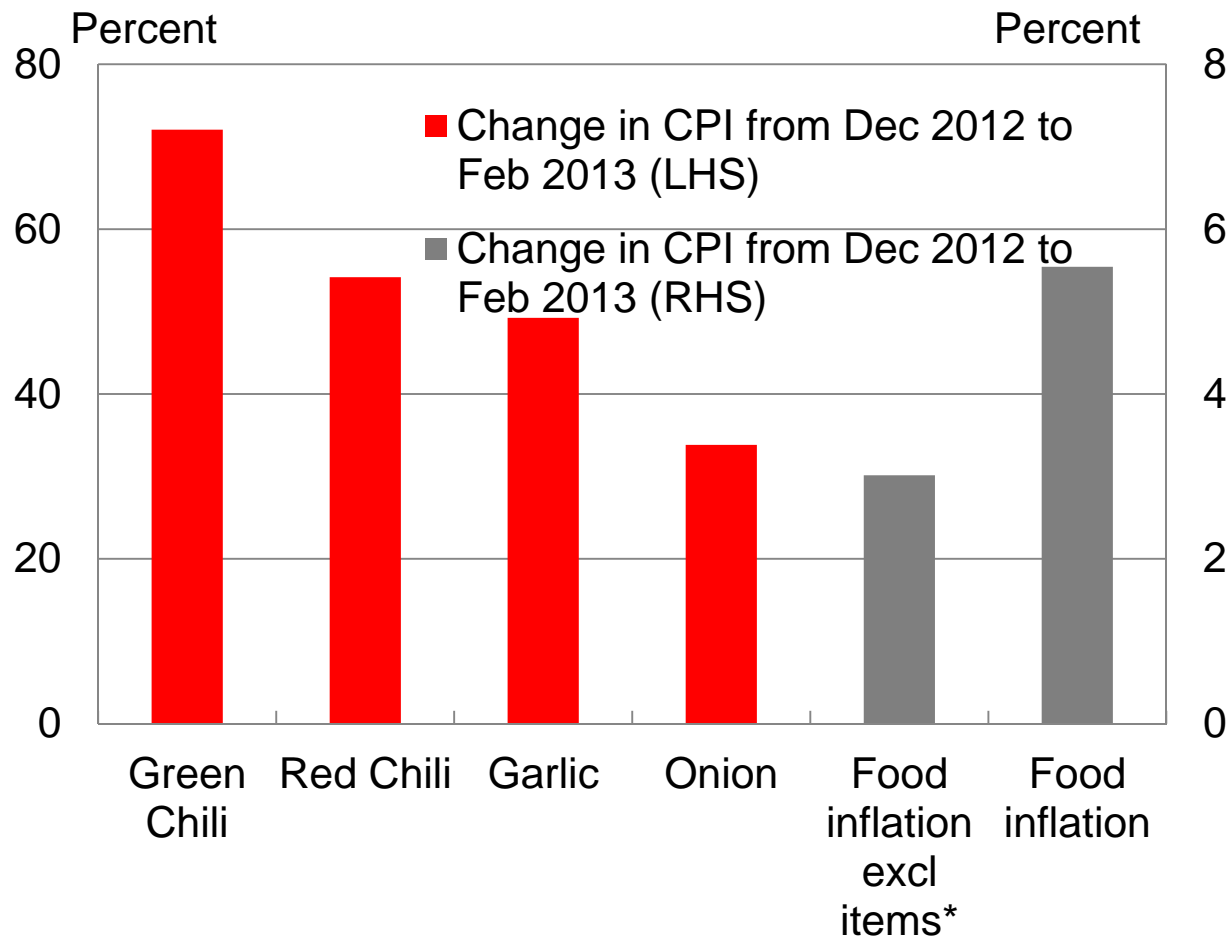
Source: CEIC; World Bank staff calculations

NOMINAL INCOME GROWTH: SLOWER IN 2012



Source: CEIC; World Bank staff calculations

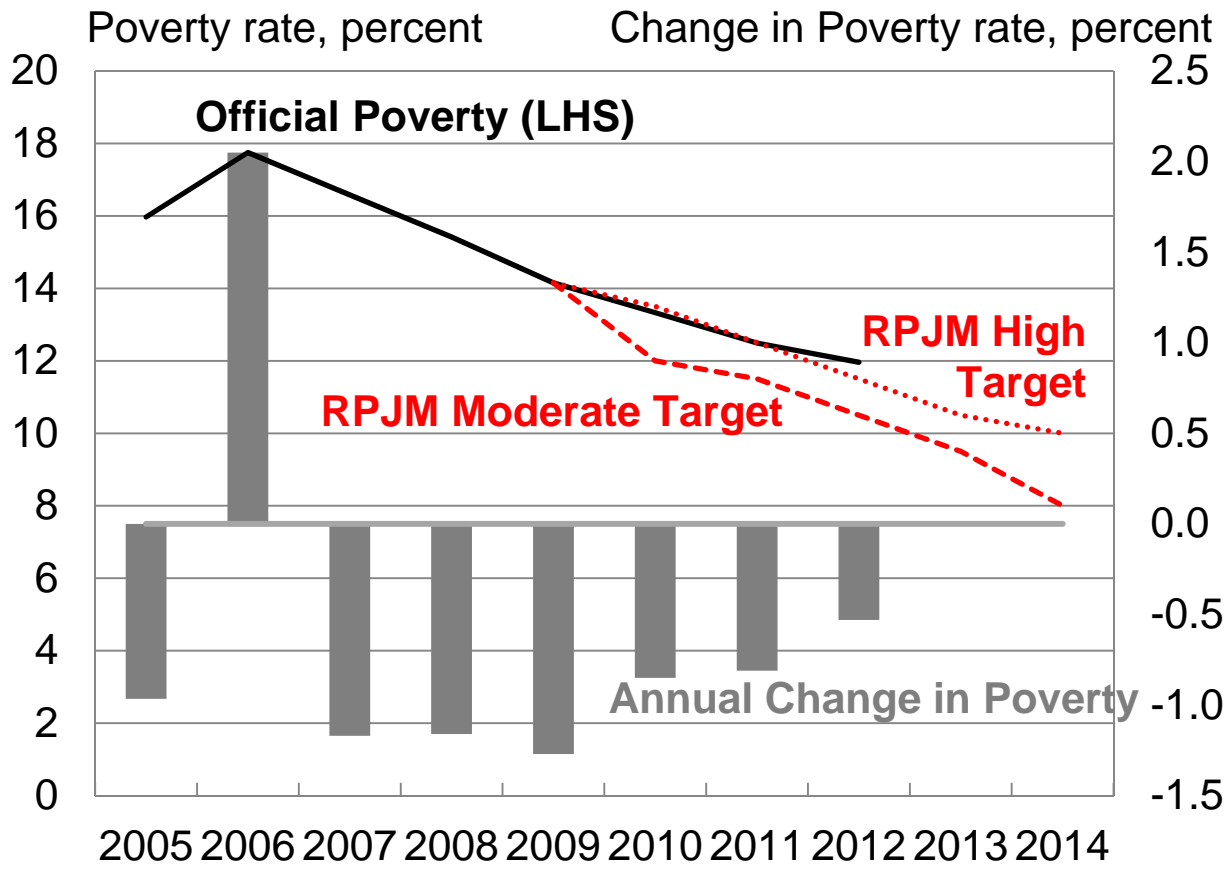
INFLATION: FOOD PRICE PRESSURES



Source: CEIC; World Bank staff calculations

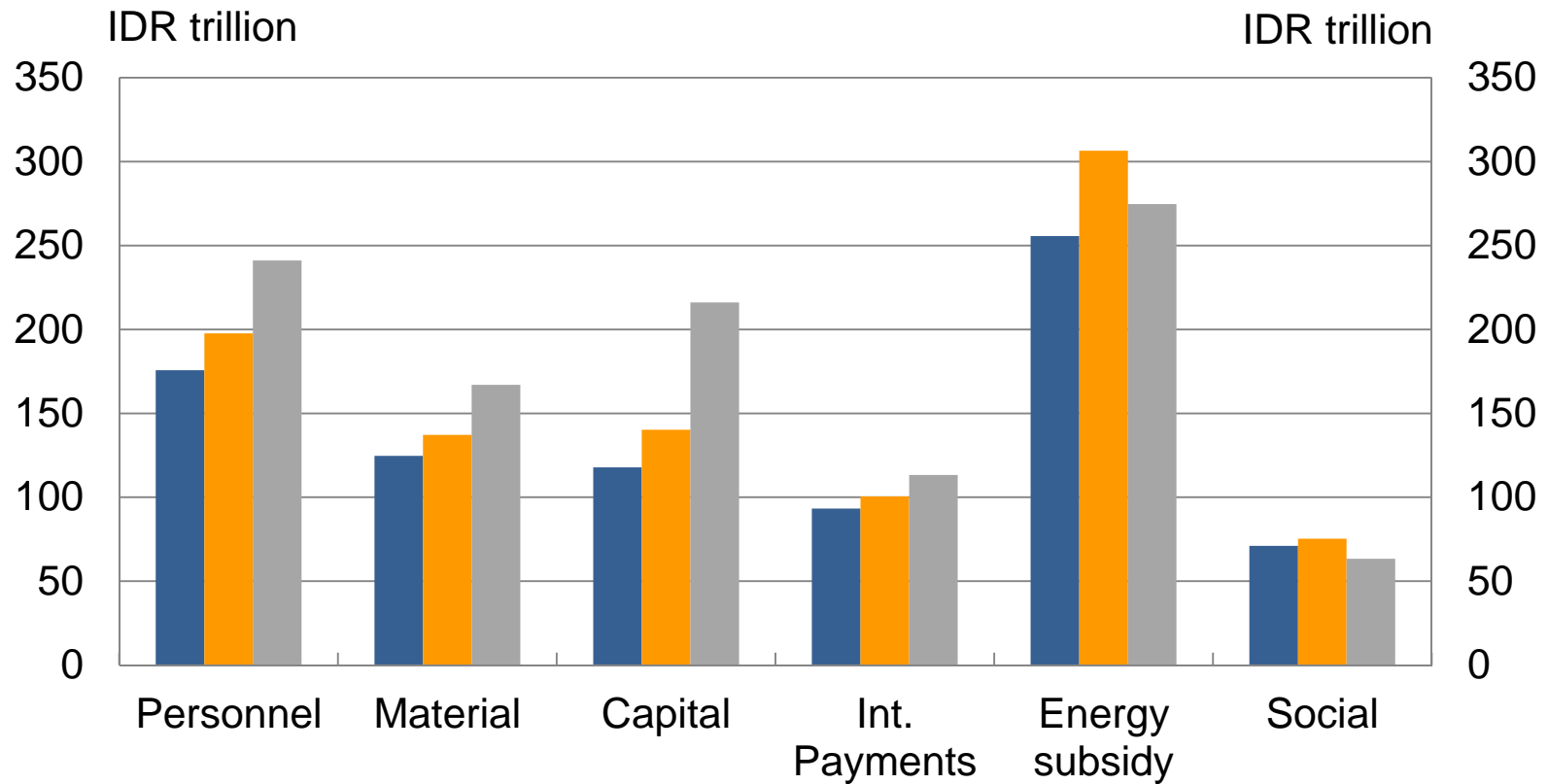


ACHIEVING OFFICIAL POVERTY REDUCTION TARGETS WILL BE A STRETCH



FISCAL SECTOR: BURDENED BY INEFFICIENT SPENDING

■ 2011 Actual Audited ■ 2012 Preliminary Actual ■ 2013 Budget



Source: MoF; World Bank staff calculations

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More evidence on the need and scope for progress in these areas



NOTWITHSTANDING THE PRESSURES, STRONG PERFORMANCE AND PROGRESS CAN CONTINUE...

	2011	2012	2013	2014
Gross domestic product	6.5	6.2	6.2	6.5
Consumer price index	5.2	4.3	5.5	5.2
Budget balance	-1.2	-1.8	-1.7	-1.4
Major trading partner growth	3.6	3.4	3.7	4.0

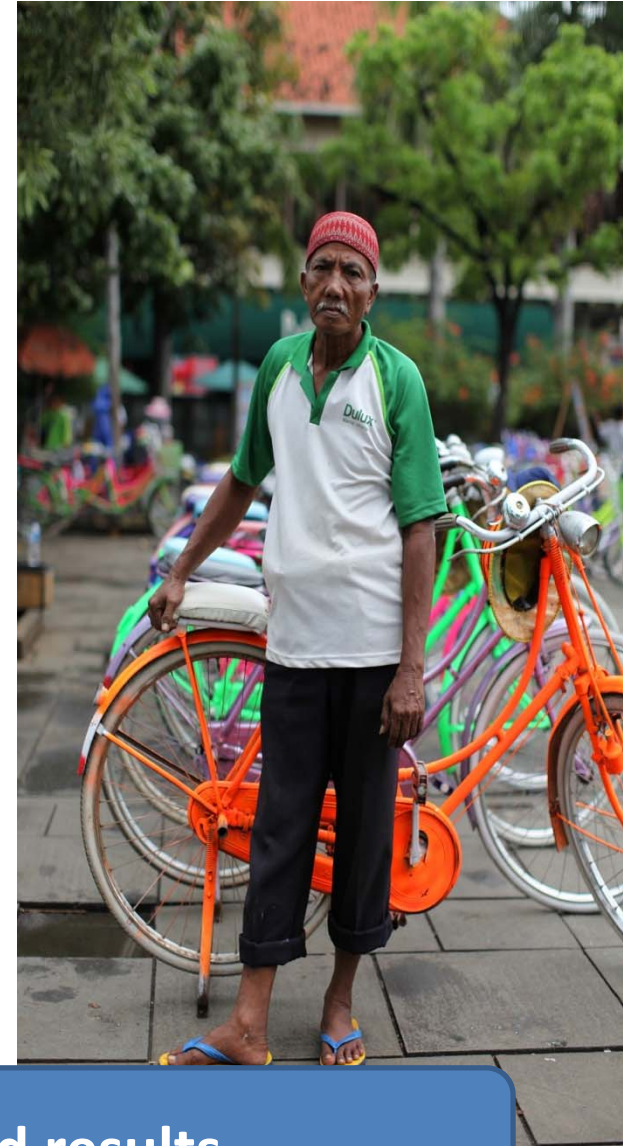
Note: CPI is annual average. Government figures for Budget deficit: 2012 is preliminary outturn, 2013 is approved Budget and 2014 is from the 2013 Draft Budget Financial Note

Source: Ministry of Finance, BPS, Consensus Forecasts Inc., World Bank staff calculations

...BUT THIS REQUIRES THAT POLICY ADDRESSES

MOUNTING PRESSURES

- **Investment:**
 - Sustain private investment by providing policy certainty; making ongoing improvements in regulatory framework
 - Work to meet the public infrastructure investment challenge
- **Trade and external balances:**
 - Focus on competitiveness rather than import restrictions
- **Fiscal sector:**
 - Fuel subsidy reform
- **Households:**
 - Food: focus on availability; redirect subsidies



Timely responses tend to yield results

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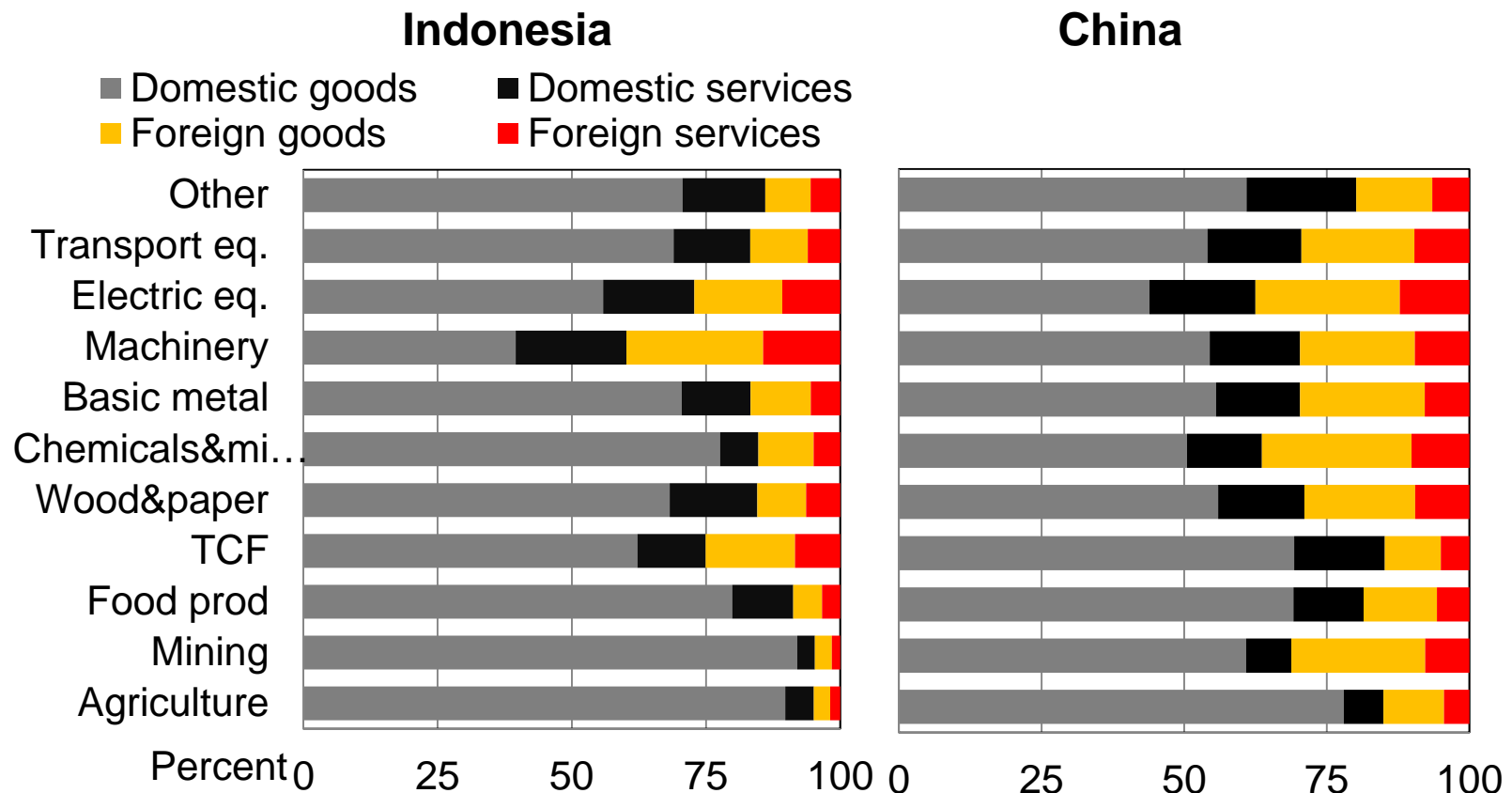
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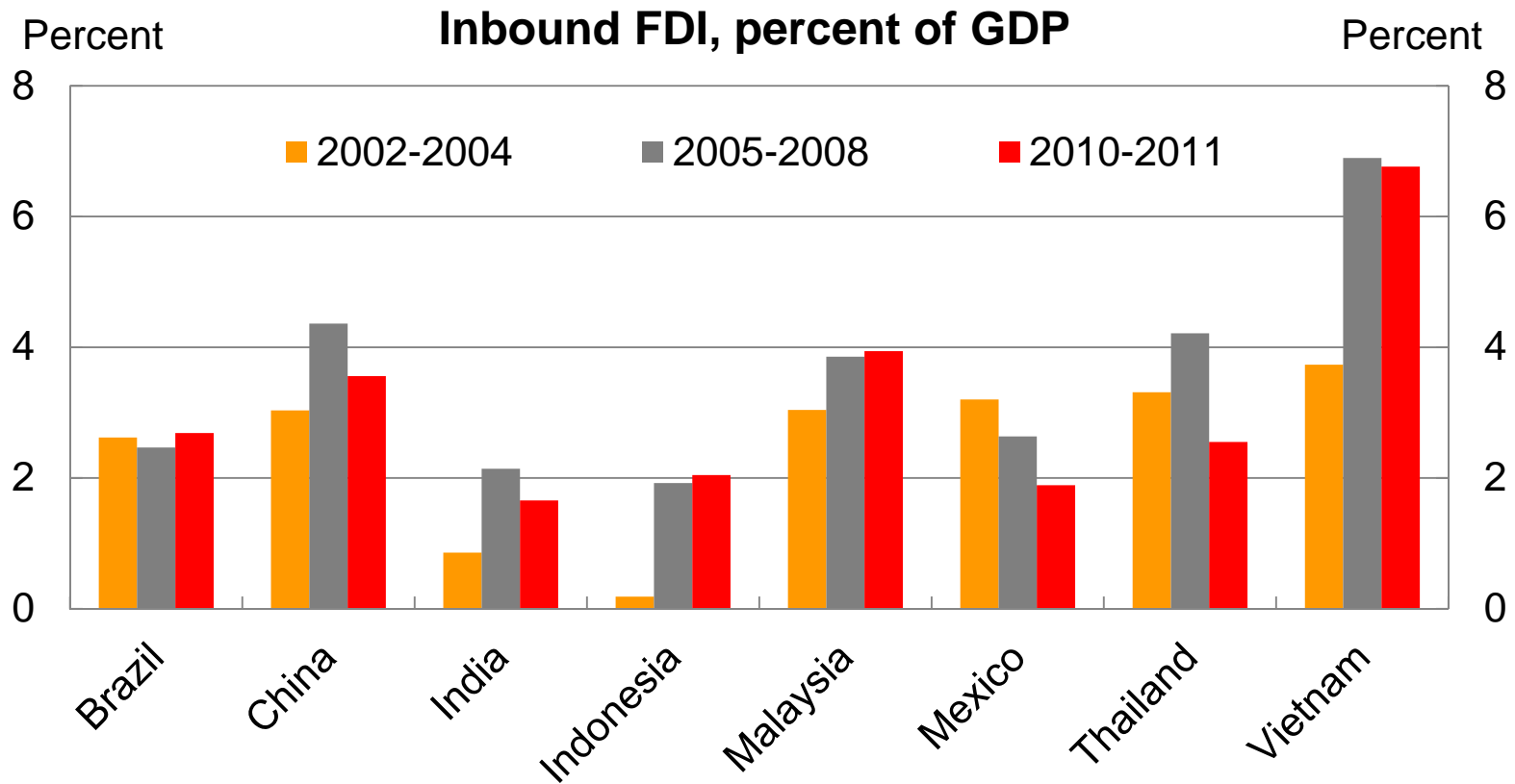
SUCCESSFUL MANUFACTURES RELY ON IMPORTS

Value-added in manufactured goods exports



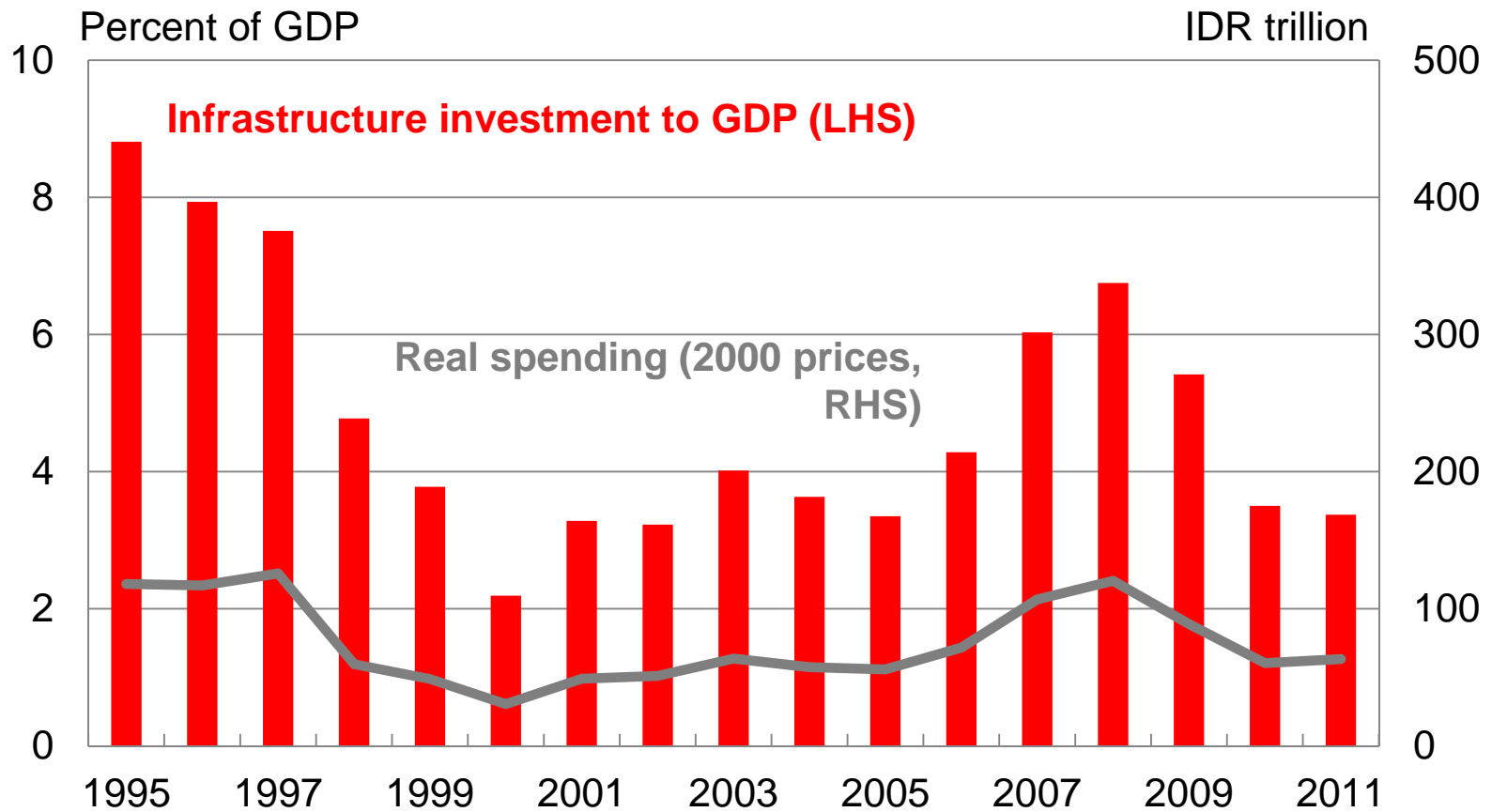
Source: OECD and WTO Trade in Value-Added (TiVA) statistics

FDI HAS ROOM TO INCREASE



Source: CEIC; World Bank staff calculations

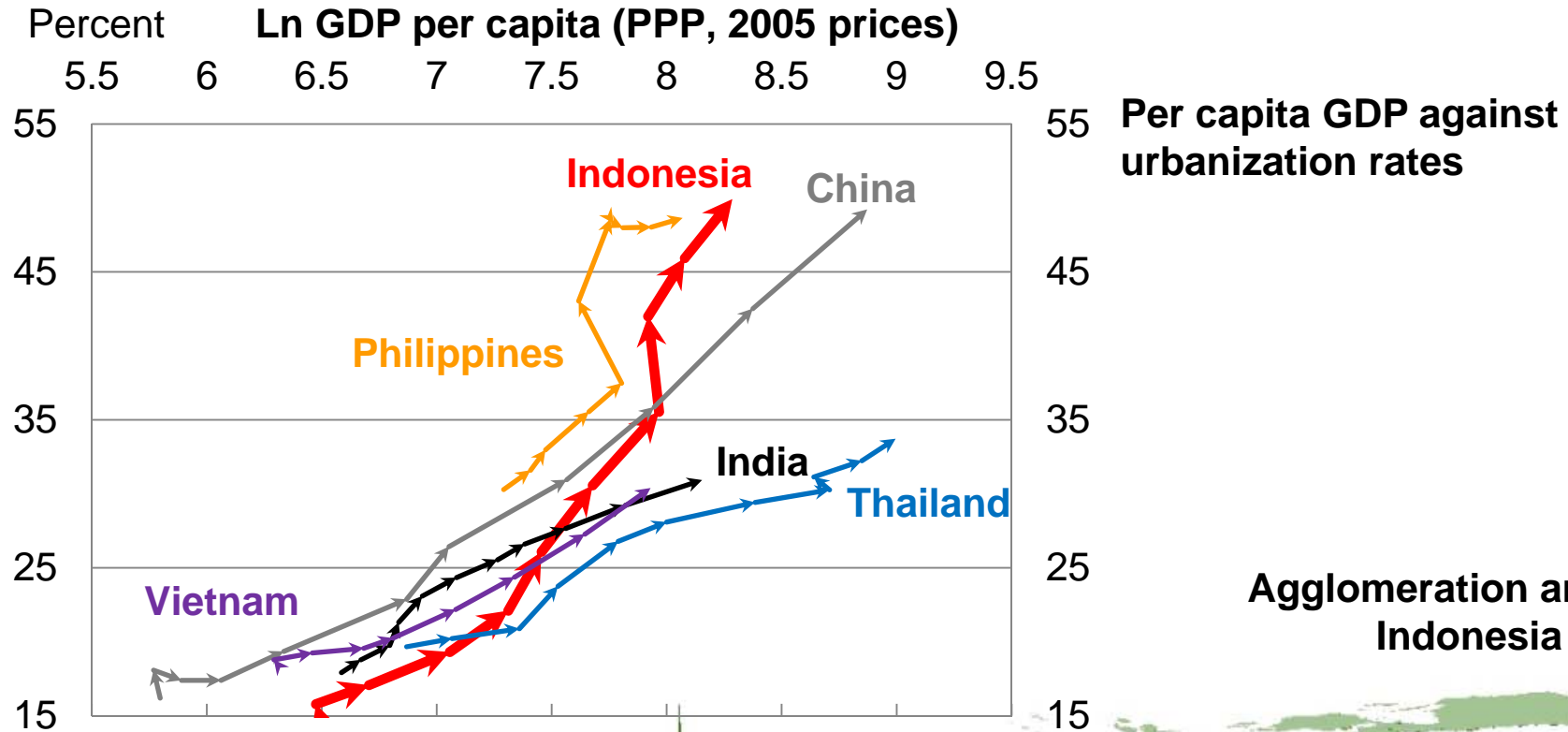
PUBLIC INFRASTRUCTURE NEEDS A FURTHER BOOST



Note: Real value calculated using investment GDP deflator

Source: Infrastructure investment data as detailed in Box 5 of March 2013 *IEQ* and World Bank staff calculations

TAP INTO THE POTENTIAL OF FAST URBANIZATION



Agglomeration areas in Indonesia

Source: Indonesia: The Rise of Metropolitan Regions. The World Bank (2012)

SUMMARY: MARCH 2013 IEQ

PRESSURES MOUNTING

- **This edition of the IEQ contains analysis on:**
 - Fiscal policy – analysis of the 2012 Budget outturn
 - Trade dynamics – insights from new trade in value-added data for Indonesia
 - Urbanization – harnessing the potential of agglomeration areas
 - Infrastructure investment spending – trends and the need for more

- **Key messages:**
 - **Steady recent economic performance with base case for this to continue**
 - **But there are some mounting pressures and the risks to the economy are to the downside**
 - **Timely policy responses tend to yield good results**