



Global Economic Prospects and the Indonesian Economy

**Presentation to
University of Indonesia**

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A Growing Crisis of Confidence

Private Debt

- Subprime crisis originates in US banks

Banking

- Systemic banking crisis spreads from US to Europe

Sovereign

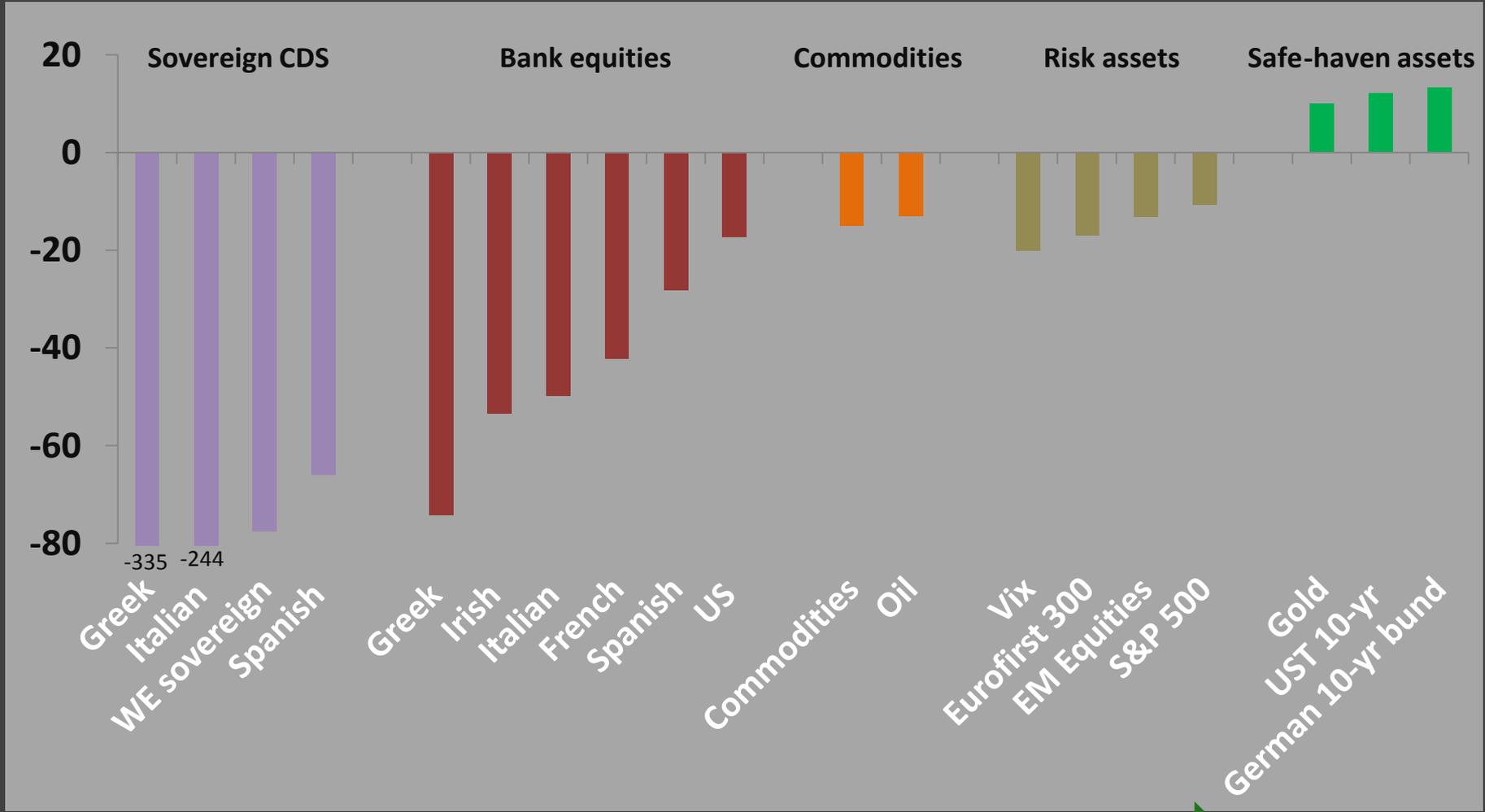
- Problems in euro periphery sovereign debt
- Medium-term debt burdens in core AE

Political

- Difficulty in reaching political consensus on fiscal consolidation and adjustment

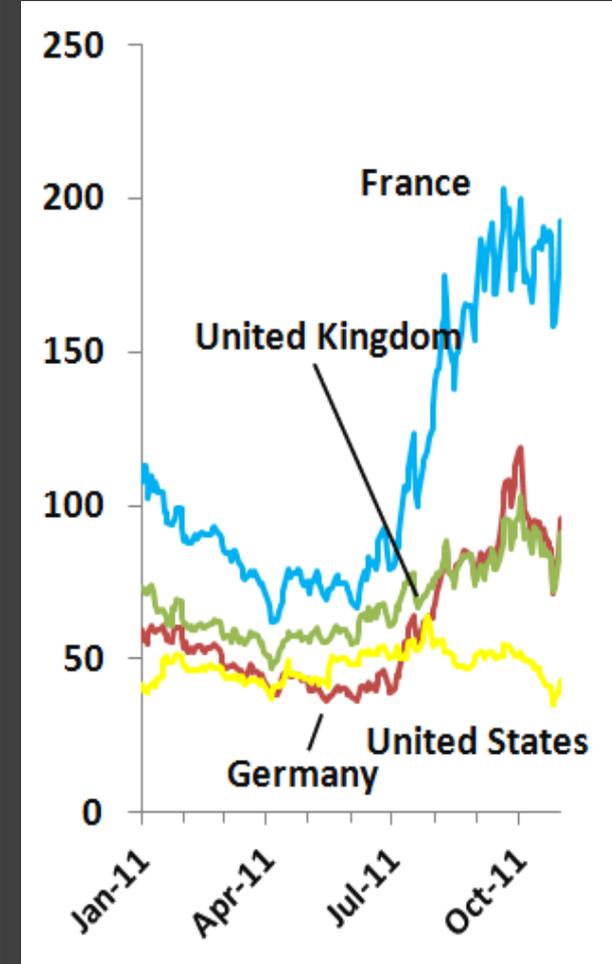
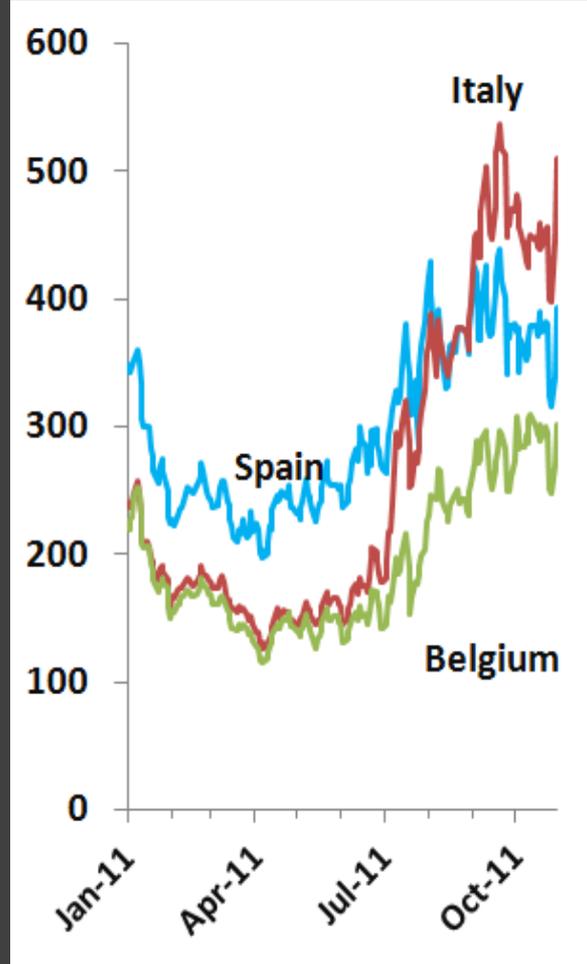
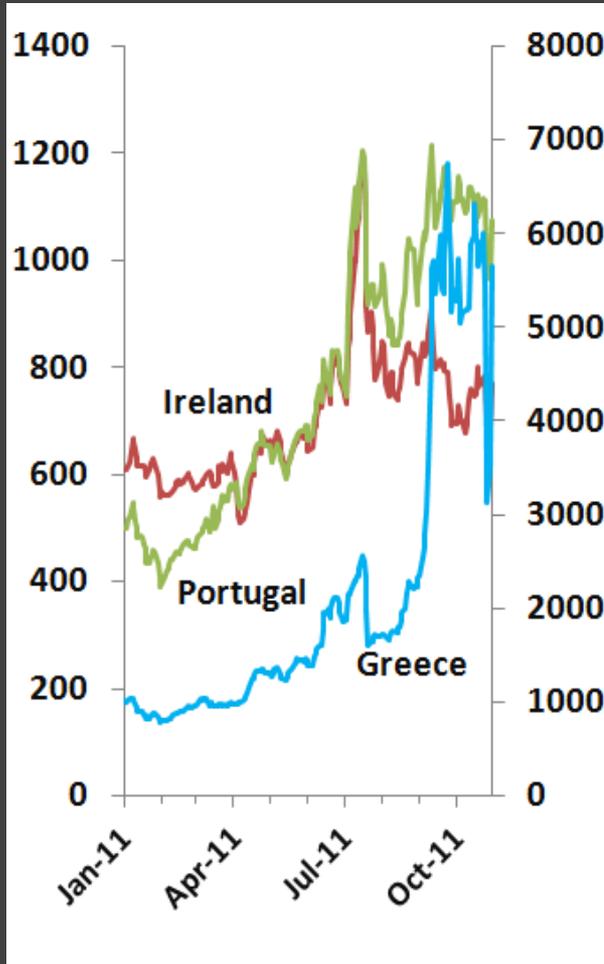
... Prompting a Flight to Safe Assets

Asset Price Performance since April GFSR
(percent, VIX in percentage points; VIX and sovereign CDS inverted)

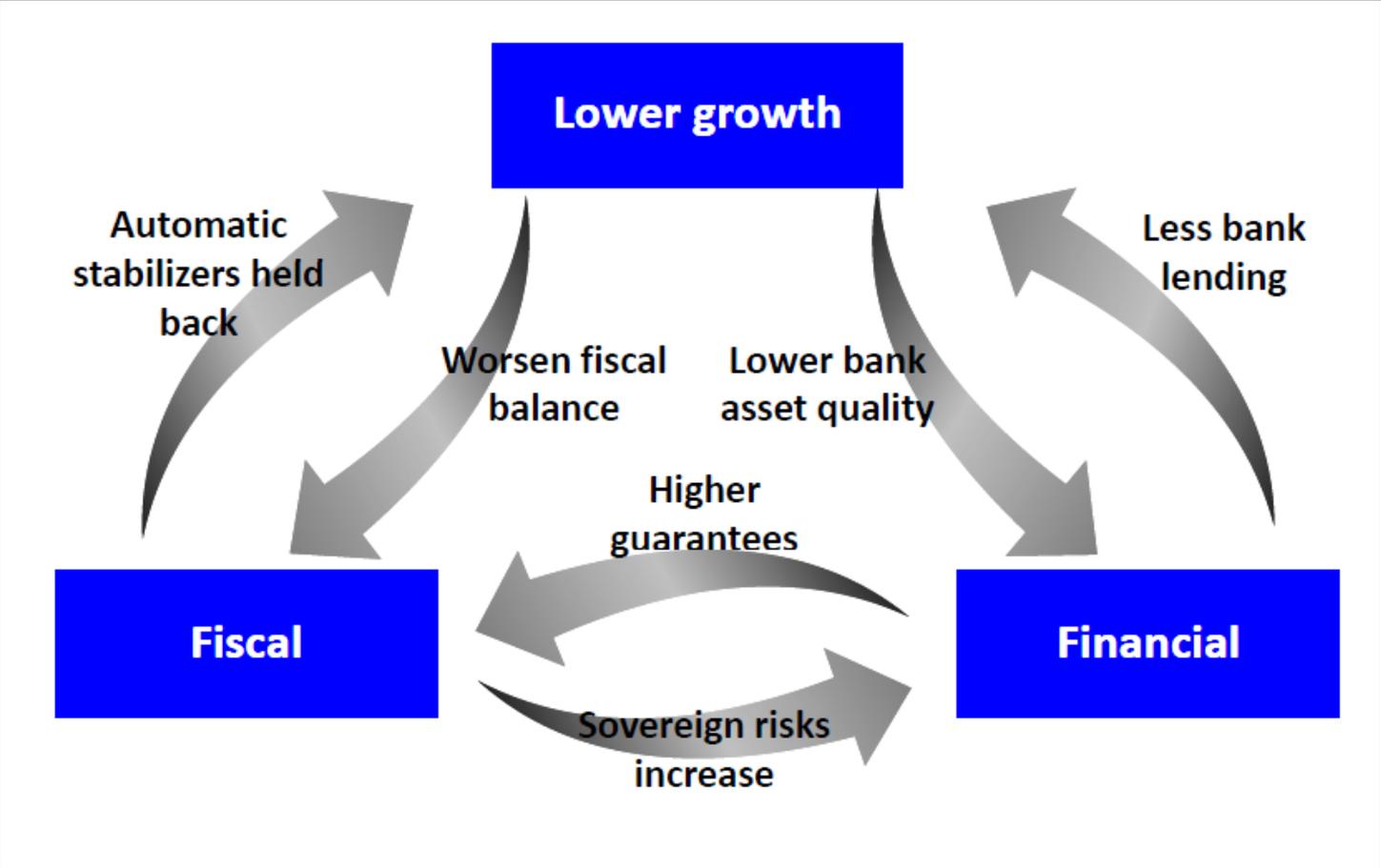


Sovereign Strains Becoming More Widespread ...

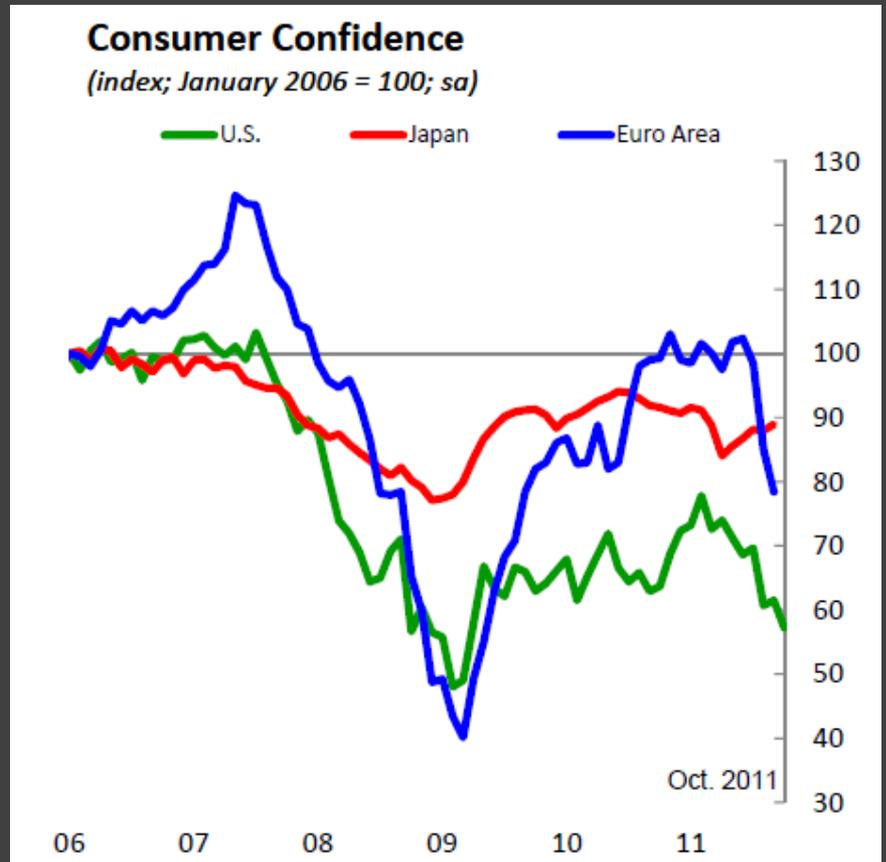
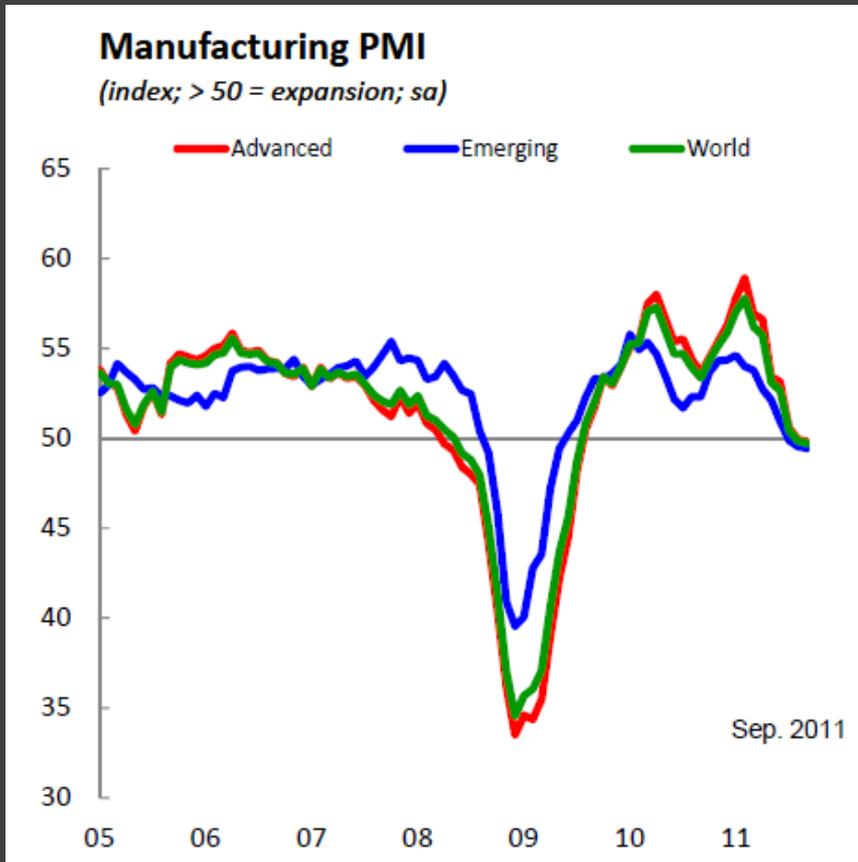
Credit Default Swap Spreads
(basis points)



Risks — Negative Feedback Loops



Global Activity Has Weakened as Confidence Has Fallen



Weakness is Projected to Persist

WEO Real GDP Growth Projections
(percent change from a year earlier)

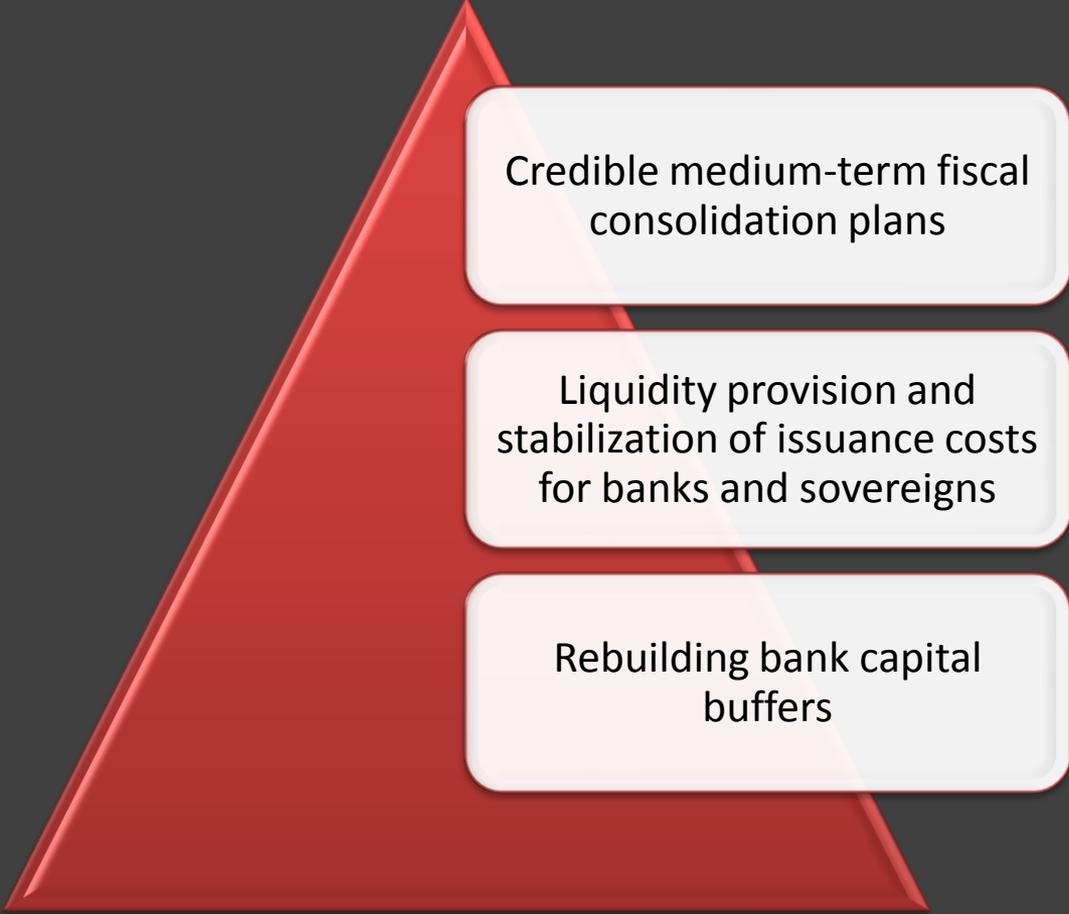
	World	Euro area	Adv. APEC	U.S.	Japan	Emg. APEC	China	Russia	Mexico
2011 (Sep 2011)	4.0	1.6	1.6	1.5	-0.5	7.6	9.5	4.3	3.8
2011 (Apr 2011)	4.4	1.6	2.8	2.8	1.4	7.8	9.6	4.8	4.6
2012 (Sep 2011)	4.0	1.1	2.3	1.8	2.3	7.3	9.0	4.1	3.6
2012 (Apr 2011)	4.5	1.8	2.9	2.9	2.1	7.7	9.5	4.5	4.0

WEO FORECAST AND RISKS

Key assumption underlying the baseline: financial recovery delayed not derailed.

1. Euro area crisis does not run out of control.
2. Global financial volatility does not escalate.
3. No major tightening of bank lending conditions.

Policy Imperatives

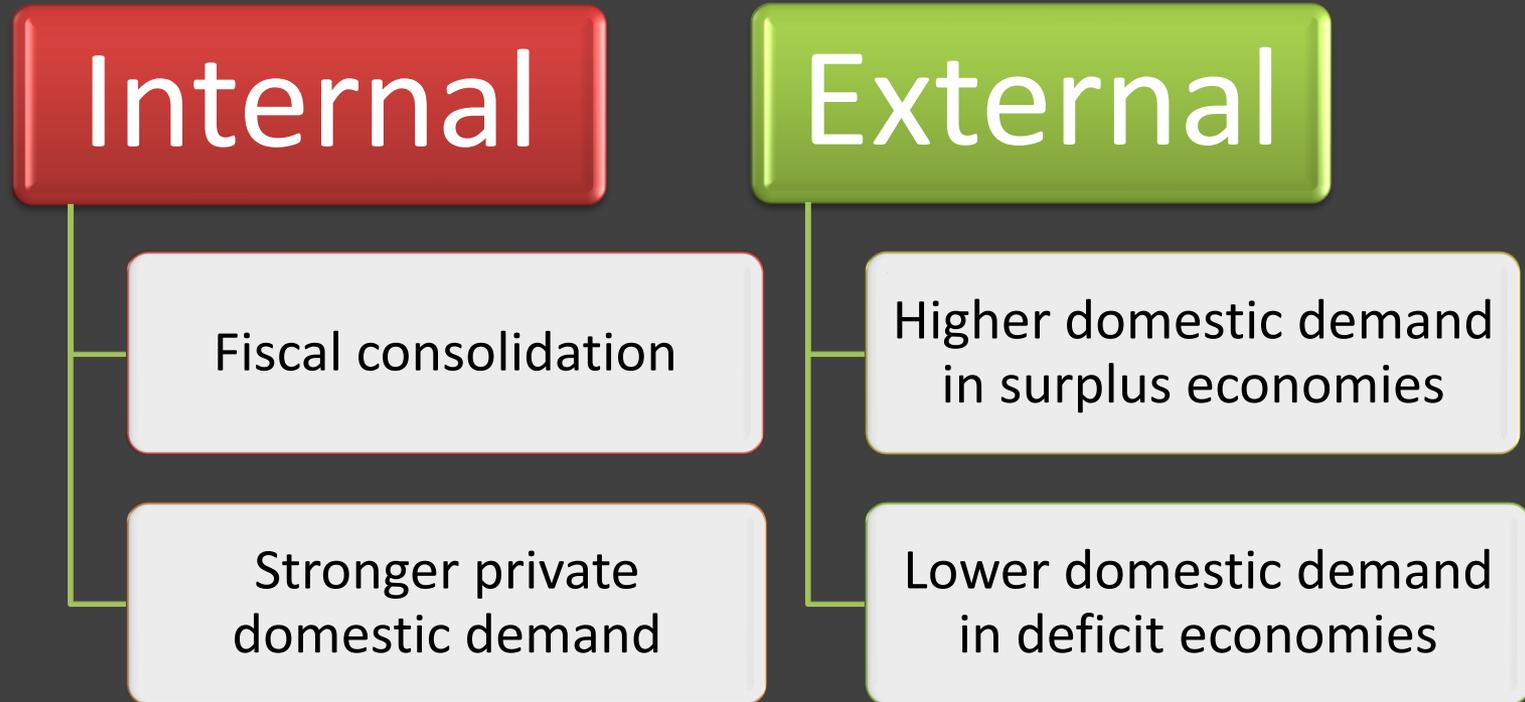


Credible medium-term fiscal consolidation plans

Liquidity provision and stabilization of issuance costs for banks and sovereigns

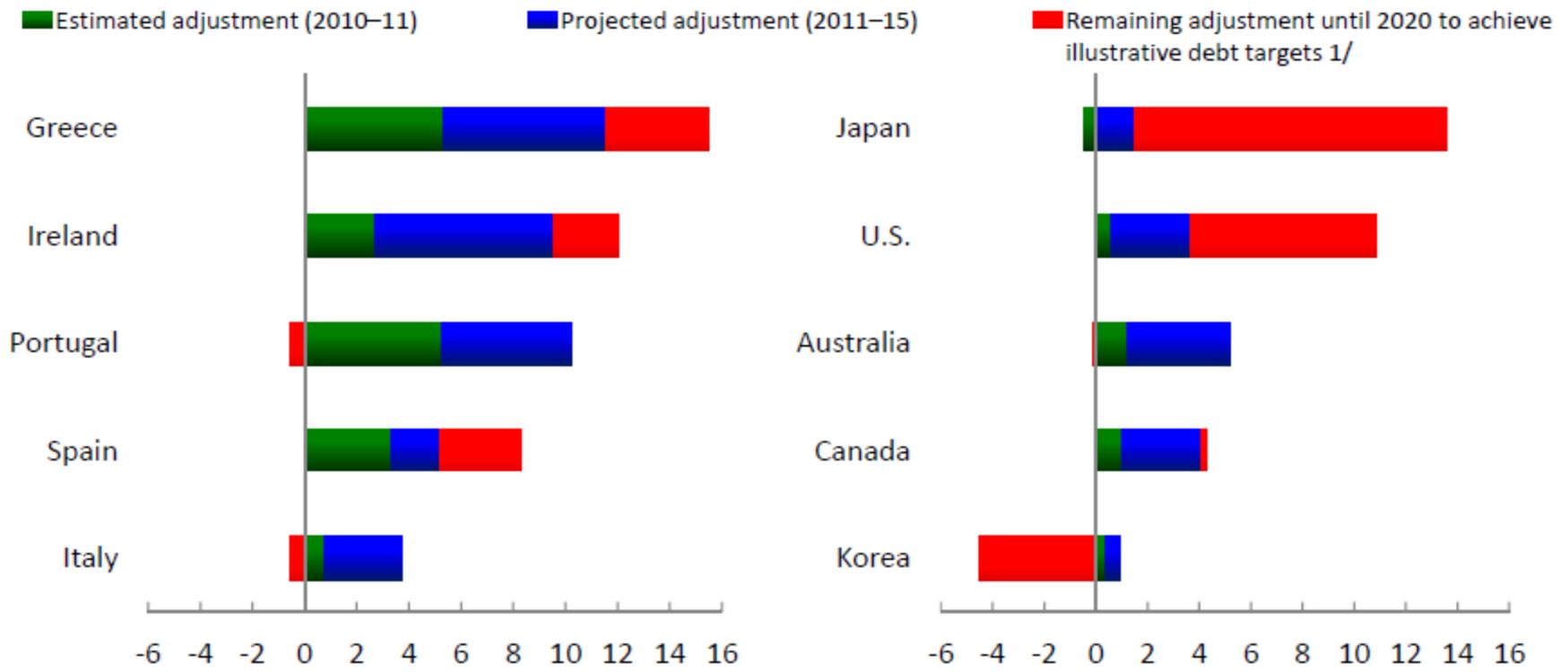
Rebuilding bank capital buffers

Two Rebalancing Acts



Fiscal Consolidation: Proceeding, But a Long Way to Go

Change in Cyclically-Adjusted Primary Balances
(percent of GDP)



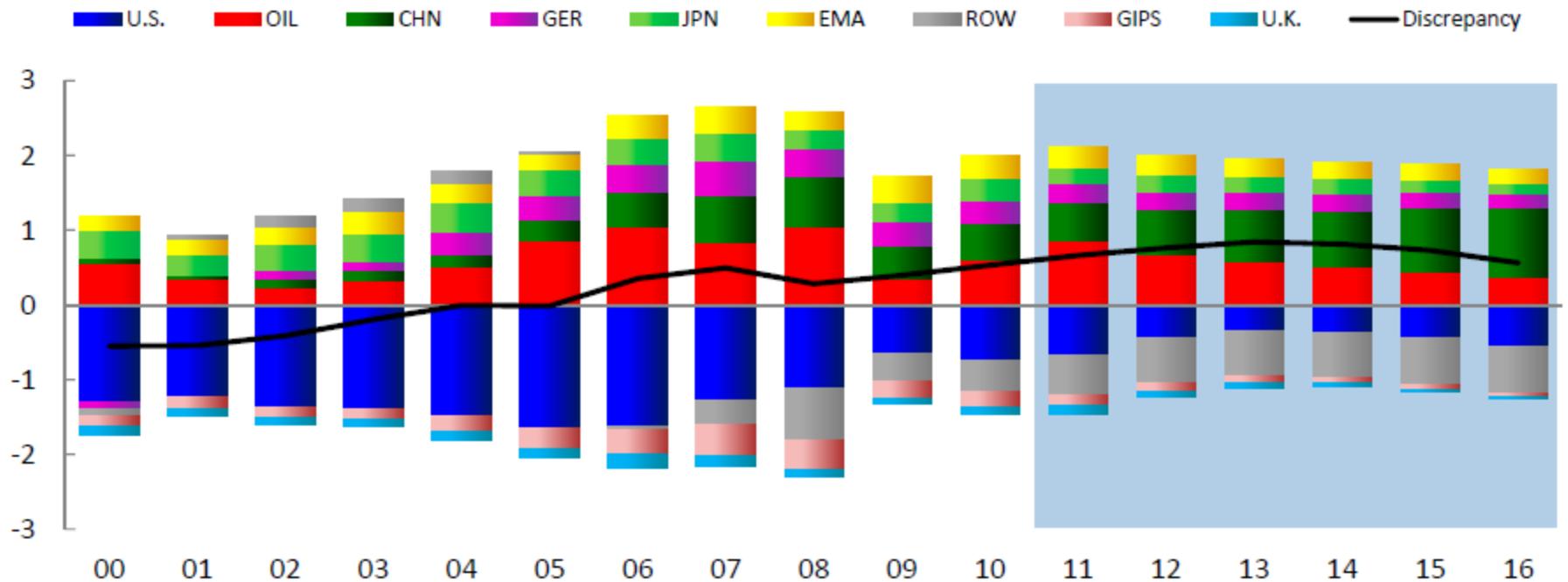
1/ Total required adjustment to reduce the gross debt ratio to 60 percent by 2030 (net debt target of 80 percent for Japan). After 2020, the primary balance must be maintained constant at the prevailing level until 2030.

Private Demand Weak in Advanced Economies

- Timid policies
- Slow bank balance sheet repair
- Sovereign debt concerns
- Low confidence
- Slow growth prospects
- Financial market stress
- Tighter financial conditions
- Mutually reinforcing concerns
- Particularly acute in Europe, but felt elsewhere as well

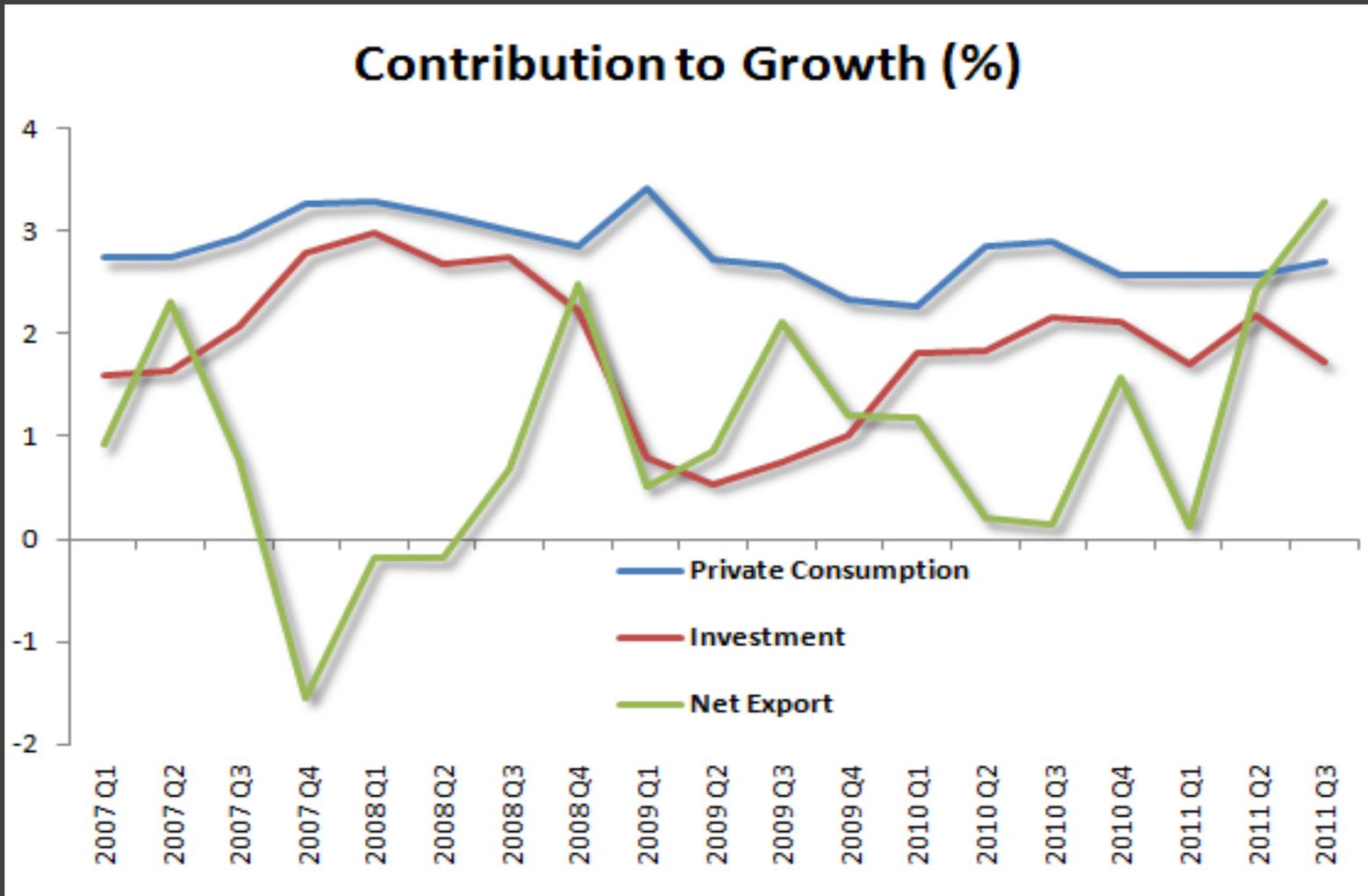
External Rebalancing Stalling

Global Imbalances 1/
(current account; percent of world GDP)



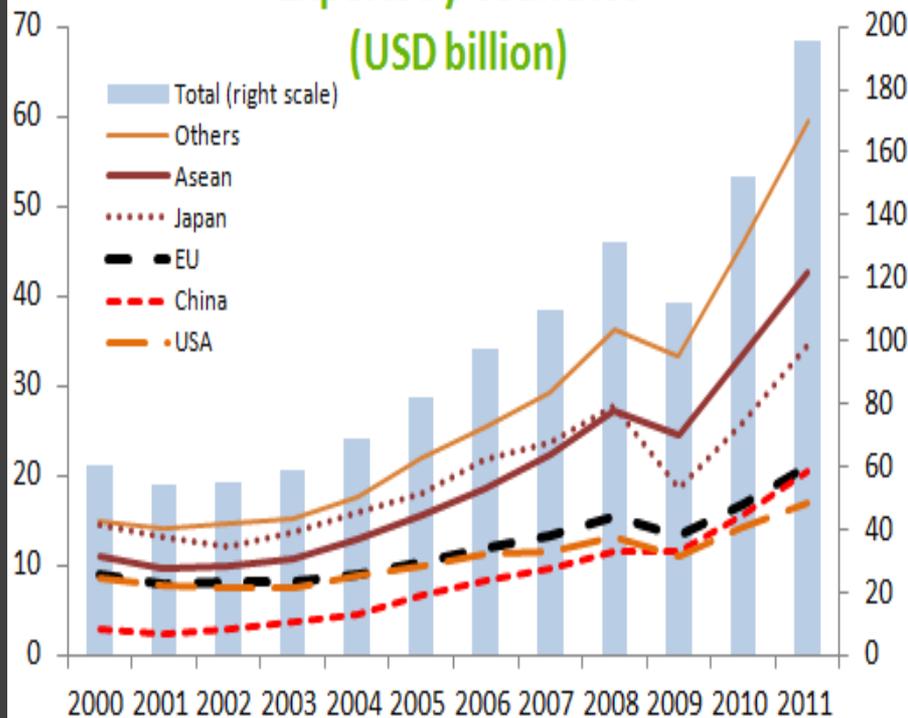
1/ OIL = Oil-exporting countries; EMA = Emerging Asia excluding China; ROW = Rest of the World; GIPS = Greece, Italy, Portugal, and Spain

Indonesia—Strong Short-term Growth Momentum

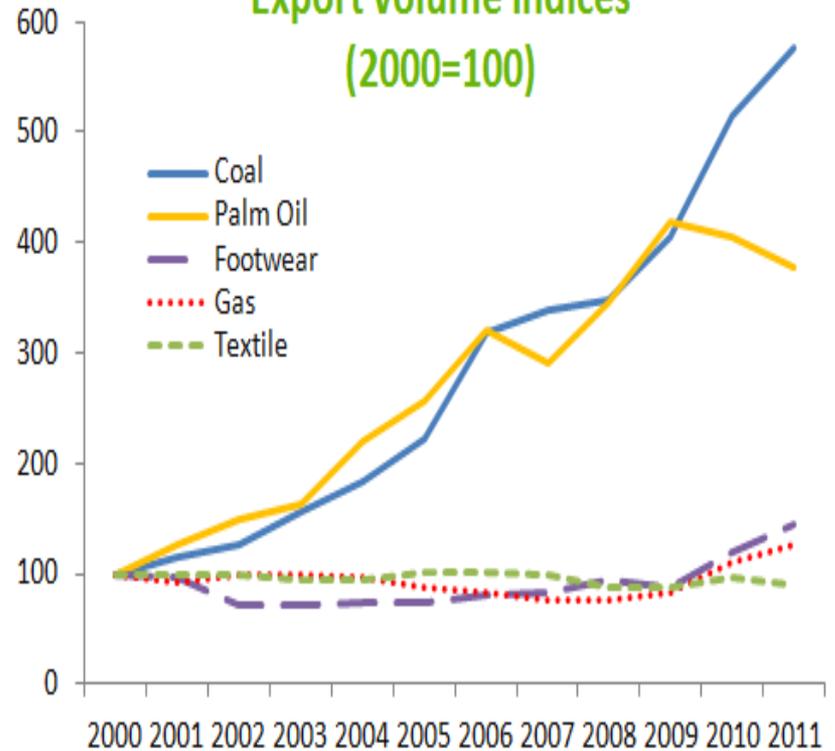


Strong Export Performance

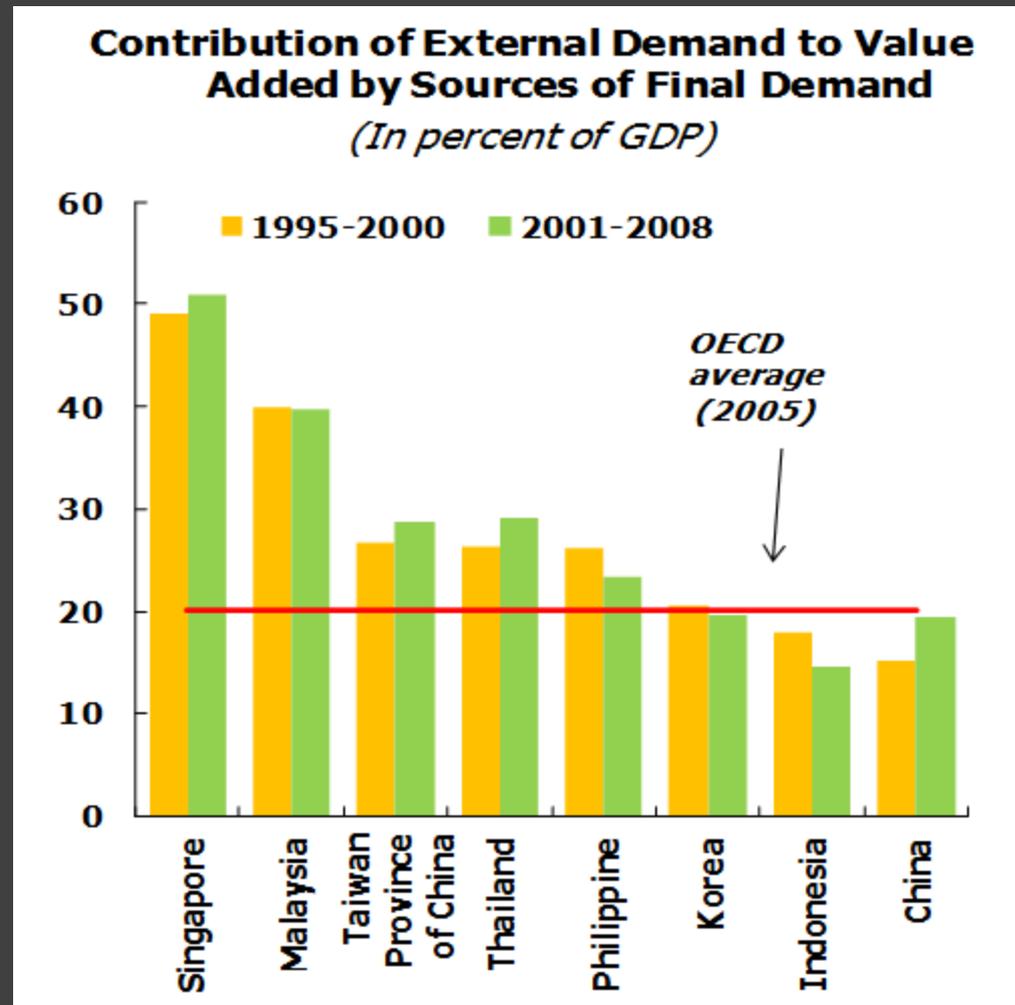
Exports by Countries (USD billion)



Export Volume Indices (2000=100)



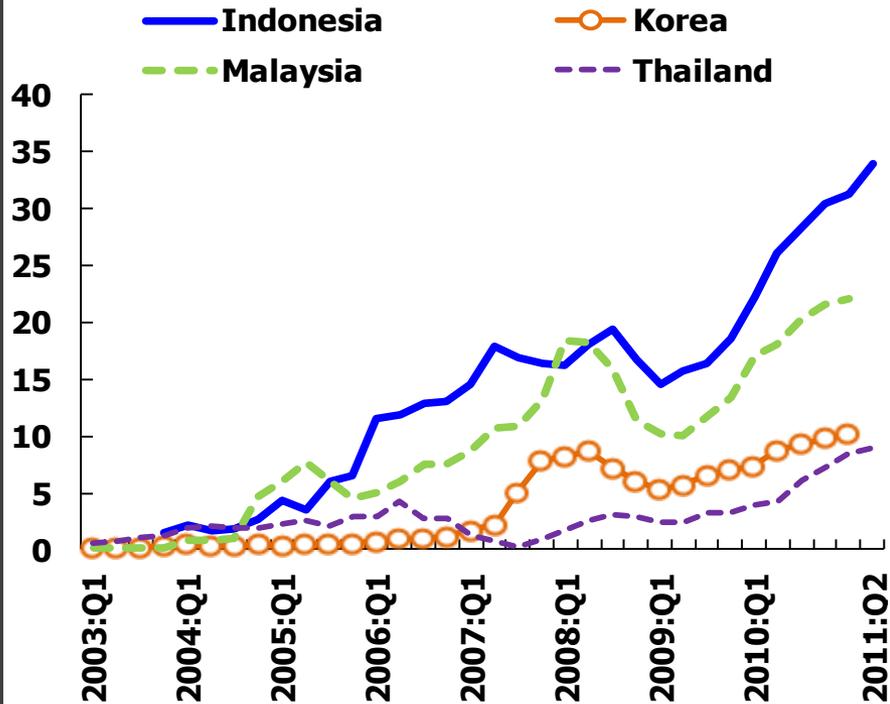
Indonesia Less Vulnerable to Trade Spillovers than Other Asian Countries



Low Exposure to European Banks, but Large Foreign Holdings of Government Debt

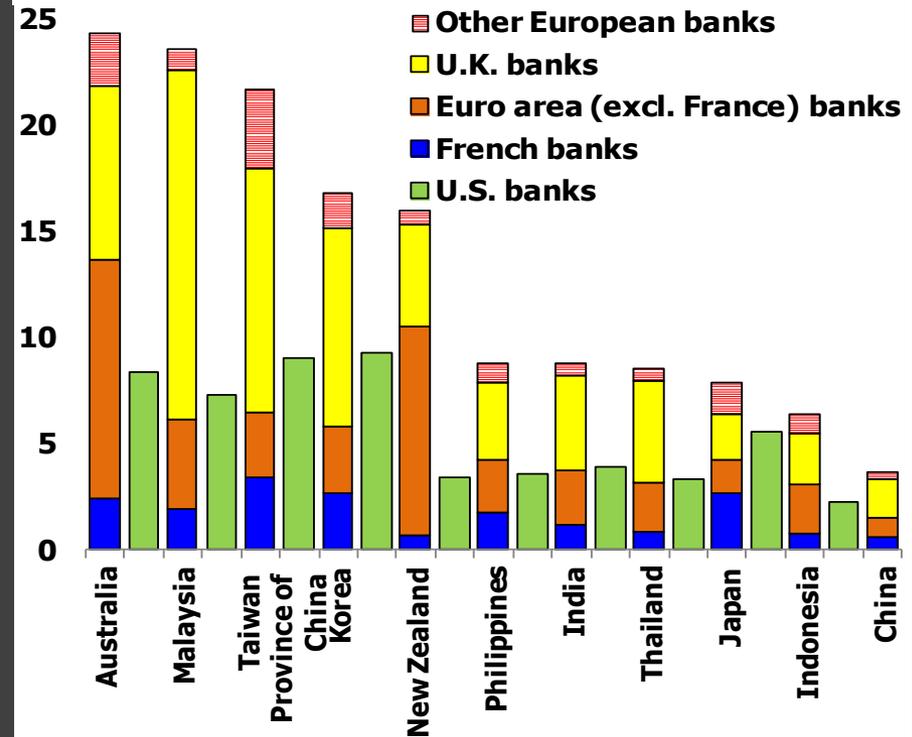
Selected Asia: Foreign Holdings in Local Currency Government Bonds

(In percent of total outstanding local currency government bond)



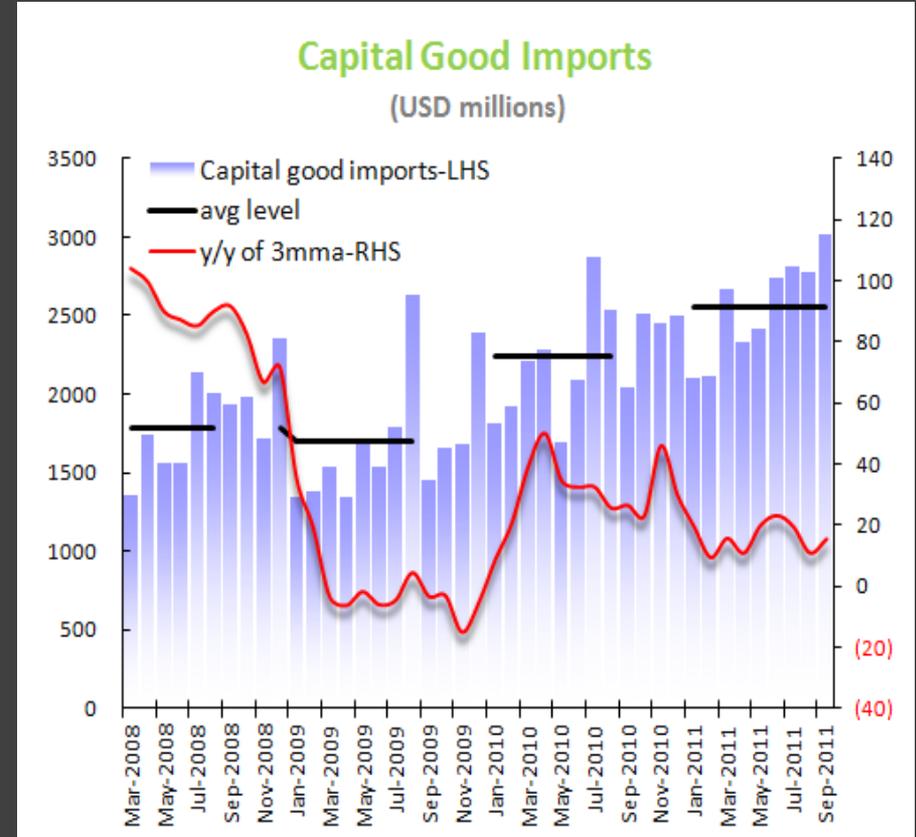
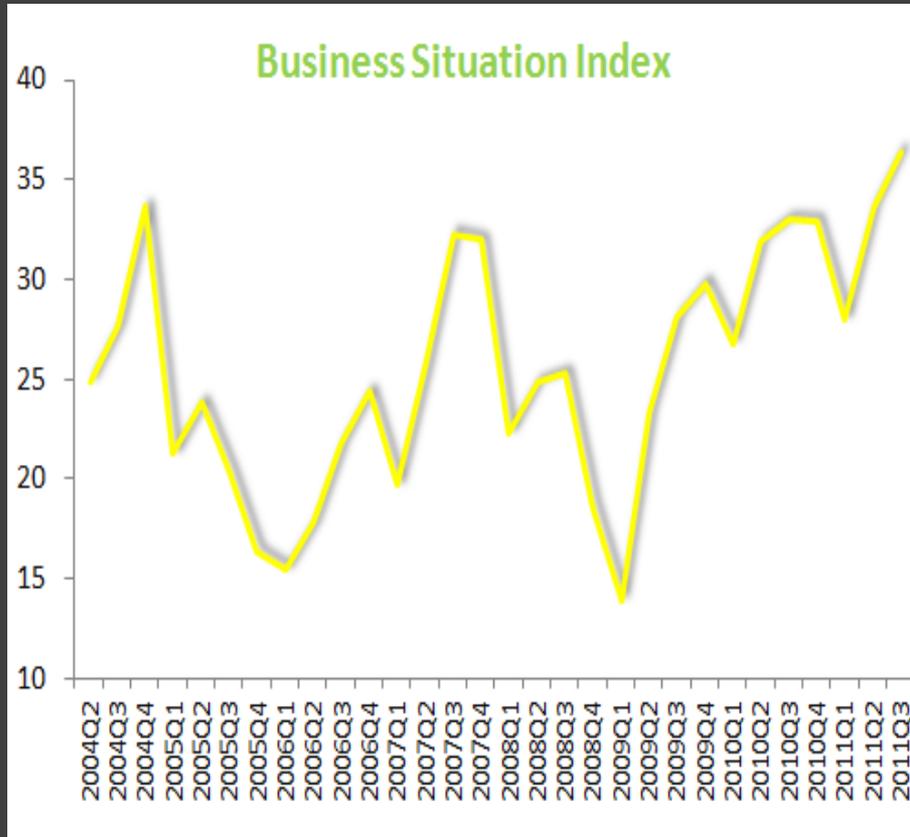
Consolidated Claims of European and U.S. Banks on Selected Asia

(In percent of GDP)



Note: Claims are on immediate borrower basis. Uses sum of quarterly GDP in U.S. dollar between 2010:Q2 and 2011:Q1 in the denominator.

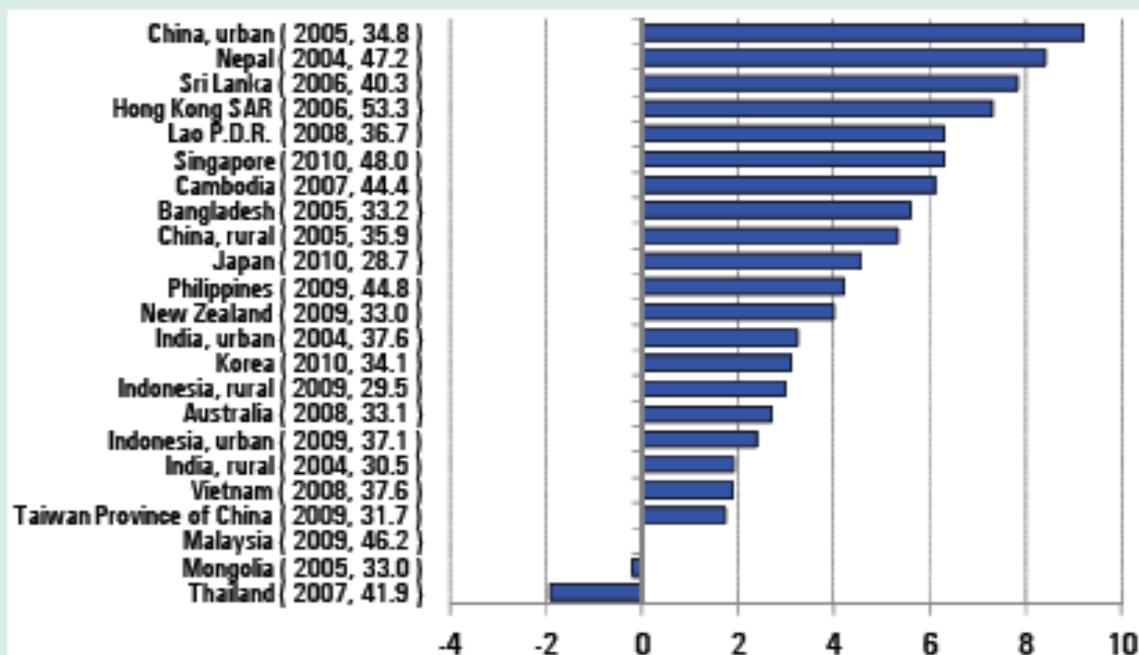
Concerns About Corruption, Slow Reforms, Lack of Infrastructure Development...but Business Confidence and Capital Investment Still High



Headline Poverty and Unemployment Rates Have Fallen but Inequality is Rising

Selected Asia: Change in Gini Index¹

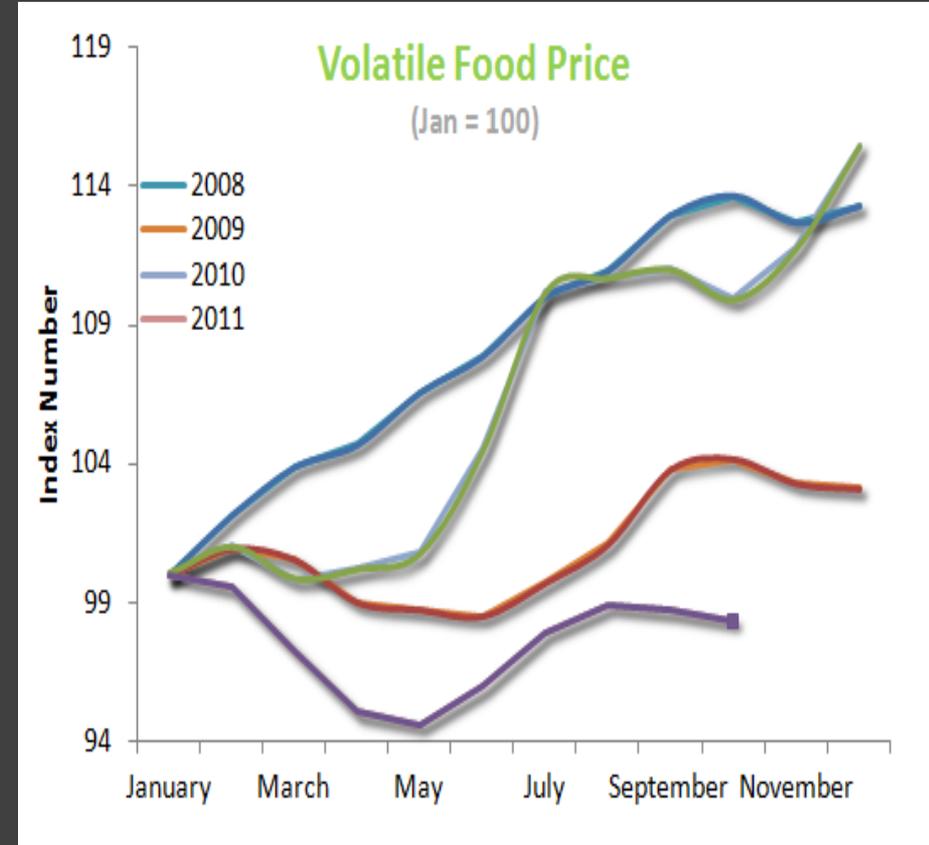
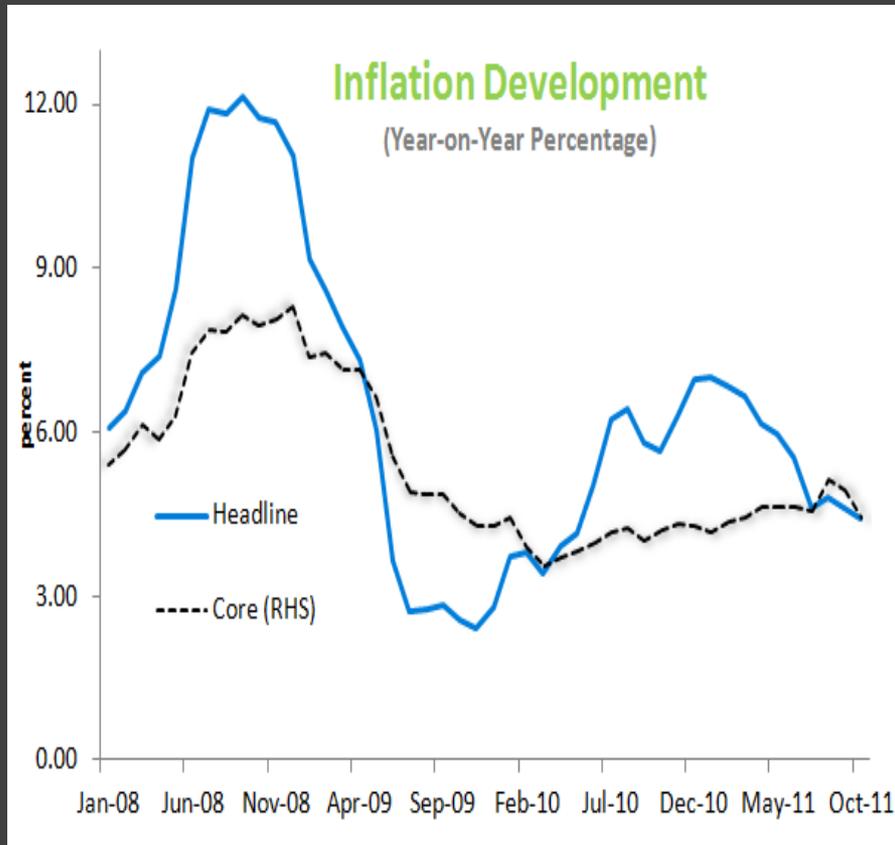
(In Gini points, since 1990)



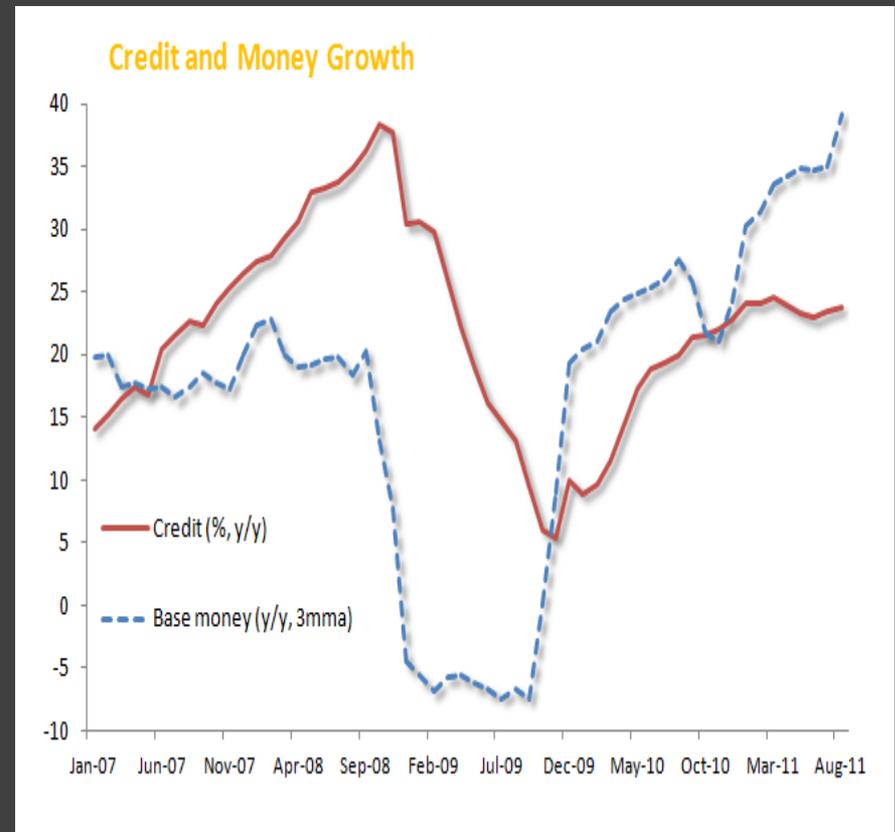
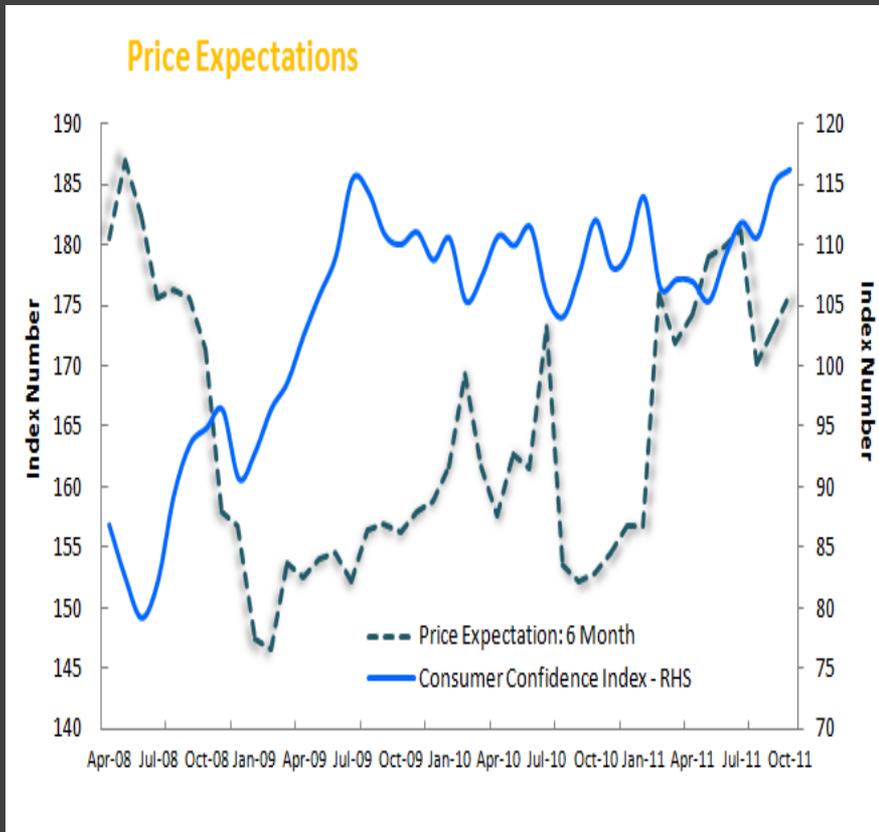
Sources: CEIC Data Company Ltd.; World Bank, *PovertyNet* database; UNU-WIDER, *World Income Inequality* database; Milanovic (2010); country authorities; and IMF staff calculations.

¹ In parentheses, the latest available year and corresponding Gini coefficients.

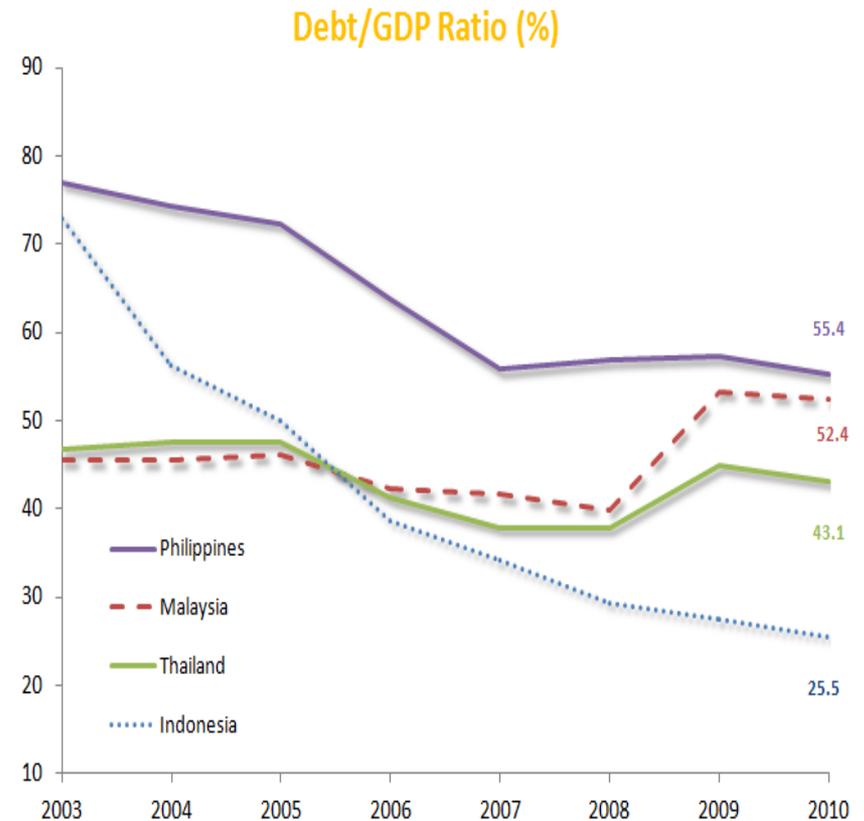
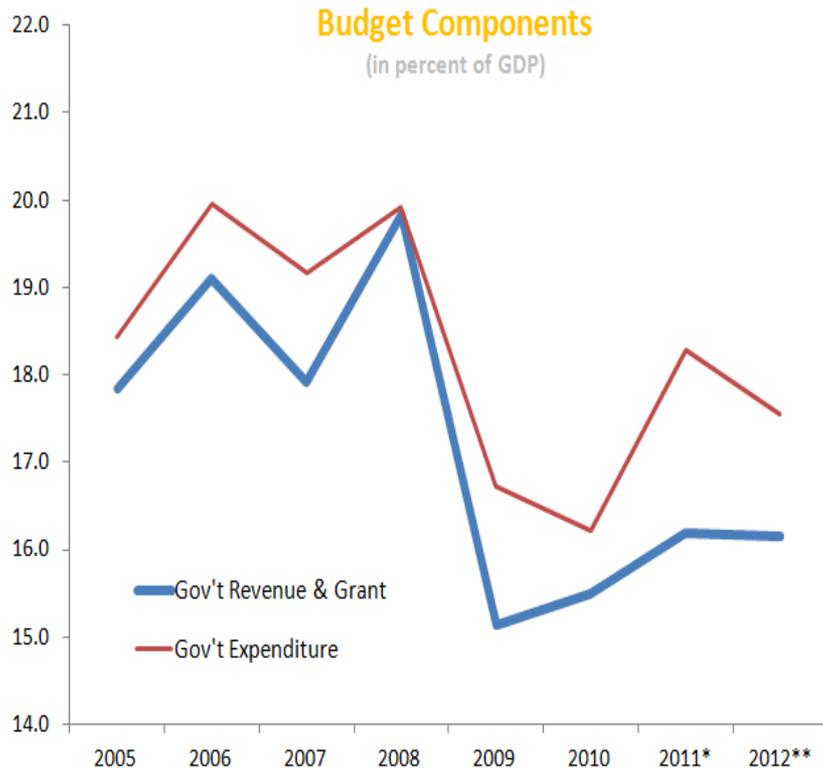
Headline Inflation Slows Because of Food Prices



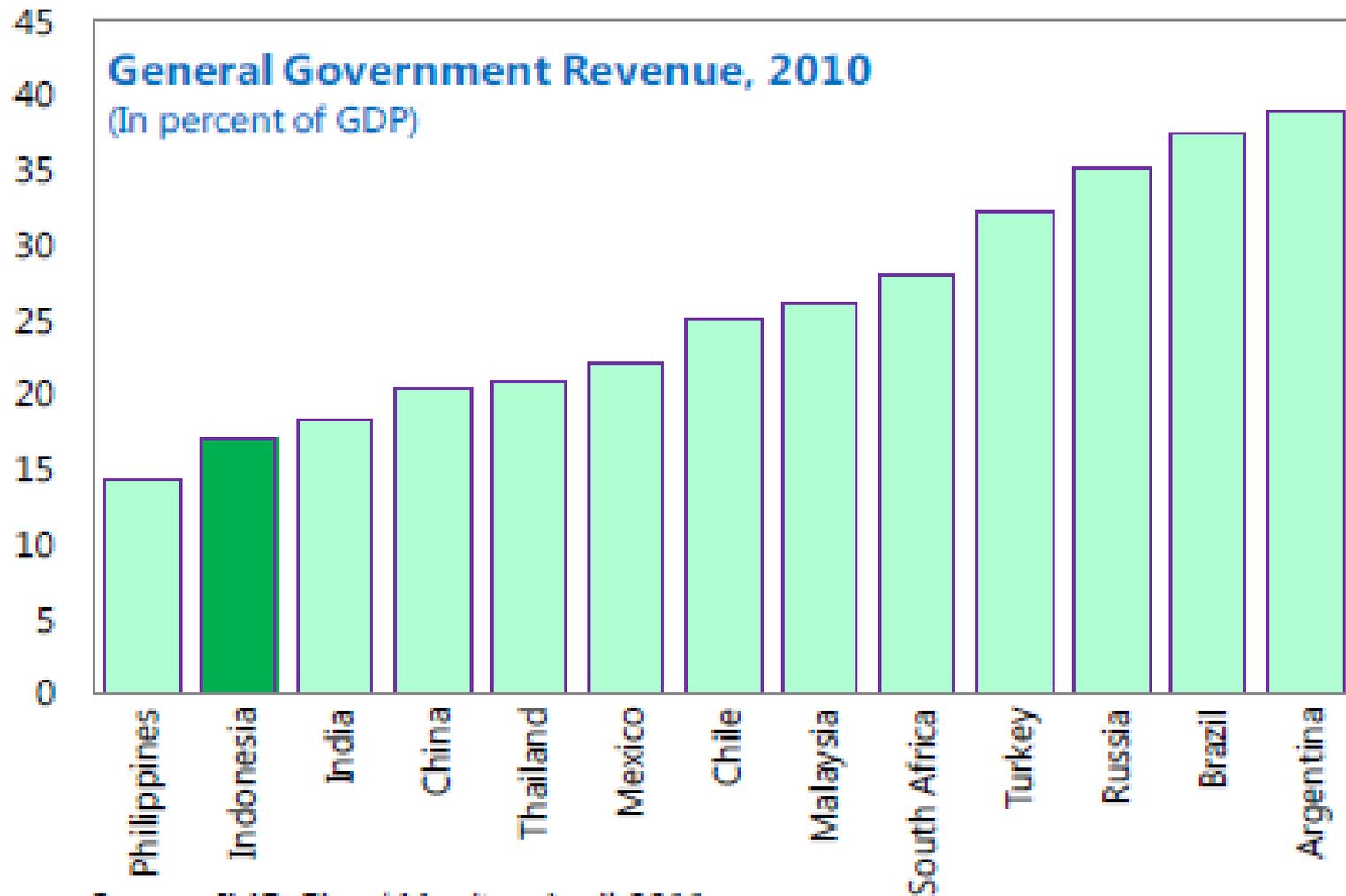
But Rising Price Expectations and Strong Credit Growth Implies Potential Inflationary Pressures



Fiscal Deficits and Public Debt Small by International Standards, and Financing Requirements Manageable



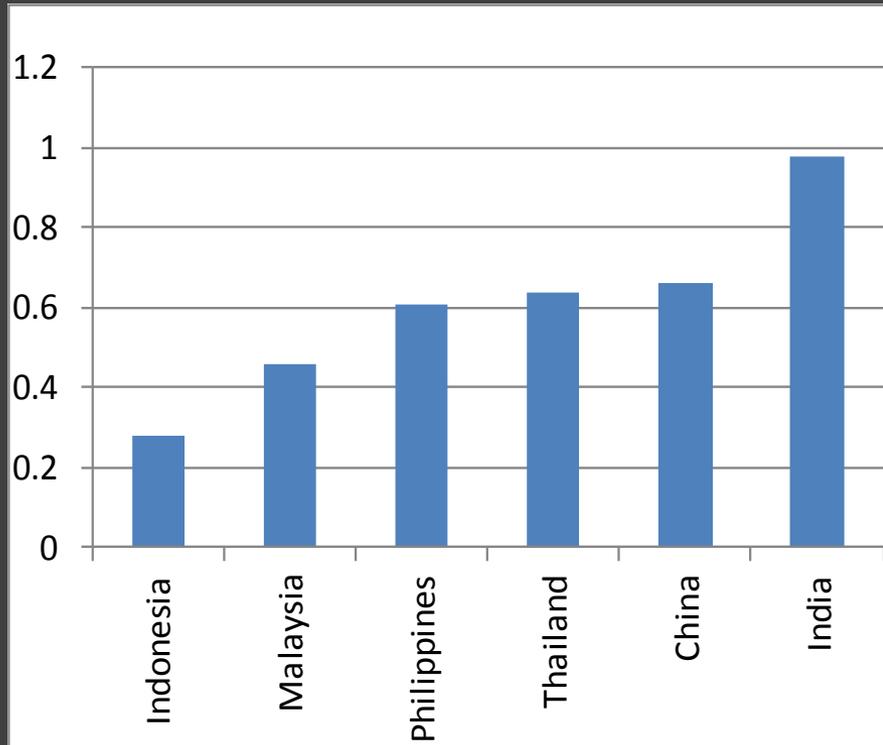
Tax Revenues are Very Weak



Source: IMF, *Fiscal Monitor*, April 2011

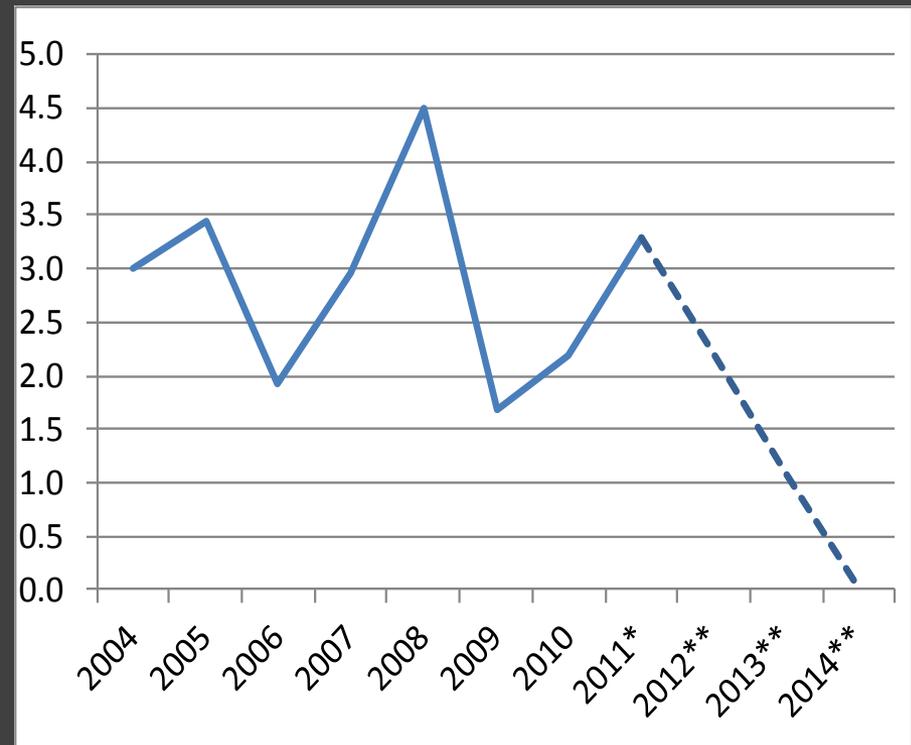
Fiscal Policy is Being Distorted by Rising Subsidies: Indonesia is Lagging Behind the Rest of the World in Price Adjustment

Ratio of premium gasoline price to world average



Pump price for super gasoline (USD per liter)

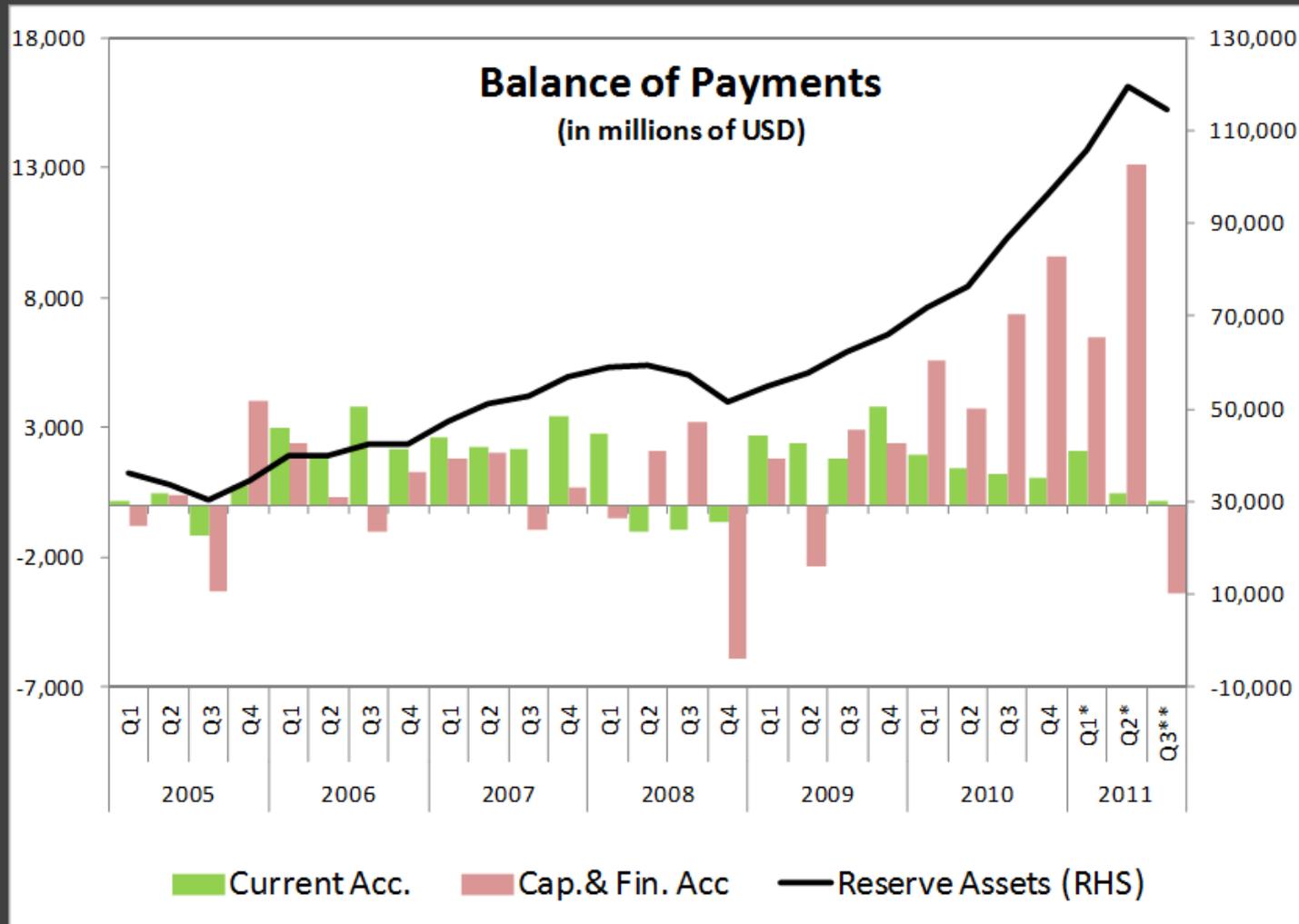
Energy subsidies as percent of GDP



* IMF staff projection

** Assuming elimination of subsidies by 2014

Build-up of Reserves Financed From Current and Capital Accounts



Conclusion

Global economy has entered dangerous phase but appropriate policies can still bring recovery and solid growth.

Indonesia can get through global turmoil with relatively less adverse impact, but will be affected.

Given the many and large advantages, Indonesia should not miss the opportunity to accelerate growth. This package of positive elements may not last long. Some key priorities:

- Manage the macroeconomic cycle
- Land acquisition bill
- Increased public infrastructure and successful pilot PPPs
- Strengthen safety nets (financial and social)

The IMF in Indonesia

www.imf.org

www.imf.org/external/country/IDN/rr/index.htm

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Terima Kasih