

Withstanding The Resource Curse

The Case of Indonesia: A Fund Manager's view



Discussion Material for
Russian Economic Challenge

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Fund Manager's Macro Map

External
Global &
Regional
Dynamics

Aging society, global warming, de-leveraging, wealth inequality, multi-polar cold war

Trump POTUS45

Fed *hawkish*

Brexit

Stimulus ECB, BoJ & BoE

China economic stabilization

Rate still lower, disruptive innovation, currency wars, end of commodity super-cycle

Domestic
Economic
Challenges &
Policy
Responses

Populist Politics & Resource Curse: **The Risk of Middle-Income Trap 2030**

Fiscal reforms: Subsidy system & Supply-side Revolution

Prudence monetary policies

Tax amnesty: Revenue
Reforms

Legal &
Admin

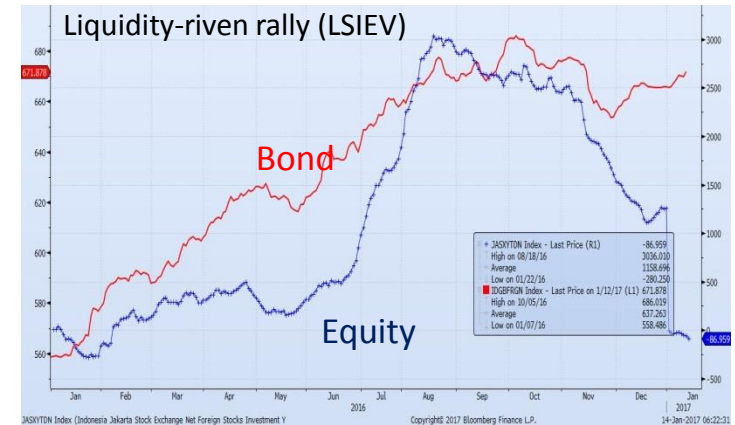
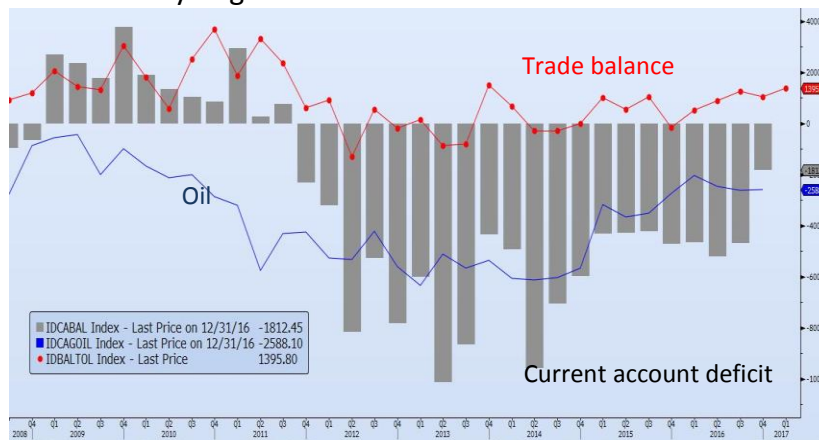
Tourism, Re-
industrialization

Macro-
prudential

Financial
deepening

Impact,
Outlook &
Strategic
Guideline

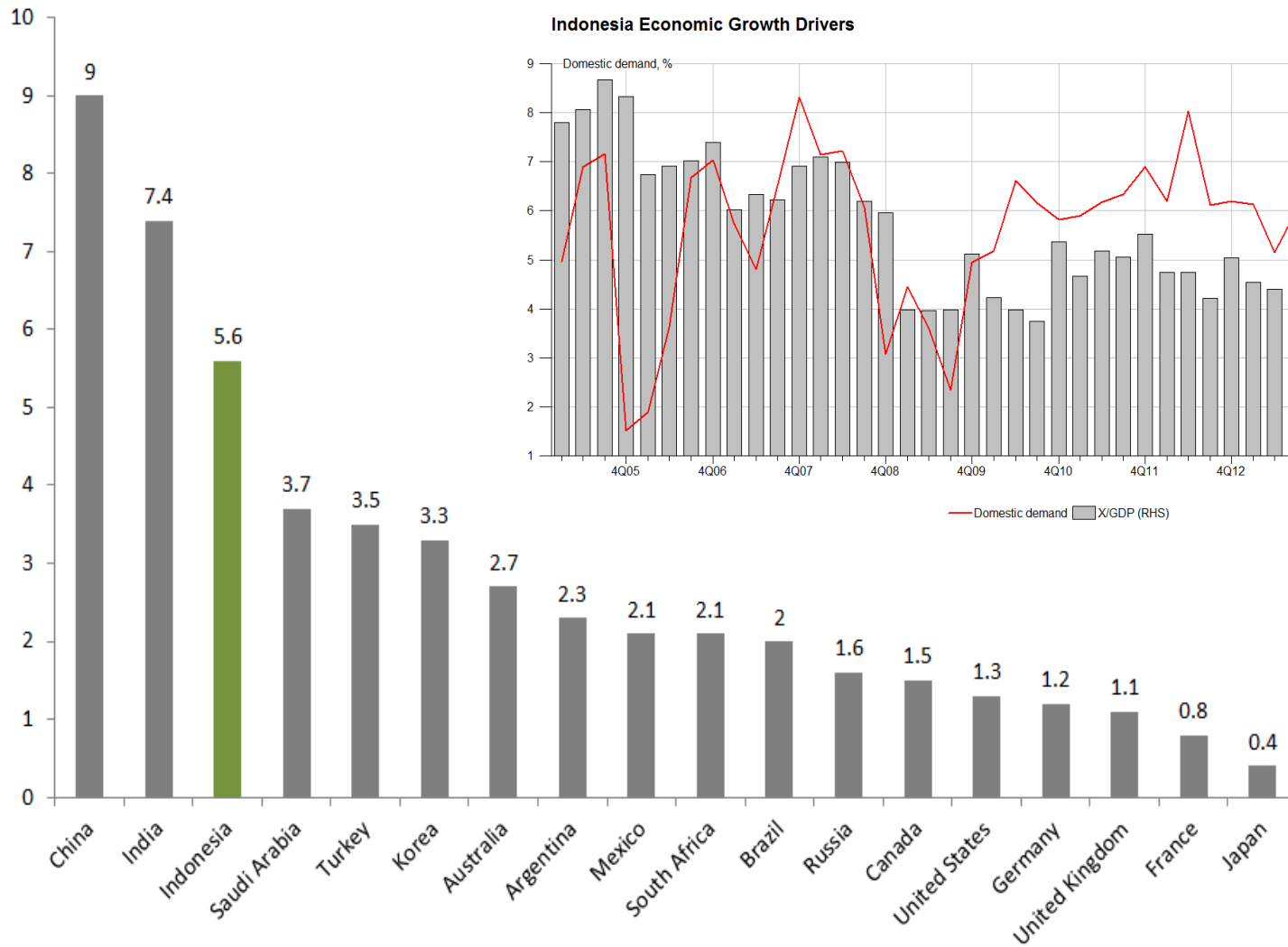
From stability to growth



Abated IDR exchange rate pressure encourages capital inflows

Withstanding Resource Curse...

Average Annualized GDP Growth, 2007-2016, %



Indonesia Experience With Commodity Boom

Oil Bonanza 1974-1979

Strong centralized leadership



Productive & inclusive spending: Basic education, family planning, rural infrastructure, irrigation, fertilizer plant, electricity generation, transmigration, satellite communication

- Faster growth with less inequality
- Current account surplus

Asia Financial Crisis, 1998



Political Change, Reformasi

Poor macroeconomic management

- Fixed exchange rate system
- Weak monitoring and supervision on banking system
- Under-developed financial market
- Weak tax collection & poor debt management system

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Initial social cost to recapitalize banking system Rp400tn, **weaken** fiscal stimulus to achieve inclusive growth

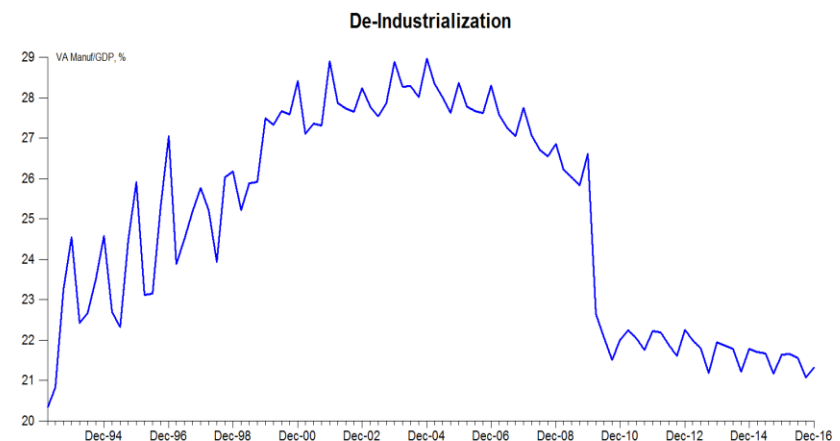
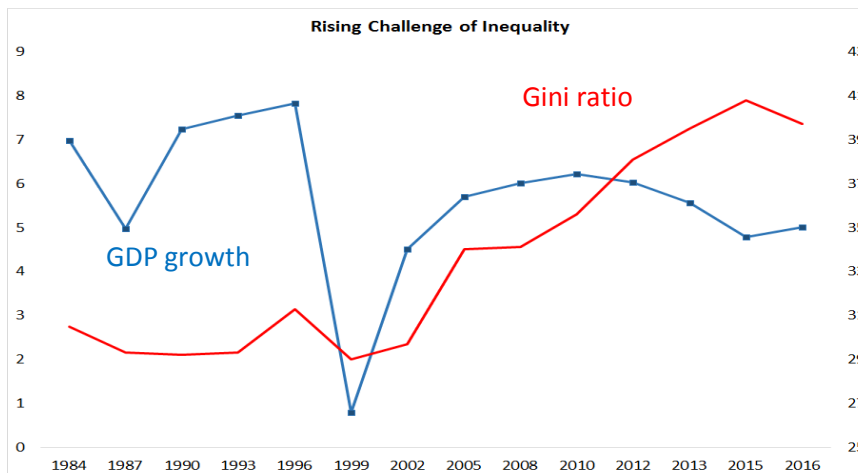
Comdty Boom 2000-2012

Direct election, fragmented coalition, desentralization, populist

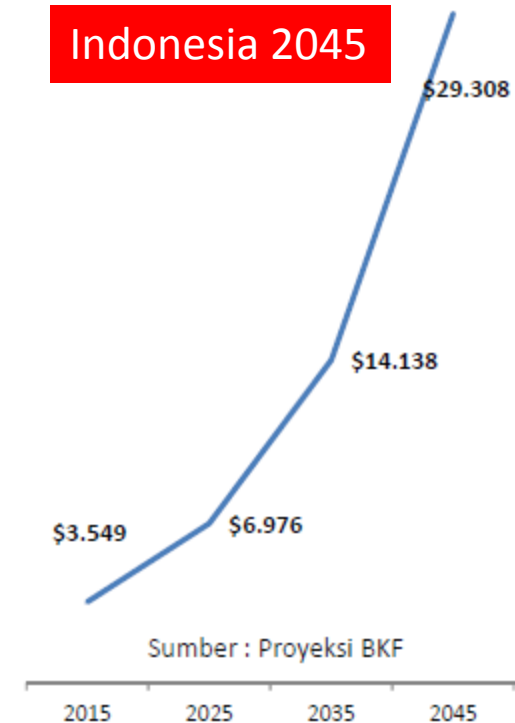
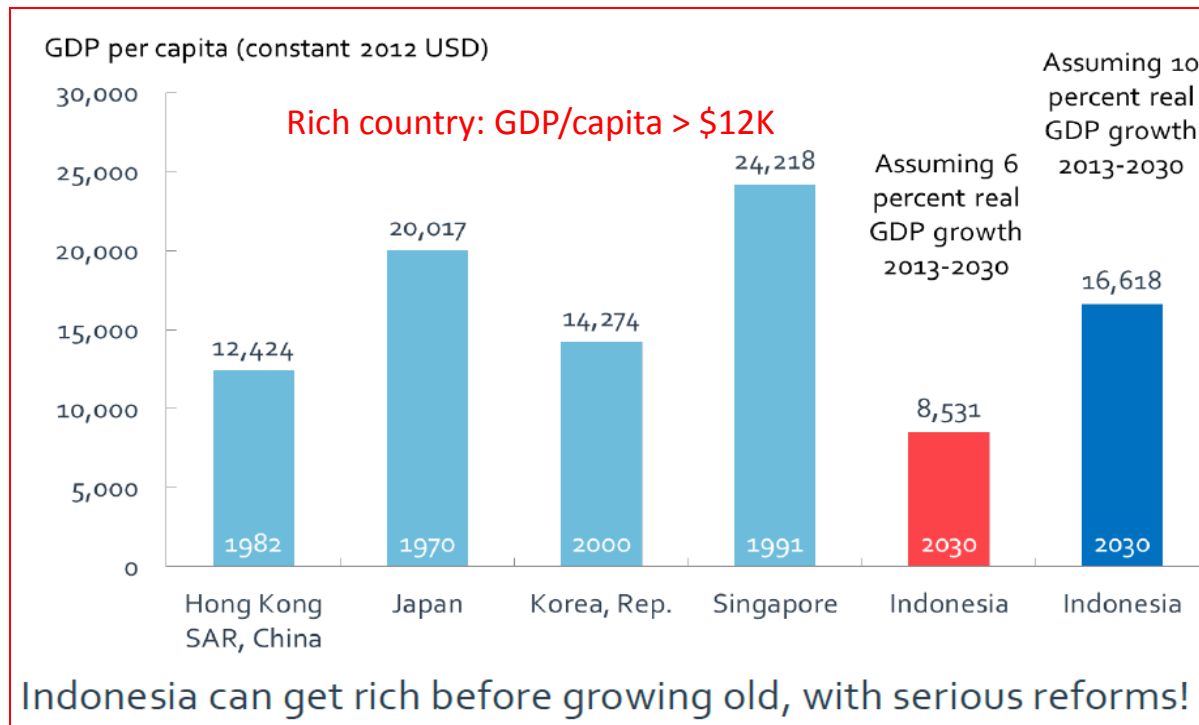
Consumptive & exclusive spending: Fuel subsidy, car, petro-chemical, gadget, travelling abroad. Widening inequality among regions



- Slow growth with worsening inequality
- Current account **deficit**

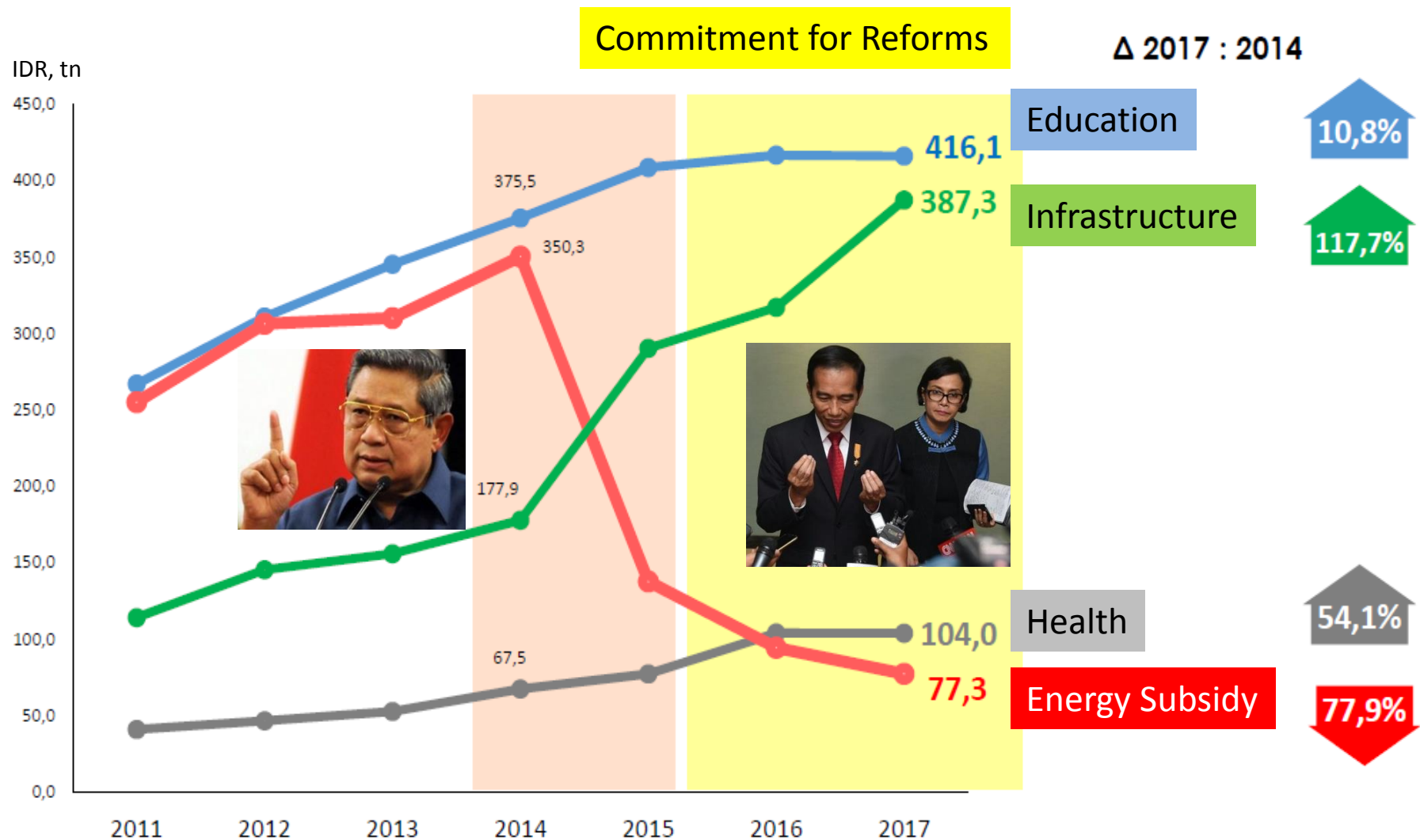


Overwhelming Challenge Ahead



- In the last 10 years, Indonesian economy becoming less: *productive, competitive, efficient and equally distributed*
- The risk of growing old before growing rich in 2030
- Solution:
 - *Faster & sustainable growth with better equality*
 - *Transforming from saving to investing society*

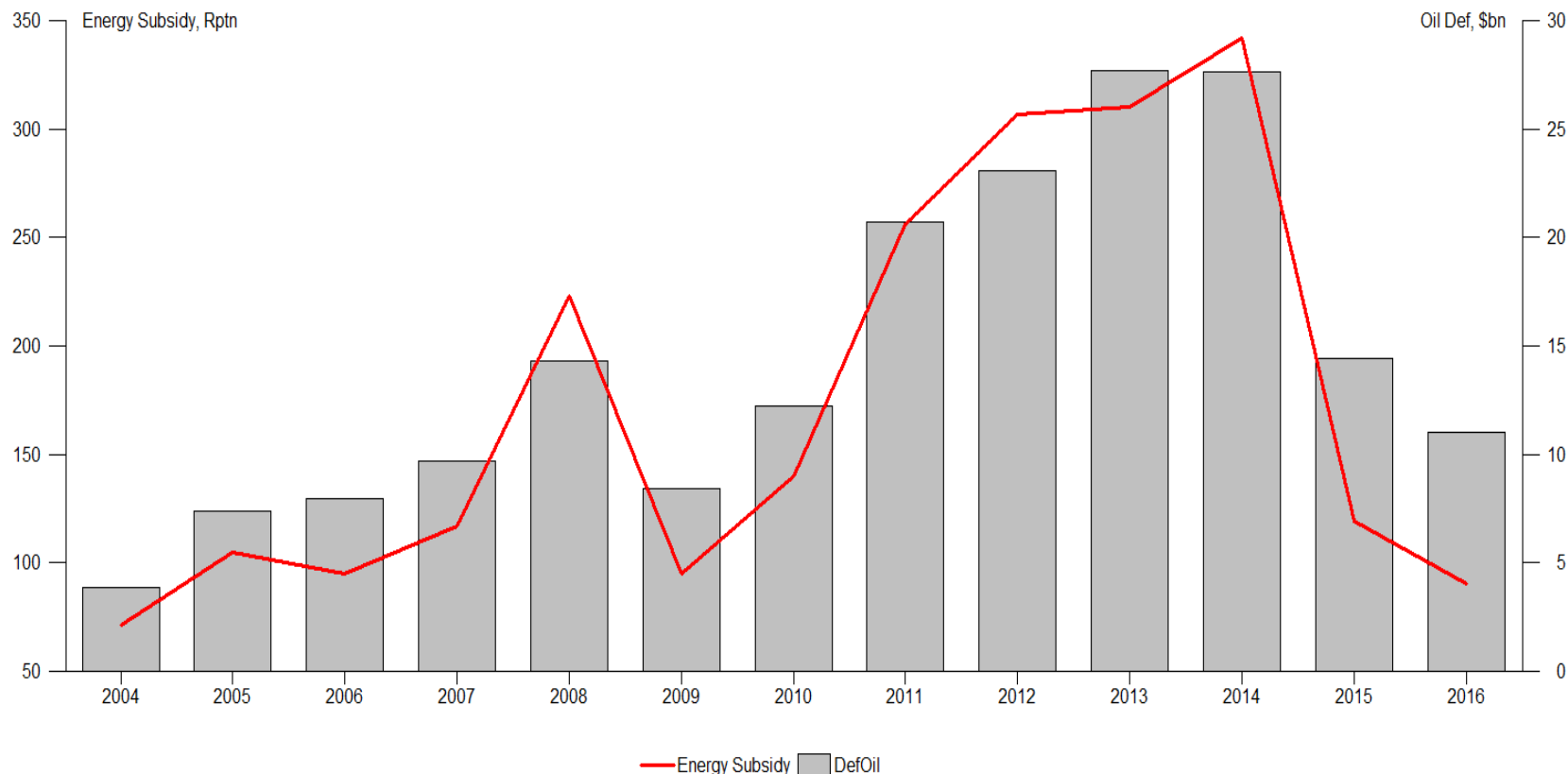
More Productive & Inclusive Spending



2017: Deficit 2,41% GDP

The Dark Side of Populist Politics

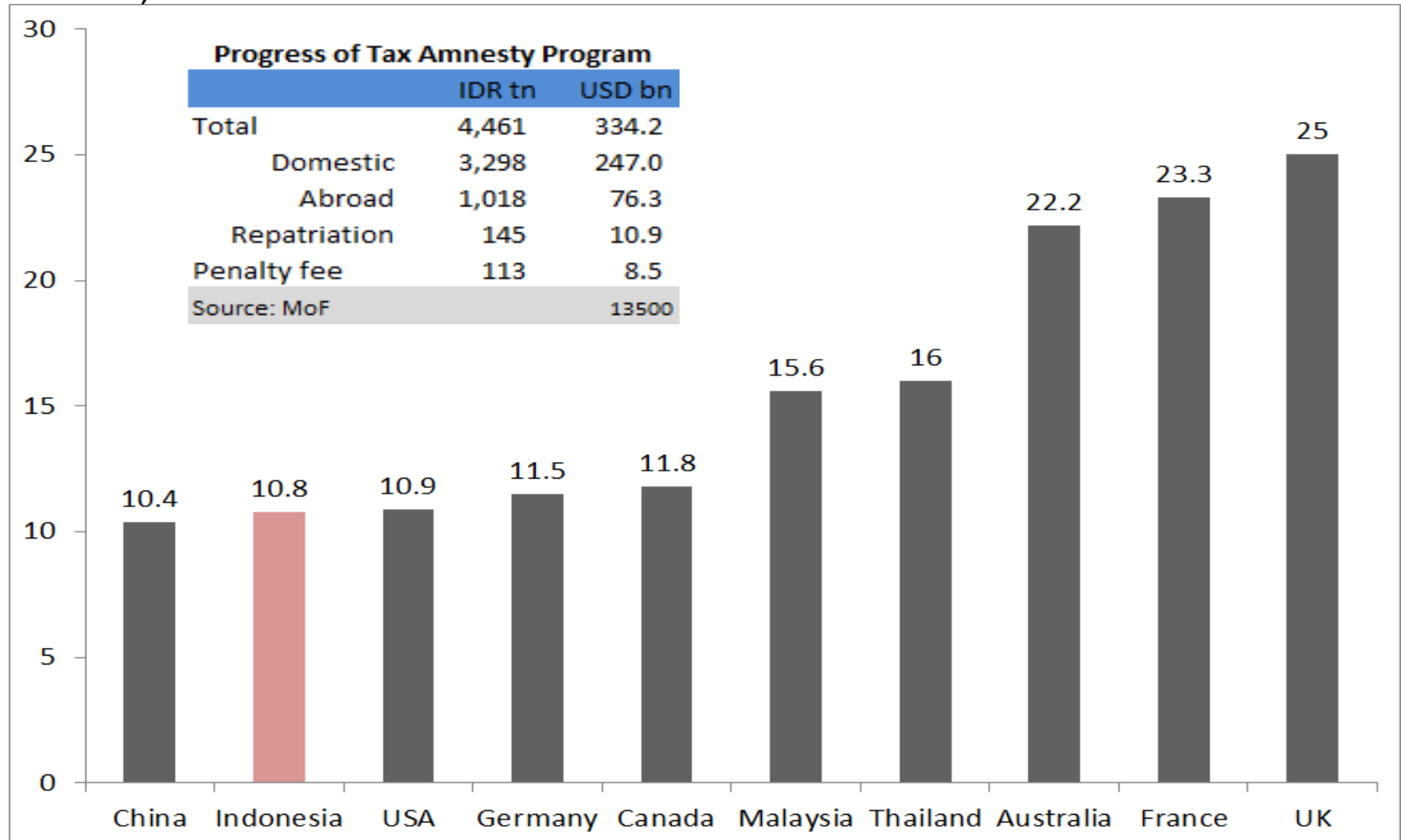
Energy Subsidy Widens Oil Trade Deficit



Indonesia no longer OPEC member since 2004

Tax Amnesty Program

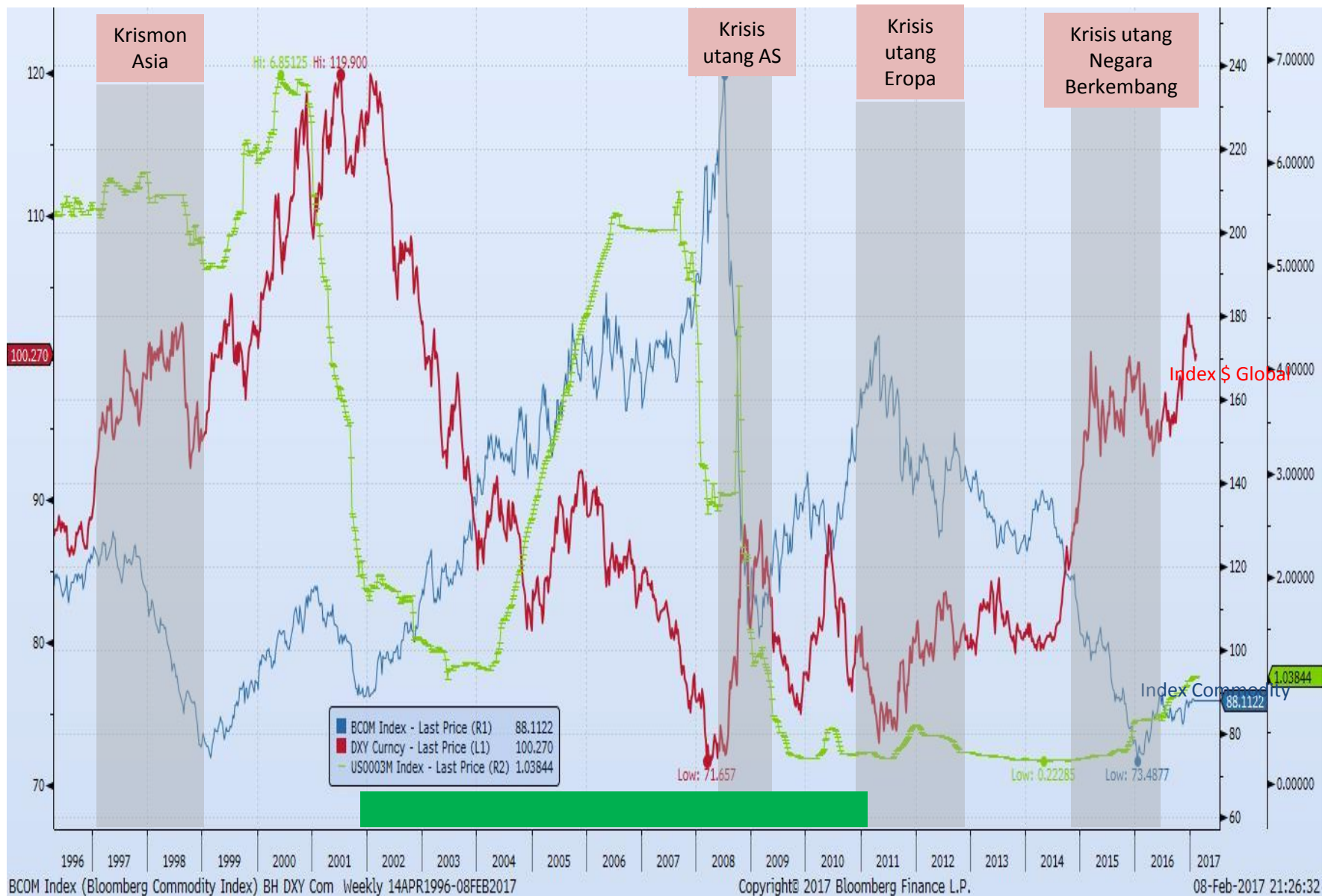
Tax ratio, % GDP



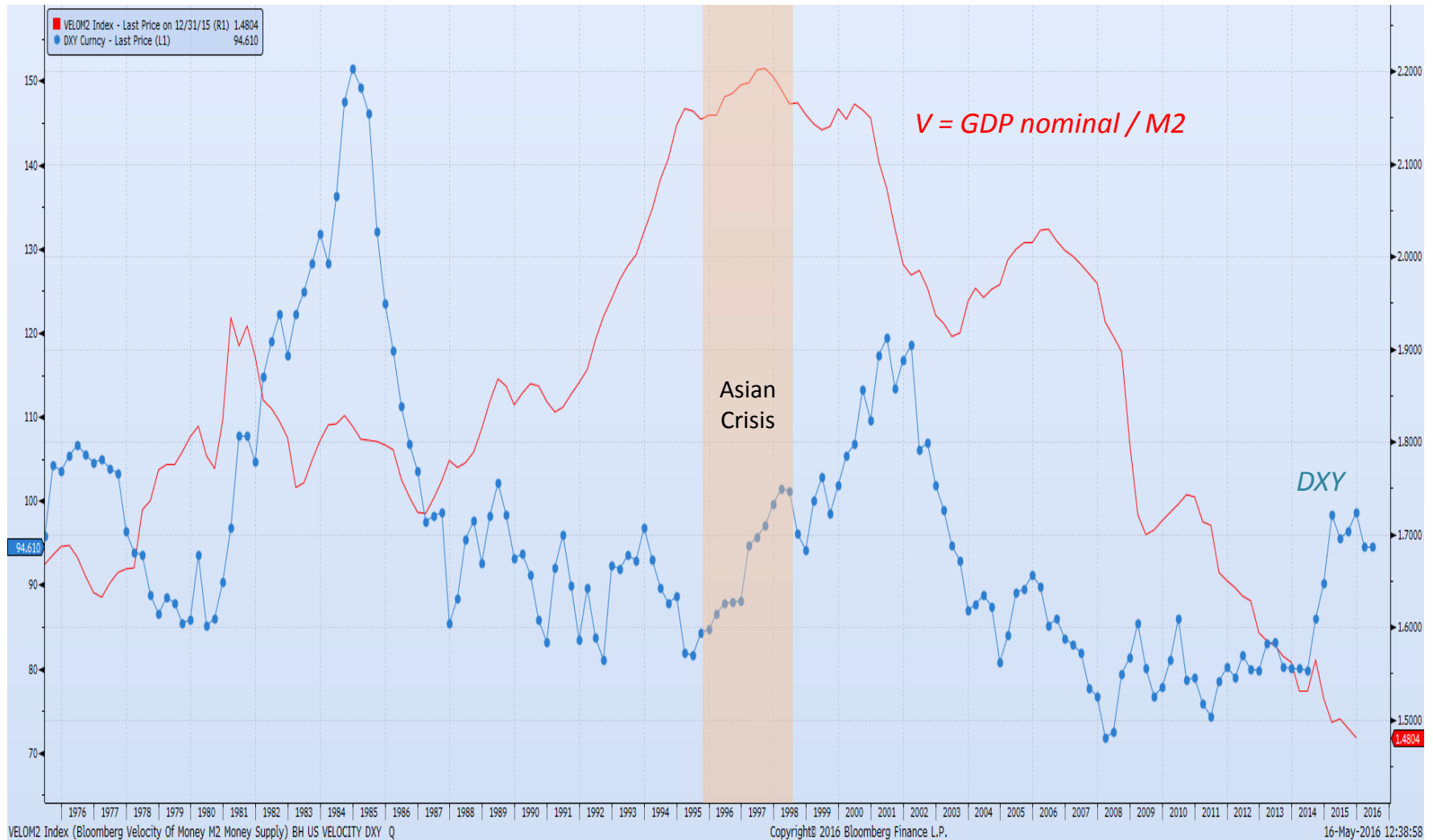
Source: IMF 2015

Target tax collection 2017 Rp1.496tn (tax ratio 11%)

Entering Era of Strong Dollar



Strong DXY, Despite Excessively Created...



Mothers of All Disruptive Innovation

BoJ too aggressive



Pre	Central Bank	Commercial Banks	Investment Banks/Shadow Banking
Post	Central Bank	Commercial Banks	Invest Banks

Lower Oil Price on Bigger Supply



08-Mar-17 (3 Years)

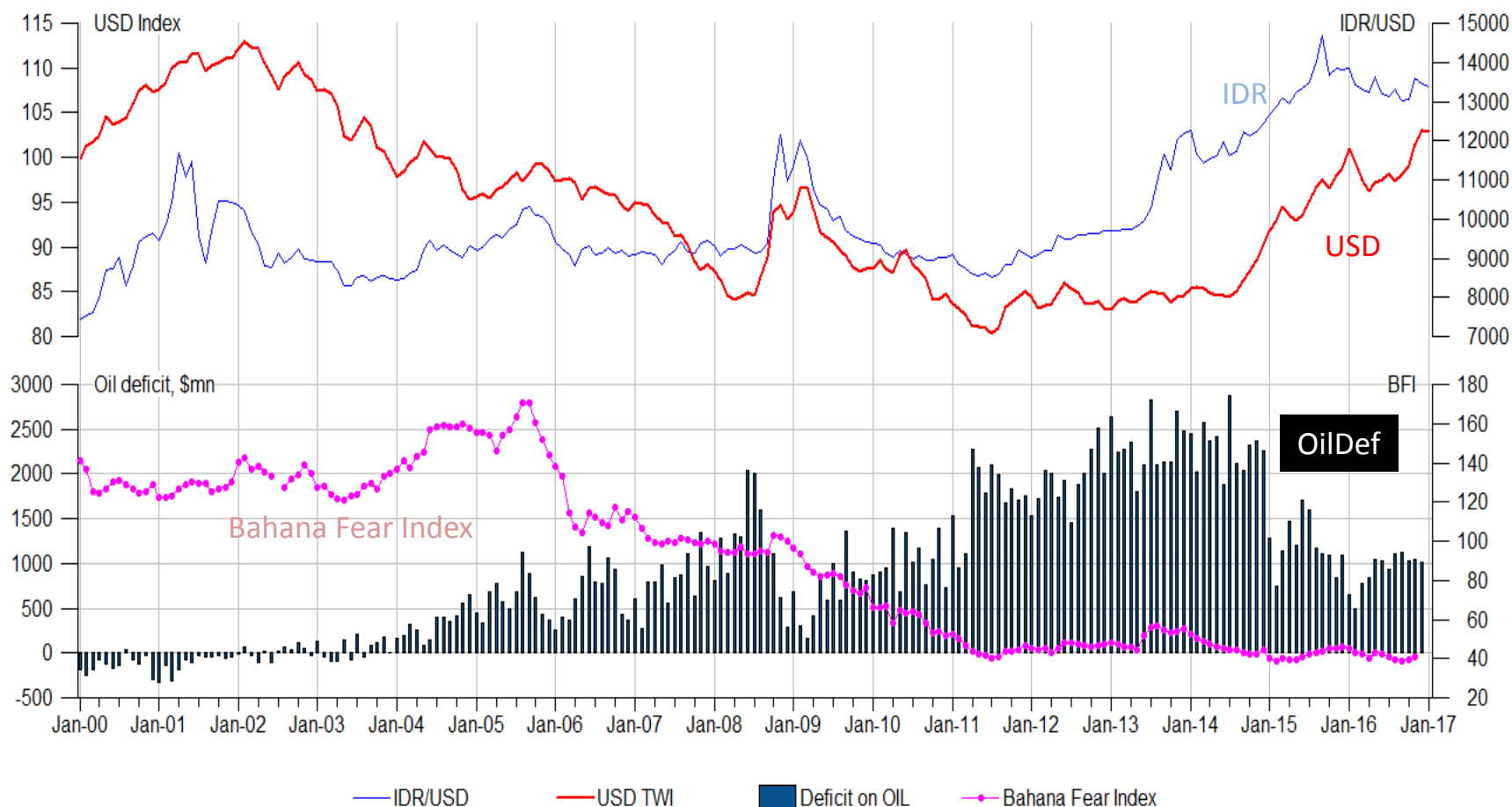
Brent Oil	-49.0
Coal	-45.9
TRL	-40.0
Rice	-39.1
RUB	-37.3
BCOM	-36.6
Nickel	-30.4
GBP	-27.0
MYR	-26.6
EUR	-23.8
Cotton	-20.5
Tin	-15.3
IDR	-14.3
JPY	-9.1
Gold	-9.0
MXAPJ	-0.4
CPO	2.8
Rubber	4.0
JCI	15.2
DXY	27.7

Source: Bloomberg



IDR: Friendly Internal Drivers

Menjelaskan Pergerakan Rupiah



Inspiration From the Past...

Joseph and the *Engineering Wonders* of Egypt



When American engineer Francis Whitehouse was asked to come up with a scheme to irrigate large portions of 19th-century Egypt, his British employers little realized the astounding conclusion he would present them with! After surveying the **FAYUM PROVINCE** of Egypt and discovering the remains of a **HUGE FLOOD CONTROL AND IRRIGATION PROJECT** from the ancient past, Whitehouse soon realized this to be the work of a brilliant Hebrew administrator -- none other than the biblical **JOSEPH**! A study of history and the Bible reveals the role **YEHOVAH** God played in the life of Joseph -- from the time of his arrival in Egypt as a Midianite prisoner to his meteoric rise to become the second most powerful man in the country! History reveals that centuries later another man, called by **YEHOVAH** God to a special task would, like Joseph, also rise to become second in command in Egypt and **REBUILD** the works of Joseph long since fallen into disrepair.

by John D. Keyser

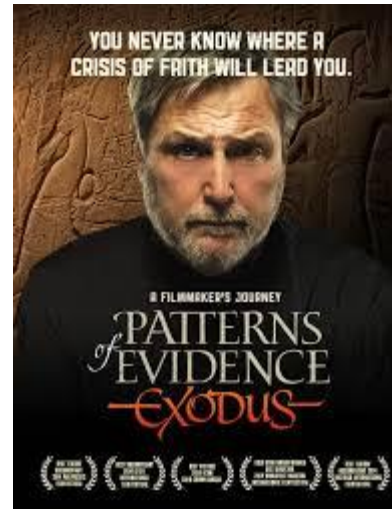
Genesis 41 New International Version (NIV)

Pharaoh's Dreams

41 When two full years had passed, Pharaoh had a dream: He was standing by the Nile, ² when out of the river there came up seven cows, sleek and fat, and they grazed among the reeds. ³ After them, seven other cows, ugly and gaunt, came up out of the Nile and stood beside those on the riverbank. ⁴ And the cows that were ugly and gaunt ate up the seven sleek, fat cows. Then Pharaoh woke up.

⁵ He fell asleep again and had a second dream: Seven heads of grain, healthy and good, were growing on a single stalk. ⁶ After them, seven other heads of grain sprouted—thin and scorched by the east wind. ⁷ The thin heads of grain swallowed up the seven healthy, full heads. Then Pharaoh woke up; it had been a dream.

⁸ In the morning his mind was troubled, so he sent for all the magicians and wise men of Egypt. Pharaoh told them his dreams, but no one could interpret them for him.

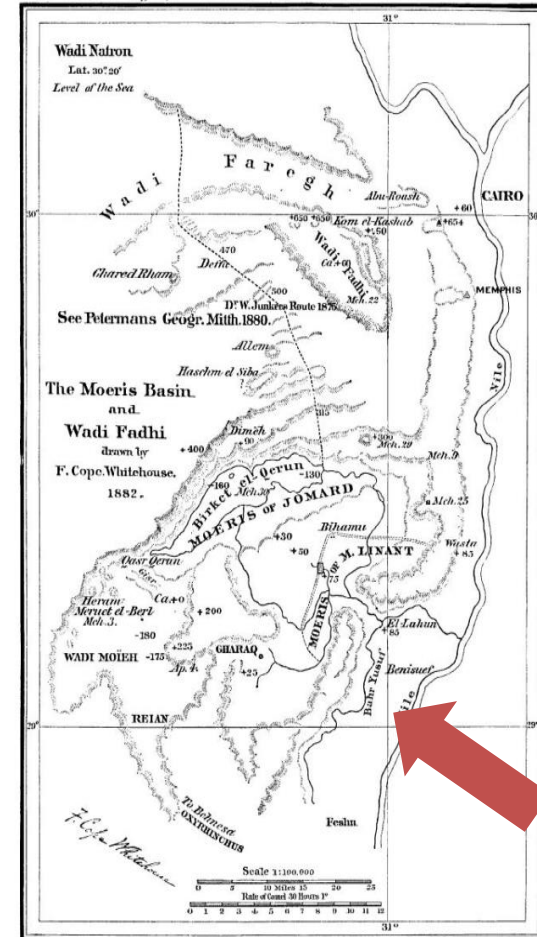


قَالَ تَزْرَعُونَ سَبْعَ سِنِينَ دَابًّا فَمَا حَصَدْتُمْ فَذَرُوهُ فِي
سُبُلِهِمْ إِلَّا قَلِيلًا مِمَّا تَأْكُلُونَ



Joseph said: "You will cultivate consecutively for seven years. Leave in the ears all that you have harvested except the little out of which you may eat.

Journal, Am. Geographical Soc. Vol. XIV.

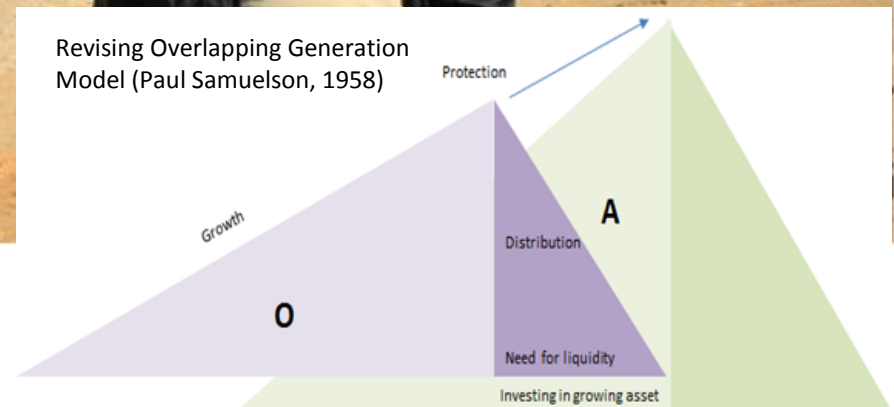
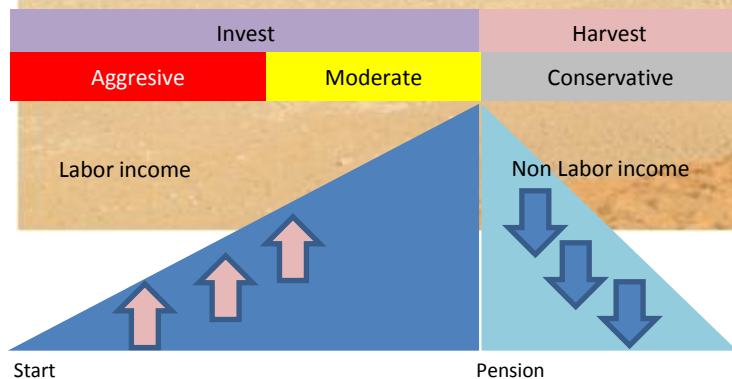


Opportunity to Promote Lifecycle Investment

Genesis 41 and QS 12:47	Economist (Typical IMF-World Bank policy recommendation)	Fund Manager
You will cultivate consecutively for seven years	Structural policy → Productivity (Y)	Growth → Equity
Leave in the ears all you have harvested	Buffer stock & Preservation	Protection → Gov bond
Expect the little out of which you may eat	Demand management (A)	Distribution → Structured product

Supply (Y+M) = Demand (C+I+G+X)
 $Y = C + I + G + (X-M)$
 $(X-M) = (Y-A)$
 Current account deficit = excess domestic demand

1. Demand management (A)
2. Structural policy (Y)
3. Exchange rate policy (Ex Japan)
4. External financing



Lesson To Learn

- Strong leadership to achieve national's vision inclusively
- Fiscal policy as the anchor of policy credibility to avoid crisis
 - Reforms: Expenditure, revenue, future liability
 - Tax reforms: Simple, equitable, regionally competitive
- Financial reforms to withstanding external transmission, including invasion of fiat money
 - Macro prudential, financial deepening
 - Foreign debt: Monitoring and its productivity
- The role of capital market to secure good policy
- Support globalization, widening market space
- Promoting investment society to anticipate middle-income trap