



**WORLD BANK GROUP**

# **Indonesia Economic Quarterly June 2017**

***Upgraded***

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# Key Takeaways

**S&P upgrade acknowledged strong economic fundamentals and management.**

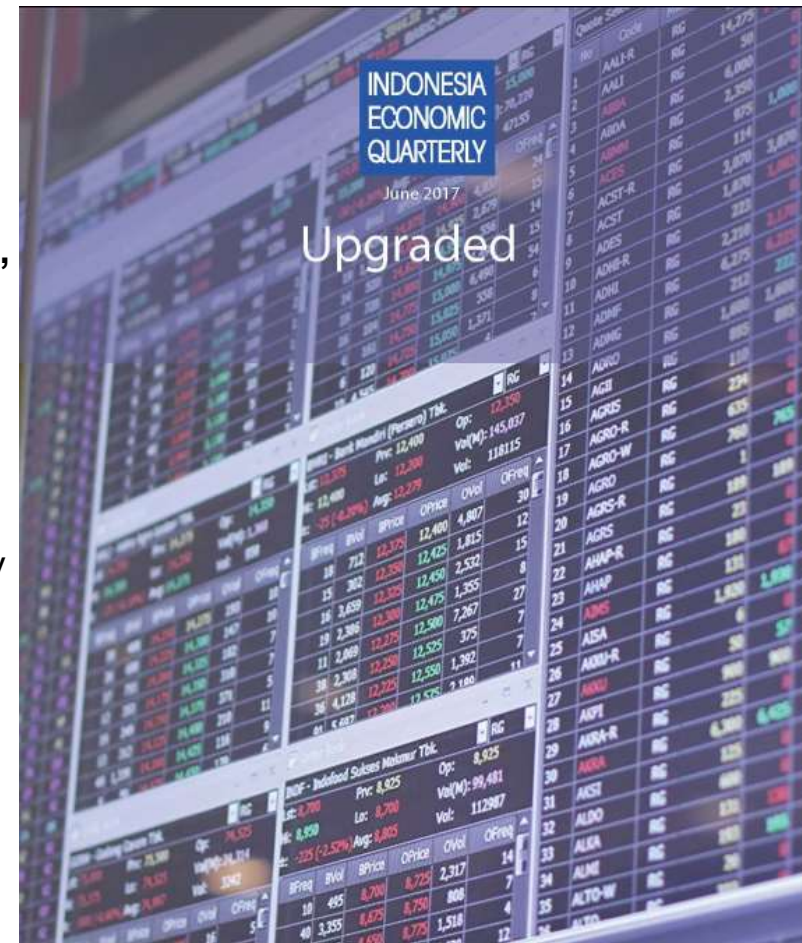
- S&P returned Indonesia to investment grade credit rating after 20 years, citing strong (fiscal) fundamentals
- Global growth and trade is firming but remains below pre-GFC levels.

**2017 economic performance continues to be broadly positive, with some temporary help from commodities.**

- Q1 2017 Quarterly GDP growth rose on a rebound in government consumption and surging manufacturing and commodity exports.
- Signs of a sustained turnaround in investment and credit growth.
- Revenues continued their strong start to the year supported by commodities, creating space for productive public spending.
- Risks remain tilted to the downside, including resistance to structural reform efforts.

**Investing in the future is critical - to leverage the upgrade, reduce commodity dependence, and boost growth potential**

- There is evidence that reducing Indonesia's negative investment list will boost FDI
- Invest in early childhood development to address inequality and increase productivity



**S&P recognized strong policy and fundamentals**

**2017 positive performance continues, with temporary help from commodities**

**Invest in the future to leverage the upgrade, reduce commodity dependence and boost growth potential**

# **S&P recognized Indonesia's strong economic fundamentals, returning it's sovereign rating to Investment grade after 20 years.**

*“Indonesia has exhibited effective policymaking in recent years to promote sustainable public finances and balanced economic growth...”*

*“Indonesian authorities have taken effective expenditure and revenue measures to stabilize the country's public finances despite the terms of trade shock...”*

*“...Indonesia's increased focus on realistic budgeting has reduced likelihood that shortfall in future revenue would widen general government deficit significantly.”*



# While Indonesia's fundamentals are strong, Indonesia will still need to compete....

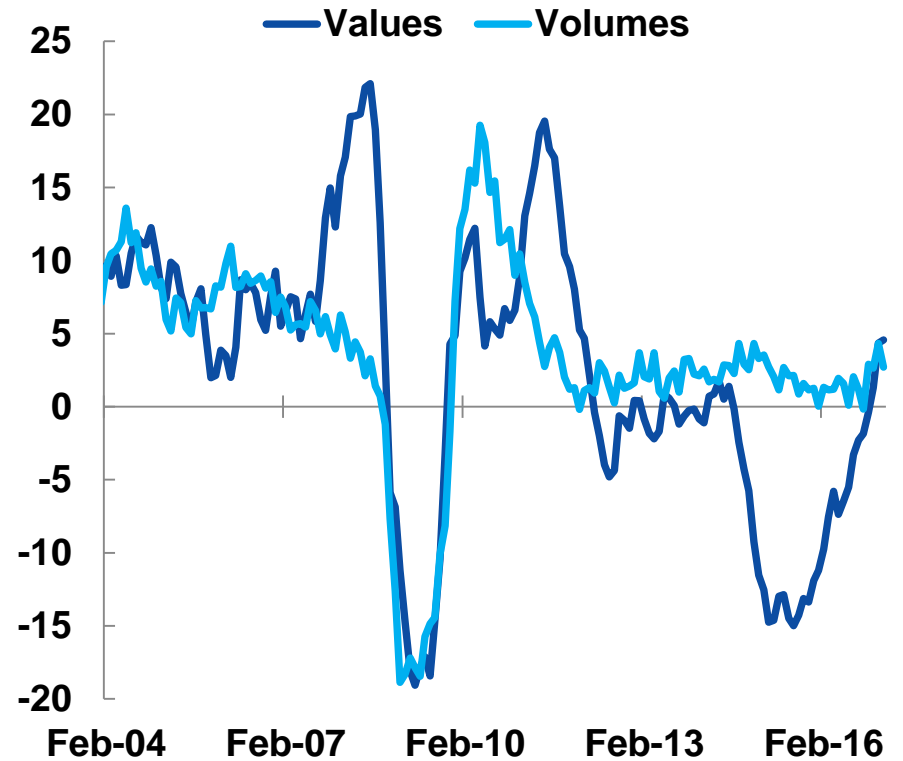
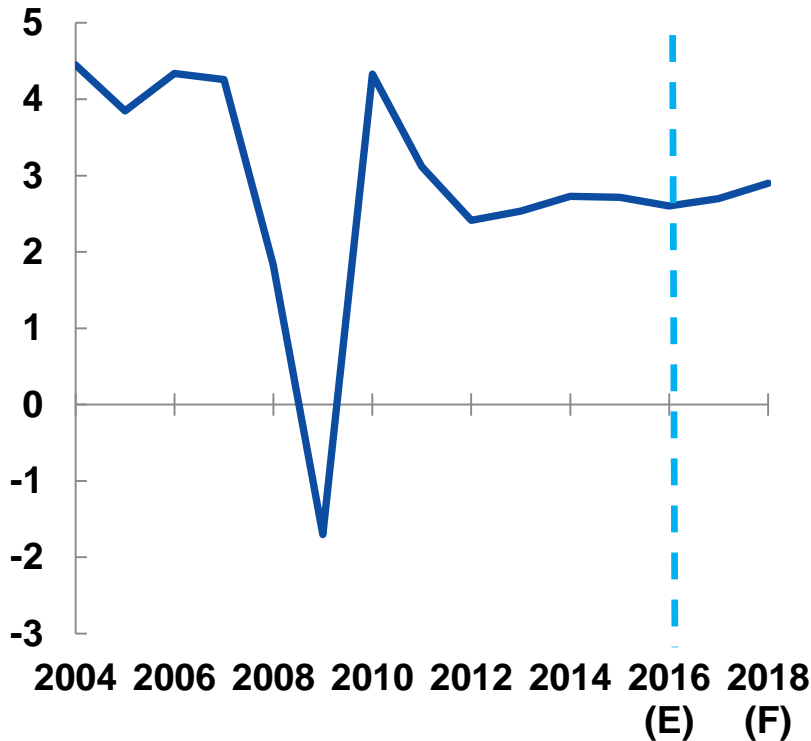
		2015	2016	2017f	Philippines 2016e	Vietnam 2016e
<b>Real GDP</b>	(Annual percent change)	4.9	5	5.2	6.8	6.2
<b>Consumer price index</b>	(Annual percent change)	6.4	3.5	4.3	1.8	2.7
<b>Current account balance</b>	(Percent of GDP)	-2.0	-1.8	-1.8	0.2	3
<b>Budget balance</b>	(Percent of GDP)	-2.6	-2.5	-2.6	-2.4	-6.5
<b>Debt</b>	(Percent of GDP)	27.4	27.9*	29.0	42.1	62.1
<b>S&amp;P Rating (2017)</b>				BBB-	BBB	BB-

Source: BI; BPS; EAP Economic Update Report ; MoF; World Bank staff calculations

Note: e stands for estimate; f stands for forecast; \*estimated figure

.....as the global economy begins to pick up again.

*growth yoy, percent*



Source: World Bank Global Economic Prospects June 2017

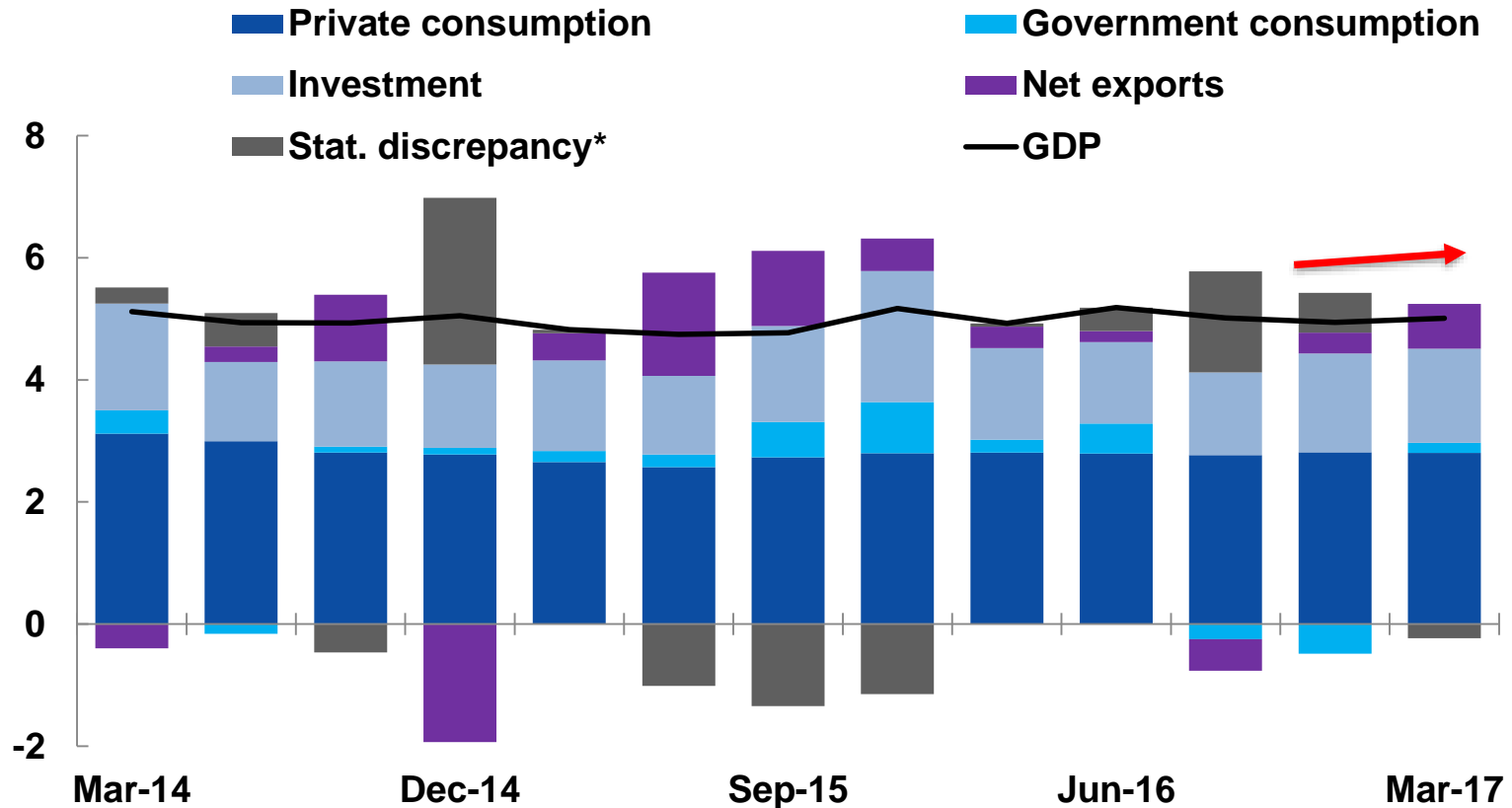
**S&P recognized strong policy and fundamentals**

**2017 positive performance continues, with temporary help from commodities**

**Invest in the future to leverage the upgrade, reduce commodity dependence and boost growth potential**

# Following the first increase in growth rates in 5 years in 2016, the trend continued in Q1 2017.

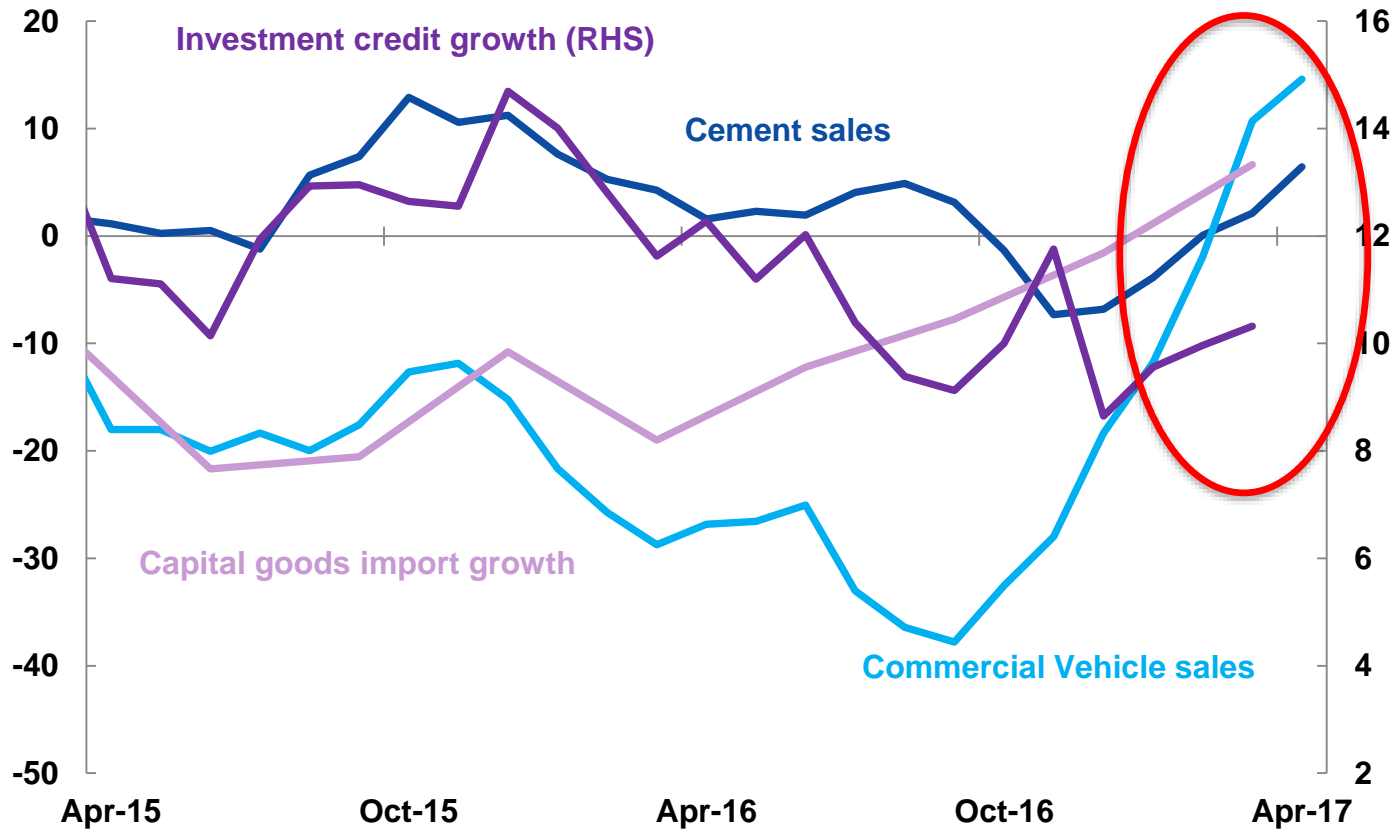
*Contributions to real GDP growth yoy, percentage points*





# There are signs of a more sustained pick up in investment

*3mma growth yoy, percent, LHS; growth yoy, percent, RHS*

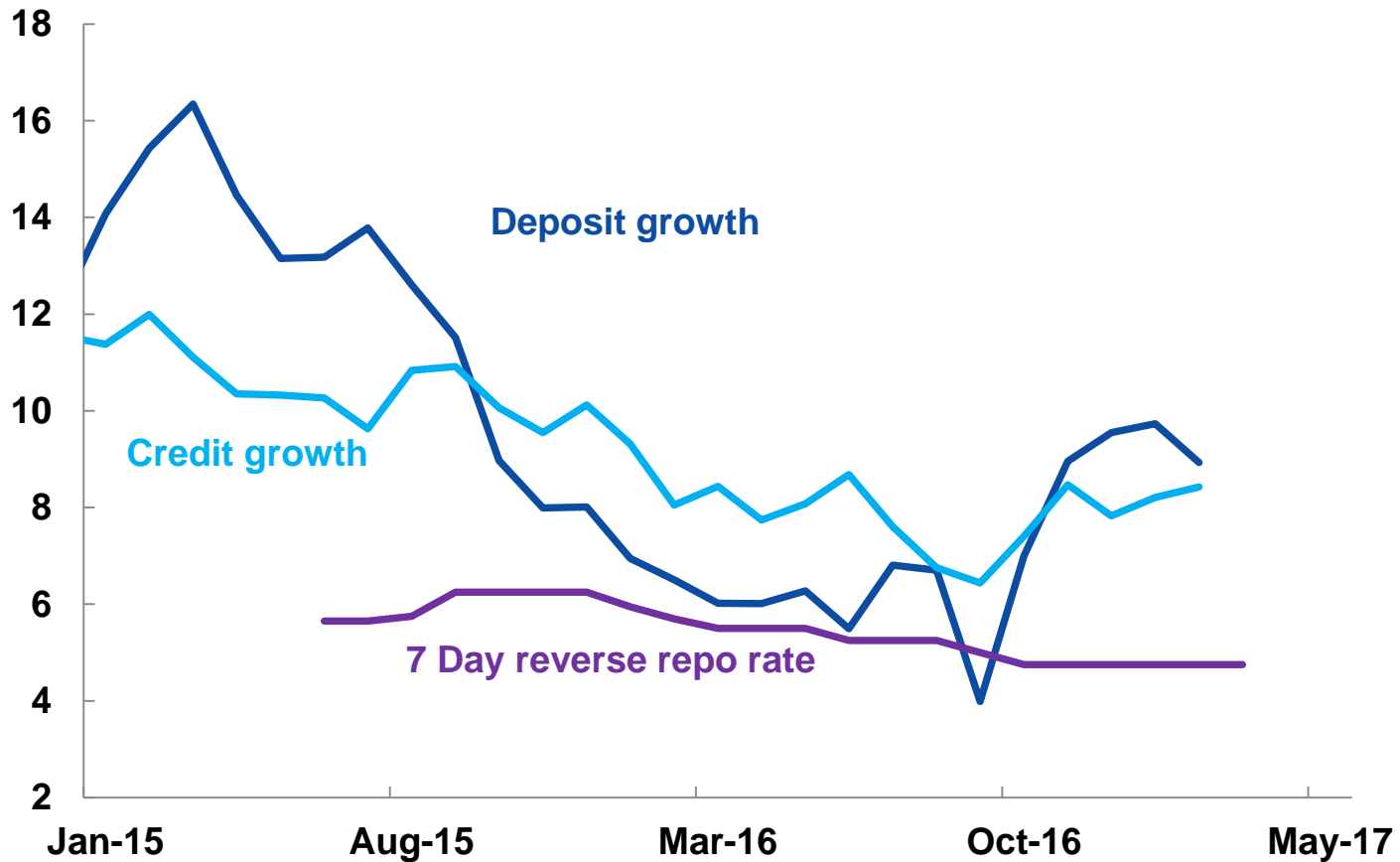


Source: BI; BPS; World Bank staff calculations

Note: The nominal capital goods imports is measured in percent yoy terms. All other LHS variables are measured in 3mma percent yoy terms.

# And signs of a pick up in broad credit growth

*growth yoy, percent*

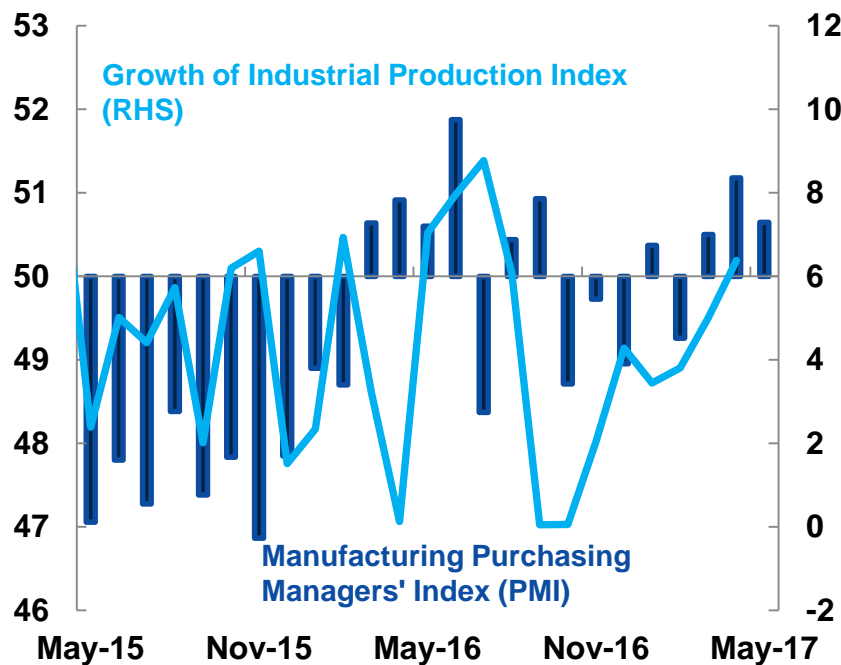


Source: BI; World Bank staff calculations

# Industrial Production and manufacturing export growth is firming up, although commodities are also supporting exports.

## Industrial Production Index and PMI

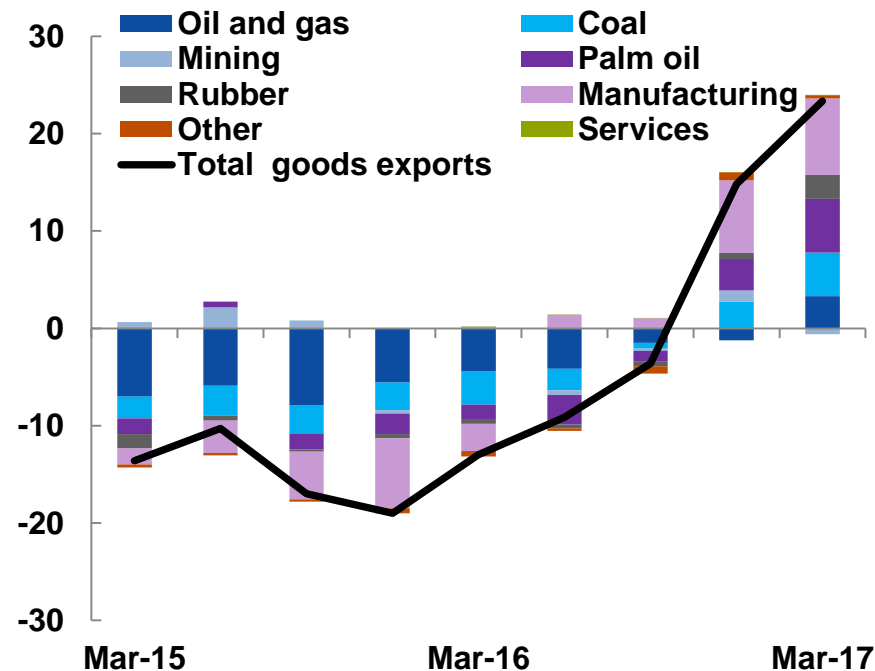
index, LHS; growth yoy, percent, RHS



Source: BPS; Nikkei/Markit

## Exports growth

growth yoy, percent

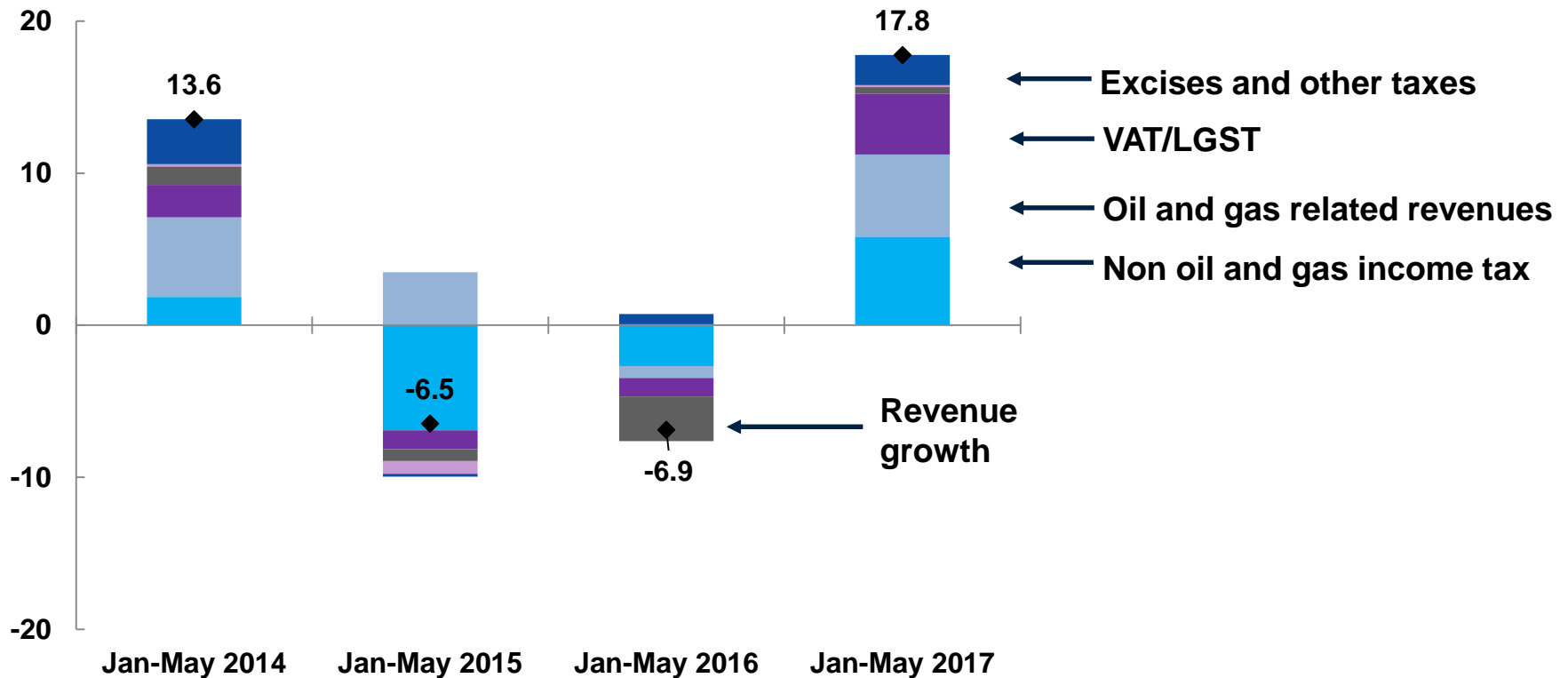


Source: CEIC and BI; World Bank staff calculation

# Commodities are also supporting a good start to the year for revenue collection...

- Total revenue collection increased by 17.8 percent yoy

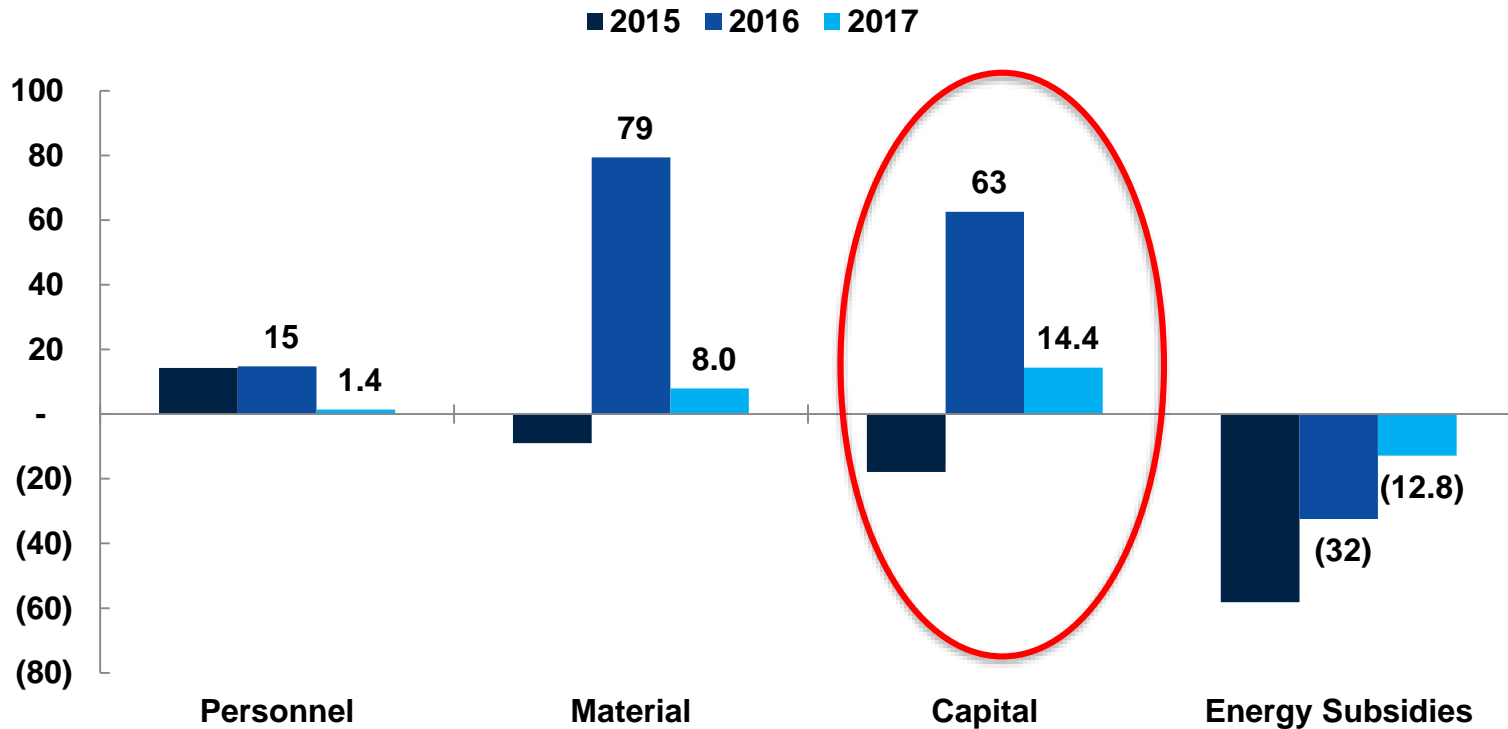
## Contributions to growth yoy, percentage points



Source: Ministry of Finance; World Bank staff calculations

# ...providing space to spend, especially in more productive areas such as capital.

January-May actual expenditure growth yoy, percent

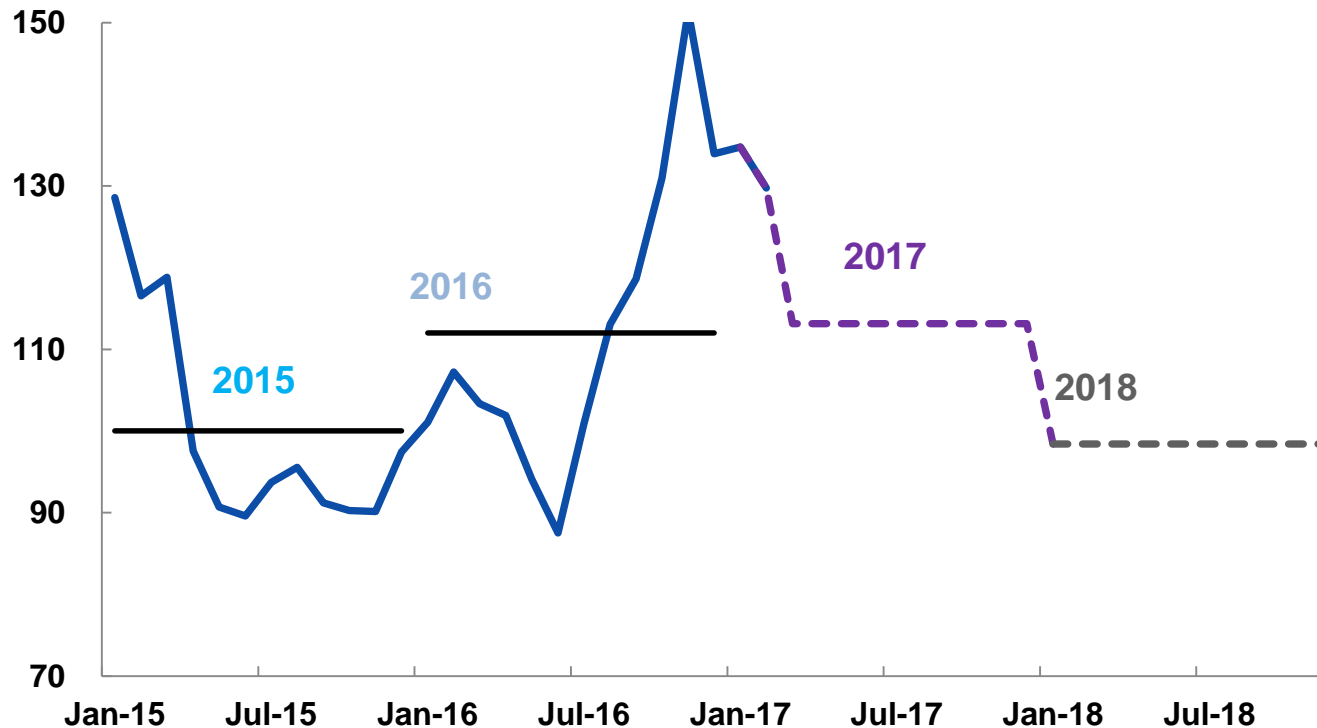


Source: Ministry of Finance; World Bank staff calculations

# Support from commodities is forecast to be transitory....

## The Net Trade-weighted Price Index

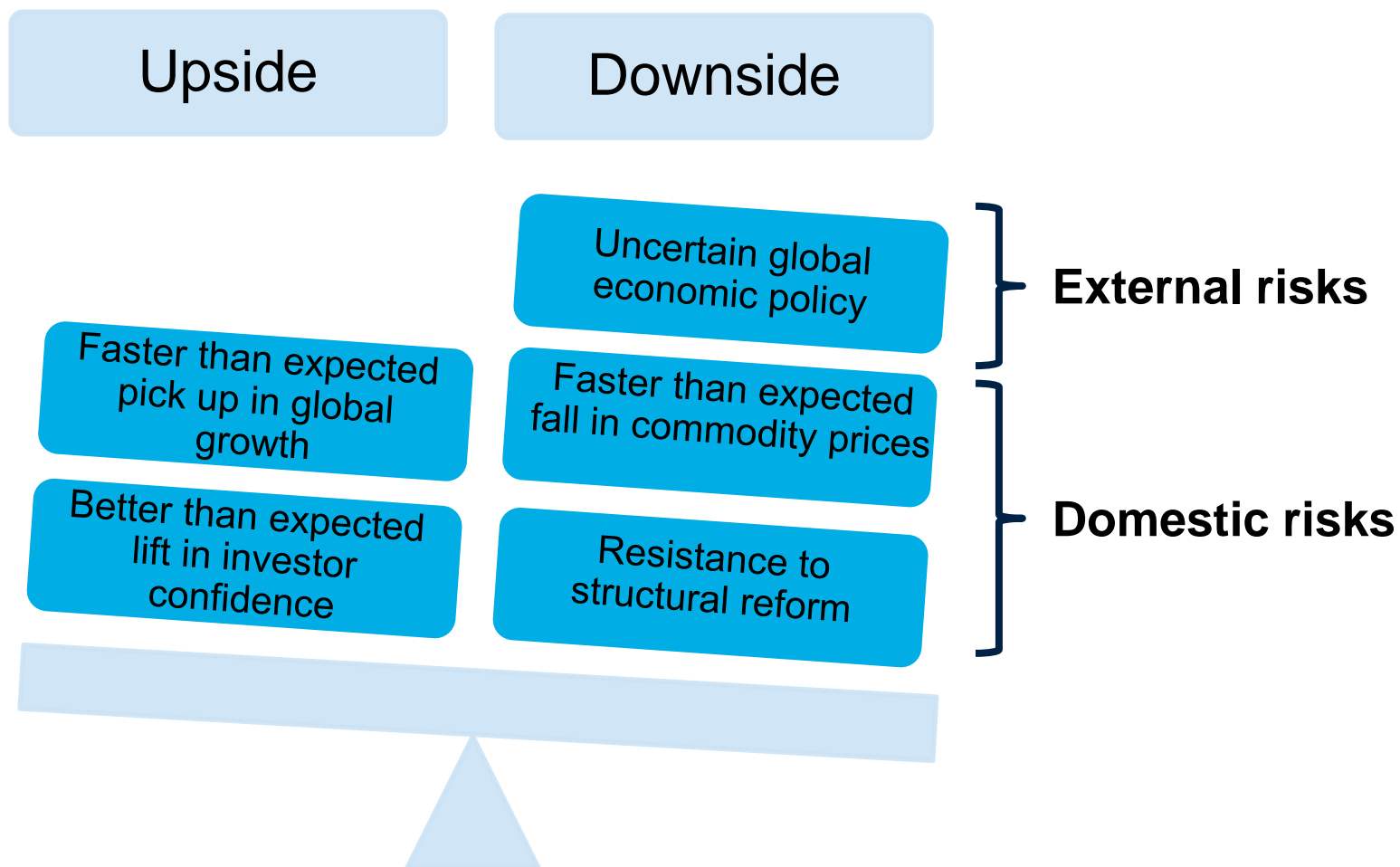
*growth yoy, percent*



Source: BPS; World Bank; World Bank staff calculations

Note: Net trade-weighted price index is constructed over Indonesia's six major export commodities.

**...and risks to growth remain tilted to the downside.**



**S&P recognized strong policy and fundamentals**

**2017 positive performance continues, with temporary help from commodities**

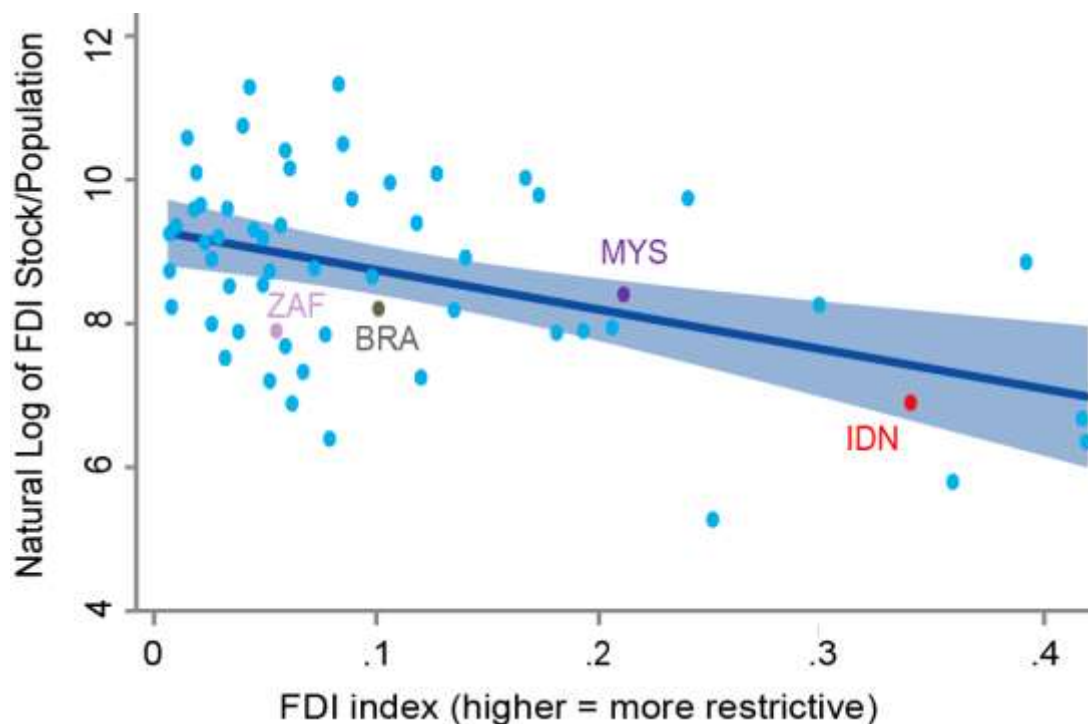
**Invest in the future to leverage the upgrade, reduce commodity dependence and boost growth potential**



# Lifting FDI restrictions can boost physical capital and hence Indonesia's growth potential

Inverse relationship between FDI investment policy restrictiveness and FDI inflows

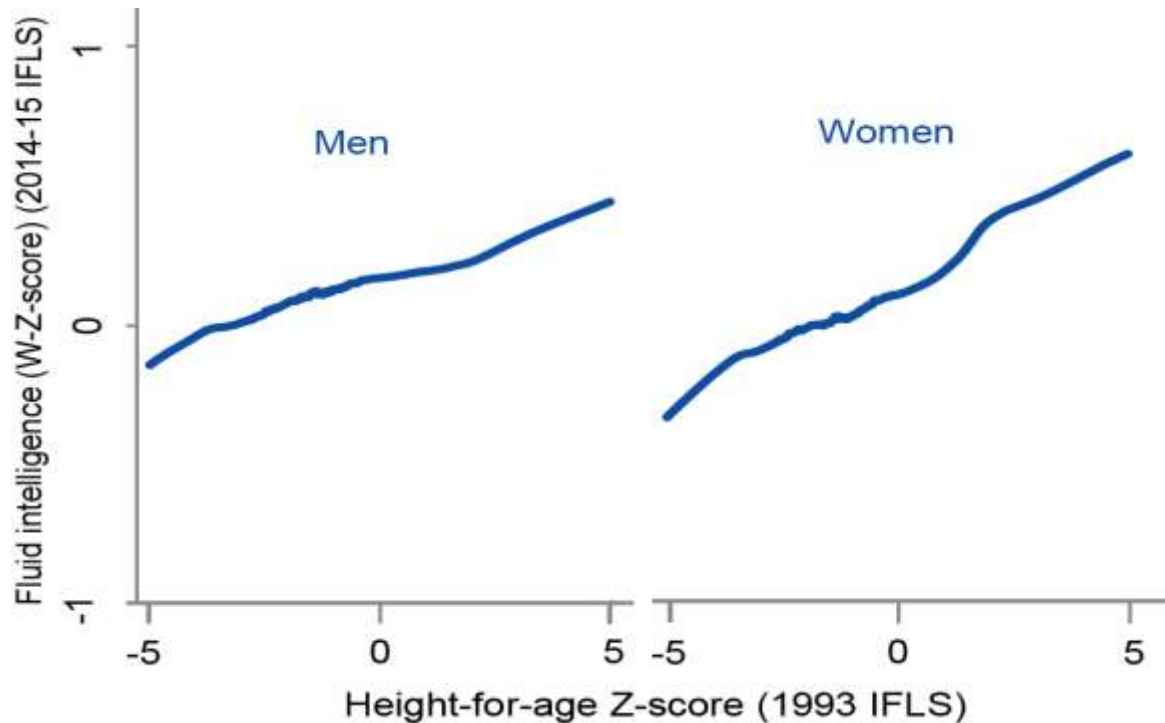
*FDI stock measured in current USD and FDI regulatory index*



Source: World Bank staff calculations on the basis of UNCTAD, World Development Indicators and OECD data (online dataset <http://stats.oecd.org/>).

# And Investment in early childhood development can create the human capital the economy needs to grow.

## Association between child stunting (Height-for-age Z score) and fluid intelligence (W Z-score) in later life, Indonesia



Source: Giles, Satriawan, and Witoelar, 2017 (based on IFLS data)

Notes: “Fluid intelligence” assesses respondents’ general ability to think abstractly, reason, identify patterns, solve problems, and discern relationships. The Z-score is a standard measure that expresses each value by the number of standard deviations it is from the reference mean. The W-score is the score obtained from an adaptive number series test of fluid intelligence, which was normed and extensively pre-tested for the 2014 round of the IFLS. It was standardized into a Z-score for the purposes of this analysis.

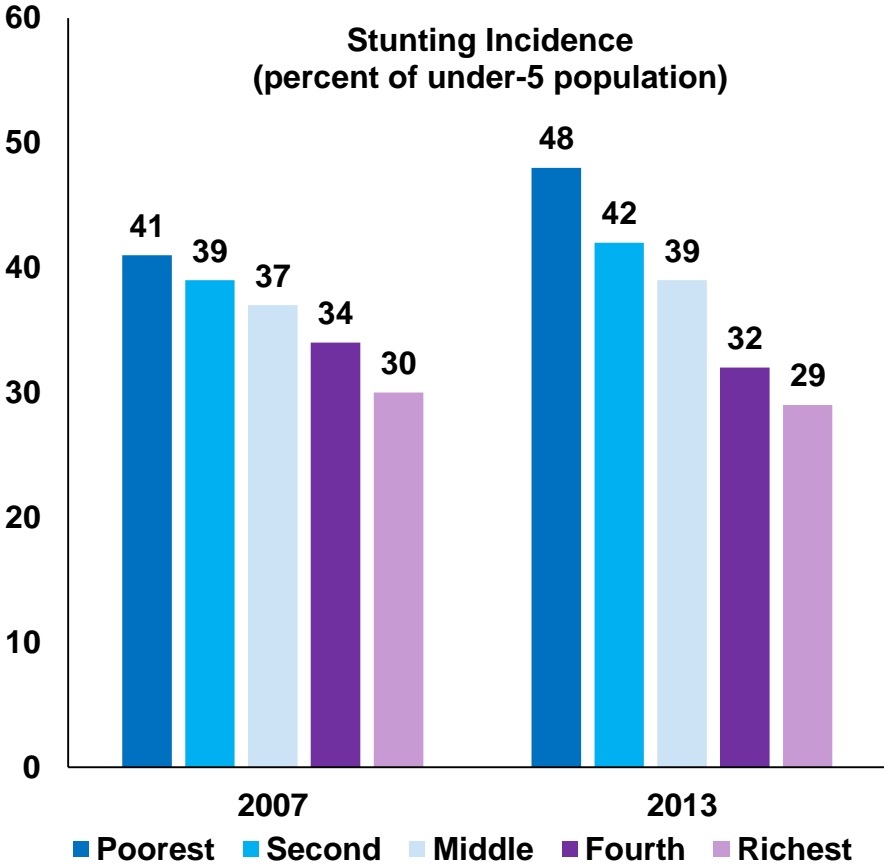
# ...while reducing stunting also tackles a major source of inequality.

Stunting affects everyone, but is worse for the poor

In early childhood, stunting leads to increased risk of death and illness

In school-age, stunting leads to loss of IQ and poor learning outcomes

In adulthood, stunting leads to increased risk of NCDs and lower income levels

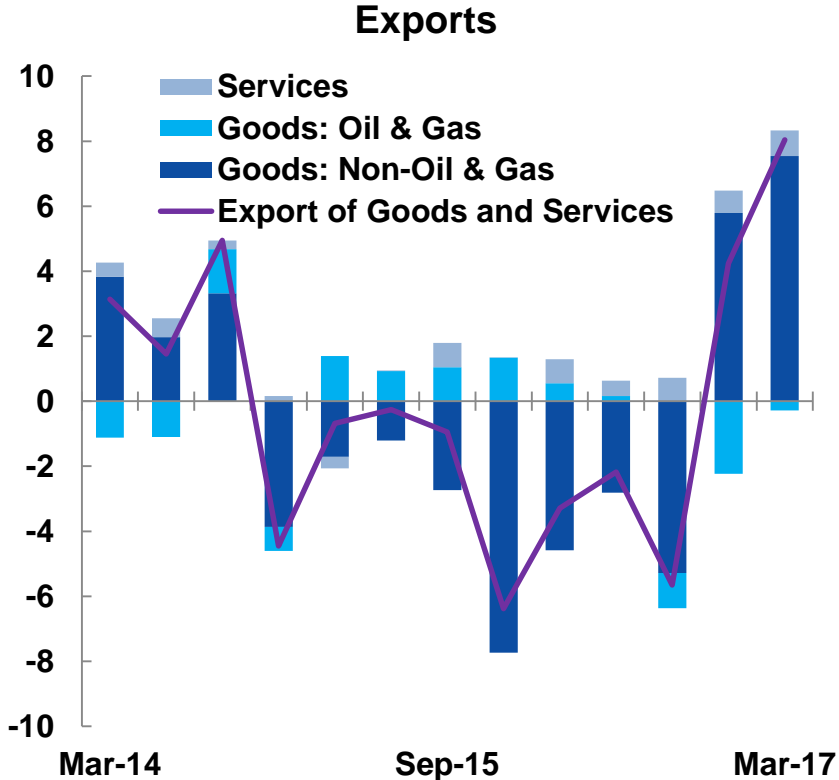


Source: Riskesdas

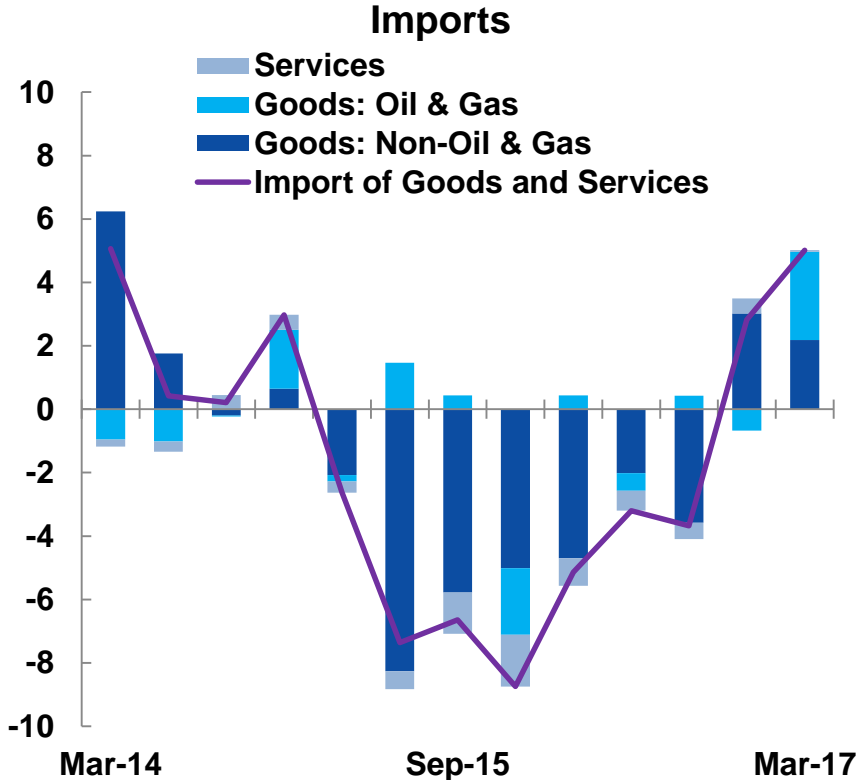
# Terima Kasih

# As global trade has rebounded, so has Indonesia's trade performance

*Contributions to real growth yoy, percentage points*



Source: BPS; World Bank staff calculation



Source: BPS; World Bank staff calculation