Is Indonesia Changing Direction?

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24 March 2016
Washington DC
24 March 2016

Jokowi’s Challenges – Wall of Reality

INDONESIA OCTOBER 2014 – Jokowi Takes Office

Source: The Jakarta Globe
Indonesia Oct 2014 & Today

The Wall of Reality

- GDP & the Budget
- Macro – Debt, Inflation, Rupiah, Banking
- The Real Sector – Trade and Investment
- Doing Business
- Politics

The World 2016

The Wall of Reality

- Fragile Global Recovery
- A Slowing China
- Weak Commodity Prices
- Asynchronous Monetary Policy

Source: IMF
Indonesia weathered the challenging conditions in 2015 well…..

Growth has held up well relative to other EMs…..

GDP Growth in 2015 (in percent)

GDP Growth in 2016 (in percent)

Source: IMF WEO Database

And entered this downturn in a relatively strong position…..
(Bank and Corporate indicators in 2014)

And entered this downturn in a relatively strong position…..

Corporate Leverage
Total Liabilities/Total Assets

Corporate Profitability
Return on Assets

Corporate Liquidity
Liquid Assets/Current Liabilities

Source: IMF WEO Database
GDP Growth (%)  
2010 – 2015

But -- slow, steady growth decline, for the past 5 years – until Q4 2015

Sources: CBS, CastleAsia

GDP Growth (%)  
Q4-2014 thru Q4-2015

Sources: CBS, CastleAsia
GDP Growth by Industrial Origin (%)

Sources: CBS, CastleAsia

Rupiah vs. US$
January 2013 – 18 February 2016

18 Feb 16
US$ = 13,479

Source: Bank Indonesia
### Inflation 2005 – 2016*

- **Fuel Price Hikes**
  - Mar 2005 +33%
  - Oct 2005 +100%
  - May 2008 -33%
  - 18 Nov 14 +30.77%
  - 1 Jan 15 -10.59%

- **Monthly 2015 – 2016 (YoY)**

Inflation trending sharply downwards but unexpected jump in January

### Indonesia Stock Index (IDX)
January 2012 to 26 February 2016

- **IDX High** = 5,523 on 7 April 2015
- 26 February 16 = 4,733

IDX

Sources: CBS, CastleAsia, JSX, CastleAsia
Foreign Exchange Reserves

Foreign Exchange Reserves relatively high but under pressure due to intervention to stabilize rupiah, foreign liquidity volatility

Banking: Credit Growth - Commercial Banks (y/y % change)

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital</td>
<td>2.8%</td>
<td>26.4%</td>
<td>21.6%</td>
<td>23.4%</td>
<td>20.2%</td>
<td>10.6%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Investment</td>
<td>16.3%</td>
<td>16.8%</td>
<td>33.3%</td>
<td>27.6%</td>
<td>34.4%</td>
<td>12.5%</td>
<td>14.6%</td>
</tr>
<tr>
<td>Consumption</td>
<td>19.1%</td>
<td>22.9%</td>
<td>24.3%</td>
<td>19.8%</td>
<td>13.8%</td>
<td>11.6%</td>
<td>9.1%</td>
</tr>
<tr>
<td>Property*</td>
<td>10.5%</td>
<td>12.8%</td>
<td>24.7%</td>
<td>24.0%</td>
<td>26.5%</td>
<td>17.3%</td>
<td>11.9%</td>
</tr>
<tr>
<td>Total Credits</td>
<td>10.1%</td>
<td>23.3%</td>
<td>24.7%</td>
<td>23.2%</td>
<td>21.4%</td>
<td>11.3%</td>
<td>10.1%</td>
</tr>
<tr>
<td>Total NPL to total Credit</td>
<td>3.4%</td>
<td>2.6%</td>
<td>2.2%</td>
<td>1.9%</td>
<td>1.8%</td>
<td>2.2%</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

* working capital, investment and consumption credits

Source: Bank Indonesia
Trade & Investment

Trade balance turned positive in 2015 after 3 years in deficit, but total volume down 23% continuing decline since 2012 high of $381 bn. Exports down 21%. Imports down 26% at about 2010 levels.

Sources: CBS, CastleAsia
**Capital Goods Imports**

Capital goods imports continue to decline highlighting investment slowdown

**ASEAN 4-Wheeler Sales**

**2012 – 2015**

<table>
<thead>
<tr>
<th>Country</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2015/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>37,247</td>
<td>34,111</td>
<td>47,443</td>
<td>78,609</td>
<td>65.7</td>
</tr>
<tr>
<td>Vietnam</td>
<td>80,453</td>
<td>98,649</td>
<td>133,588</td>
<td>209,267</td>
<td>56.7</td>
</tr>
<tr>
<td>Philippines</td>
<td>156,654</td>
<td>181,738</td>
<td>234,747</td>
<td>288,609</td>
<td>22.9</td>
</tr>
<tr>
<td>Malaysia</td>
<td>627,753</td>
<td>655,793</td>
<td>666,487</td>
<td>666,674</td>
<td>0.03</td>
</tr>
<tr>
<td>Thailand</td>
<td>1,436,335</td>
<td>1,330,672</td>
<td>881,832</td>
<td>799,632</td>
<td>(9.3)</td>
</tr>
<tr>
<td>INDONESIA</td>
<td>1,116,212</td>
<td>1,229,901</td>
<td>1,208,019</td>
<td>1,013,291</td>
<td>(16.1)</td>
</tr>
<tr>
<td>Brunei</td>
<td>18,634</td>
<td>18,642</td>
<td>18,114</td>
<td>14,406</td>
<td>(20.5)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>3,473,288</td>
<td>3,549,506</td>
<td>3,190,230</td>
<td>3,070,488</td>
<td>(3.8)</td>
</tr>
</tbody>
</table>

Source: Asean Automotive Federation
### ASEAN 2-Wheeler Sales 2012 – 2015

<table>
<thead>
<tr>
<th>Country</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2015/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippines</td>
<td>702,599</td>
<td>752,835</td>
<td>790,245</td>
<td>850,509</td>
<td>7.6</td>
</tr>
<tr>
<td>Thailand</td>
<td>2,130,067</td>
<td>2,004,498</td>
<td>1,701,535</td>
<td>1,639,090</td>
<td>(3.7)</td>
</tr>
<tr>
<td>Singapore</td>
<td>9,923</td>
<td>11,650</td>
<td>8,145</td>
<td>7,459</td>
<td>(8.4)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>537,753</td>
<td>546,719</td>
<td>442,749</td>
<td>380,802</td>
<td>(14.0)</td>
</tr>
<tr>
<td>INDONESIA</td>
<td>7,141,586</td>
<td>7,771,014</td>
<td>7,908,941</td>
<td>6,708,384</td>
<td>(15.2)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>10,521,928</td>
<td>11,086,716</td>
<td>10,851,615</td>
<td>9,586,244</td>
<td>(11.7)</td>
</tr>
</tbody>
</table>

Source: Asean Automotive Federation

### Cement Consumption

#### 2010 – 2016*

<table>
<thead>
<tr>
<th>Year</th>
<th>Cement Consumption (million)</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>48.8</td>
<td>10.4%</td>
</tr>
<tr>
<td>2011</td>
<td>48.7</td>
<td>13.5%</td>
</tr>
<tr>
<td>2012</td>
<td>55.1</td>
<td>16.3%</td>
</tr>
<tr>
<td>2013</td>
<td>58.0</td>
<td>5.3%</td>
</tr>
<tr>
<td>2014</td>
<td>58.9</td>
<td>3.3%</td>
</tr>
<tr>
<td>2015</td>
<td>60.4</td>
<td>8.9%</td>
</tr>
<tr>
<td>2016</td>
<td>94.8</td>
<td>7.2%</td>
</tr>
</tbody>
</table>

#### 2014 - 2016

<table>
<thead>
<tr>
<th>Year</th>
<th>Cement Consumption (million)</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>4.6</td>
<td>4.8%</td>
</tr>
<tr>
<td>2015</td>
<td>4.9</td>
<td>5.7%</td>
</tr>
<tr>
<td>2016</td>
<td>5.1</td>
<td>5.7%</td>
</tr>
</tbody>
</table>

Source: ASI
### CastleAsia Forecast – March 2016

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016* Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP Growth (real)</strong></td>
<td>5.56%</td>
<td>5.02%</td>
<td>4.79%</td>
<td>5.00%</td>
</tr>
<tr>
<td><strong>CPI yoy</strong></td>
<td>8.38%</td>
<td>8.36%</td>
<td>3.35%</td>
<td>4.50%</td>
</tr>
<tr>
<td><strong>X-rate to US$$, year end</strong></td>
<td>12,189</td>
<td>12,440</td>
<td>13,795</td>
<td>13,500</td>
</tr>
<tr>
<td><strong>SBI (one month), year end</strong></td>
<td>7.50%</td>
<td>7.75%</td>
<td>7.50%</td>
<td>6.75%</td>
</tr>
</tbody>
</table>

Sources: CBS, BI, *CastleAsia forecast

### POLITICS – Wall of Reality

![Flags representing Resistance to reform, Isolationism, Deficits, and Protectionism](source: The Jakarta Globe, Aug 2014)
Current economic conditions compared to last year...

Source: Saiful Mujani Research & Consulting, June 2015

Jokowi vs SBY: Satisfaction … June 2015

Source: Saiful Mujani Research & Consulting, June 2015
Public confidence in Jokowi’s competency… June 2015

Source: Saiful Mujani Research & Consulting, June 2015

Regret voting for Jokowi?

Source: Saiful Mujani Research & Consulting, June 2015
**The best performing ministries...**

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maritime Affairs</td>
<td>27.0</td>
</tr>
<tr>
<td>Religious Affairs</td>
<td>8.0</td>
</tr>
<tr>
<td>Health</td>
<td>4.6</td>
</tr>
<tr>
<td>Social Affairs</td>
<td>4.6</td>
</tr>
<tr>
<td>Agriculture</td>
<td>4.2</td>
</tr>
<tr>
<td>Education &amp; Culture</td>
<td>3.6</td>
</tr>
<tr>
<td>Women Empowerment</td>
<td>2.3</td>
</tr>
<tr>
<td>Disadvantaged Regions...</td>
<td>1.5</td>
</tr>
<tr>
<td>Law &amp; Human Rights</td>
<td>1.4</td>
</tr>
<tr>
<td>Home Affairs</td>
<td>1.1</td>
</tr>
<tr>
<td>Tourism</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Source: Saiful Mujani Research & Consulting, June 2015

**August 2015 – Something Old, Something New...**

- Darmin Nasution replaced Sofyan Djailil as Coordinating Minister of Economic Affairs
- Luhut Panjaitan replaced Tedjo Edhi Purdijatno as Coordinating Minister of Security Affairs
- Teten Masduki replaced Luhut Panjaitan as Presidential Chief of Staff
- Pramono Anung replaced Andy Widjajanto as Cabinet Secretary
- Rizal Ramli replaced Indroyono Soesilo as Coordinating Minister of Maritime Affairs
- Sofyan Djailil replaced Adrianof Chaniago as Head of the National Planning Agency/Bappenas
- Thomas Lembong replaced Rahmat Gobel as Minister of Trade
How do you view Economic Conditions over the Past 4 months (%)

Source: Indikator Politik, 18-19 Jan 16

Public Satisfaction with Jokowi’s Performance? Jan 2016 (%)

Source: Indikator Politik, 18-19 Jan 16
Who would you Vote for if Presidential Elections were held today (%) Jan 2016

Source: Indikator Politik, 18-19 Jan 16

KIH vs. KMP
DPR Seats

Source: Compiled from DPR website & The Jakarta Post, 2015
The Future ?

Support the Nawa Cita Framework
(Successful implementation of the framework is key to the MT outlook....)

- Quality of life
  - Raising Living Standards
  - Increasing Opportunities

- Mental revolution
  - New mindset

- Competitiveness
  - Improving productivity

- Self Sufficiency (?)
  - Dynamic Comparative Advantage

Nawa Cita
(Economic related)
Nawa Cita: The Challenge

Raise Growth

Reform the Economy

- Reduce Inequality
- Increase employment opportunities
- Raise living standards
- Make Indonesia Competitive

Source: IMF WEO Database

The Policy Challenge
Two Political Myths Dominate

Two important myths have dominated elite political thinking and economic policy-making over the past decade

- Indonesia has too much foreign investment
- Indonesia imports too much

Myth #1: Indonesia has too much Foreign Investment

*Foreign Direct Investment, net inflows (2009-2013 - % of GDP)*

*Source: World Bank*

*In Indonesia net FDI equals about 2% of GDP, well behind its ASEAN peers Vietnam and Malaysia and slightly more than Argentina and India*
Myth #2: Indonesia imports too much


<table>
<thead>
<tr>
<th>Country</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vietnam</td>
<td>67%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>46%</td>
</tr>
<tr>
<td>Thailand</td>
<td>57%</td>
</tr>
<tr>
<td>Korea, Rep.</td>
<td>53%</td>
</tr>
<tr>
<td>Philippines</td>
<td>55%</td>
</tr>
<tr>
<td>Mexico</td>
<td>38%</td>
</tr>
<tr>
<td>Turkey</td>
<td>58%</td>
</tr>
<tr>
<td>South Africa</td>
<td>53%</td>
</tr>
<tr>
<td>India</td>
<td>53%</td>
</tr>
<tr>
<td>China</td>
<td>53%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>22%</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>25%</td>
</tr>
<tr>
<td>Argentina</td>
<td>19%</td>
</tr>
<tr>
<td>Brazil</td>
<td>17%</td>
</tr>
</tbody>
</table>

Source: World Bank

Political Myths

- These myths also reflect the belief that the international system is inherently unfair to developing countries and that Indonesia is uniquely vulnerable.
- Confronting these myths will be the most serious obstacle to growth for the Jokowi administration.
- The confrontation with these myths began in August 2015. Its outcome will determine Indonesia’s economic future.
Thank You

Nawur Cita – Nine Aims

- Protect Indonesian citizens
- Carry out good governance
- Develop Indonesia bottom up from the village level
- Eradicate corruption
- Improve the quality of life for all citizens
- Improve productivity and boost global competitiveness
- Achieve economic independence
- Initiate a mental revolution
- Strengthen Indonesia’s unity in diversity
**Summary: IMF 2015 Article IV Advice (1)**

*Implement growth reforms, while managing short term liabilities*

**Monetary and exchange rate policy**
- Easing cycle should be implemented gradually and patiently
- Continue exchange rate flexibility and market-determined bond yields

**Fiscal Policy**
- Reinvigorate revenue mobilization within a coherent medium-term plan
- Revise 2016 Budget early, protecting the fiscal rule

*Source: IMF*

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**Summary: IMF 2015 Article IV Advice (2)**

*Implement growth reforms, while managing short term liabilities*

**Financial Sector**
- Strengthen risk assessment of pockets of vulnerabilities among corporates and banks
- Close gaps in financial safety net via passage of draft FSSN Law

**Structural**
- Closing infrastructure gaps to address supply-side bottlenecks (e.g. logistics)
- Improve business and investment climate; revise negative investment list for FDI
- Leverage international trading arrangements (incl. Trans Pacific Partnership)

*Source: IMF*