

# Economic Update



Some Comments

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# Good News

- Indonesia Came through Major Political Transition
- Indonesia Came through Global Financial Crisis
- Economic Growth is Moderately High
  - Commodity price exceptionally high
  - China boom
  - Growing domestic market
- Surge in Capital Inflow (both direct investment and portfolio)

# Domestic Challenges

## ➤ Managing the surge in capital inflows

➤ Surge in capital inflows is like two-sided swords

➤ More investments

➤ But at the same time put pressure on Rupiah

➤ Portfolio investment is in significant amount

➤ what to do when there is sudden reversals of capital flows?

» To reduce the volatility of capital market, BI put 'minimum one month holding period for Sertifikat Bank Indonesia (SBI)'

➤ financial system safety net law was not established

➤ We lost one of the best Indonesian minister due to inadequate financial sector safety net

## Domestic Challenges: Reducing The Lags Between Policy Designs and Implementations

- Tax holidays – wrong timing !
  - tax holiday was proposed and designed during the low investment era, but now the situation has changed, even without doing anything, emerging market like Indonesia is attractive enough for foreign investors

# Domestic Challenges

## ➤ Commitment to Open Trade and Investment Policies

### ➤ Trade Policies Appears TO Be More restrictive

➤ More trade restrictive measures taken by G20 economies between Oct 2010 to April 2011 (**WTO** REPORTS ON G20 TRADE AND INVESTMENT MEASURES (MID-OCTOBER 2010 TO APRIL 2011))

➤ **Indonesia** has introduced an important number of new trade measures, thus raising the total number of trade-restrictive instruments since October 2008 to rather remarkable levels” (OECD, 2010)

### ➤ The Negative List of Investments of 2007 and 2010

➤ Although there exists a ‘grandfather clause’ stating that the DNI does not apply to previously approved investments. In a few cases it has been ignored in lower level regulations: in the 2009 ministerial regulation on cell towers, and in a new law on horticulture passed in October

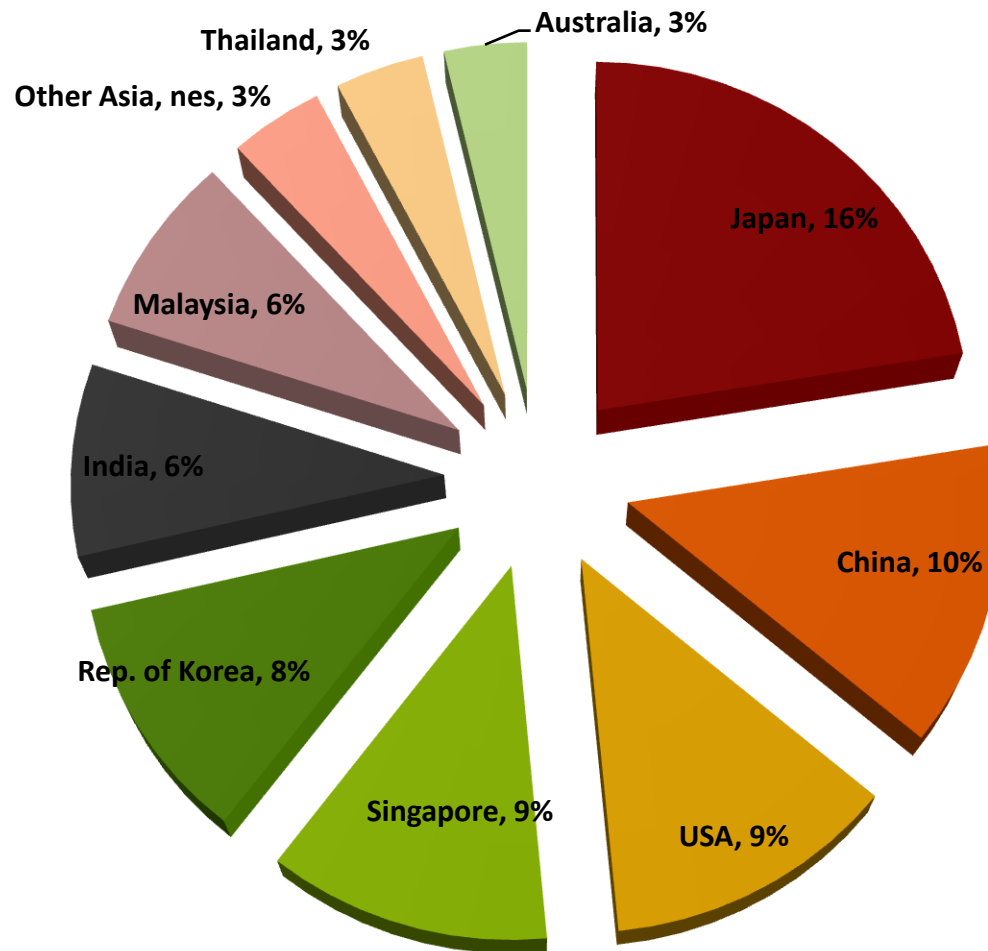
# Domestic Challenges

- Resolving impediments to infrastructure provisions
  - land acquisitions
  - other regulations
  - Fuel subsidies

# Global Challenges (1)

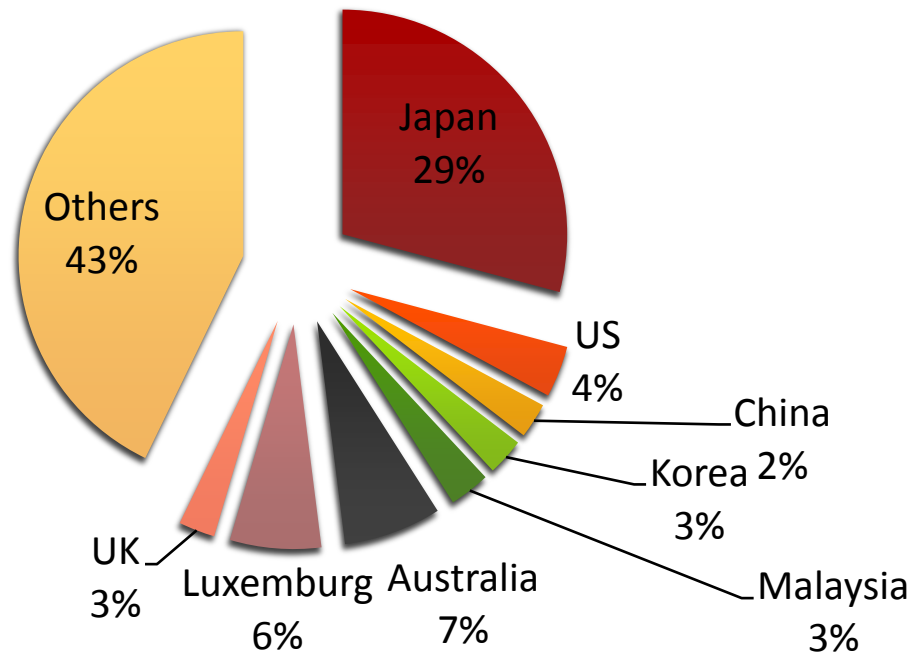
- Global Economic Downturn
- Although Exposure of Indonesian Financial Sectors To European and US market is limited, about 3 % financial sector assets
- Economic growth will be much determined by China's and other emerging markets growth in the near future. If China continues to grow as it does now, it is good news from Indonesia. However, if it slows down, Indonesian exports will be affected.

## Top 10 Indonesia's Export Destinations, 2010





## FDI by Source Countries , 2010



Source. Menko Perekonomian, Economic Statistics 2011, Volume 1 Number 5 – Quarter 1

# Global Challenges (2) Indonesia in International Fora

- Several opportunities
  - Invited to join G20
  - Chairing ASEAN
  - Involves in rapidly evolving regional cooperation with ASEAN at the center
    - ASEAN Economic Community, East Asia Summit, ASEAN Plus Three
  - BRICS?
  
- Is Indonesia up to the challenge?
  - Apart from Bogor/APEC 1994, Indonesia tend to be 'passive' in regional and multilateral fora
  - Can it change gear?
    - What is it required?
      - Needs to Develop serious analytical capacity