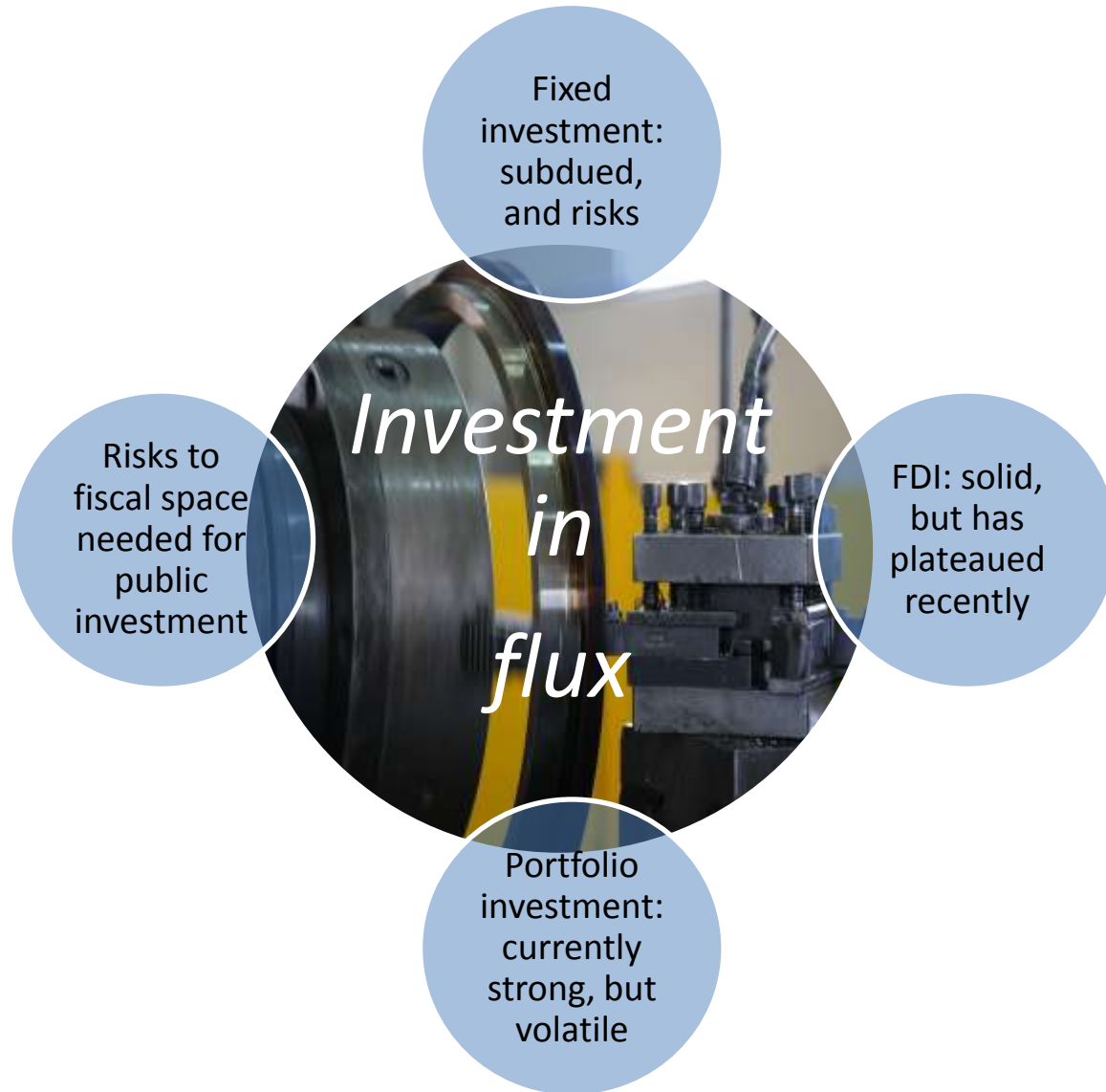


# Investment in flux

Indonesia Economic Quarterly Launch  
Jakarta, March 18, 2014

Jim Brumby  
Sector Manager and Lead Economist

# MARCH 2014 IEQ: “INVESTMENT IN FLUX”



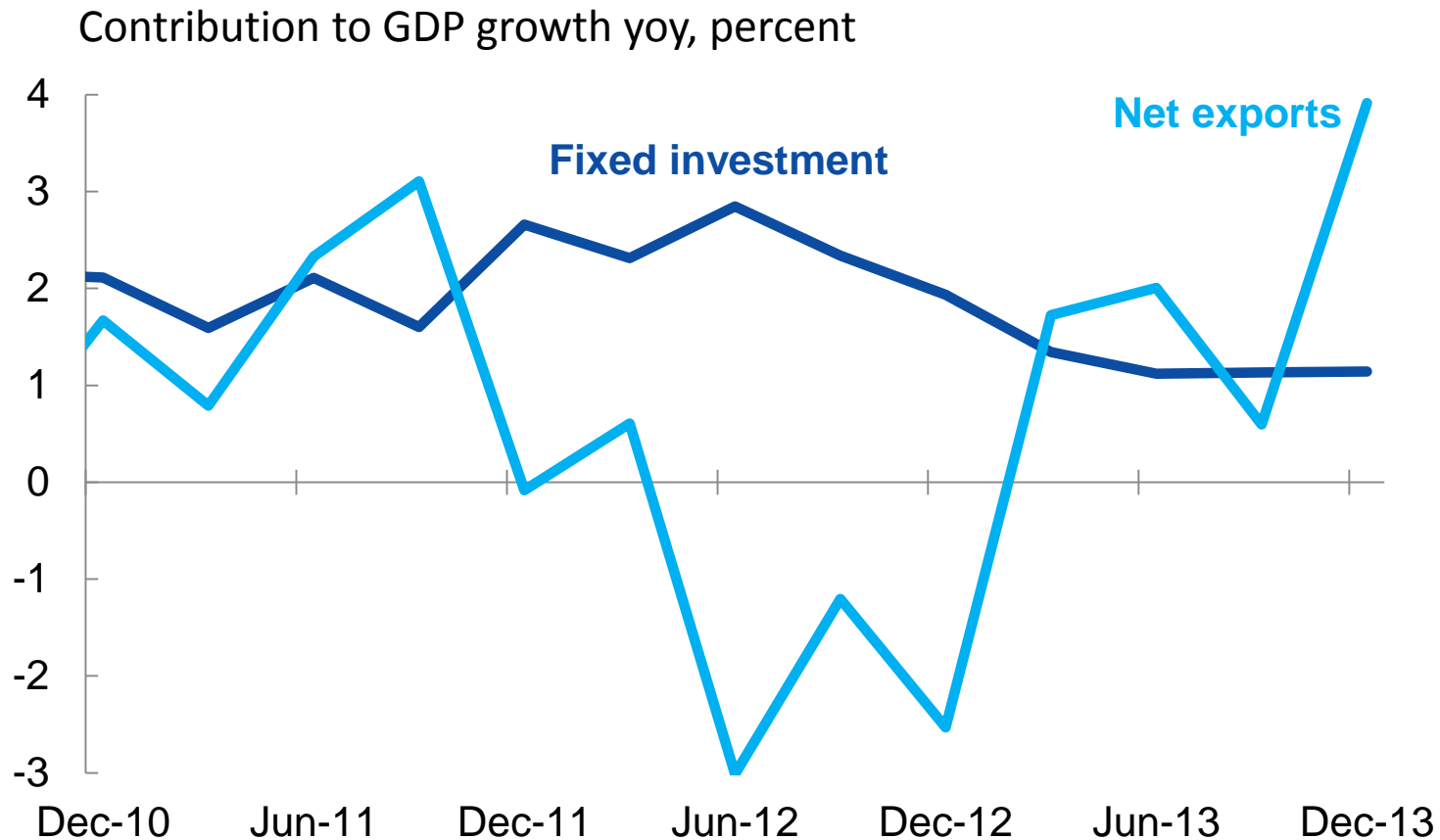
# OUTLINE

Recent economic developments and outlook

Investment in flux, amid policy uncertainties, fiscal pressures

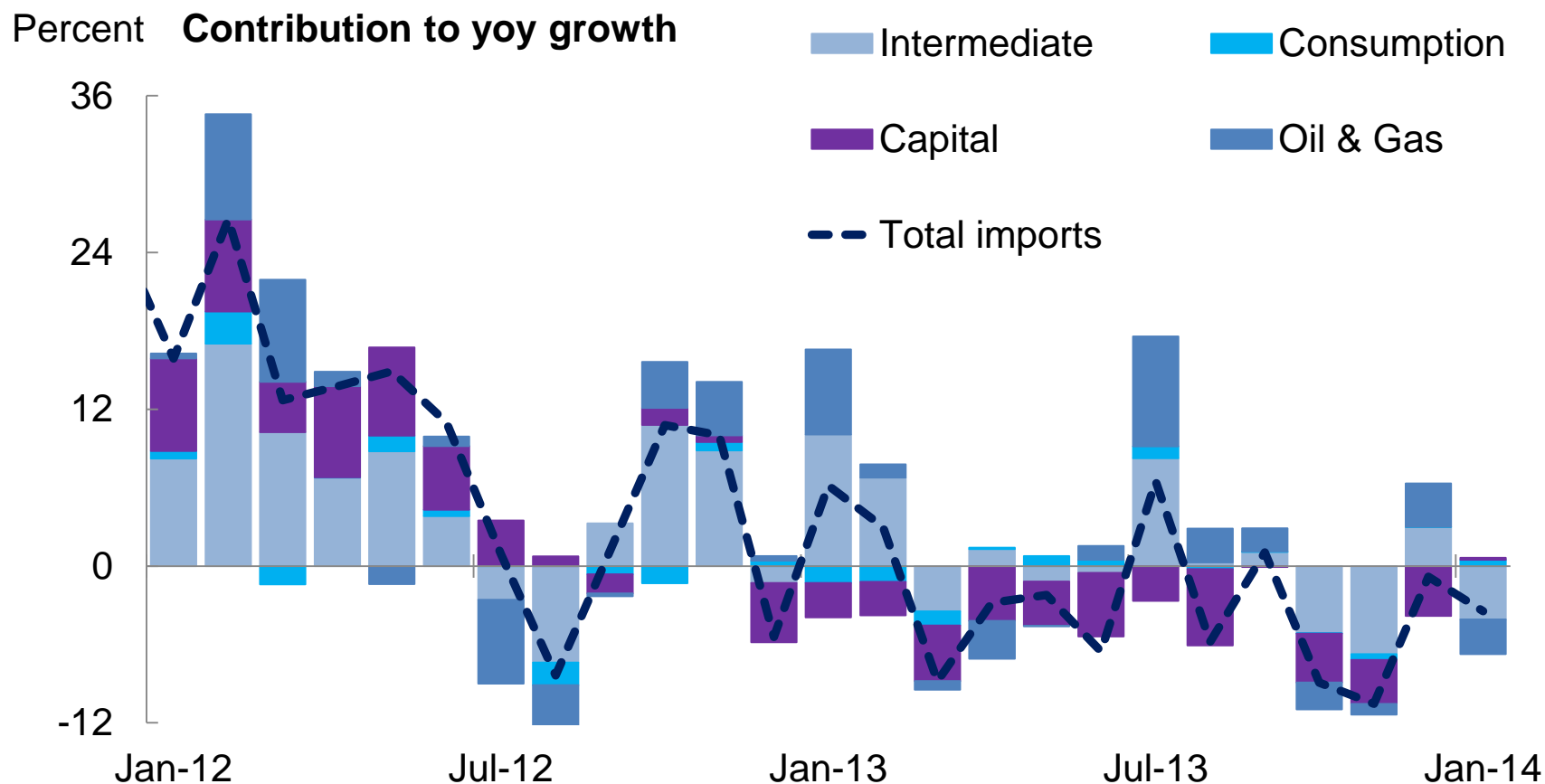
Priorities for the longer-term, and selected issues

# GDP: WEAK INVESTMENT, STRONG NET EXPORTS



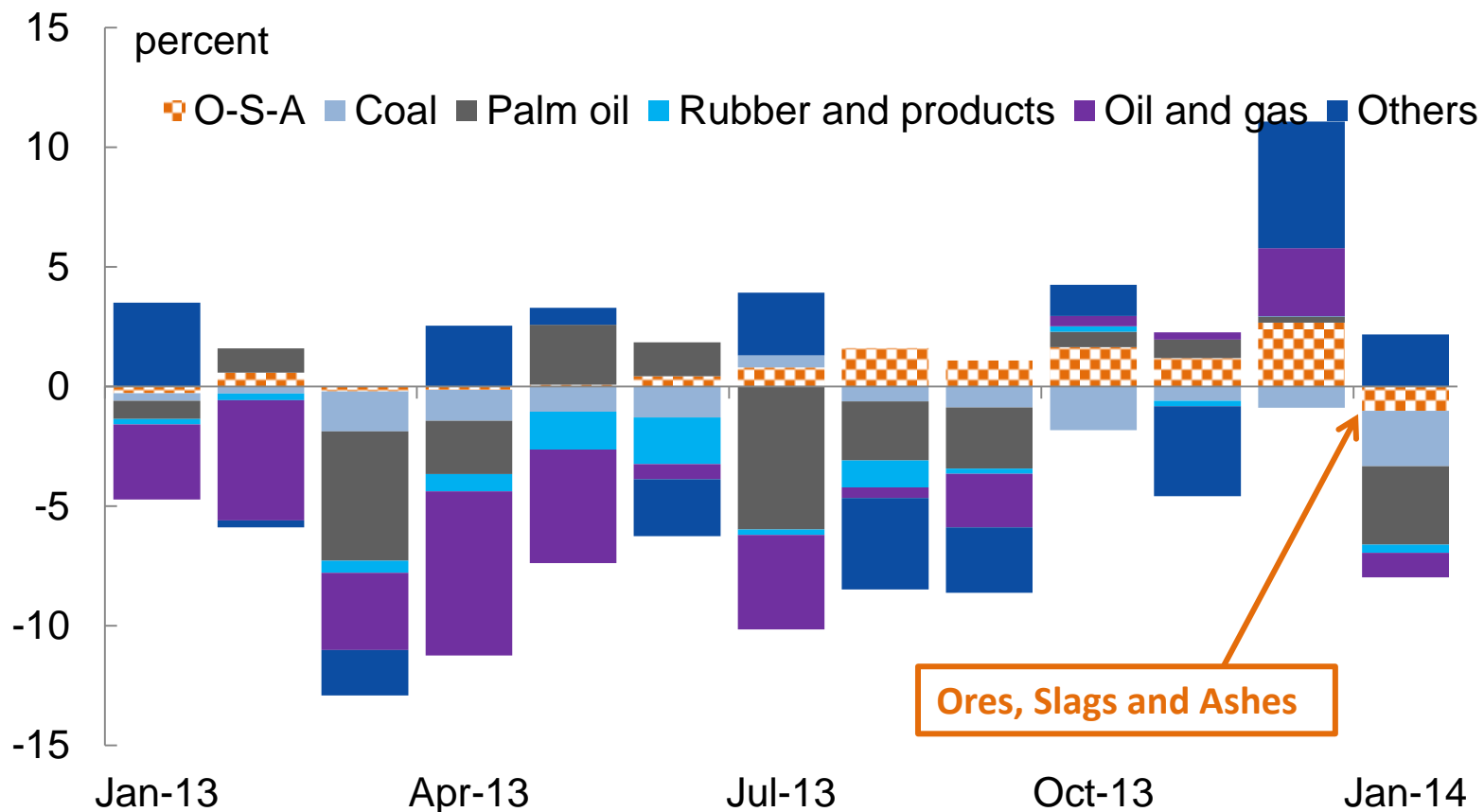
Source: BPS; World Bank calculations

# IMPORT DEMAND HAS SOFTENED



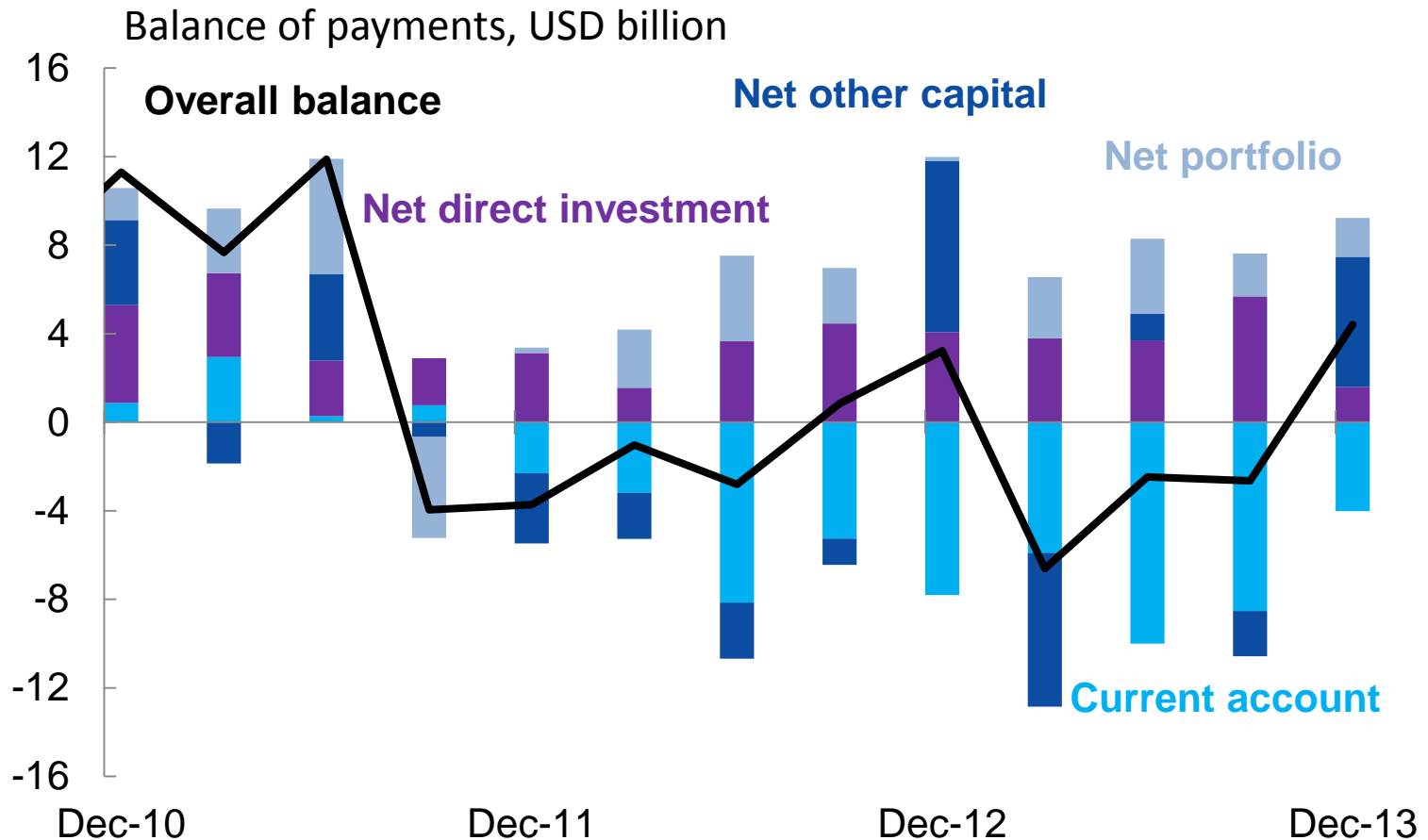
Source: BPS; World Bank staff calculations

# RAW MINERAL EXPORTS BAN BUMP IN Q4



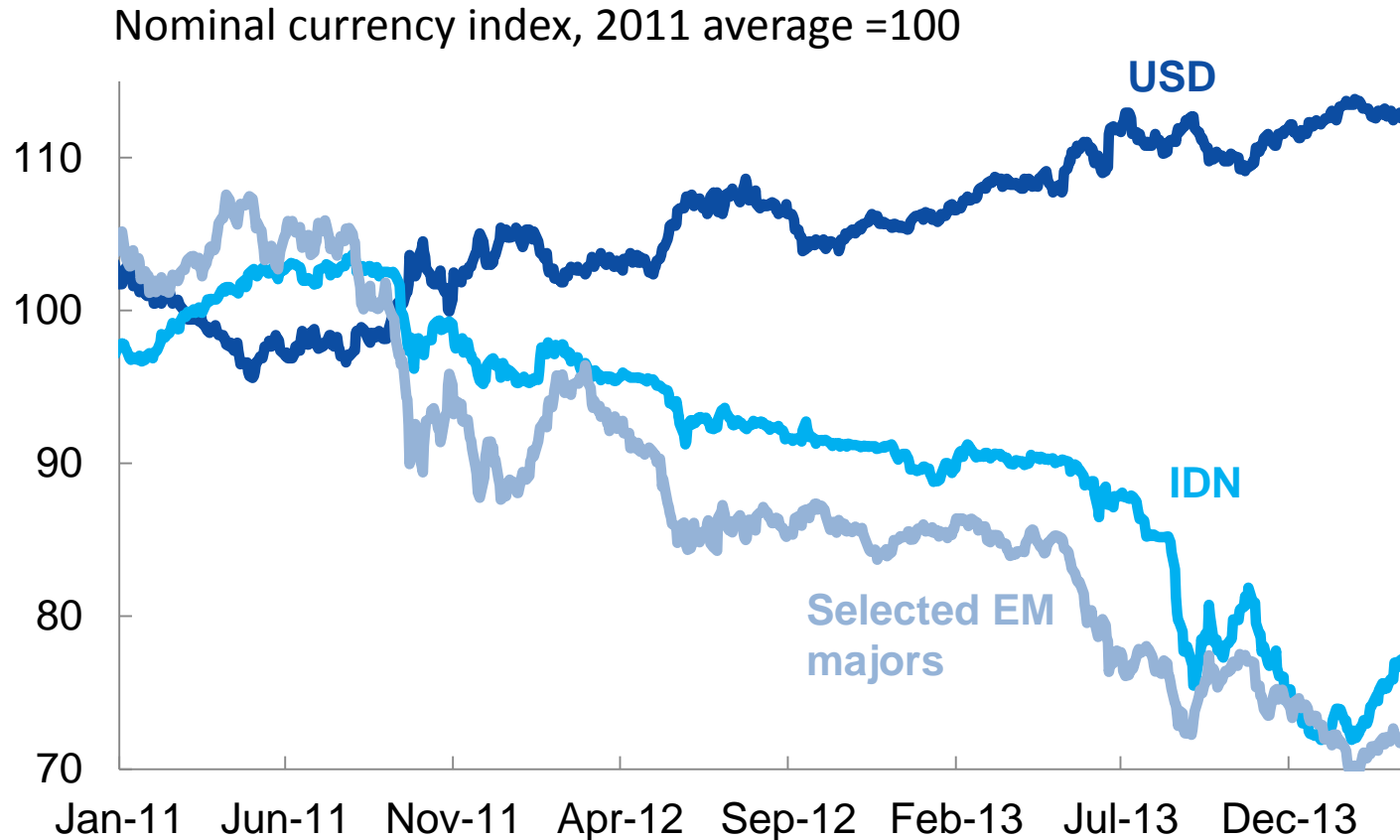
Source: BPS; World Bank staff calculations

# OVERALL BOP: NARROWER C/A DEFICIT...



Note: Basic balance = Current account balance + net FDI  
 Source: BI; World Bank staff calculations

# ...SUPPORTING THE RUPIAH OVER Q1 2014

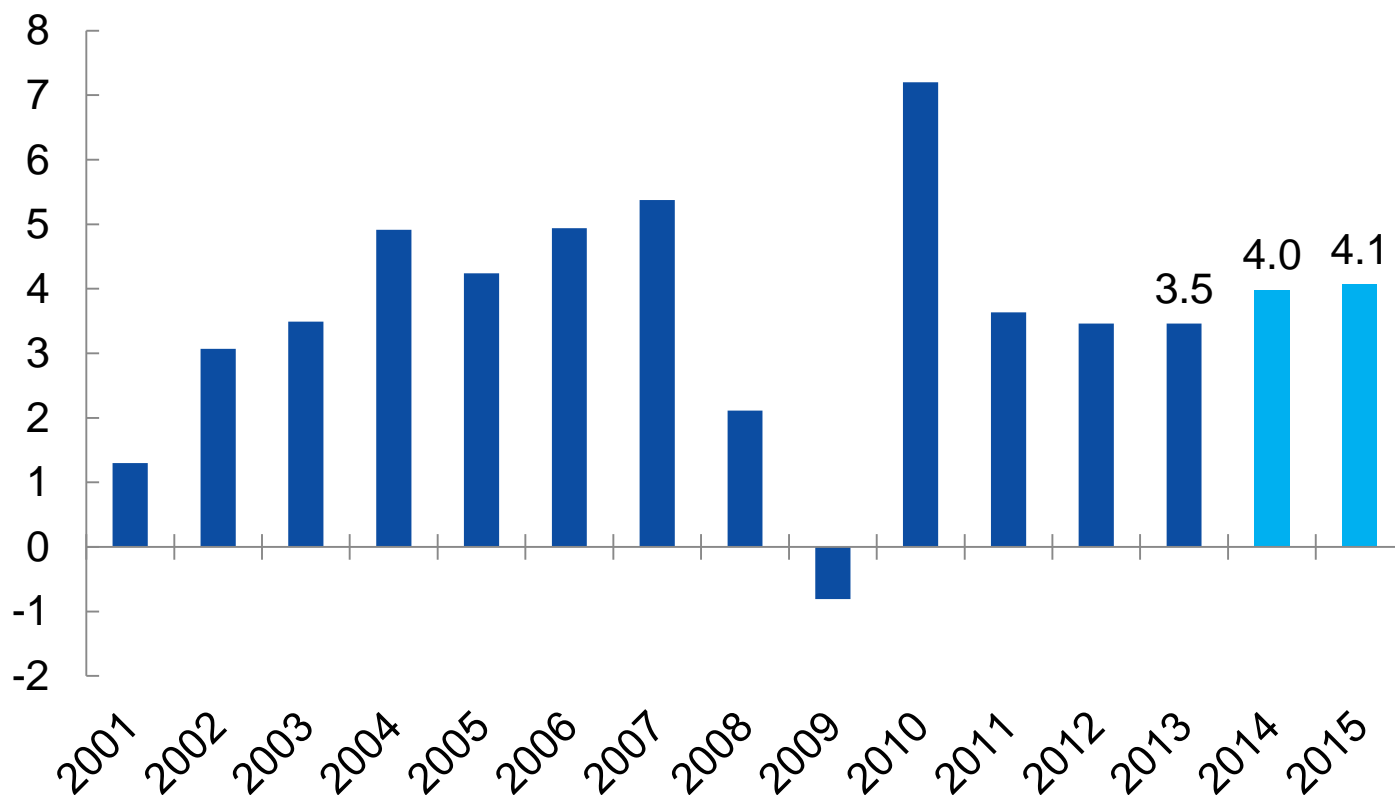


Note: Selected EM majors is a simple average of BRL, IDN, TRY and ZAR vs. USD; USD is broad NEER index  
Source: JP Morgan; World Bank staff calculations



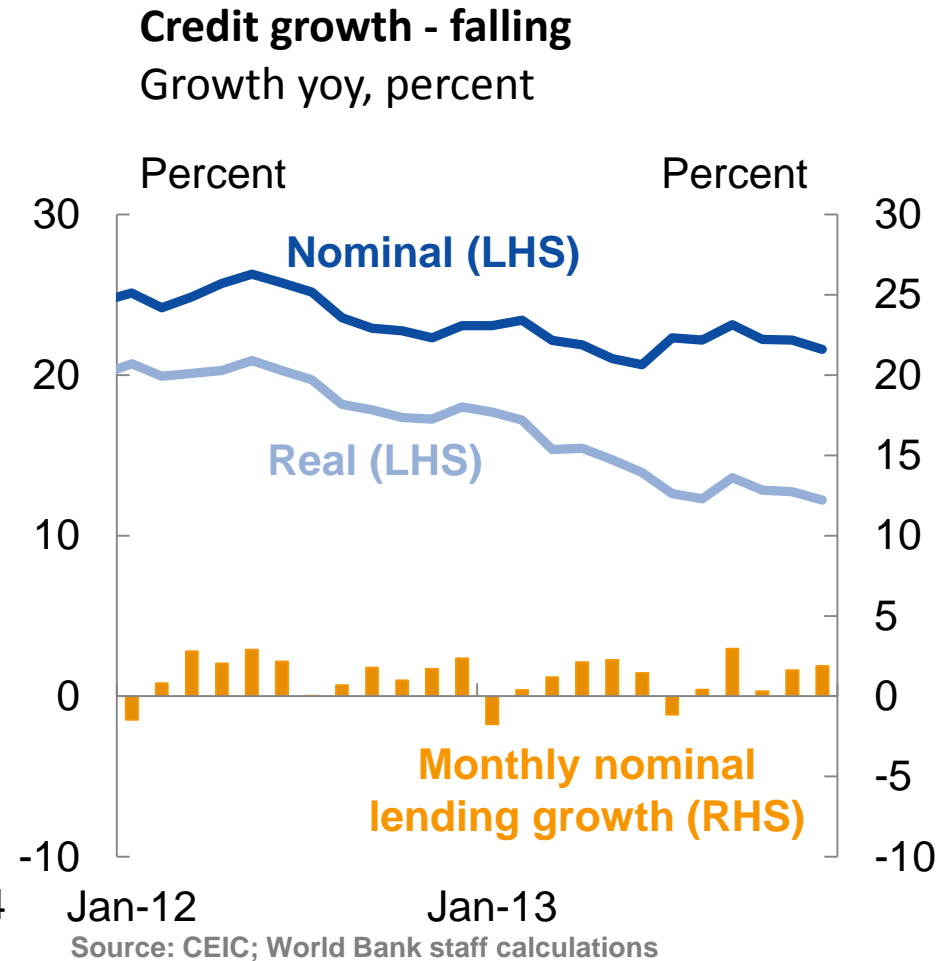
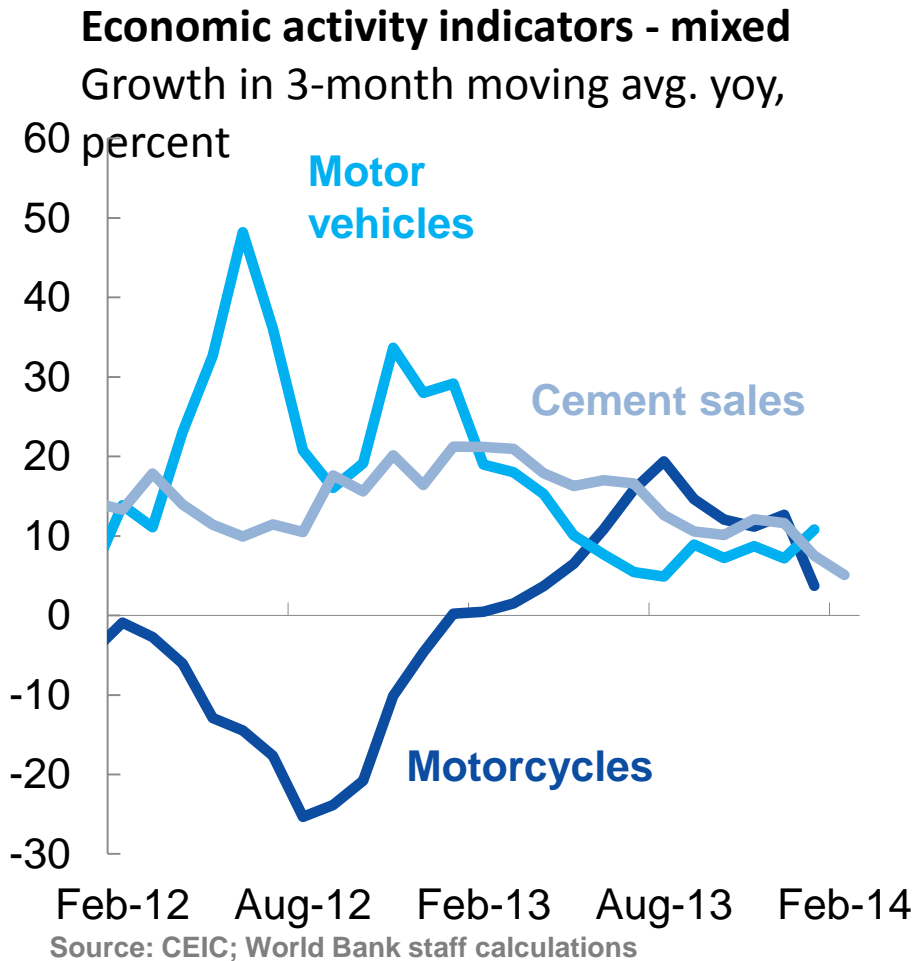
# GLOBAL ECONOMY: LIKELY TO STRENGTHEN

Major trading partner GDP growth, percent



Source: World Bank staff calculations

# INDONESIA: MIXED HIGH FREQ. DATA; MORE HEADWINDS



# INDONESIA OUTLOOK: SOME MORE GROWTH MODERATION TO COME...

		March IEQ				Previous (Dec.)
		<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2014p</u>
<b>Real GDP</b>	(% change)	6.2	5.8	5.3	5.6	5.3
<b>Consumer price index</b>	(% change)	4.3	6.9	6.2	5.2	6.7
<b>Current account balance</b>	(USD billion)	-24.4	-28.5	-24.4	-20.2	-22.8
<b>Current account balance</b>	(% GDP)	-2.8	-3.3	-2.9	-2.1	-2.6
<b>Budget balance</b>	(% of GDP)	-1.9	-2.2	-2.6	n.a.	-2.1

Source: BI; BPS; Ministry of Finance; World Bank staff projections

# ...AMIDST SIGNIFICANT RISKS

	Domestic	External
Positive	<ul style="list-style-type: none"><li>• <b>Elections</b> lead to a stronger than expected boost to consumption, investment</li></ul>	<ul style="list-style-type: none"><li>• <b>Commodity prices</b> rise</li><li>• <b>Global risk appetite</b> is stronger than expected, boosting portfolio inflows to EMEs inc. Indonesia</li></ul>
Negative	<ul style="list-style-type: none"><li>• Investment weakens as <b>downturn extends to building investment</b></li><li>• <b>Consumption growth disappoints</b> as income and credit effects take their toll</li></ul>	<ul style="list-style-type: none"><li>• <b>External financing conditions</b> tighten again</li><li>• <b>Global commodity prices fall</b>, e.g. due to slower than expected growth in China</li></ul>

# OUTLINE

Recent economic developments and outlook

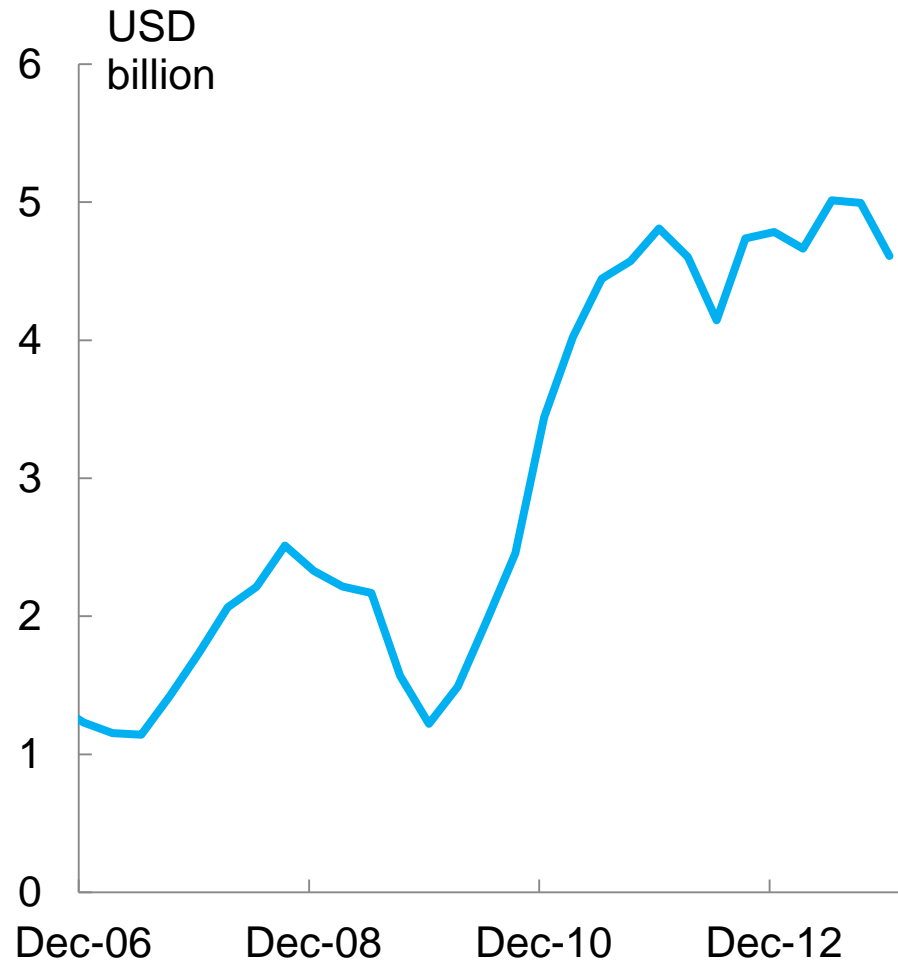
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# INVESTMENT IN FLUX...

## Foreign direct investment

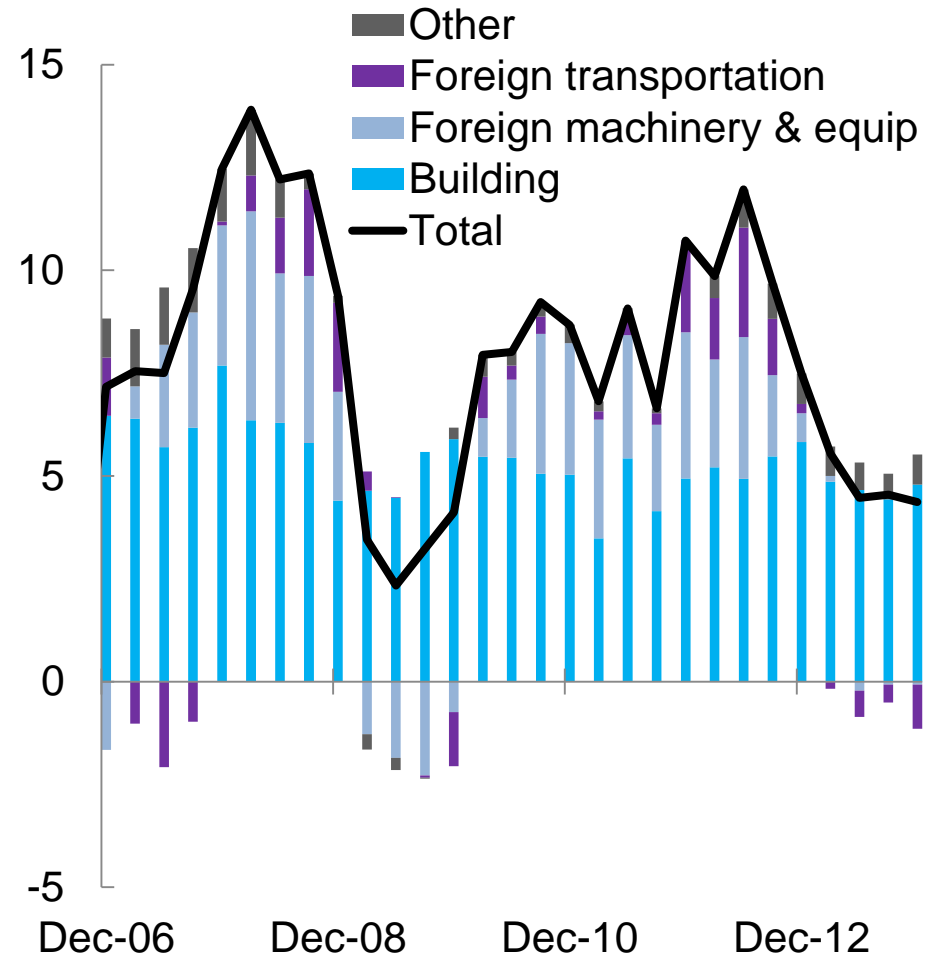
Inbound FDI, rolling 4-quarter average



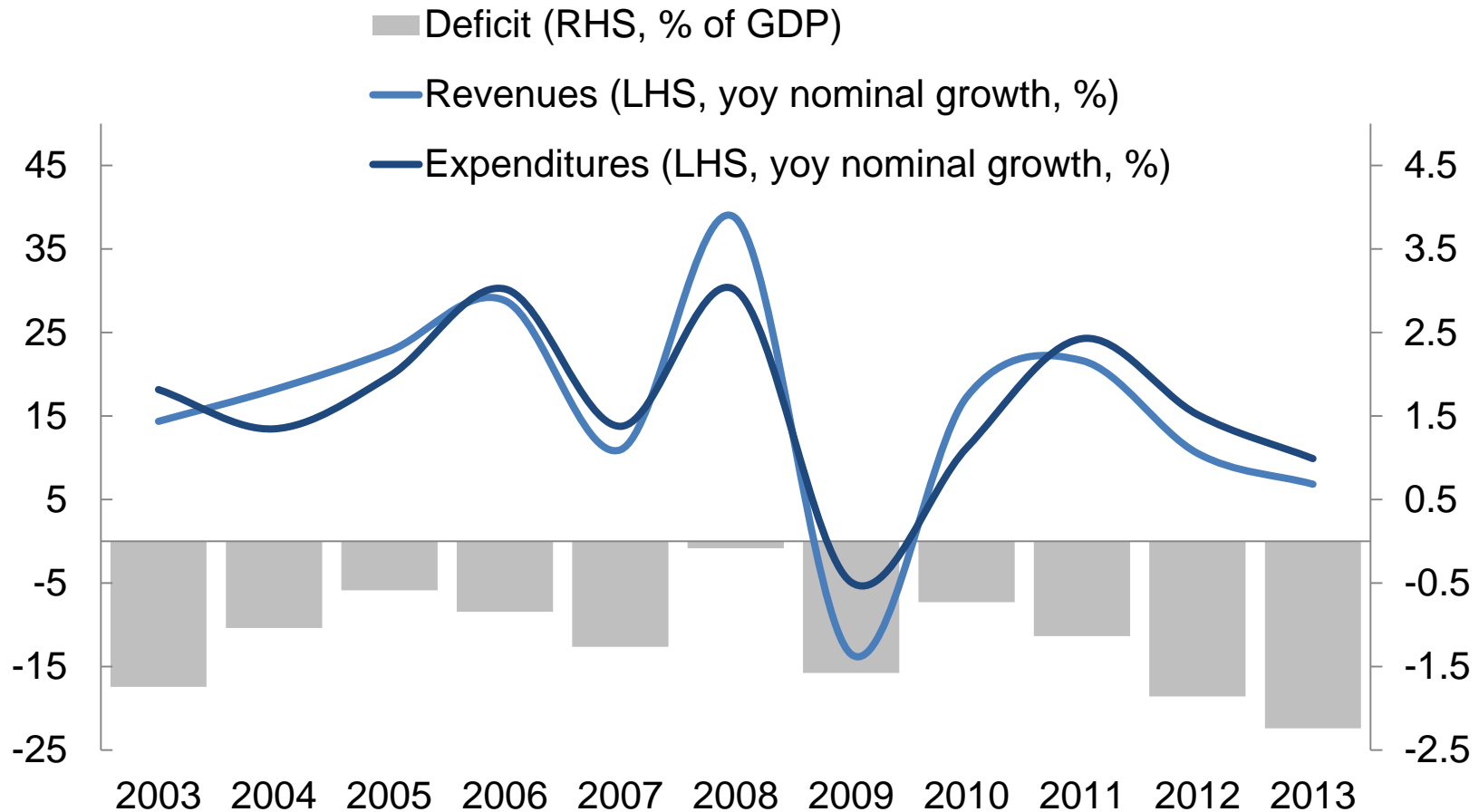
Source: BI; World Bank staff calculations

## Fixed investment

Contributions to real growth yoy, percent

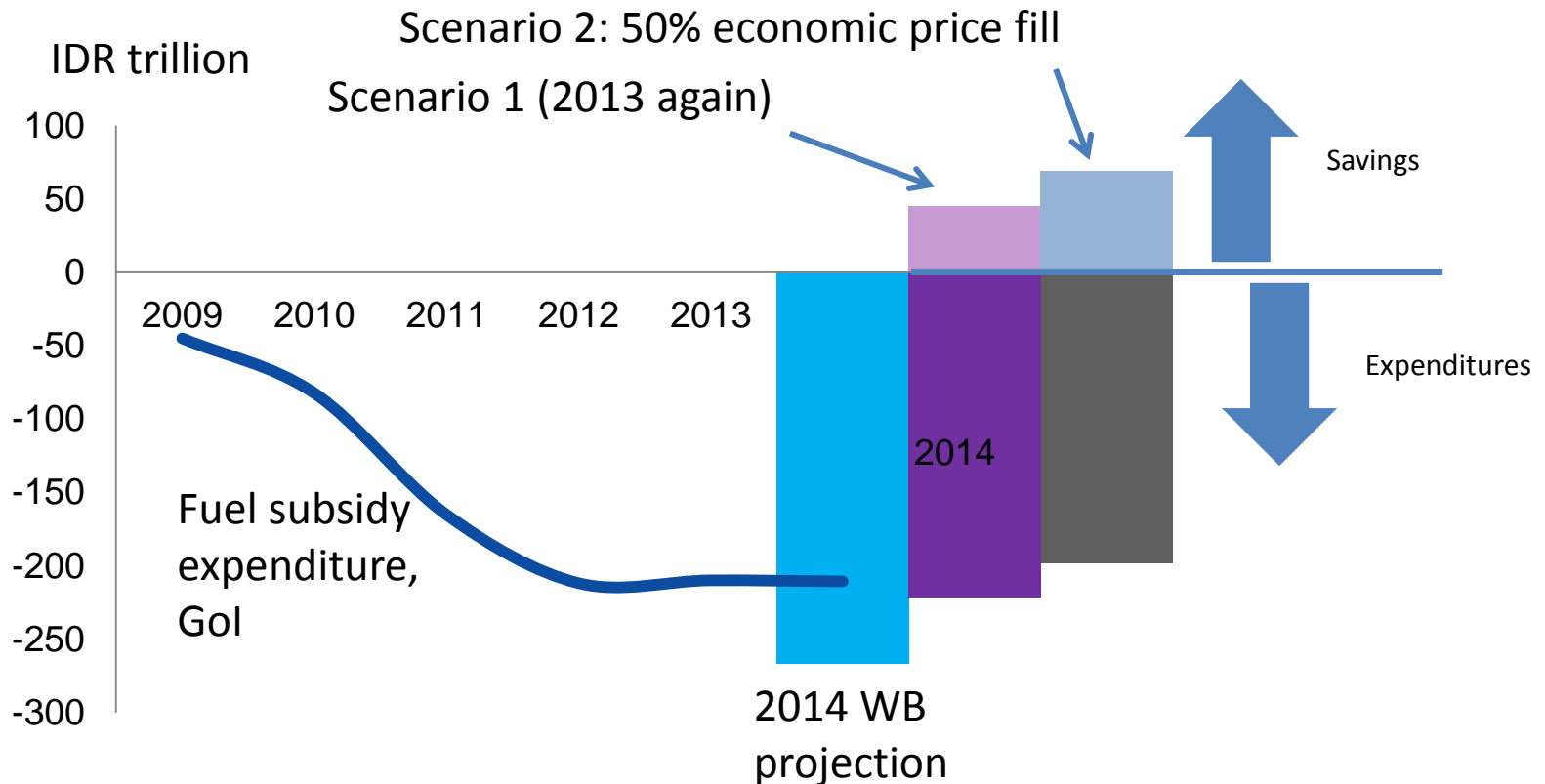


# FISCAL SECTOR: REVENUES SOFT; NEW POLICY PRESSURES



Note: 2013 deficit is World Bank staff projection  
Source: Ministry of Finance; World Bank staff calculations

# FUEL SUBSIDY REFORM WOULD HELP

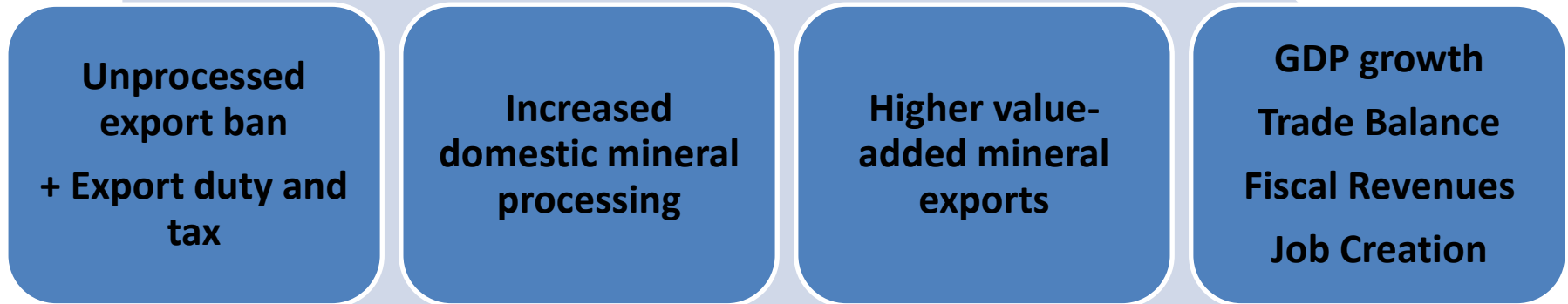


Achieving a deficit of <2.5% in 2014 looks difficult without more fuel subsidy reform



# EXAMINING THE MINERAL EXPORT BAN

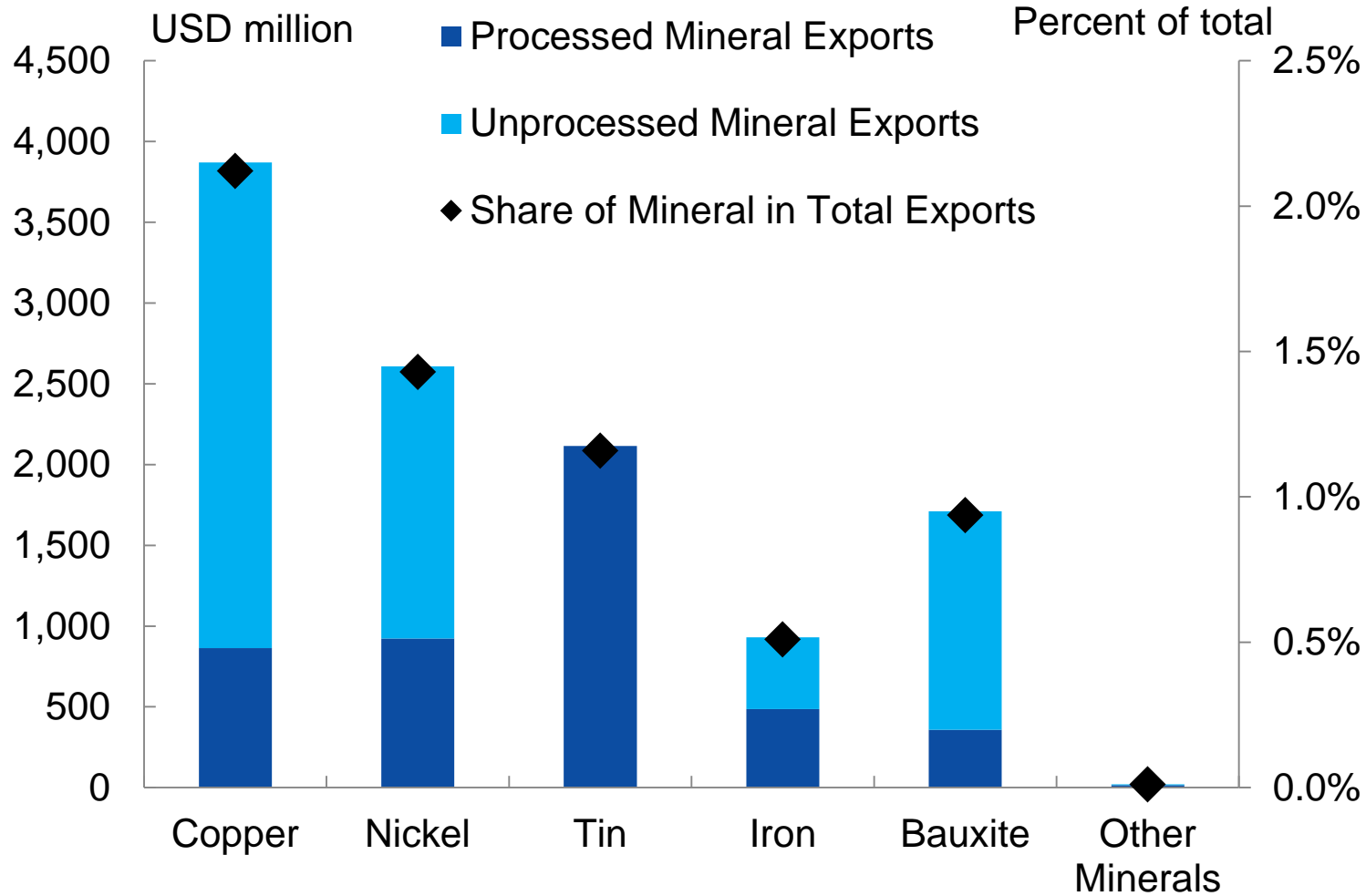
## Rationale



## Underlying assumptions

- Significant processing investment is stimulated. i.e, that smelters are financially viable
- Processing adds a lot of value to mineral exports
- Higher processed exports will offset lower ore exports
- Higher value exports will increase non-tax revenues
- Processing will create more and better jobs in the sector

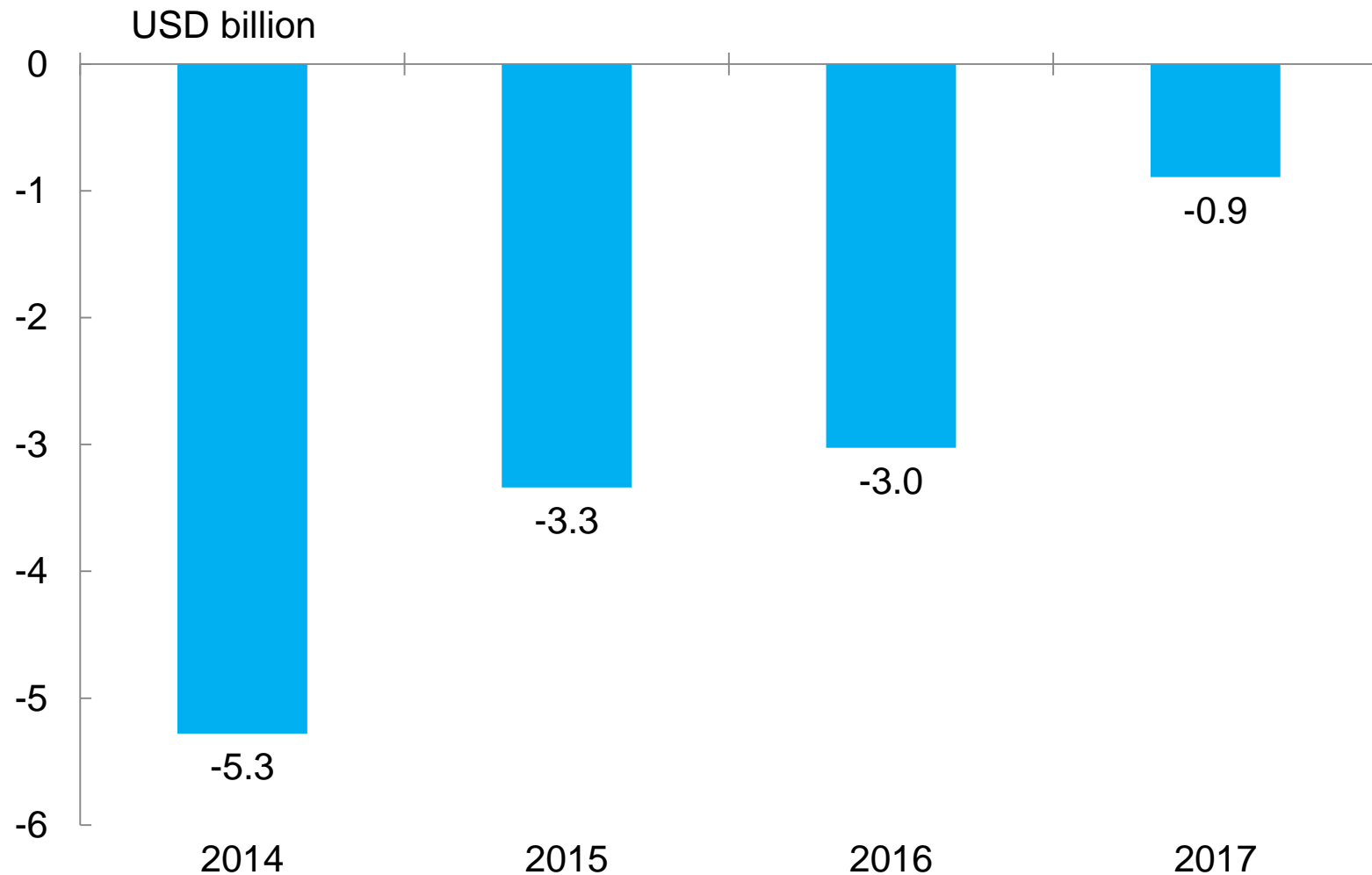
# BUT IS THE MINERAL EXPORT BAN SOUND?



Note: Data for 2013  
 Source: WITS database; World Bank staff calculations

# TRADE IMPACTS

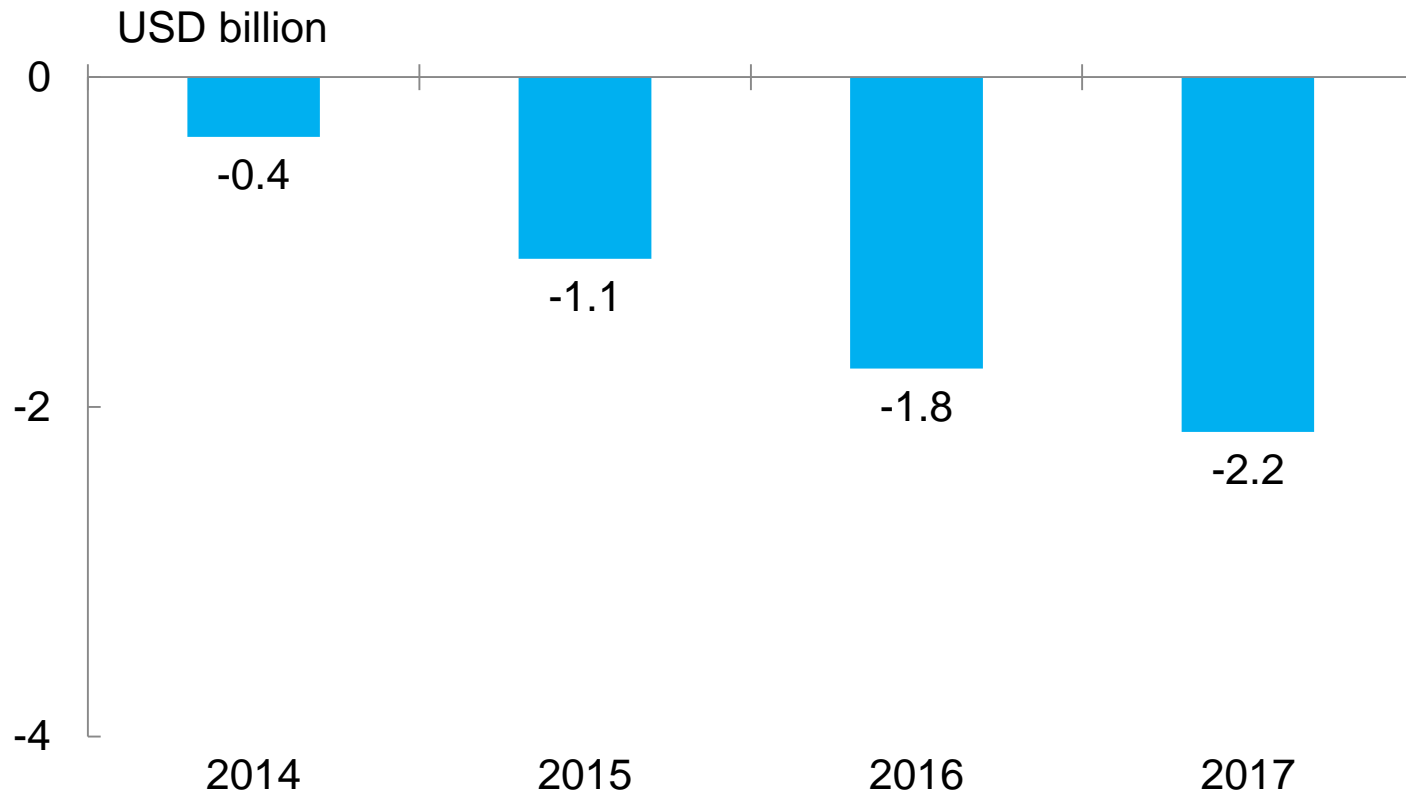
## Estimated impact on net trade balance



Source: World Bank

# REVENUE IMPACTS

Estimated impact on fiscal revenues (export duties and taxes, royalties and CIT)



Source: World Bank

# OUTLINE

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# AVOIDING THE TRAP

**THE CHALLENGE** –harnessing Indonesia’s potential to generate shared prosperity, through **fast productivity-driven economic growth** with **inclusiveness**

➤ **Structural policies to boost prosperity:**

- Closing the infrastructure gap
- Closing the skills gap
- Enhancing the functioning of markets

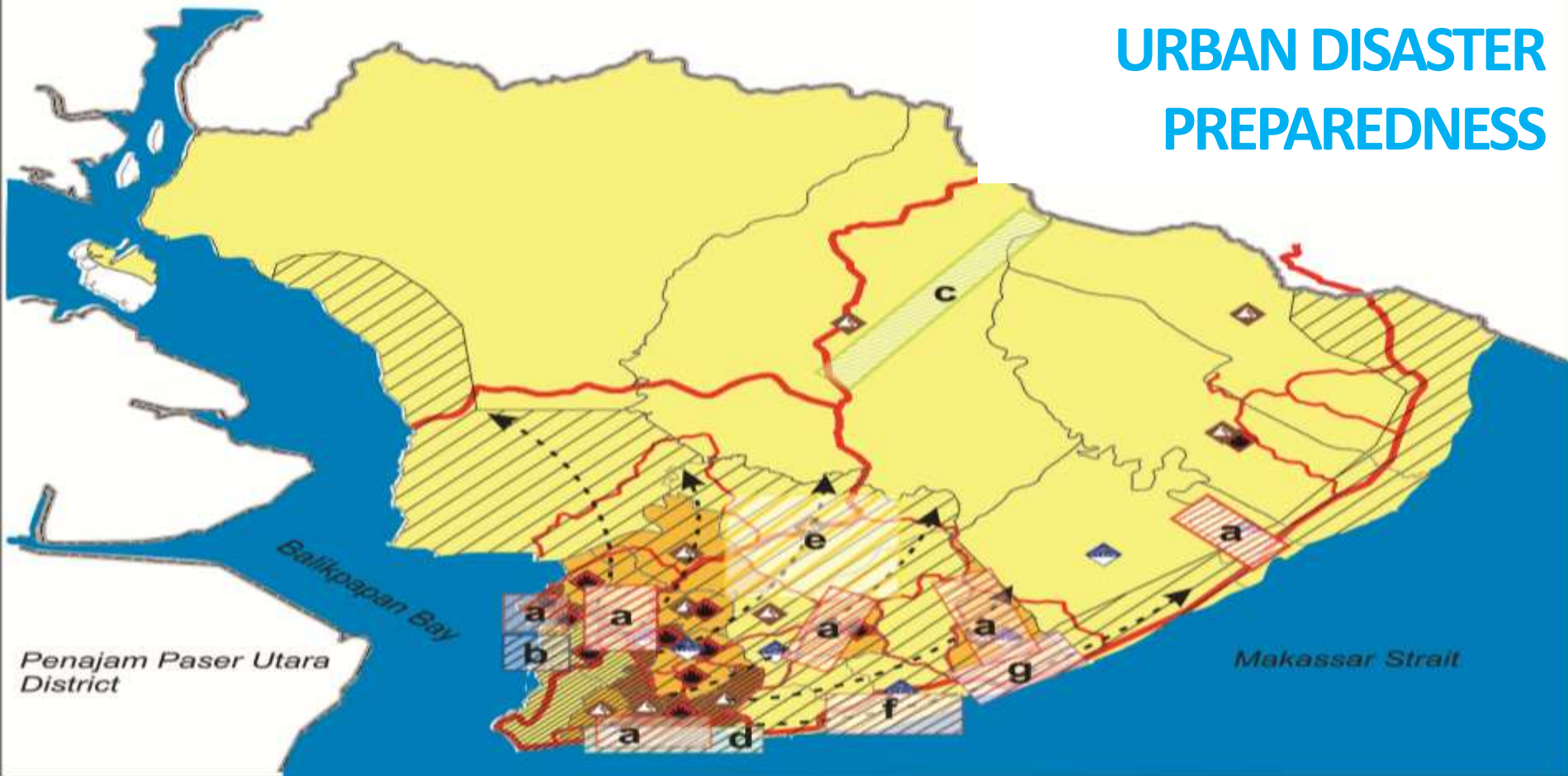
➤ **Complementary areas:**

- Service delivery for all
- Social protection
- Natural disaster risk management

➤ **Foundational pre-requisites:**

- Macro-fiscal management and managing shocks
- Implementation

# URBAN DISASTER PREPAREDNESS



## Legend:

	Slum Settlement		Earlier City Physical Development		High Level Fire Hazard Area
	Oil Industry's Depot		Current City Physical Development		Built Up Area Trend
	Toll Road Balikpapan - Samarinda		Low Density (0 - 34 person/ha)		District Boundaries
	Coastal Road New Development		Medium Density (35 - 110 person/ha)		Village Boundaries
	Current Settlement Expansion		High Density (111 - 273 person/ha)		Primary Arterial Roads
	Seppingan Balikpapan Airport's Expansion		High Level Flood Hazard Area		Secondary Arterial Roads
	West Coast Industrial Estate Development		High Level Landslide Hazard Area		

# THANK YOU

## March 2014 IEQ contents:

- Regular update on **economic developments** and the outlook
- Examining the **mineral exports ban**
- **Urban disaster risks planning**
- A taster of the forthcoming World Bank report, ***Avoiding the Trap***

### On the web:

<http://www.worldbank.org/en/news/feature/2014/03/18/indonesia-economic-quarterly-march-2014>

