https://leadrshipfreak.files.wordpress.com/2012/08/turbulent-seas-2.jpg

mckinsey.com

ECONOMIC OUTLOOK 2017-2018: OPPORTUNITIES AND CHALLENGES

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22 August 2017

Part I
Conducive Global Environment

IMF raises global growth forecasts, gaining momentum—for now

IMF: "…" the global economic landscape started to shift in the second half of 2016. Developments since last summer indicate somewhat greater growth momentum coming into the new year in a number of important economies."

	2013	2014	2015	2016	2017*	2018*
World GDP growth	**3.4**	**3.4**	**3.4**	**3.1**	**3.5**	**3.6**
Advanced economies	1.4	1.8	2.1	1.7	2.0	1.9
- United States	2.2	2.4	2.6	1.6	2.1	2.1
- Euro area	-0.4	0.9	2.0	1.7	1.9	1.7
- Japan	1.6	0.0	1.2	1.0	1.3	0.6
Developing economies	**5.0**	**4.6**	**4.2**	**4.1**	**4.6**	**4.8**
- China	7.7	7.3	6.9	6.7	6.7	6.4
- India	6.9	**7.3**	**7.9**	**6.8**	**7.2**	**7.7**
- Asean-5	5.1	**4.6**	**4.8**	**4.9**	**5.1**	**5.2**
Indonesia	**5.6**	**5.0**	**4.8**	**5.0**	**5.1**	**5.3**
World trade volume growth	3.3	**3.4**	**2.7**	**2.2**	**4.0**	**3.9**

* Projection.
Sources: IMF, *World Economic Outlook April 2014* and *October 2016;* and *World Economic Outlook Update, July 2017.*

Turning point?

Sources: Haver Analytics; and RWI Economic Research Institute.
Note: The index is based on data of 81 world container ports covering approximately 60 percent of worldwide container handling. The December number is a flash estimate.

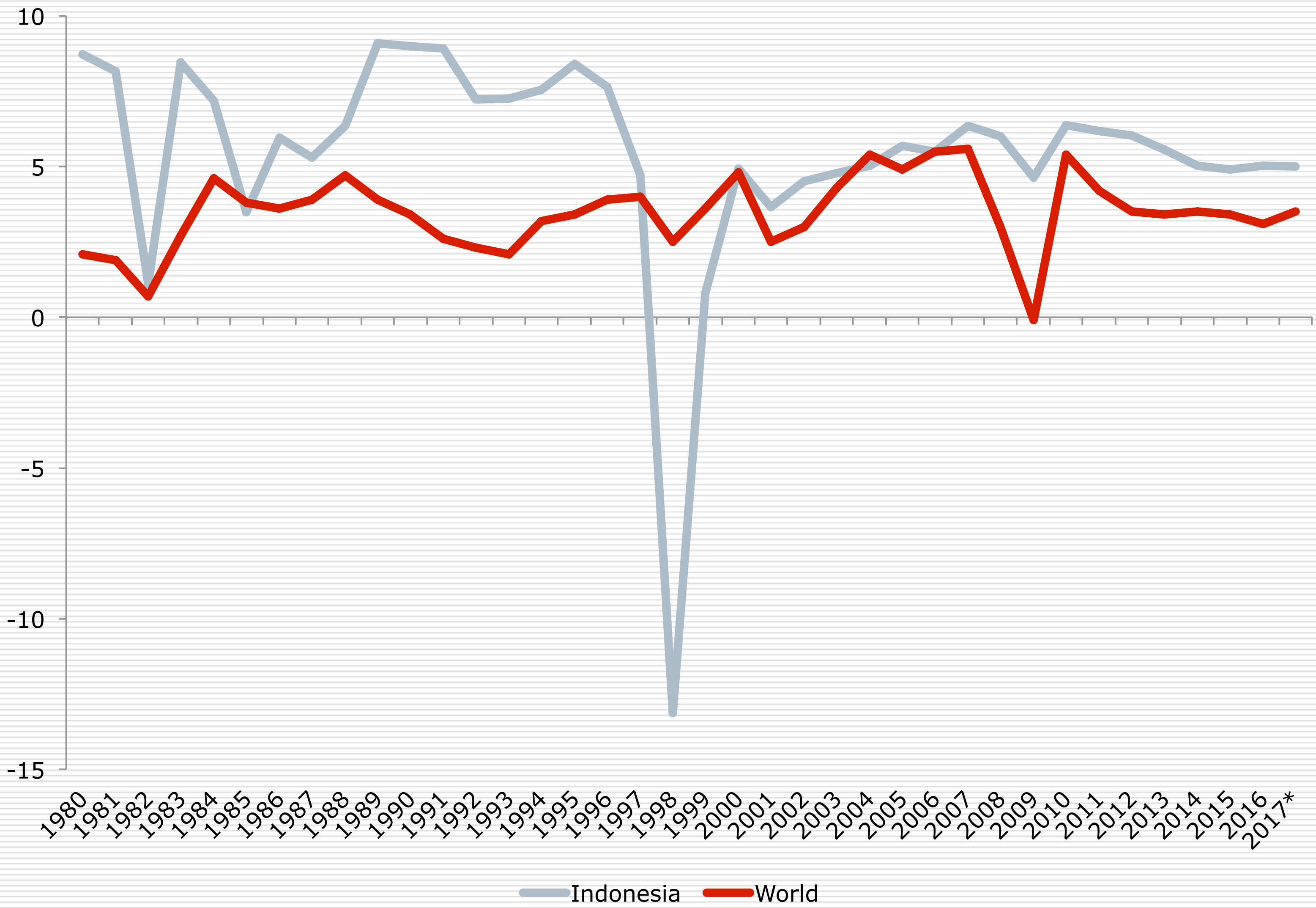
- Global manufacturing has been strengthening since last summer, along with a pickup in shipment and trade.
- Emerging and developing economies, led by China and India, continue to contribute more than three-quarters of total global GDP growth in 2017. Adding to this is a projected normalization of conditions in Brazil and Russia, which have been facing deep recessions.
- stronger-than-expected economic activity in the euro area, the United Kingdom, and Japan.

Source: https://blog-imfdirect.imf.org/2017/03/14/maintaining-the-positive-momentum-of-the-global-economy/

Pola pertumbuhan ekonomi Indonesia dan ekonomi dunia

- Kala pertumbuhan ekonomi dunia melambat, pertumbuhan ekonomi Indonesia cenderung melambat pula tetapi dengan tingkat yang lebih kecil. Dengan kata lain, perlambatan pertumbuhan ekonomi Indonesia tak separah perlambatan ekonomi dunia.
- Ketika perekonomian dunia mengalami resesi (pertumbuhan negatif), perekonomian Indonesia masih bisa menikmati pertumbuhan positif.
- Namun, jika perekonomian dunia pulih atau mengakselerasi, perekonomian Indonesia pun cenderung meningkat tetapi dengan kecepatan yang lebih rendah. Dengan kata lain pemulihan di Indonesia lebih lama dibandingkan dengan pemulihan ekonomi dunia.

Pola pertumbuhan Indonesia vs dunia



Sources: BPS_Statistics Indonesia and IMF

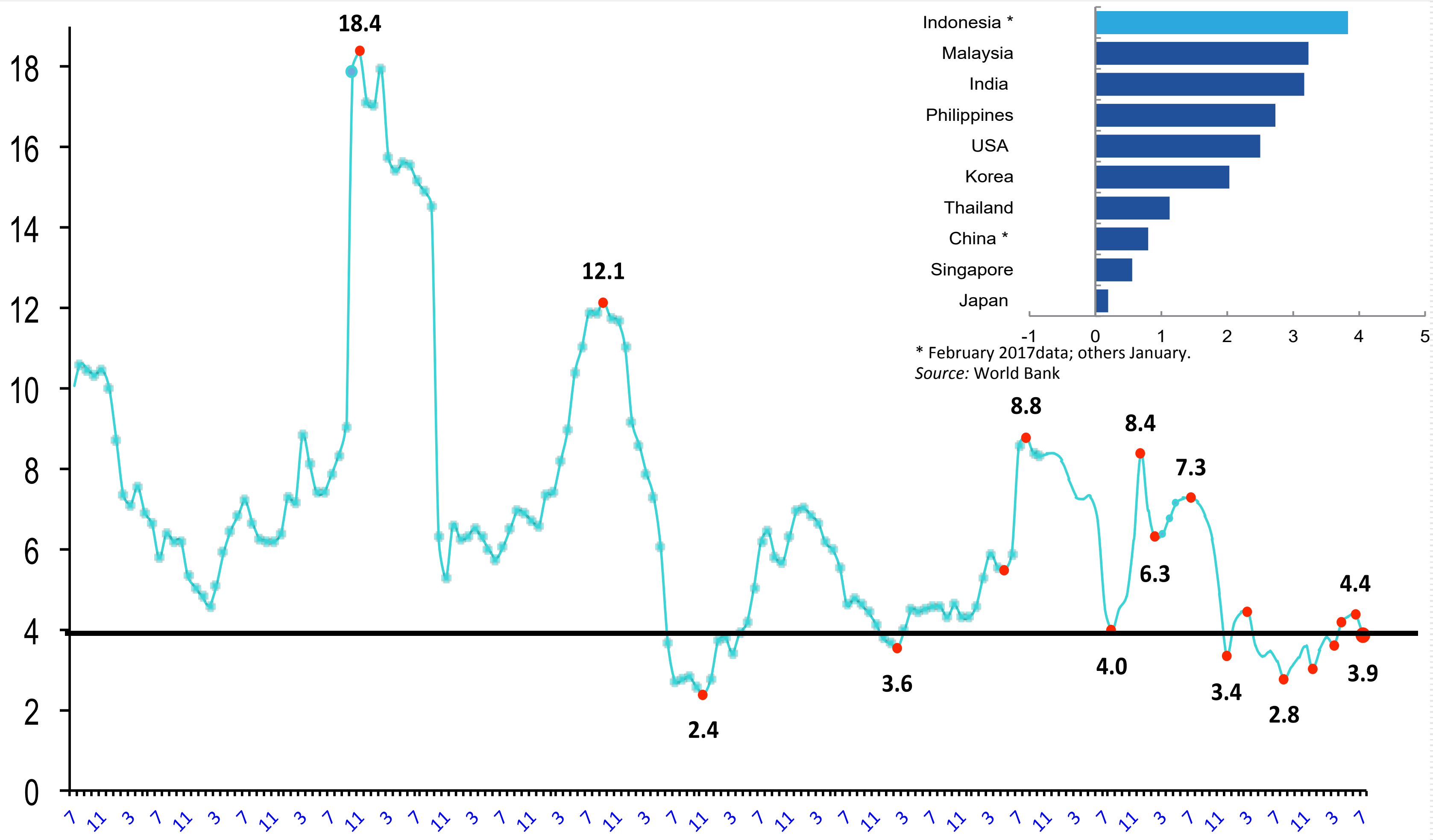
Part II

Stable Macroeconomic Indicators, but ...

The inflation rate in 2017 is expected to rise to about 4.0%-4.5%

BI target:4% ± 1%
Calender year = 1.21%

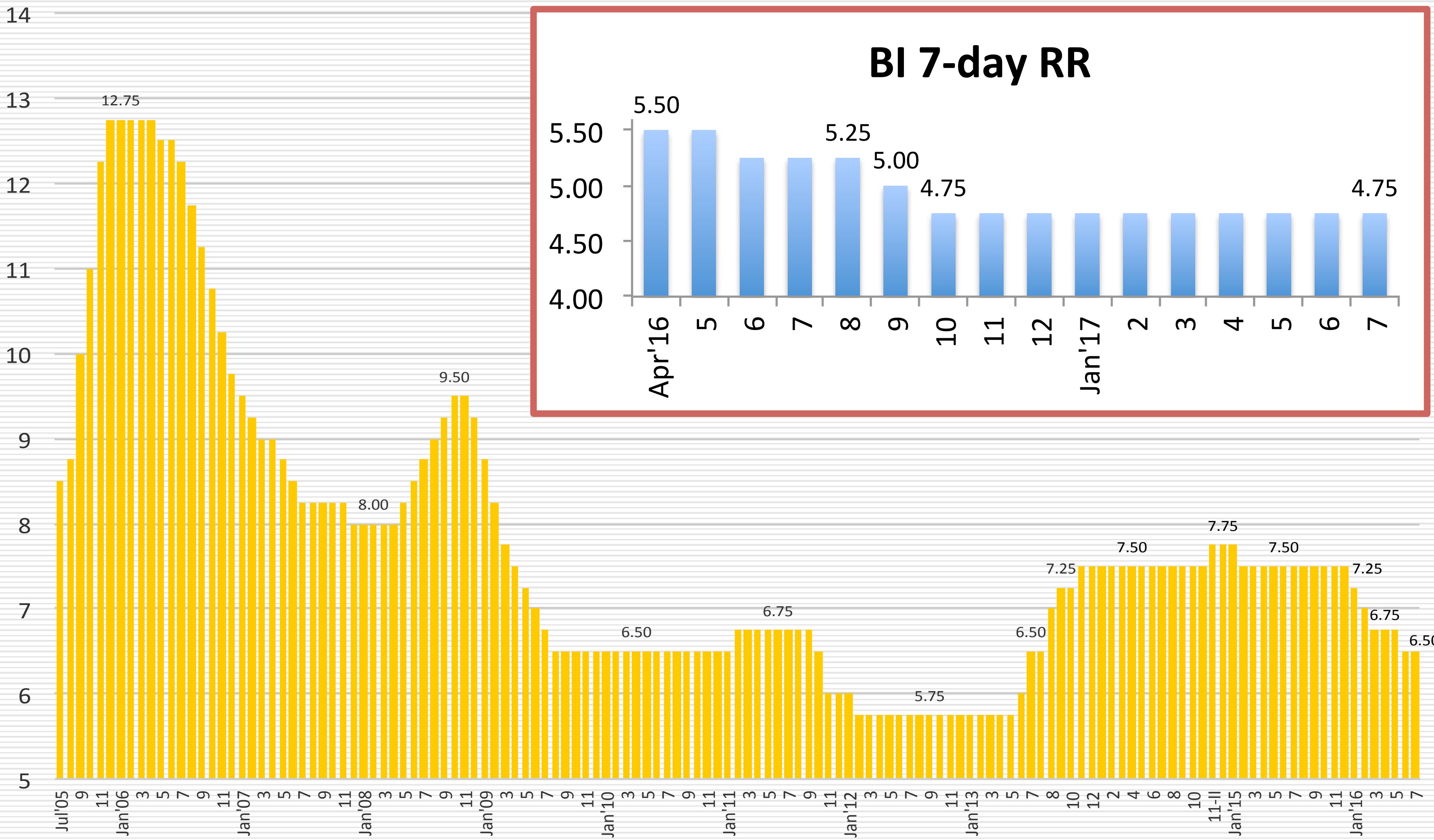
Inflation comparison across countries (growth, yoy, %)



* February 2017data; others January.
Source: World Bank

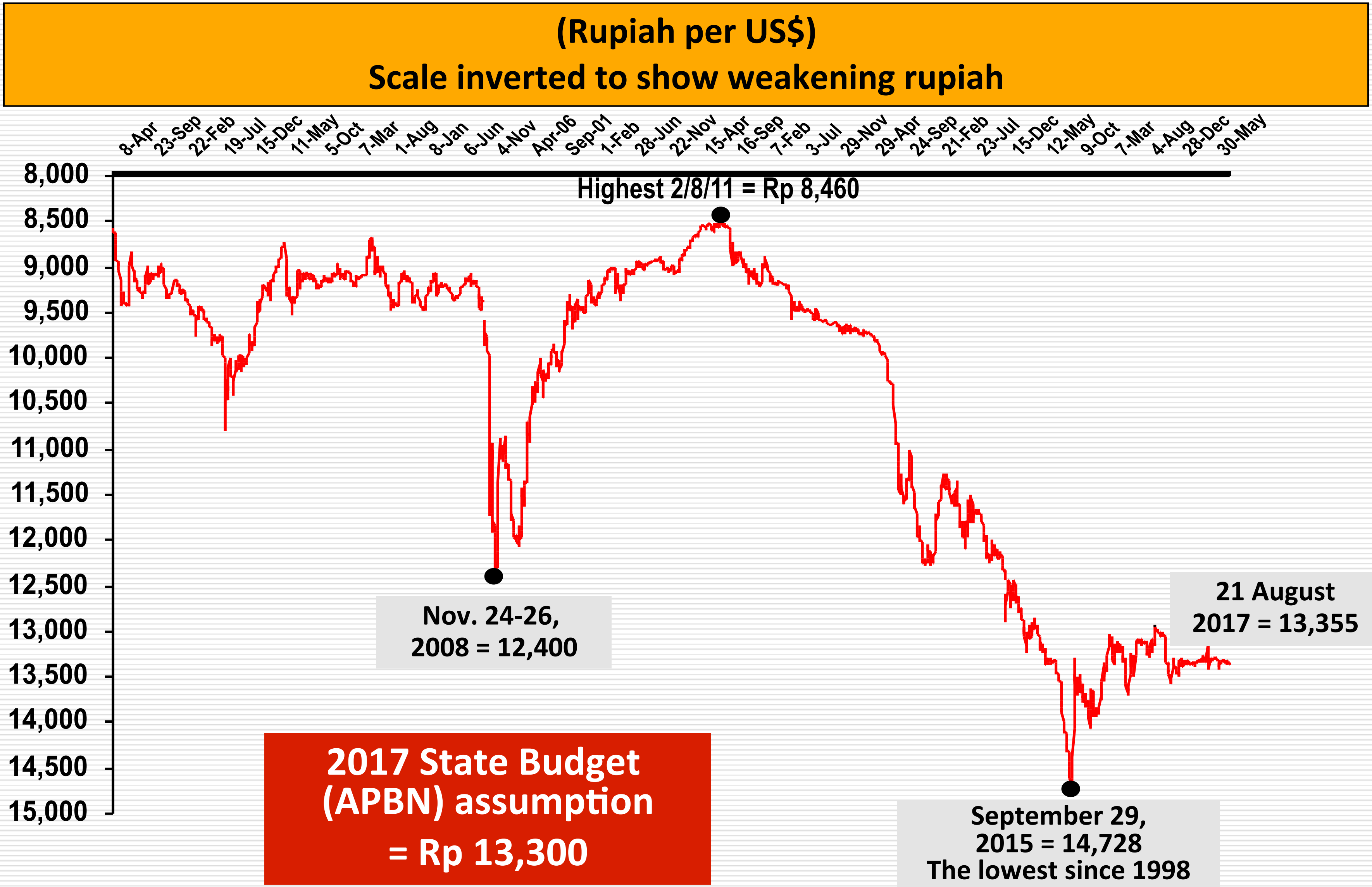
Source: BPS-Statistics Indonesia.

BI 7-Day Repo Rate has been 10 months perched at the level of 4.75%



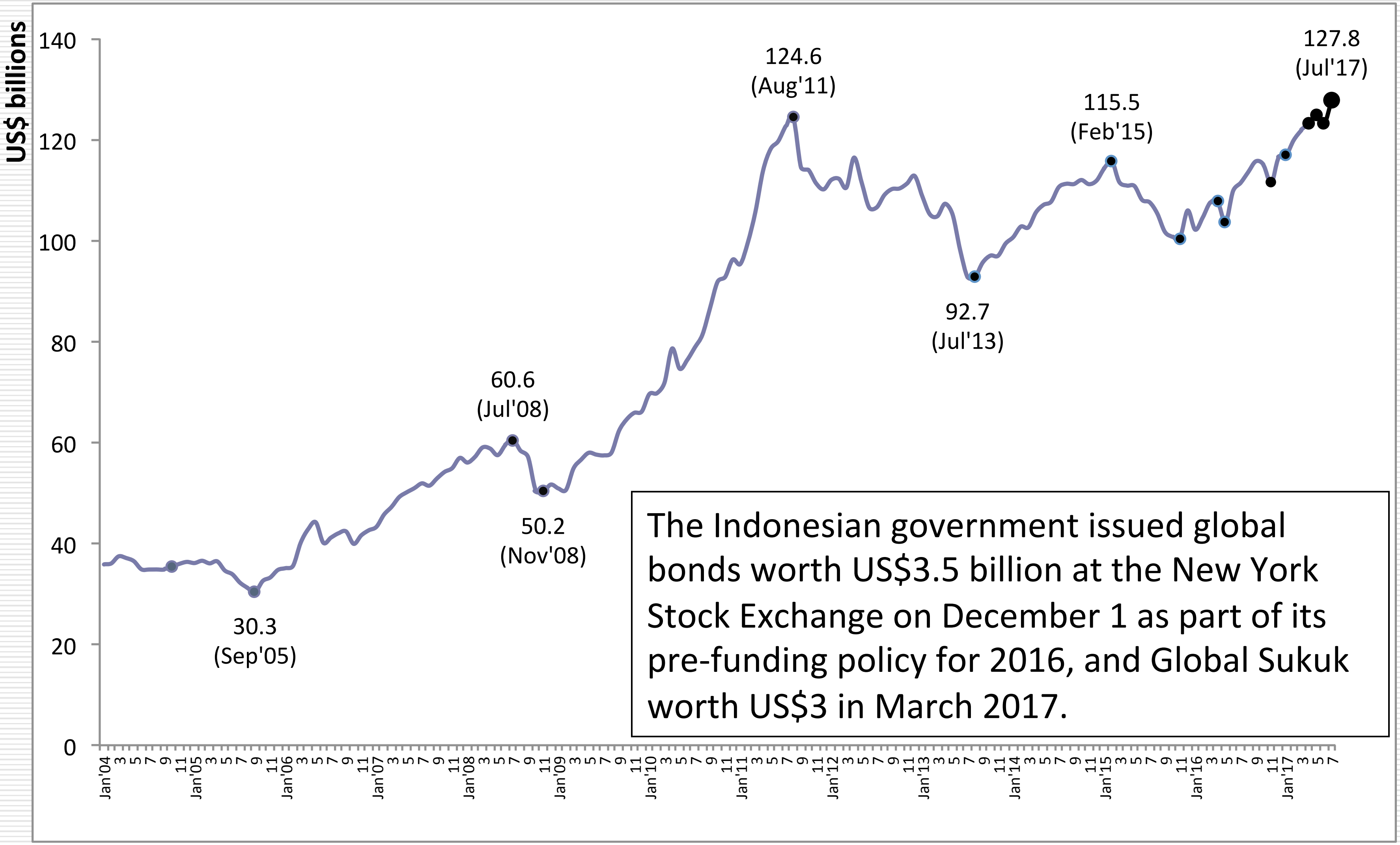
Source: Bank Indonesia

The longest deteriorating period of Rupiah since 8/2011, hit the lowest level since 1998



Source: Bank Indonesia

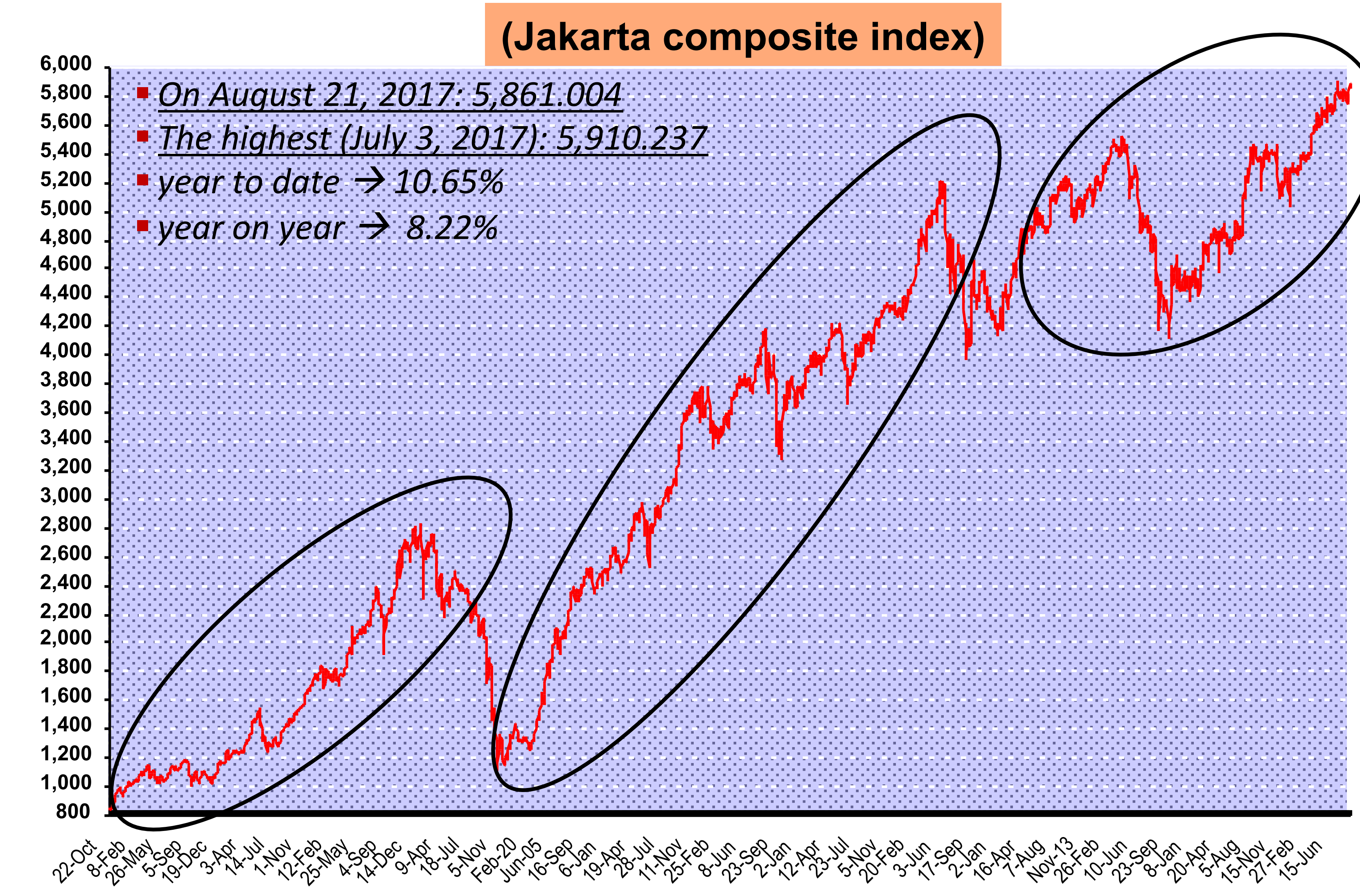
Foreign exchange reserves increased US$16.3 billion in the last 8 months



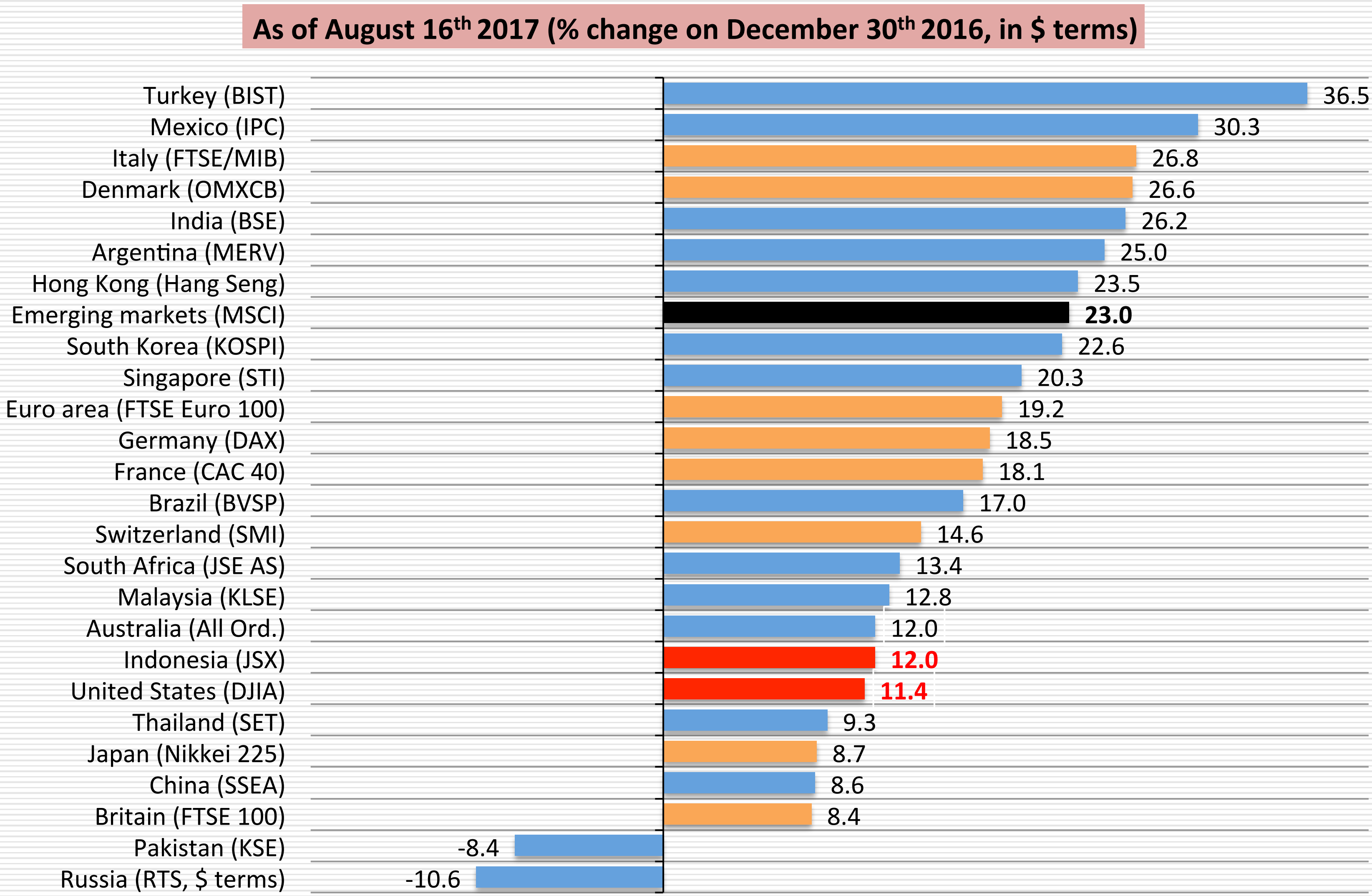
The Indonesian government issued global bonds worth US$3.5 billion at the New York Stock Exchange on December 1 as part of its pre-funding policy for 2016, and Global Sukuk worth US$3 in March 2017.

Source: Bank Indonesia.

Stock index had a new record 12 times in 2015, and 17 times in since 17 March 2017



Global stock markets: since early 2017 Indonesia left behind among emerging markets



Source: The Economist (http://www.economist.com/news/economic-and-financial-indicators/21693195-markets).

Getting to the root of the problem: balance of payments (US$ million)

	2014	2015	2016	2016*	2017*	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17
I. CURRENT ACCOUNT	**-27,510**	**-17,697**	-16,769	-9,897	**-7,326**	**-4,708**	**-5,189**	**-4,974**	**-1,897**	**-2,363**	**-4,963**
A. Goods, net (Trade account)	6,983	14,049	15,437	6,401	10,434	2,648	3,753	3,923	5,112	5,646	4,788
1. Exports, f.o.b.	175,293	149,124	144,445	69,324	79,917	33,039	36,285	34,891	40,229	40,760	39,157
2. Imports, f.o.b.	-168,310	-135,076	-129,008	-62,924	-69,483	-30,391	-32,533	-30,967	-35,117	-35,114	-34,369
B. Services, net	-10,010	-8,697	-6,964	-3,506	-3,557	-1,122	-2,384	-1,530	-1,928	-1,257	-2,300
C. Primary Income, net	-29,703	-28,379	-29,685	-15,194	-16,307	-7,439	-7,755	-8,343	-6,148	-7,769	-8,538
D. Secondary Income, net	5,220	5,508	4,444	2,401	2,111	1,205	1,196	976	1,067	1,016	1,095
II. CAPITAL ACCOUNT	**27**	**17**	41	6	**5**	**1**	**5**	**6**	**29**	**0**	**5**
III. FINANCIAL ACCOUNT	**44,916**	**16,843**	28,721	11,007	**13,826**	**4,098**	**6,909**	**9,856**	**7,858**	**7,969**	**5,857**
1. Direct investment	14,733	10,704	15,943	6,117	7,330	2,786	3,331	6,519	3,308	2,755	4,575
2. Portfolio investment	26,067	16,183	18,995	12,742	13,993	4,438	8,304	6,563	-309	6,571	7,422
3. Financial derivatives	-156	20	-9	-47	-47	-22	-25	-28	66	-72	25
4. Other investment	4,272	-10,064	-6,209	-7,804	-7,449	-3,104	-4,700	-3,198	4,793	-1,285	-6,164
IV. NET ERRORS & OMISSIONS	**-2,184**	**-439**	96	760	**-1,253**	**323**	**437**	**820**	**-1,484**	**-1,092**	-161
V. RESERVES & RELATED ITEMS	**-15,249**	**1,098**	-12,089	-1,875	**-5,253**	**287**	**-2,162**	**-5,708**	**-4,505**	**-4,514**	-739

* First semester.
Source: Bank Indonesia.

BI Governor misleading statement: portfolio investment and FDI are, instead, pouring in

Foreign direct investment (FDI), portfolio investment, and other investment, net, US$ millions

	FDI	Portfolio	Subtotal	Other investment*	Total
2008	**3,413**	**1,764**	**5,177**	**-7,309**	**-2,126**
2009	**2,628**	**10,336**	**12,964**	**-8,208**	**4,756**
2010	**11,106**	**13,202**	**24,308**	**2,168**	**26,571**
2011	**11,528**	**3,806**	**15,334**	**-1,732**	**13,534**
2012	**13,716**	**9,206**	**22,922**	**1,935**	**24,858**
2013	**12,170**	**10,873**	**23,043**	**-1,117**	**21,926**
Q1	3,261	3,820	7,081	-7,046	35
Q2	3,323	3,793	7,116	1,573	8,669
Q3	5,415	1,513	6,928	-2,359	4,569
Q4	171	1,746	1,917	6,715	8,632
2014	**14,733**	**26,067**	**40,801**	**4,116**	**44,916**
Q1	2,012	8,730	10,742	-4,279	6,463
Q2	4,245	8,046	12,291	2,054	14,345
Q3	5,796	7,409	13,205	1,365	14,570
Q4	2,681	1,882	4,563	4,977	9,538
2015	**10,704**	**16,183**	**26,887**	**-10,045**	**16,842**
Q1	2,319	8,509	10,828	-5,217	5,611
Q2	3,982	5,528	9,510	-7,513	1,997
Q3	1,608	-2,188	-580	640	60
Q4	2,795	4,333	7,128	2,045	9,173
2016	**15,943**	**18,995**	**34,938**	**-6,218**	**28,720**
Q1	2,786	4,438	7,224	-3,126	4,098
Q2	3,331	8,304	11,635	-4,725	6,910
Q3	6,519	6,563	13,082	-3,226	9,856
Q4	3,308	-309	2,999	4,859	7,858
2017	**7,330**	**13,993**	**21,323**	**-7,496**	**13,827**
Q1	2,755	6,571	9,326	-1,357	7,969
Q2	4,575	7422	11,997	-6,139	5,858

Source: Bank Indonesia.

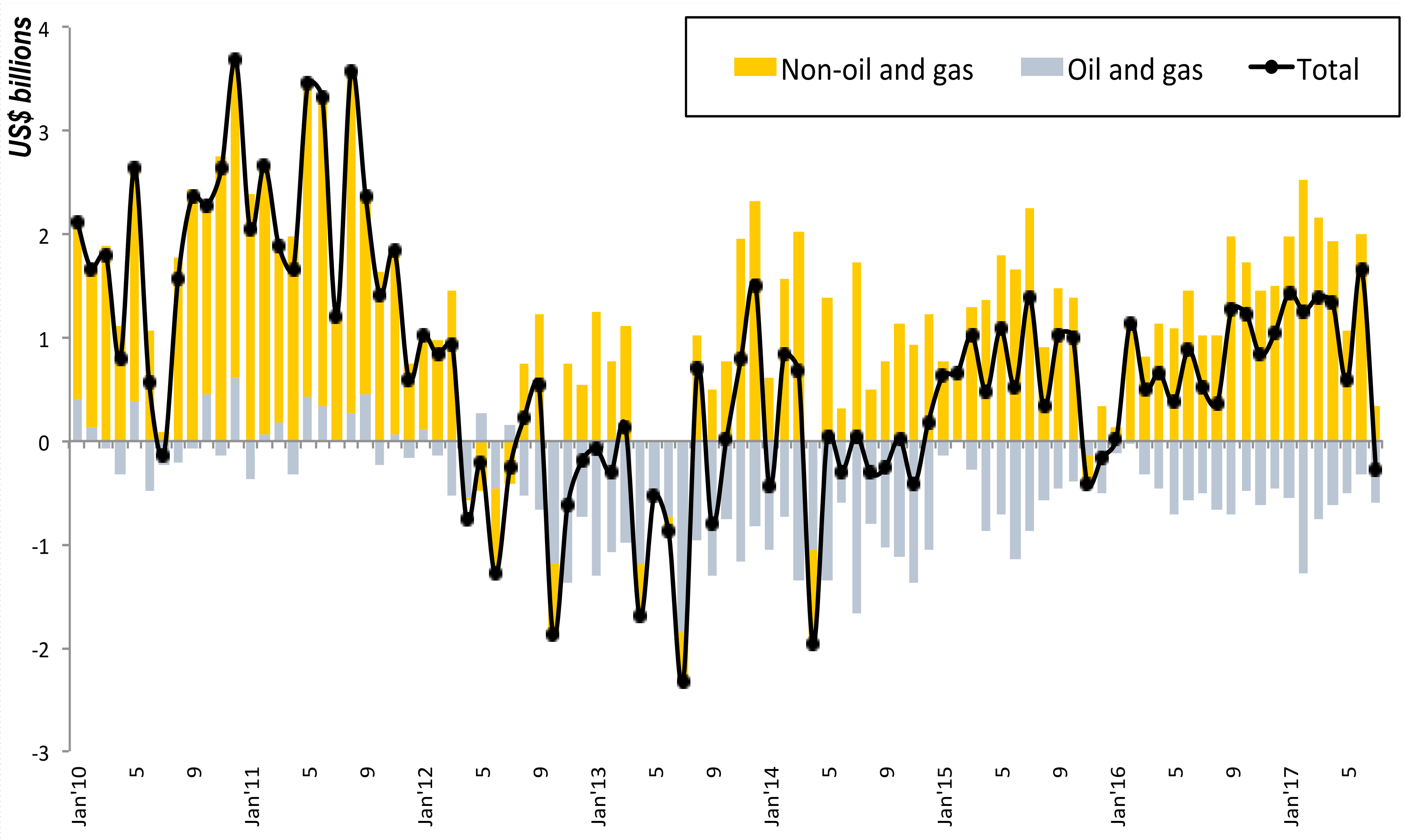
Entering 2017 export and import began to grow positively

Trade account

Description	US$ billion						Growth, % (yoy)					
	2012	*2013*	*2014*	*2015*	2016	2017*	*2012*	*2013*	*2014*	*2015*	2016	2017*
Total export	**190.0**	**182.6**	**176.0**	**150.4**	**144.5**	**93.6**	**-6.6**	**-3.9**	**-3.4**	**-14.6**	**-3.9**	**17.3**
Non-oil and gas	153.1	149.9	146.0	131.8	131.4	84.8	-5.5	-2.0	-2.6	-9.8	-0.3	17.4
Oil and gas	37.0	32.6	30.0	18.6	13.1	8.8	-10.9	-11.8	-7.0	-38.2	-29.4	16.9
Total import	**191.7**	**186.6**	**178.2**	**142.7**	**-135.6**	**-86.2**	**8.0**	**-2.6**	**-4.5**	**-19.9**	**-4.9**	**14.9**
Non-oil and gas	149.1	141.4	134.7	118.1	-116.9	-72.8	9.0	-5.2	-4.7	-12.3	-1.0	12.3
Oil and gas	42.6	45.3	43.5	24.6	-18.7	-13.4	4.6	6.4	-4.0	-43.4	-23.9	31.3
Surplus (Deficit)	**(-1.6)**	**(-4.1)**	**(-2.2)**	**7.7**	**8.9**	**7.4**						
Non-oil and gas	4.0	8.6	11.3	13.7	14.5	12.0						
Oil and gas	(-5.6)	(-12.6)	(-13.5)	-6.0	-5.6	-4.6						

* January-July.
Source: BPS-Statistics Indonesia.

Montly trade surplus is more likely sustainable, taking place since December 2014

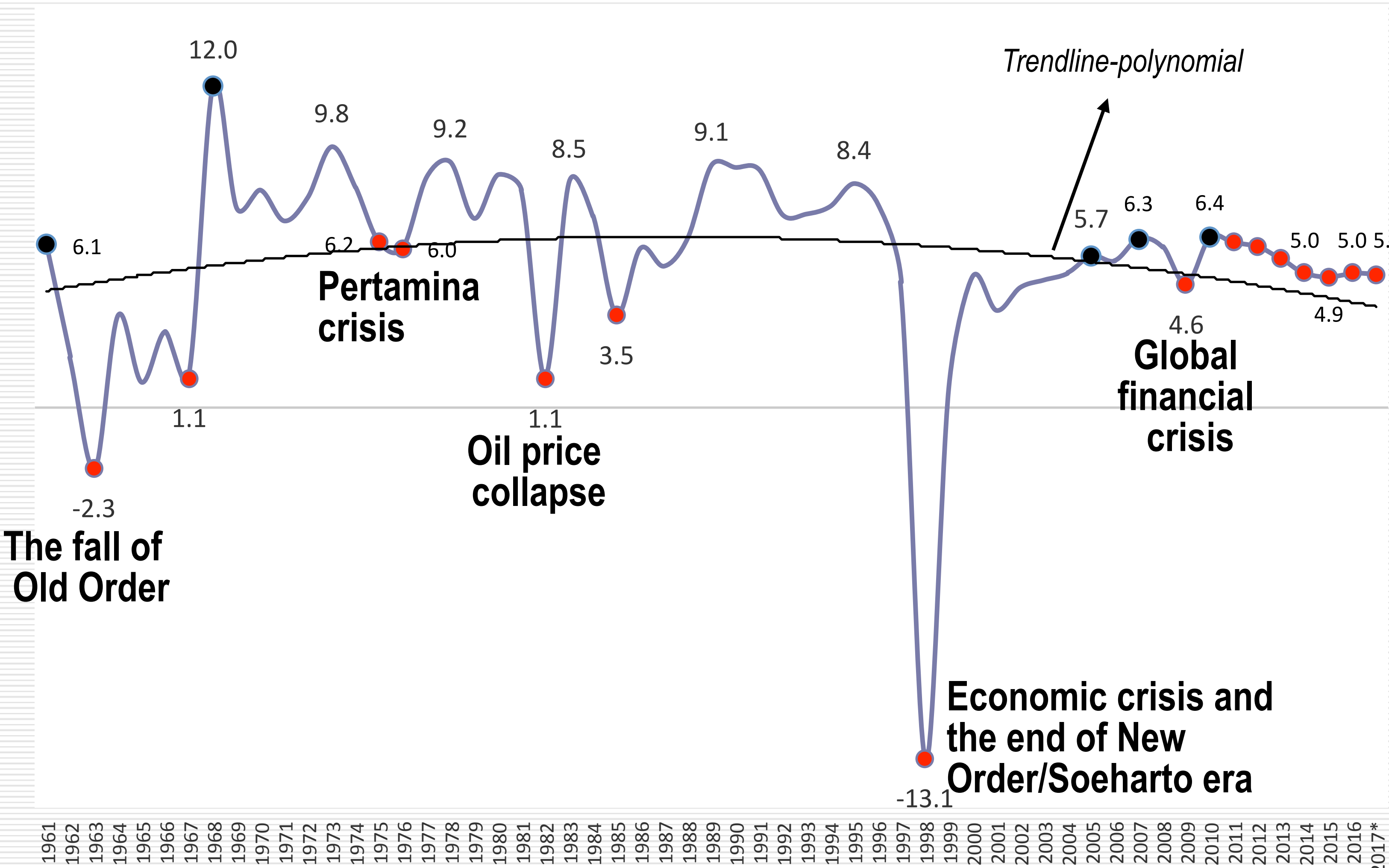


Source: BPS-Statistics Indonesia.

Part III

But, Slowed Growth to a Lower Equilibrium

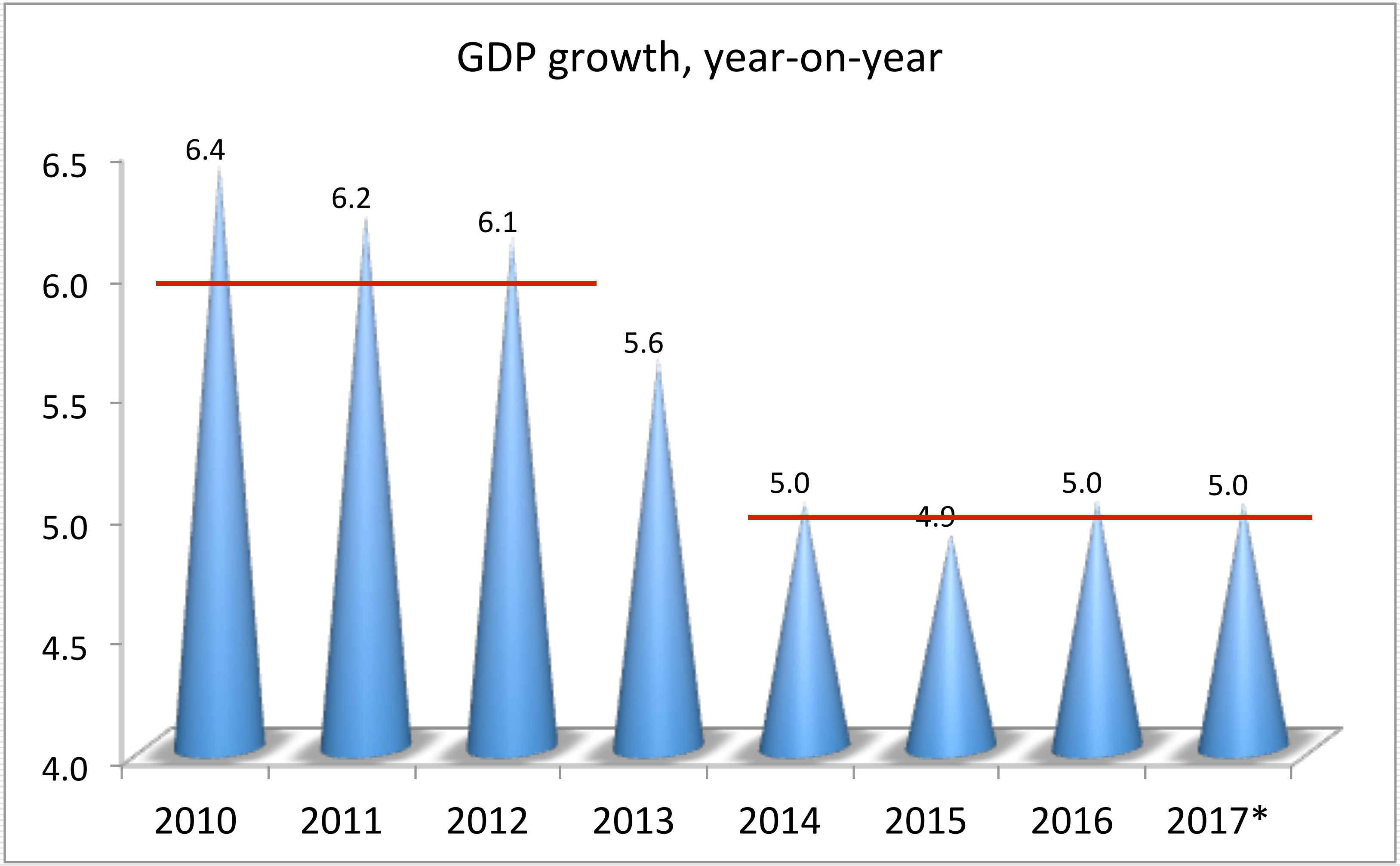
The rise and decline of Indonesian economy: GDP growth 1961-2017 (%)



* First semester.

Source: BPS-Statistics Indonesia.

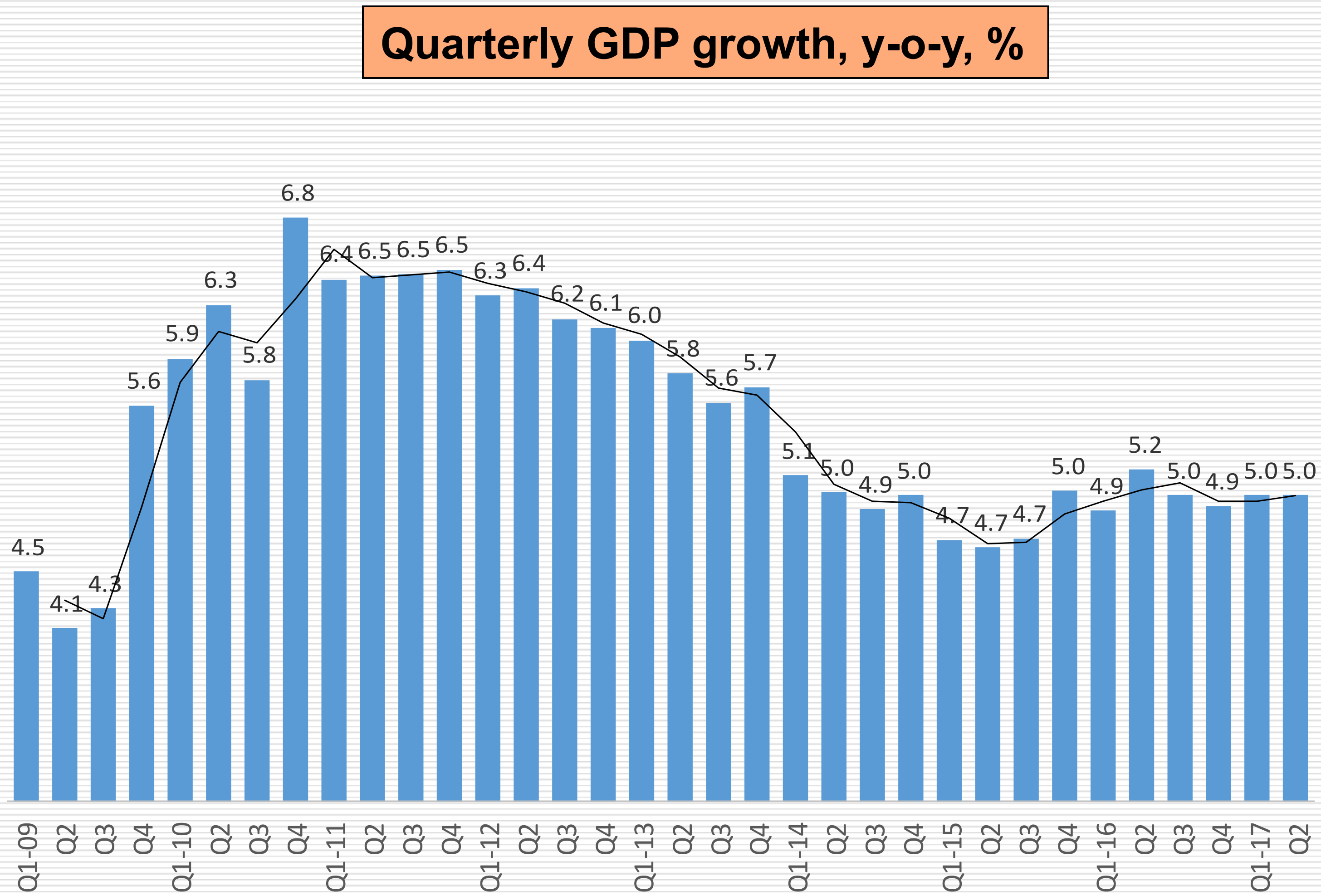
The declining trend of economic growth from 6% to 5%



* First semester.

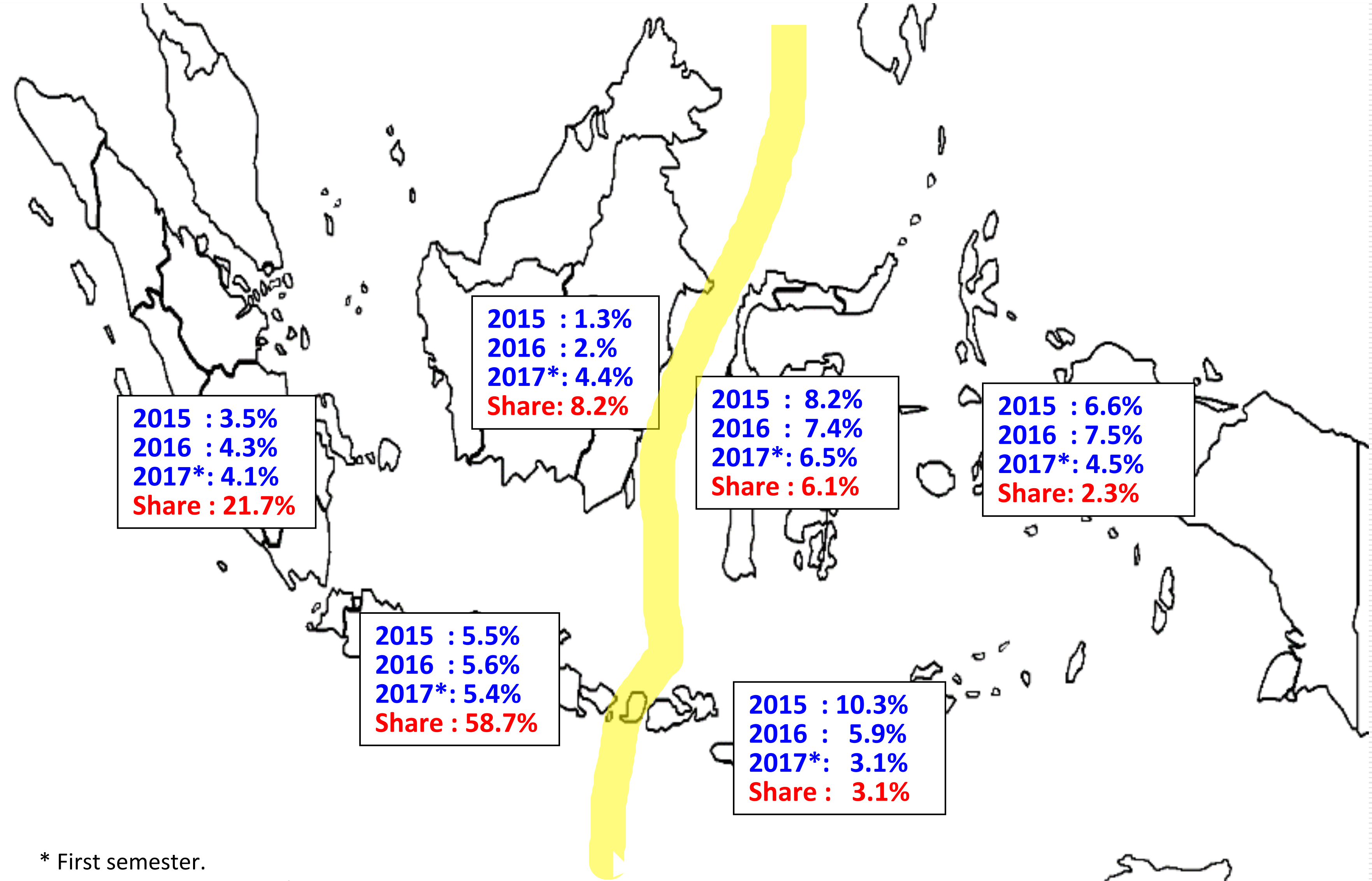
Source: BPS-Statistics Indonesia.

The second quarter of 2016 was a turning point? Not yet!!!



Source: BPS-Statistics Indonesia..

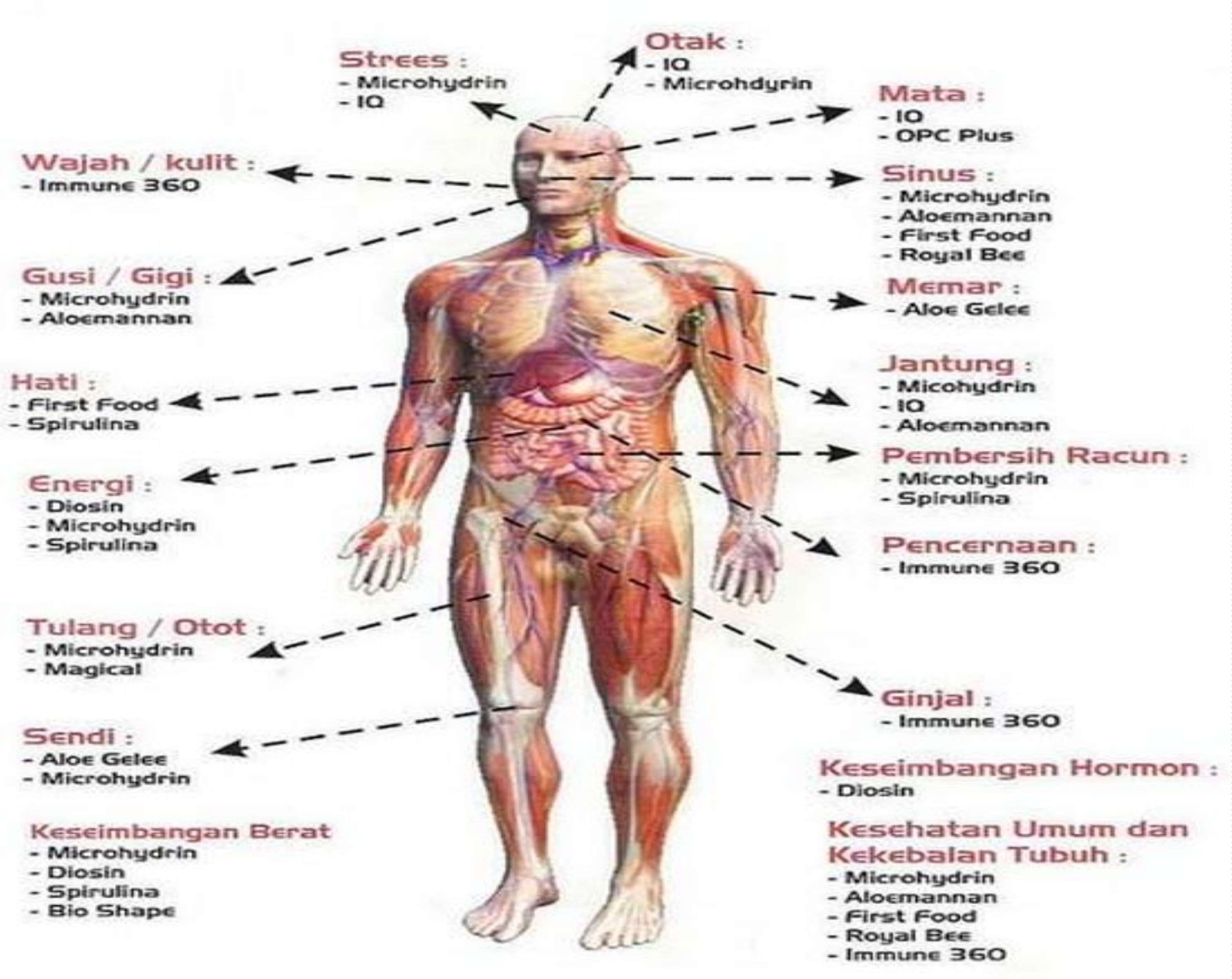
Economic growth by island: Kalimantan and Sumetera suffered the most



* First semester.

Source: BPS-Statistics Indonesia.

Analogi perekonomian dengan anatomi tubuh manusia



Menjadi juara: asupan harus bermutu, kerja keras, dan disiplin

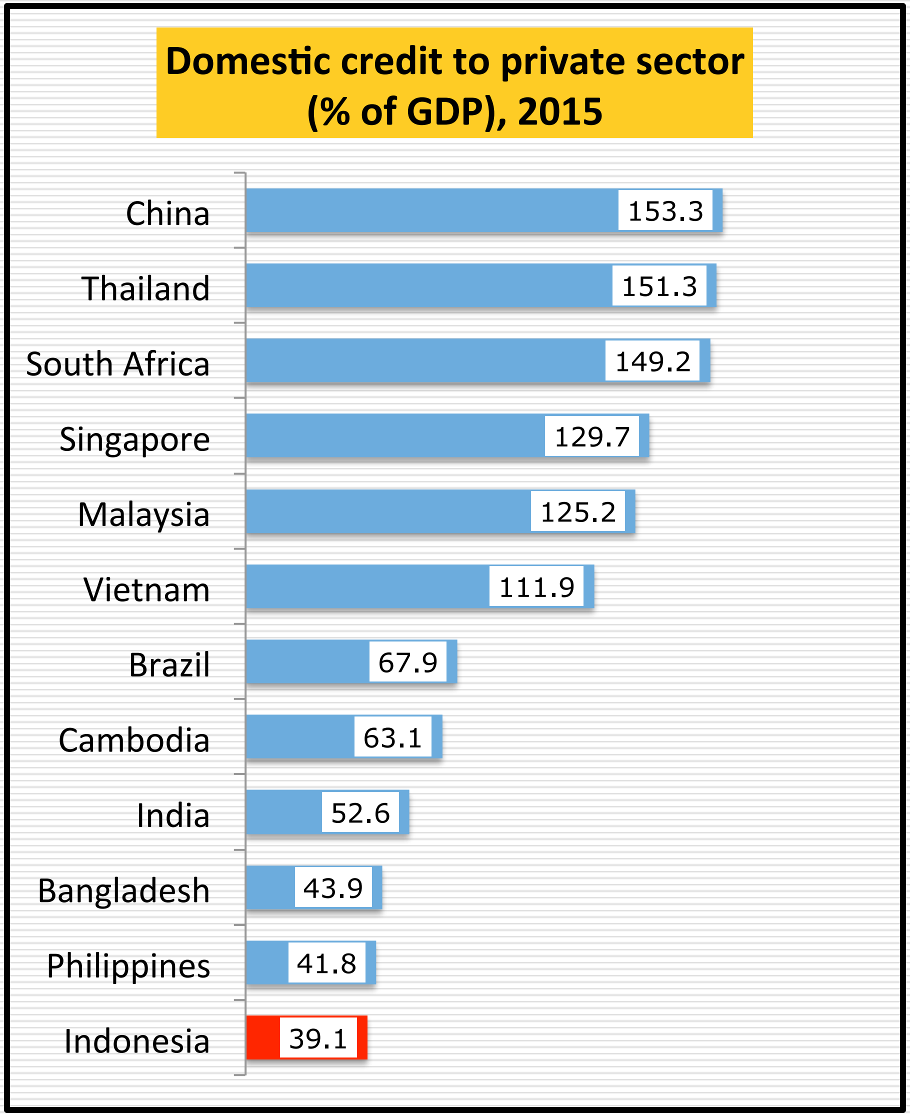
Michael Phelps/theguardian.com

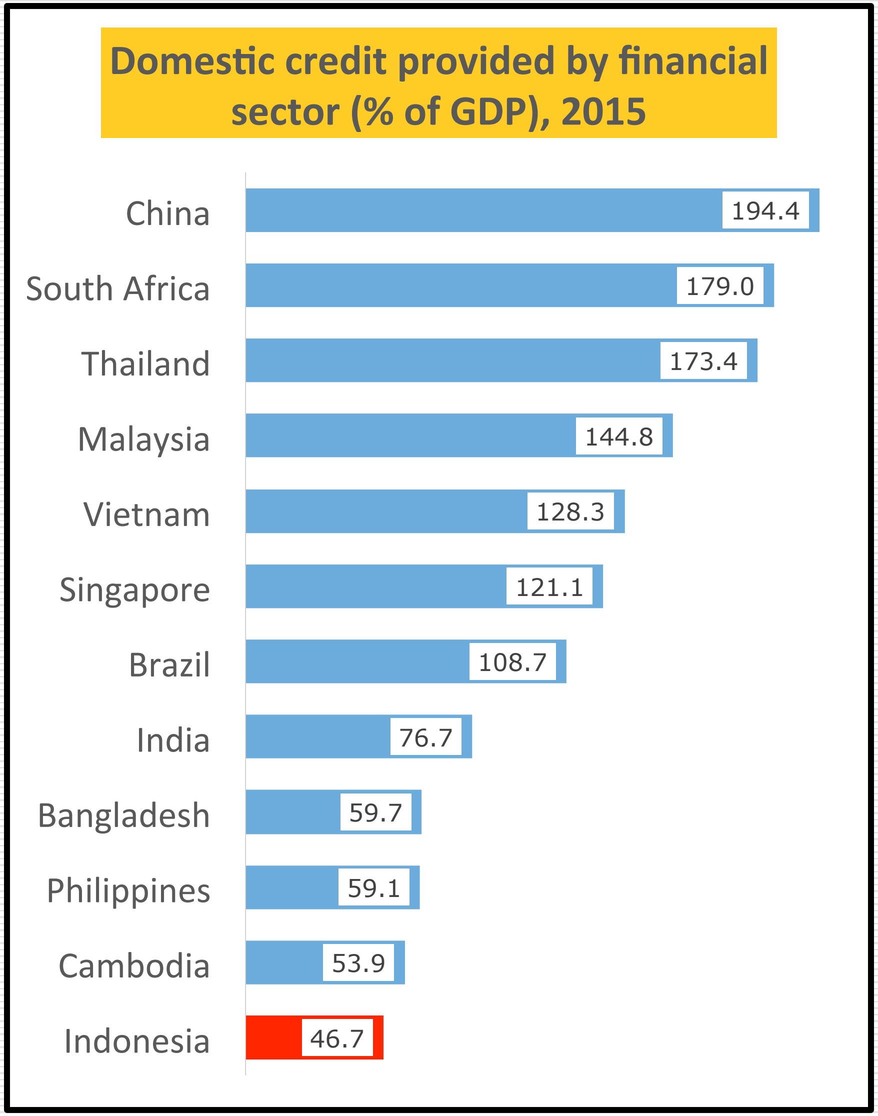
Usain Bolt/edgardaily.com

Pengalaman pribadi: ikut lomba marathon tanpa latihan dan persiapan memadai

Mekani Marathon, Lombok Barat, April 2017

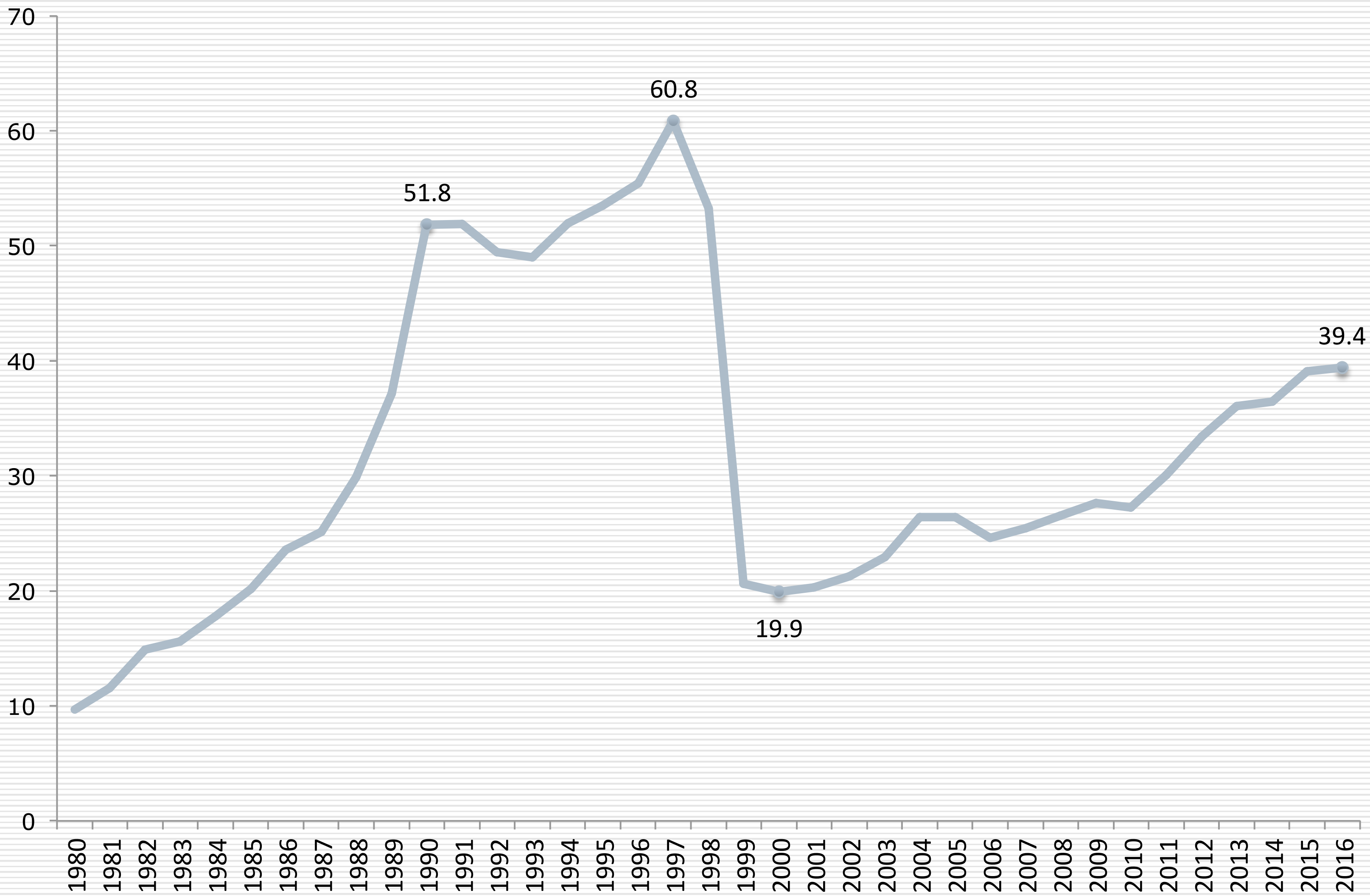
Credit penetration in Indonesia is still very low





Source: World Bank, World Development Indicators.

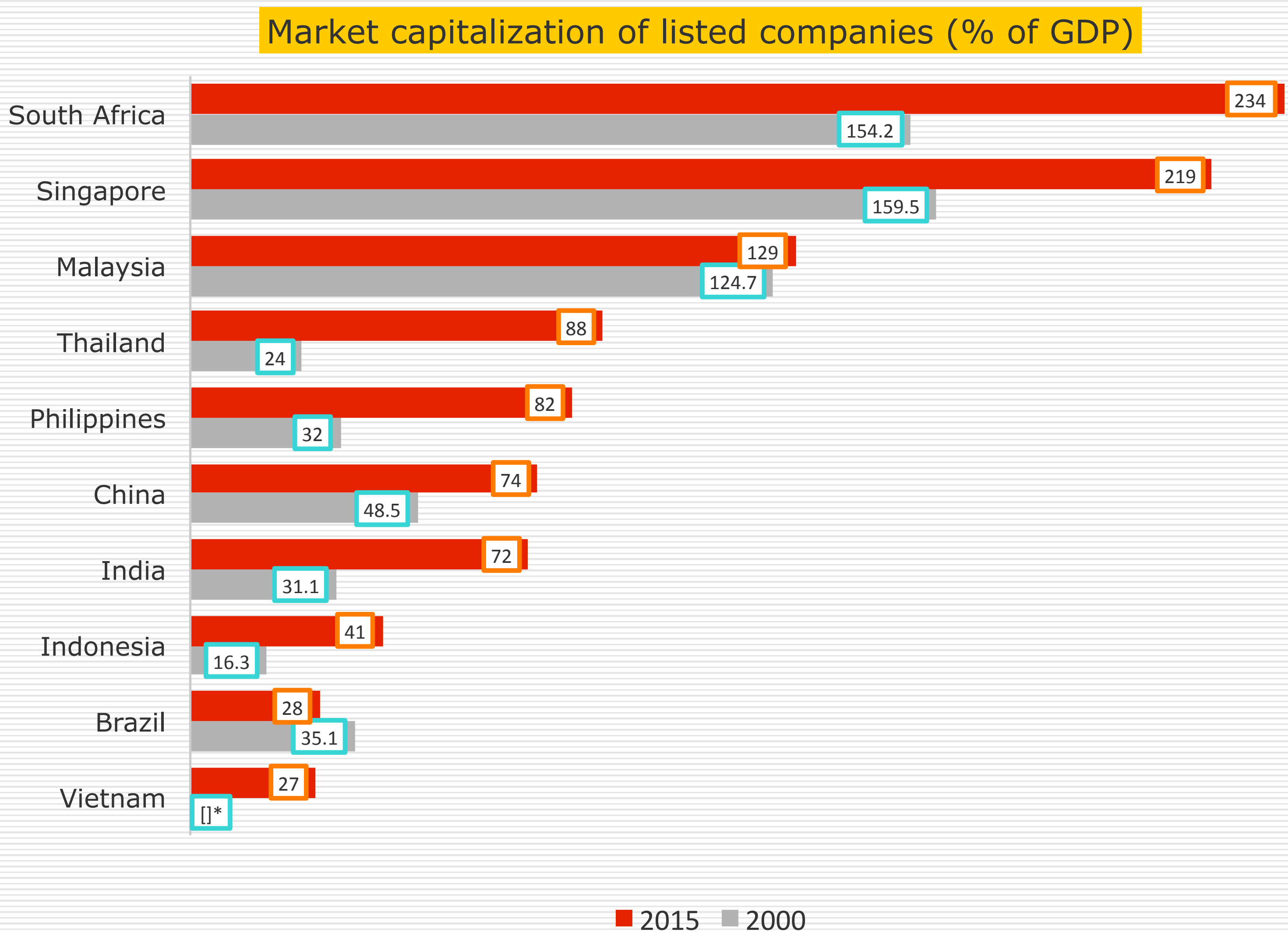
Indonesia: domestic credit to private sector



* 2003

Source: World Bank, World Development Indicators.

Stock market capitalization

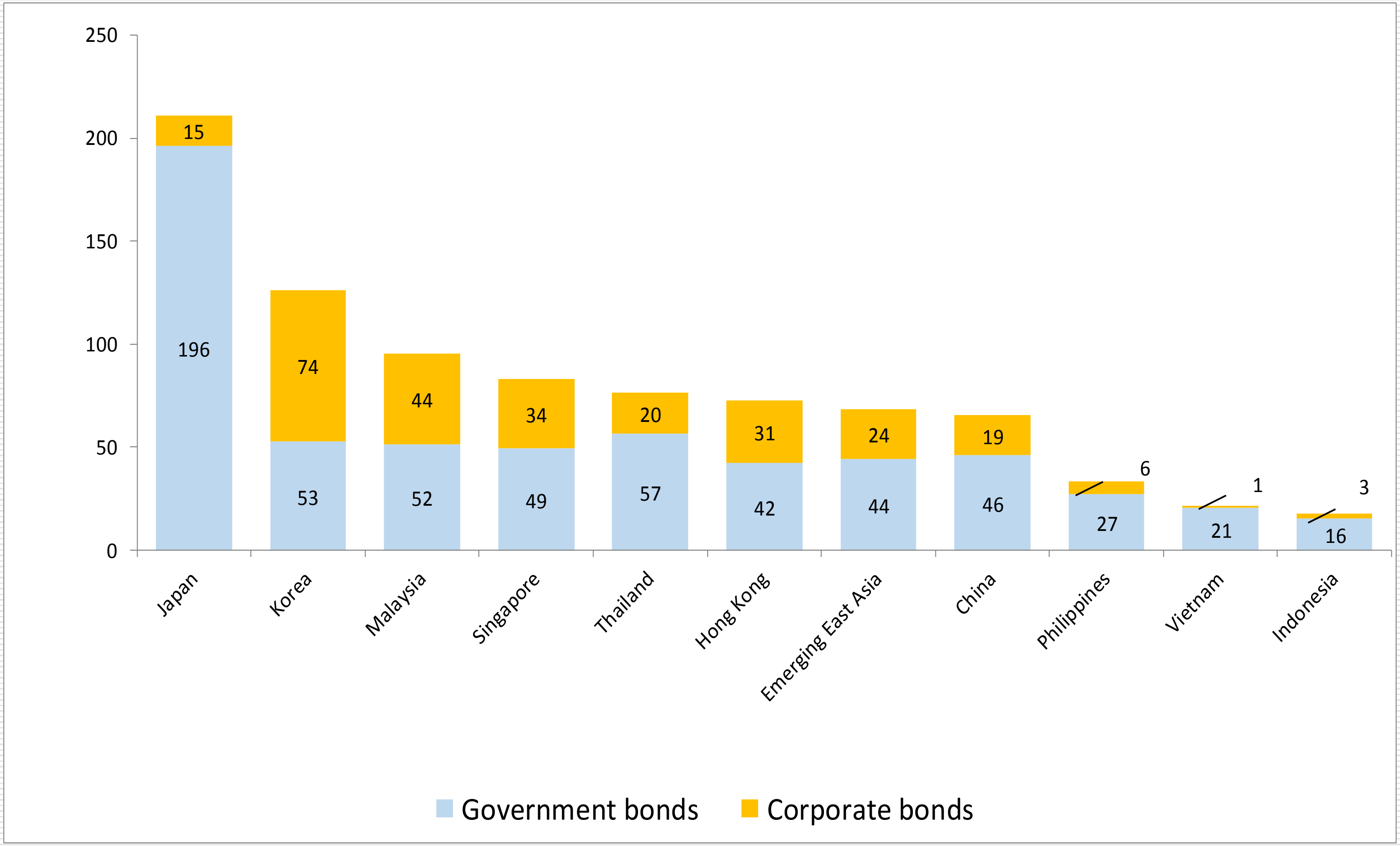


* 2003

Source: World Bank, World Development Indicators.

Size of local currency bonds market: Indonesia is still lagging behind in the long-term financing

(% of GDP, Q1-2017)



Source: Asian Development Bank, Asia Bond Monitor, June 2017.

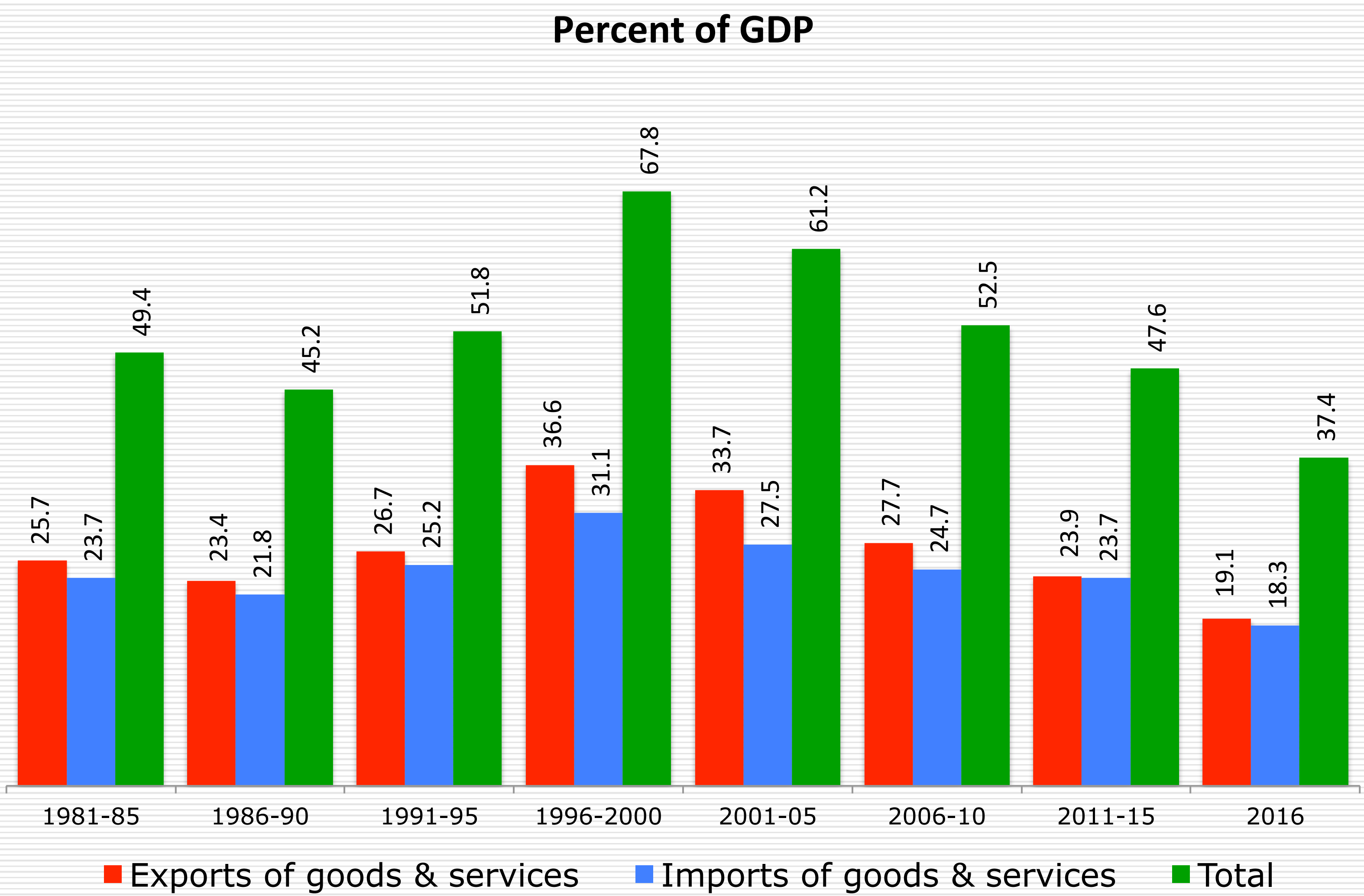
Degree of openness: (X + M)*/GDP

Country	Population (mil.,2016)	Exports (X) 1981	Exports (X) 2016	Imports (M) 1981	Imports (M) 2016	X + M 1981	X + M 2016
China	1,378.7	7.5	19.6	7.5	17.4	15.0	37.0
India	1,324.2	5.8	19.2	8.4	20.6	14.2	39.8
United States	323.1	9.5	**12.6	9.9	**15.4	19.4	**28.0
Indonesia	**261.1**	**29.0**	**19.1**	**24.0**	**18.3**	**53.0**	**37.4**
Brazil	207.7	9.4	12.5	9.8	12.1	19.2	24.6
Japan	127.0	14.4	**17.6	13.7	**18.0	28.1	**35.6
Philippines	103.3	23.8	28.0	27.2	36.9	51.0	64.9
Vietnam	92.7	***36.0	93.6	***45.3	91.1	***81.3	***184.7
Germany	82.7	20.2	46.0	24.1	38.4	44.3	84.4
Thailand	68.9	23.8	68.9	30.1	54.2	53.9	123.1
United Kingdom	65.6	25.4	28.1	22.5	30.0	47.9	58.1
South Africa	55.9	28.4	30.3	30.4	30.2	58.8	60.5
Korea, Rep.	51.2	32.1	42.2	37.2	35.4	69.3	77.6
Malaysia	31.2	51.6	67.2	57.7	60.8	109.3	128.0
Netherlands	17.0	55.9	80.8	51.2	69.9	107.1	150.7
Sweden	9.9	28.7	44.4	28.1	39.8	56.8	84.2
Hongkong SAR, China	7.3	91.1	187.4	92.6	185.2	183.7	372.6
Denmark	5.7	36.1	53.1	34.9	46.2	71.0	99.3
Singapore	5.6	198.2	172.1	201.6	146.3	399.8	318.4

* Exports and imports of goods and services. **2015 ***1990

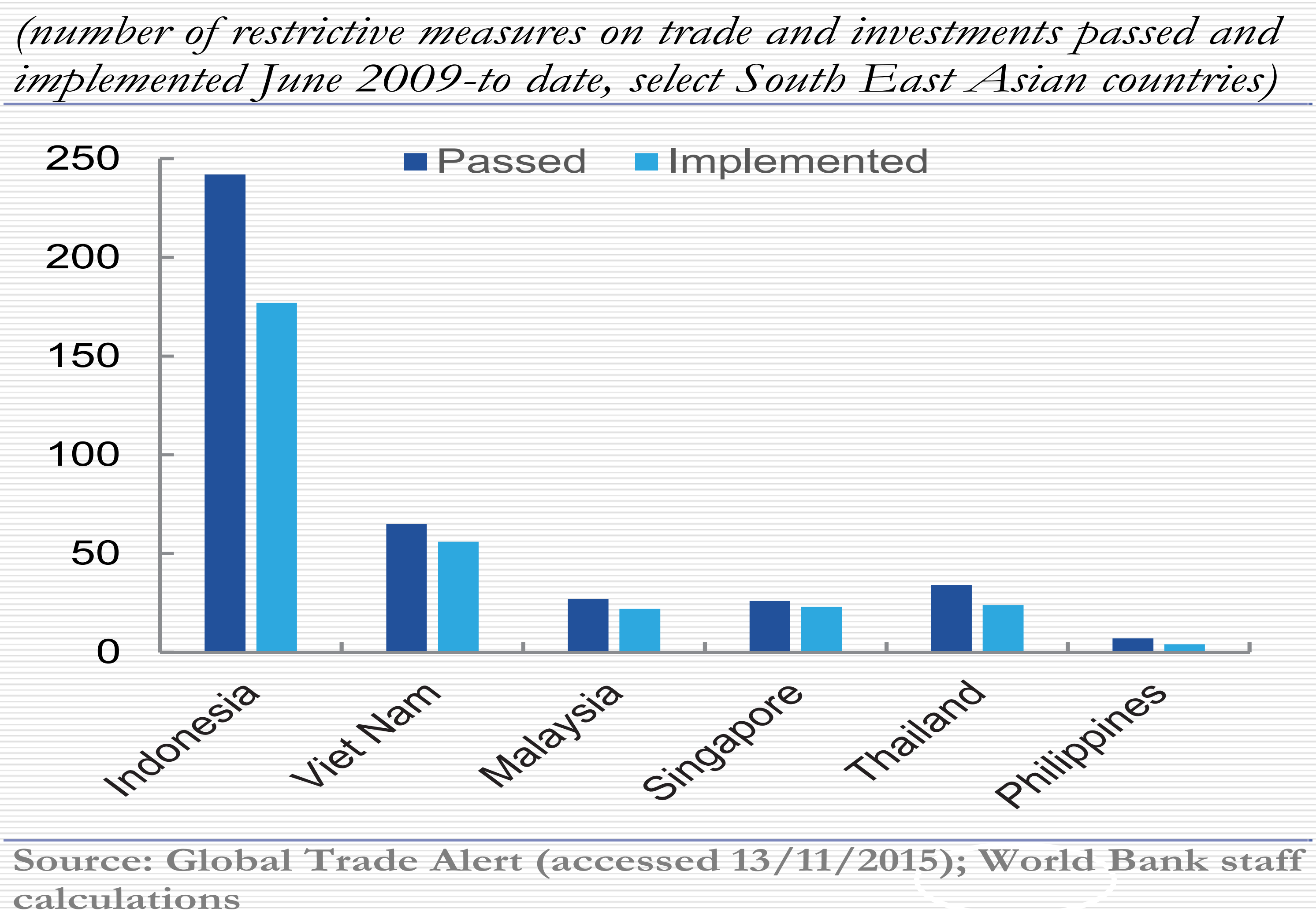
Source: World Bank: for population downloaded from http://databank.worldbank.org/data/reports.aspx?source=2&series=SP.POP.TOTL&country= on August 14, 2017; for exports downloaded from http://databank.worldbank.org/data/reports.aspx?source=2&series=NE.EXP.GNFS.ZS&country= on August 14, 2017; and for imports downloaded from http://databank.worldbank.org/data/reports.aspx?source=2&series=NE.IMP.GNFS.ZS&country= on August 14, 2017.

Indonesia: degree of openness, 1981-2016



Source: World Bank: for exports downloaded from http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS); and for imports downloaded from http://data.worldbank.org/indicator/NE.IMP.GNFS.ZS. Downloaded on August 14, 2017.

Indonesia has actively used restrictive trade and investment measures



Source: World Bank, Indonesia Economic Quarterly: Reforming Amid Uncertainty, December 2015, p. 35.

Attact strategy is more effective, 2016-17 season

England - Premier League - Table

Total	Home					Away			
#	Team Name	P	W	D	L	F	A	GD	Pts
1	Chelsea	38	30	3	5	85	33	52	**93**
2	Tottenham Hotspur	38	26	8	4	86	26	60	**86**
3	Manchester City	38	23	9	6	80	39	41	**78**
4	Liverpool	38	22	10	6	78	42	36	**76**
5	Arsenal	38	23	6	9	77	44	33	**75**
6	Manchester United	38	18	15	5	54	29	25	**69**

Spain - LaLiga Santander - Table

Total	Home					Away			
#	Team Name	P	W	D	L	F	A	GD	Pts
1	Real Madrid	38	29	6	3	106	41	65	**93**
2	Barcelona	38	28	6	4	116	37	79	**90**
3	Atletico Madrid	38	23	9	6	70	27	43	**78**
4	Sevilla	38	21	9	8	69	49	20	**72**
5	Villarreal	38	19	10	9	56	33	23	**67**
6	Real Sociedad	38	19	7	12	59	53	6	**64**

Part III

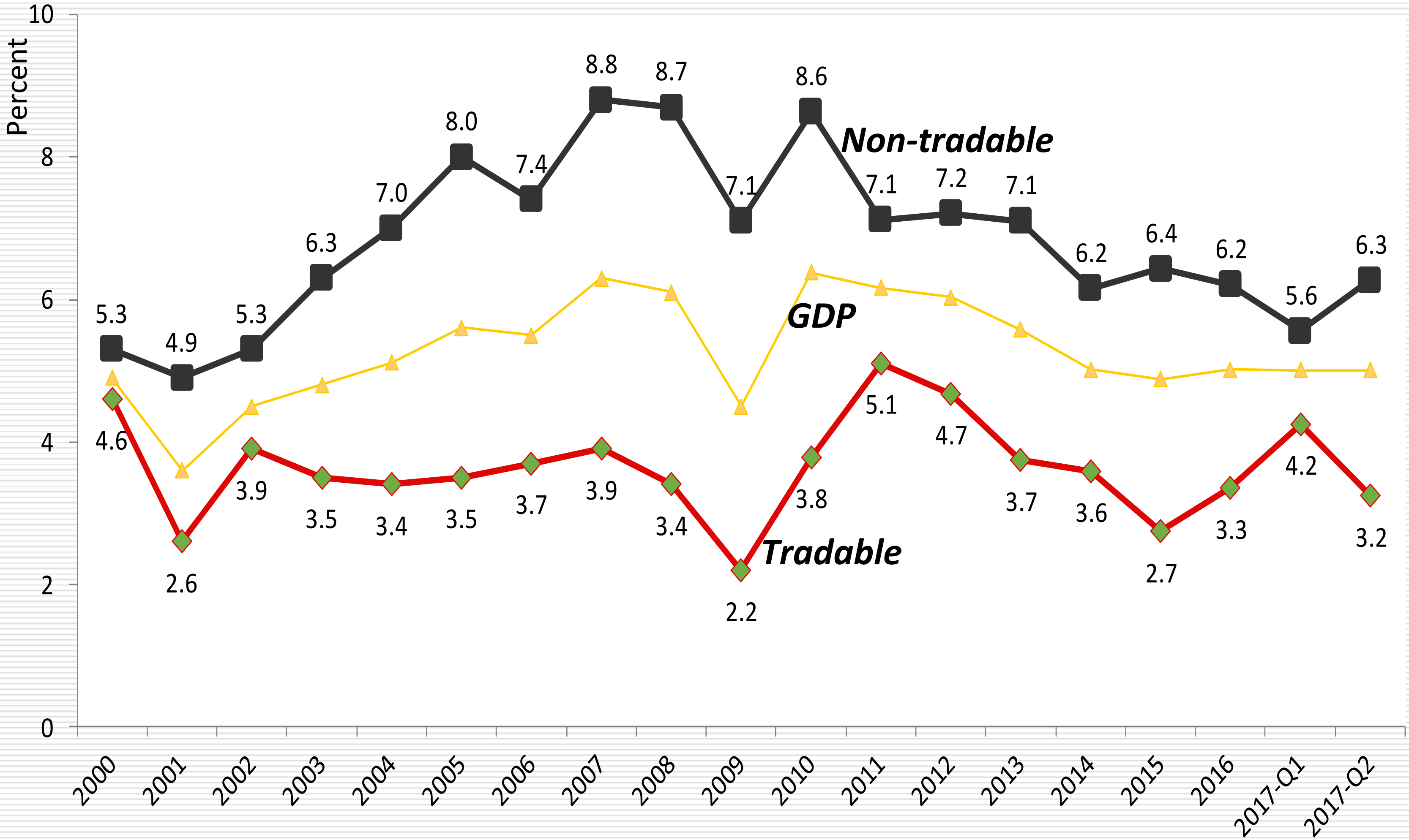
Recent Growth Performance by Sector

GDP growth by sector

Sectors	2012	2013	2014	2015	2016	Q1-17	Q2-17	Share 2017*
Agriculture, forestry & fishery	4.59	4.20	4.24	3.77	3.25	7.12	3.33	13.76
Mining and Quarrying	3.02	2.53	0.43	-3.42	1.06	-0.64	2.24	7.65
Manufacturing industry	5.62	4.37	4.64	4.33	4.29	4.24	3.54	20.37
Electricity and gas	10.06	5.23	5.90	0.90	5.39	1.60	-2.53	1.19
Water, waste management, cesspit and recycling	3.34	3.32	5.24	7.07	3.60	4.39	3.67	0.07
Construction	6.56	6.11	6.97	6.36	5.22	5.95	6.96	10.17
Wholesale & retail trade, cars & motorcycles reparations	5.40	4.81	5.18	2.59	3.93	4.96	3.78	13.13
Transportation and warehousing	7.11	6.97	7.36	6.68	7.74	8.03	8.37	5.24
Accommodation, food and beverages	6.64	6.80	5.77	4.31	4.94	4.68	5.07	2.87
Information and communication	12.28	10.39	10.12	9.69	8.87	9.13	10.88	3.81
Finance and insurance	9.54	8.76	4.68	8.59	8.90	5.99	5.94	4.25
Real estate	7.41	6.54	5.00	4.11	4.30	3.67	3.86	2.82
Business services	7.44	7.91	9.81	7.69	7.36	6.80	8.14	1.75
Public adm., defense, and compulsory social security	2.13	2.56	2.38	4.63	3.19	0.22	-0.03	3.59
Education	8.22	7.44	5.47	7.33	3.84	4.09	0.90	3.18
Health and social activities	7.97	7.96	7.96	6.68	5.00	7.10	6.40	1.07
Other services	5.76	6.40	8.93	8.08	7.80	8.01	8.63	1.76
Gross domestic product	**6.03**	**5.56**	**5.01**	**4.88**	**5.02**	**5.01**	**5.01**	**100.00**

* First semester; excluding taxes minus subsidies.
Source: BPS-Statistics Indonesia.

Low quality of growth: tradable sector versus non-tradable sector



Source: BPS-Statistics Indonesia.

Wholesale & retail trade

- Wholesale and retail trade in Semester I-2017 grew by **4.66** percent.
- Indeed, the growth of this subsector fell from **5.41** percent in 1-2017 to **3.94** percent in Q2-207.

Pertumbuhan nilai tambah sektor transportasi dan hospitality pun meningkat relatif tinggi

year on year, percent

	Q1-2017	Q2-2017
Transportation and warehousing	**8.03**	**8.37**
Railways transpot	12.30	18.03
Land transport	7.70	8.04
Sea transport	0.85	3.07
River, lake, and ferry transport	7.51	6.57
Air transport	13.23	11.92
Warehousing and support services for transportation, postal & courier	7.29	7.96
Accomodation, food and beverages	**4.68**	**5.07**
Accomodation	4.70	4.84
Food and beverages	4.68	5.13

Source: BPS-Statistics Indonesia.

Transportasi penumpang pun naik cukup tinggi

Pertumbuhan angkutan penumpang dan barang Semester I 2017, persen

Penumpang angkutan udara domestik	10.22
Penumpang angkutan udara internasional	13.54
Penumpang angkutan laut domestik	3.62
Barang angkutan domestik	1.69
Penumpang angkutan kereta api	8.53
Barang angkutan kereta api	18.32

Source: BPS-Statistics Indonesia.

New primadona: tourism?

International visitors arrivals to Indonesia by port of entry

Port of Entry	2014	2015	2016	2017*
Ngurah Rai	3,731,735	3,936,066	4,885,062	2,788,053
Soekarno-Hatta	2,246,437	2,368,628	2,603,195	1,162,871
Batam	1,454,110	1,585,719	1,510,203	724,483
Tanjung Uban	320,861	305,471	308,964	161,269
Juanda	217,193	204,200	231,455	101,800
Kualanamu	234,724	201,447	211,942	106,964
Husein Sastranegara	180,392	159,811	183,542	78,047
Adi Sucipto	89,156	82,126	114,639	61,898
Tanjung Pinang	97,672	91,341	93,924	49,832
Tanjung Balai Karimun	100,782	97,320	91,811	41,626
Lombok	69,881	70,248	91,102	59,654
Top-11	8,742,943	9,102,377	10,325,839	5,336,497
Others	692,468	1,128,398	1,193,436	1,141,572
Total	**9,435,411**	**10,230,775**	**11,519,275**	**6,478,069**

* January-June

Source: BPS-Statistics Indonesia

Mostly from Asia-Pacific

International visitors arrivals to Indonesia by nationality

Nationality	2014	2015	2016
China	1,052,705	1,249,091	1,556,771
Malaysia	1,418,256	1,431,728	1,541,197
Singapore	1,559,044	1,594,102	1,515,701
Australia	1,145,576	1,090,025	1,302,292
Japan	505,175	528,606	545,392
India	267,082	306,960	422,045
Korea	352,004	375,586	386,789
United States	246,397	269,062	316,782
Philippines	248,182	267,700	298,910
France	208,357	208,679	256,229
Taiwan	220,328	223,478	252,849
Top-11	7,223,106	7,545,017	8,394,957
Others	2,122,305	2,685,758	3,124,318
Total	**9,345,411**	**10,230,775**	**11,519,275**

* January-June

Source: BPS-Statistics Indonesia

Part IV

Domestic Demand under Pressure, but the Purchasing Power does not Decrease

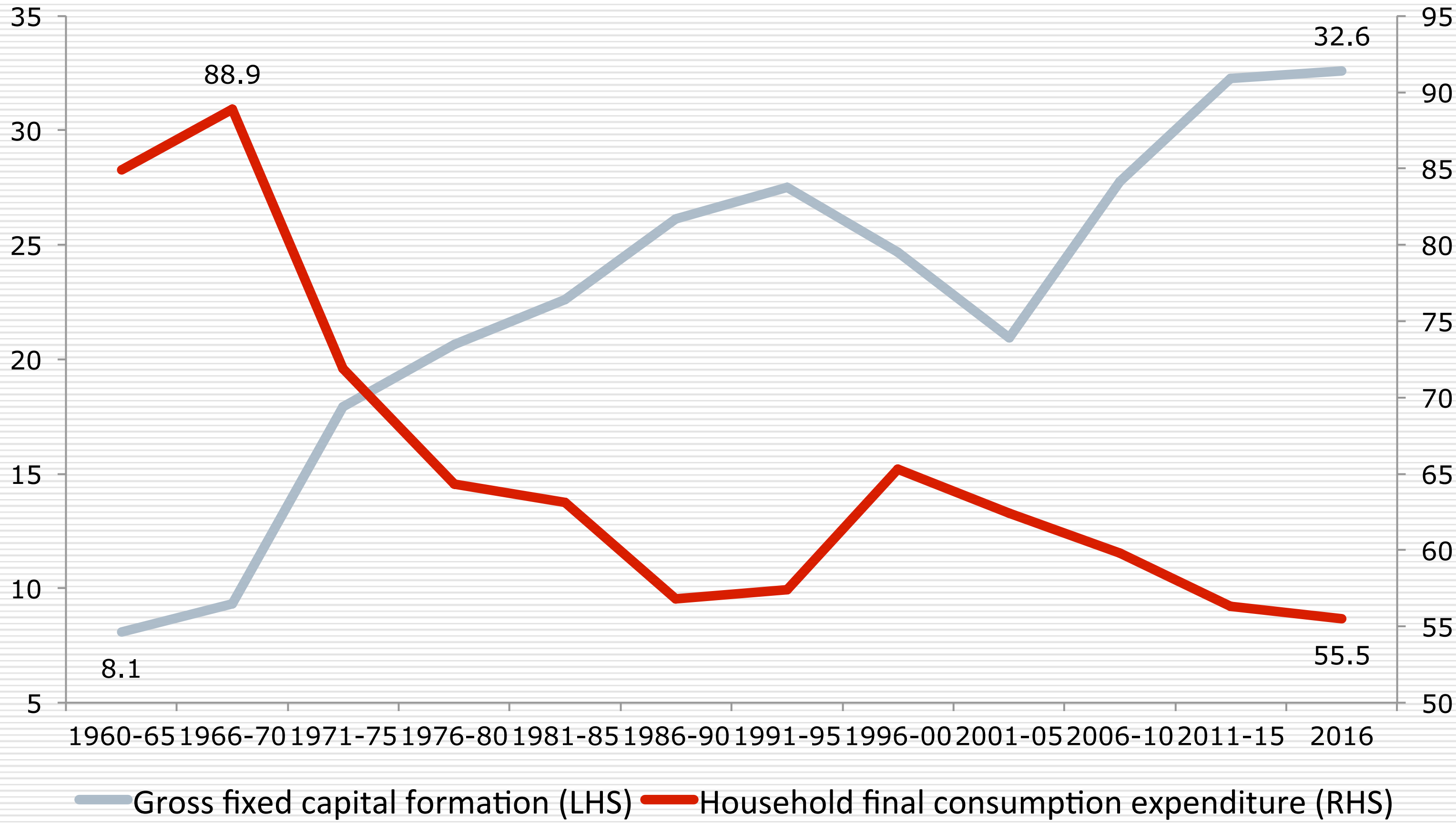
GDP growth by expenditure (percent)

	2012	2013	2014	2015	2016	Q1-17	Q2-17	*Share 2017**
Private consumption	5.49	5.43	5.15	4.96	5.01	4.94	4.95	*56.29*
LNPRT** consumption	6.68	8.18	12.19	-0.62	6.62	8.05	8.49	*1.19*
General government consumption	4.53	6.75	1.16	5.32	-0.15	2.68	-1.93	*7.60*
Gross domestic fixed capital formation	9.13	5.01	4.45	5.01	4.48	4.78	5.35	*31.46*
Exports of goods and services	1.61	4.17	1.07	-2.12	-1.74	8.21	5.76	*19.82*
Less imports of goods and services	8.00	1.86	2.12	-6.41	-2.27	5.12	2.80	*-18.25*
Gross domestic product	**6.03**	**5.56**	**5.01**	**4.88**	**5.02**	**5.01**	**5.01**	***100.00***

* First semester; not included change in inventory and statistical discrepancy.
** LNPRT stands for lembaga non-profit yang melayani rumah tangga (non-profit organization serving the household).
Source: BPS-Statistics Indonesia.

Household consumption and investment moved in opposite directions

Household final consumption expenditures and Gross fixed capital formation, percent of gross domestic product (GDP)

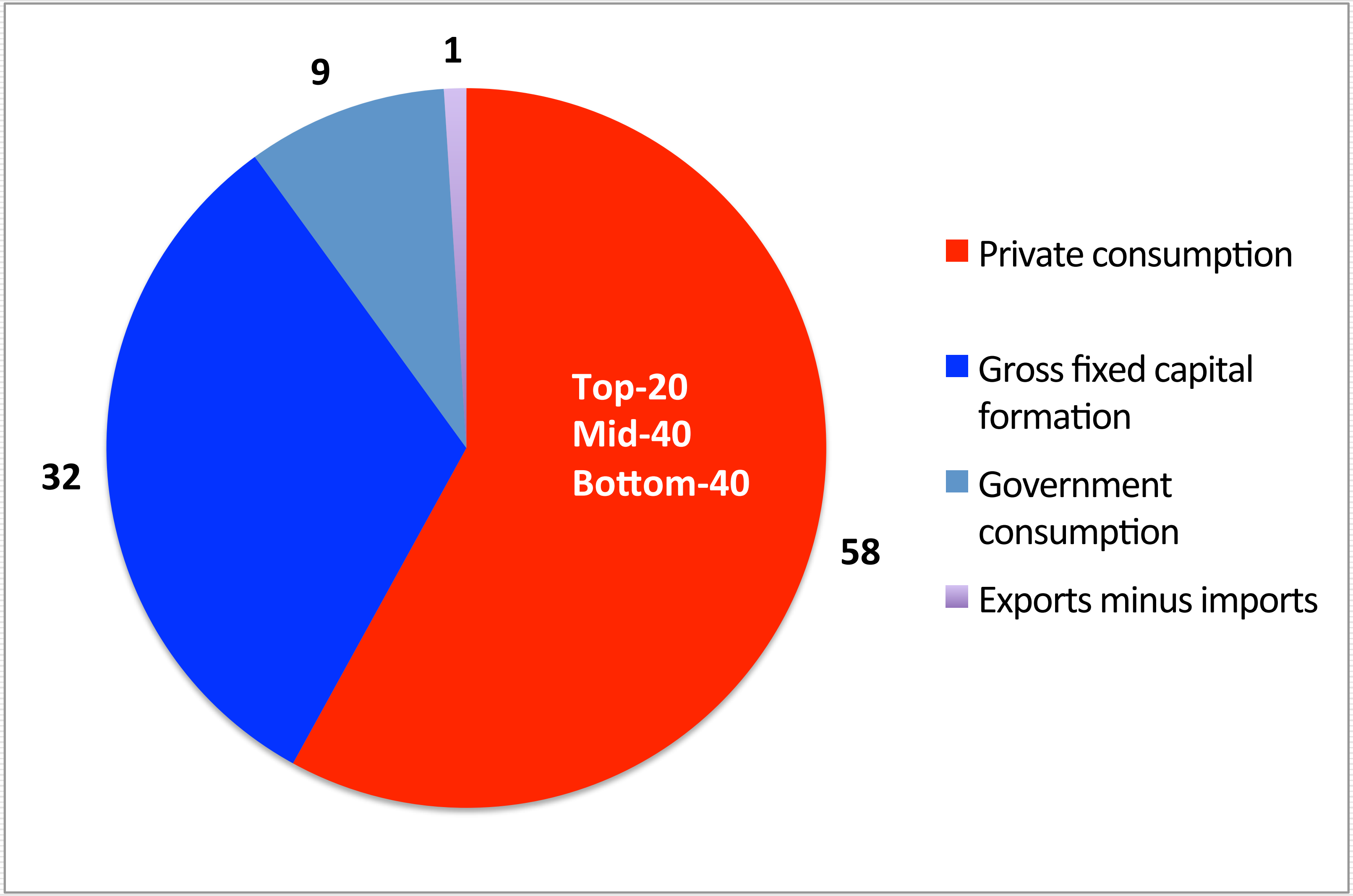


Source: World Bank, World Development Indicators..

Daya beli masyarakat tidak turun!!! (1)

- Tidak ada kejadian luar biasa yang menyebabkan daya beli masyarakat secara nasional mengalami penurunan.
- Penurunan omzet atau laba beberapa outlet pasar modern tidak bisa dijadikan acuan terjadinya penurunan daya beli masyarakat.
- Begitu banyak ragam barang dan jasa serta berbagai kelompok pendapatan. Sangat boleh jadi penjualan beberapa produk turun dan daya beli kelompok pendapatan tertentu juga turun. Tetapi, secara keseluruhan naik, yang tercermin dari peningkatan riil konsumsi masyarakat sekitar 5%, sementara secara nominal naik sekitar 8%.

Composition of GDP by expenditure, 2016 (%)

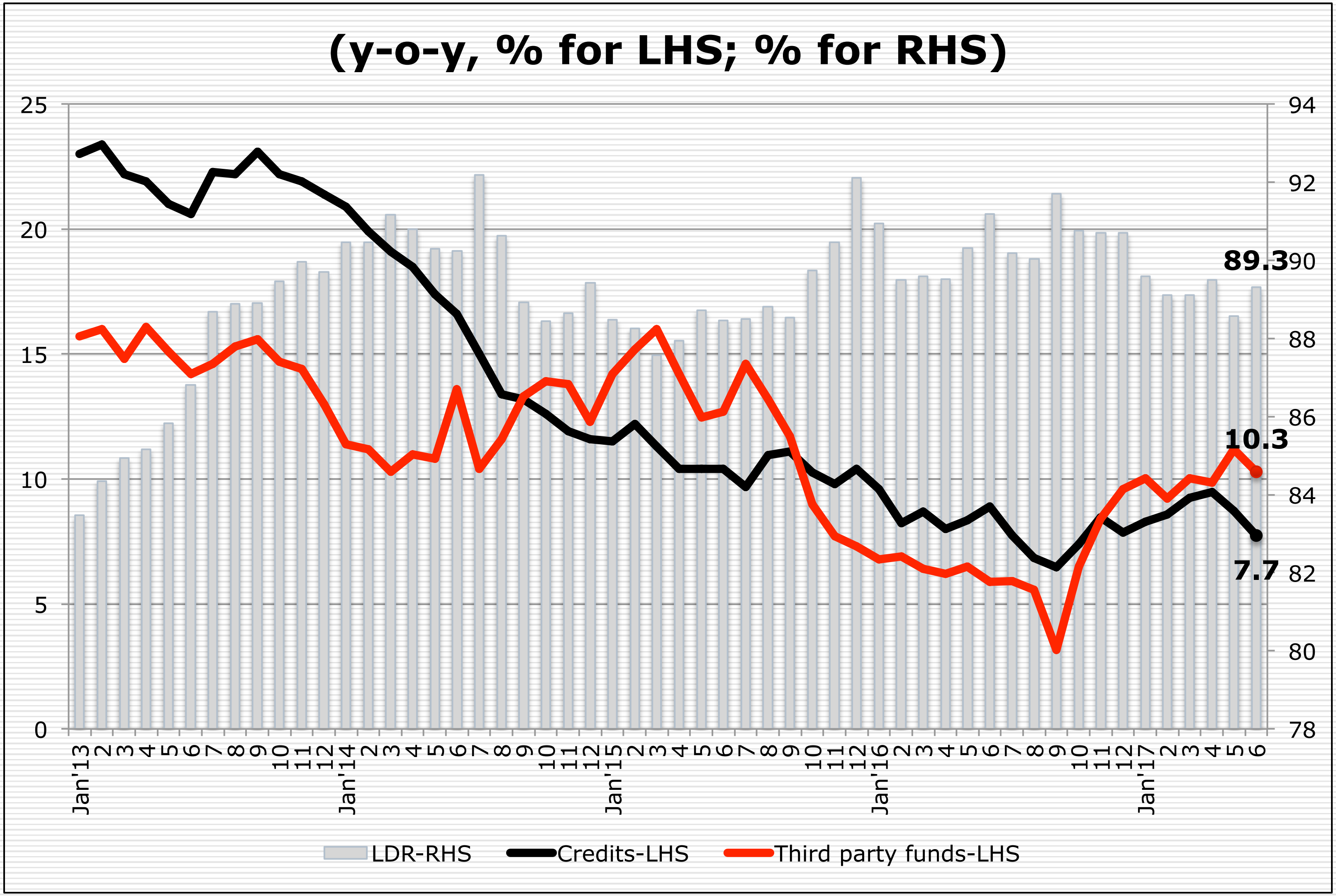


Source: BPS-Statistics Indonesia.

Daya beli masyarakat tidak turun!!! (2)

- Ada indikasi penurunan konsumsi (bukan daya beli) kelompok menengah-atas untuk berjaga-jaga dengan menaikkan tabungan (*switching to saving*).
  - Porsi pendapatan yang ditabung pada Q2-17 meningkat menjadi 20.77 persen dari 18.60 persen pada Q2-2016.
  - Pertumbuhan dana pihak ketiga (DPK) naik tajam sejak Oktober 2016 dan mencapai dua digit (11.2%) pada Mei 2017
- Ada pula yang beralih ke belanja *online* system/e-commerce, tetapi porsinya masih relatif kecil: hanya sekitar 2% dari bisnis ritel total.

Credit growth slowed down again, but deposit growth continued to increase

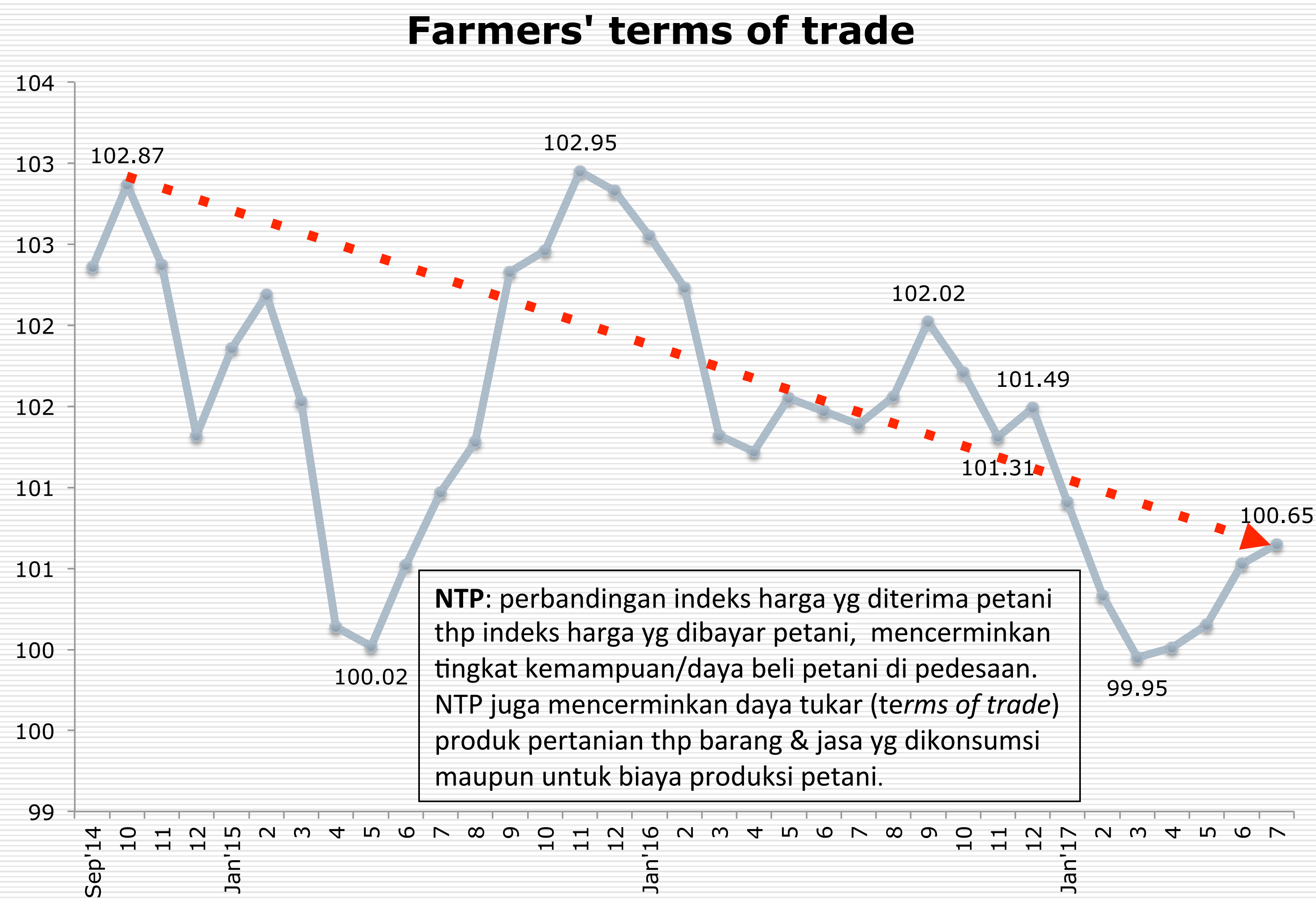


Sources: Bank Indonesia and Financial Services Authority (OJK).

Bottom-40 under considerable pressures

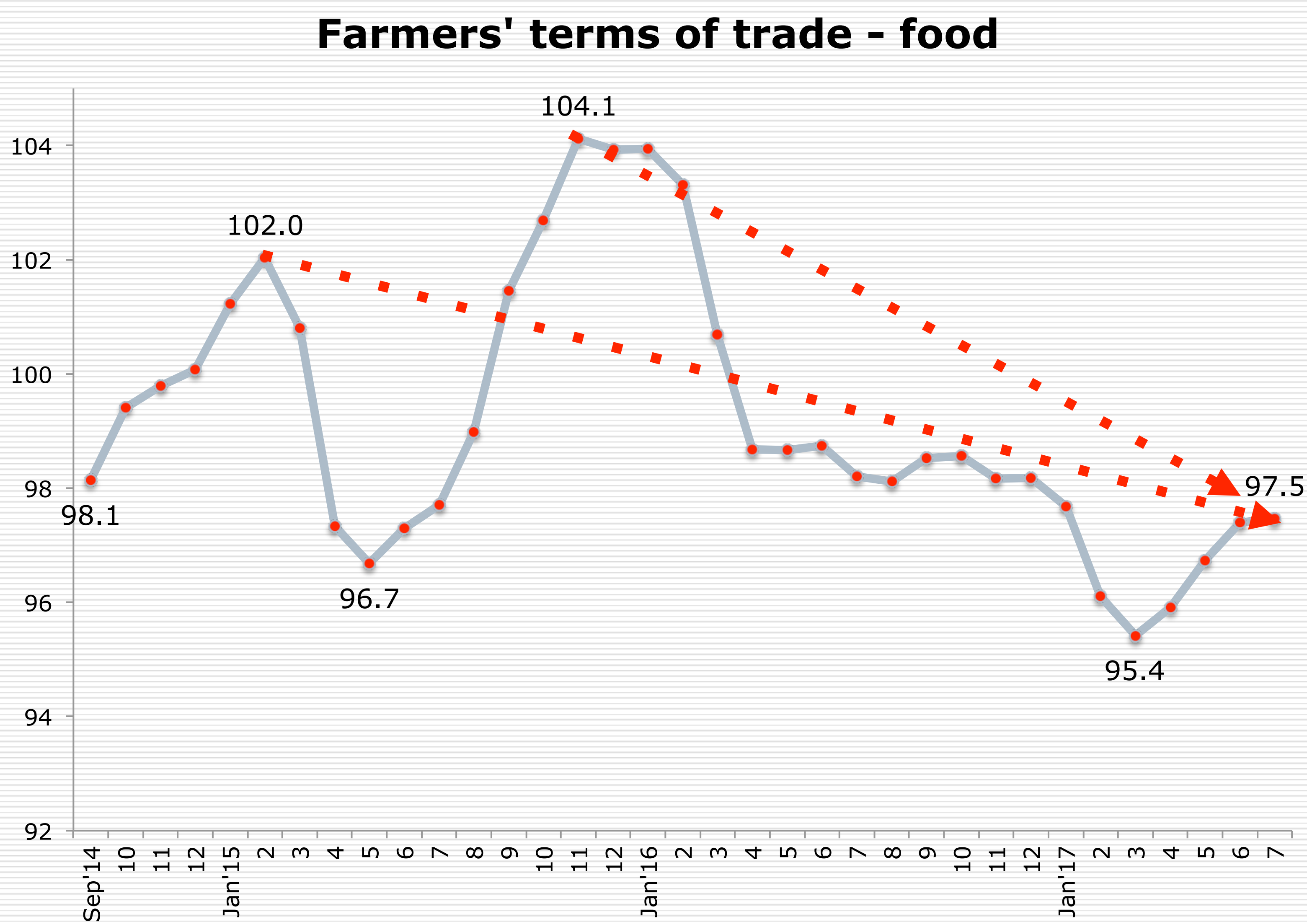
- The majority are farmers, farm workers, construction workers and other informal workers, and factory workers.
- Their purchasing power generally have decreased for quite long enough.
- Some can still survive by working longer hours, side jobs, or family members enter the labor market, so that family income does not go down significantly.
- The delay of disbursement of social assistance funds.
- The decline of purchasing power of this group on the national purchasing power is relatively small because their consumption share to the total private consumption is relatively low (17%).

Farmers' purchasing power under pressure



Source: BPS-Statistics Indonesia

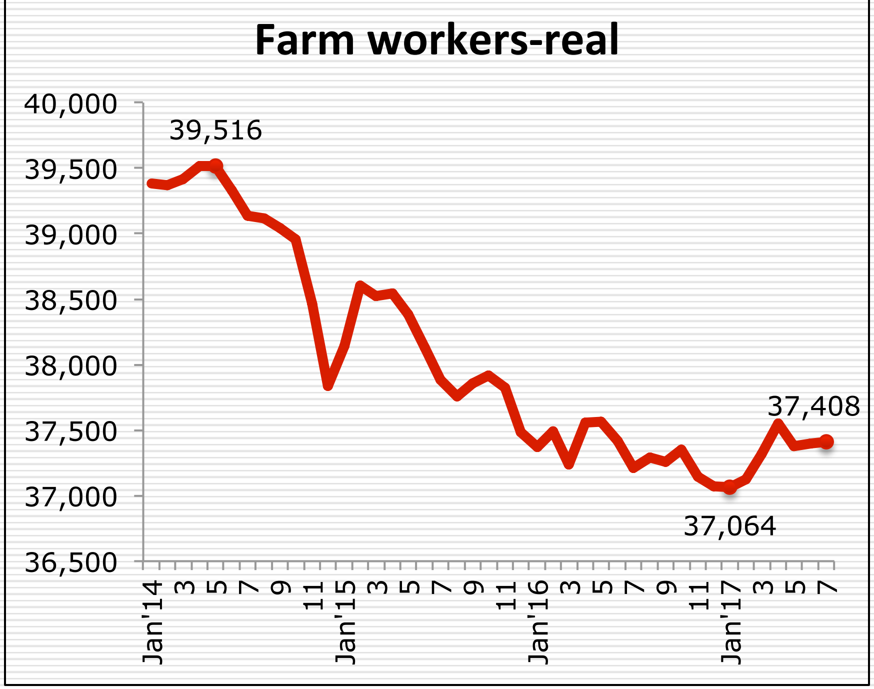
Farmers' purchasing power under pressure

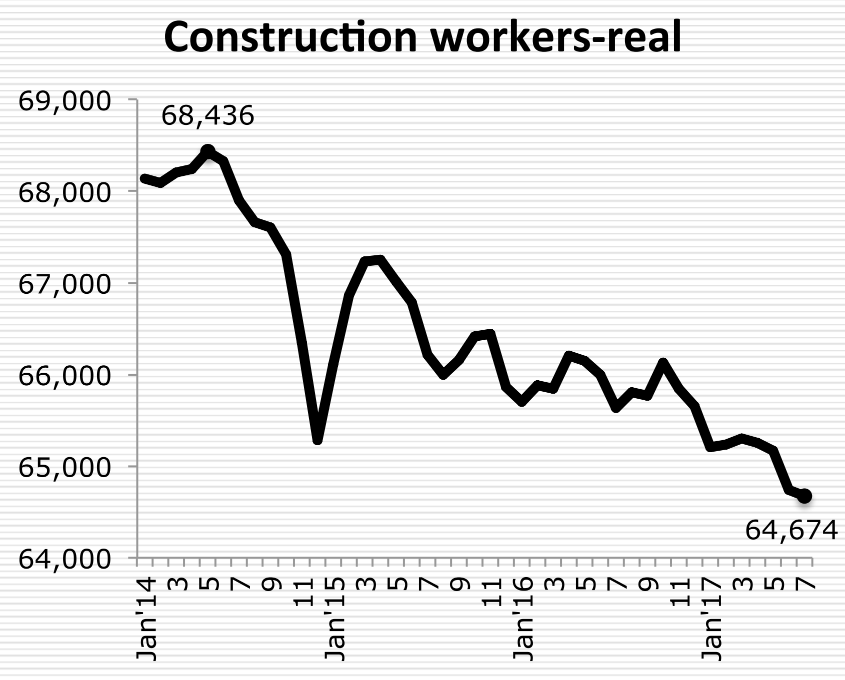


Source: BPS-Statistics Indonesia

Informal workers in rural sufferred more than in urban

Daily real wages, rupiah



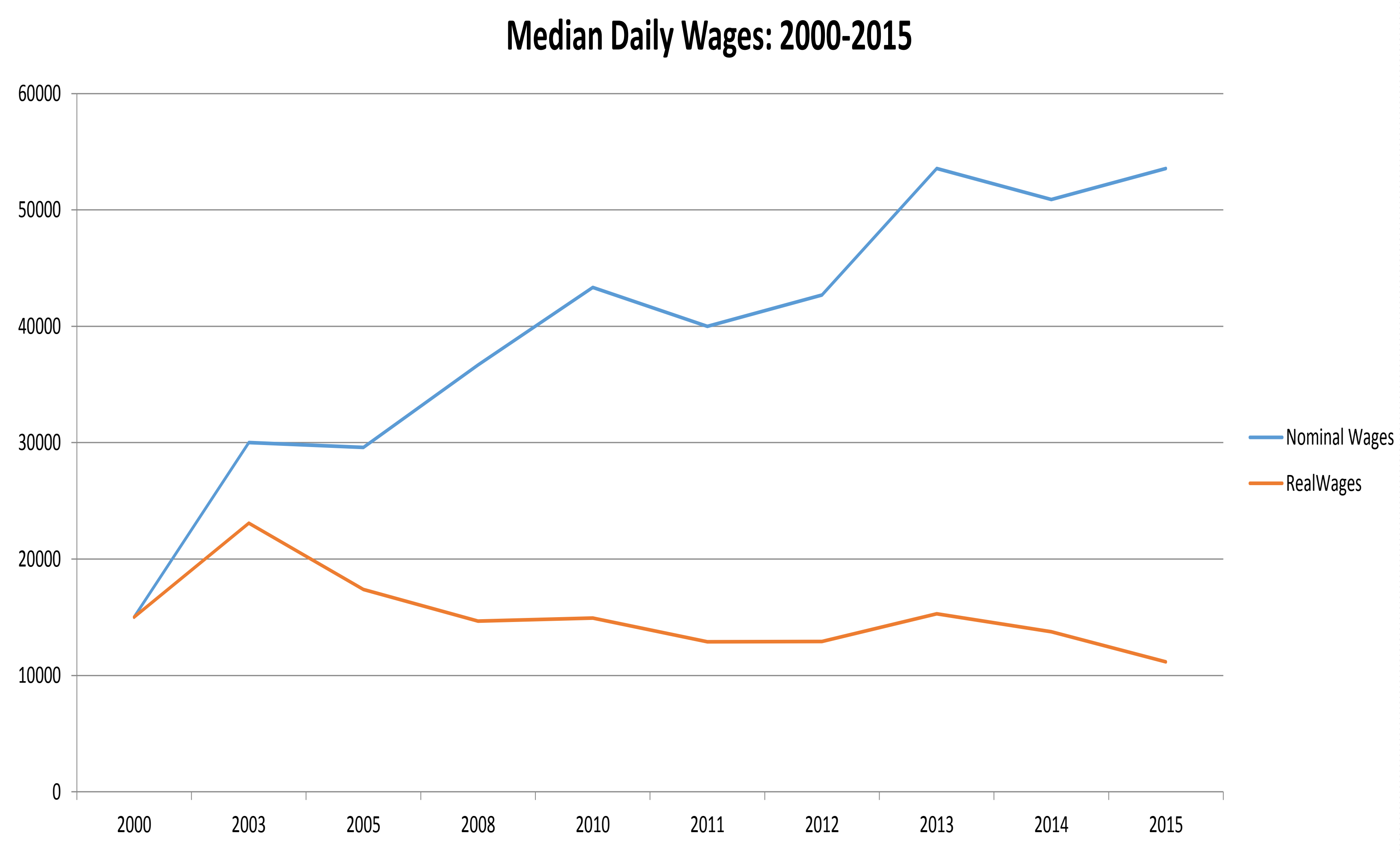


Change of daily real wages, year-on-year, percent

	Nov’15-Nov’14	Nov’16-Nov’15	Jul’17-Jul’16	Jul’17-Nov’14
Farm workers	-1.67	-1.80	0.54	-2.75
Construction workers	0.15	-0.91	-1.47	-2.52

Source: BPS-Statistics Indonesia.

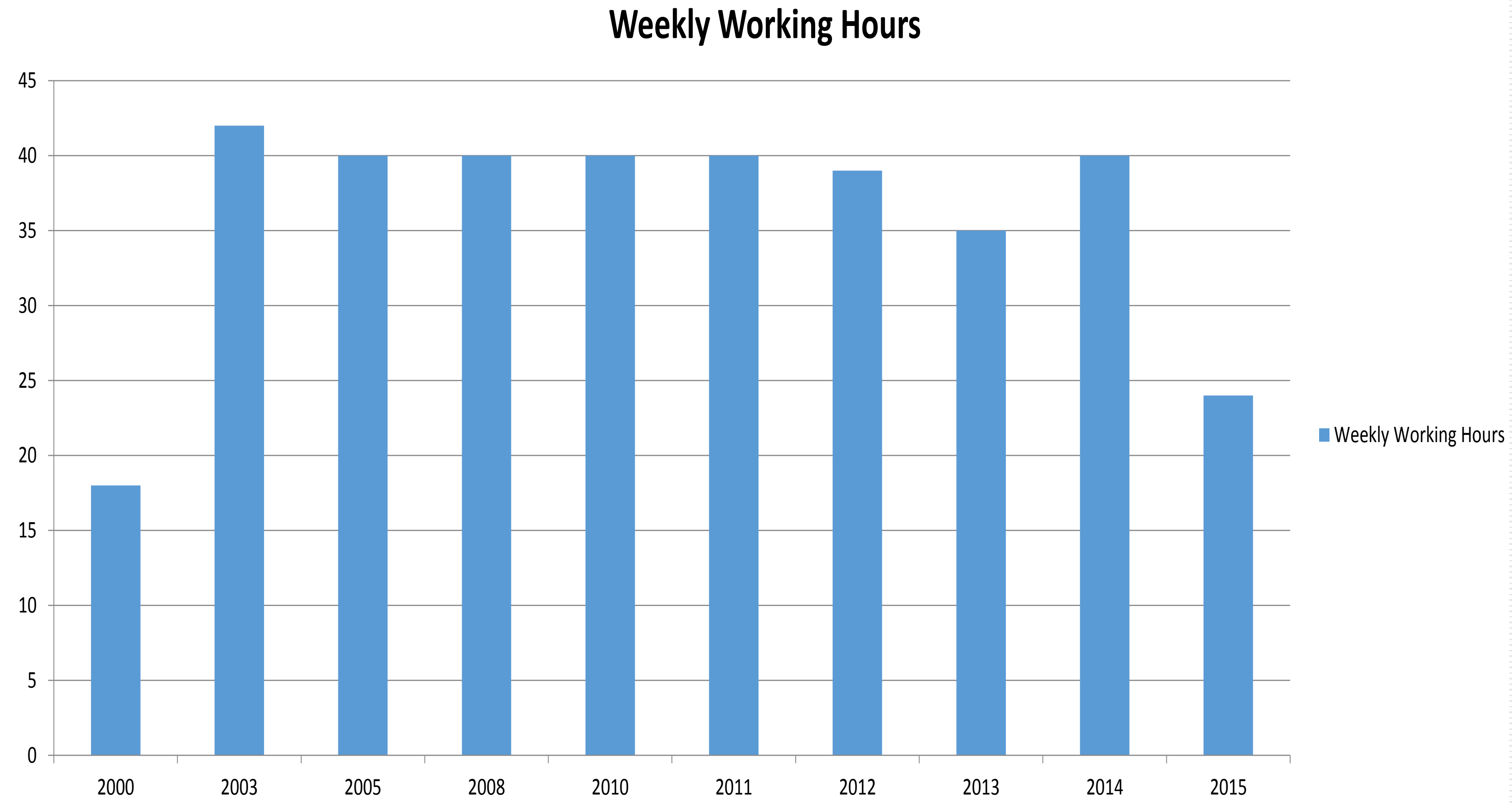
Wages: barely able to keep up with inflation



Source: DR. Ari Kuncoro based on BPS-Statistics Indonesia

Working hours

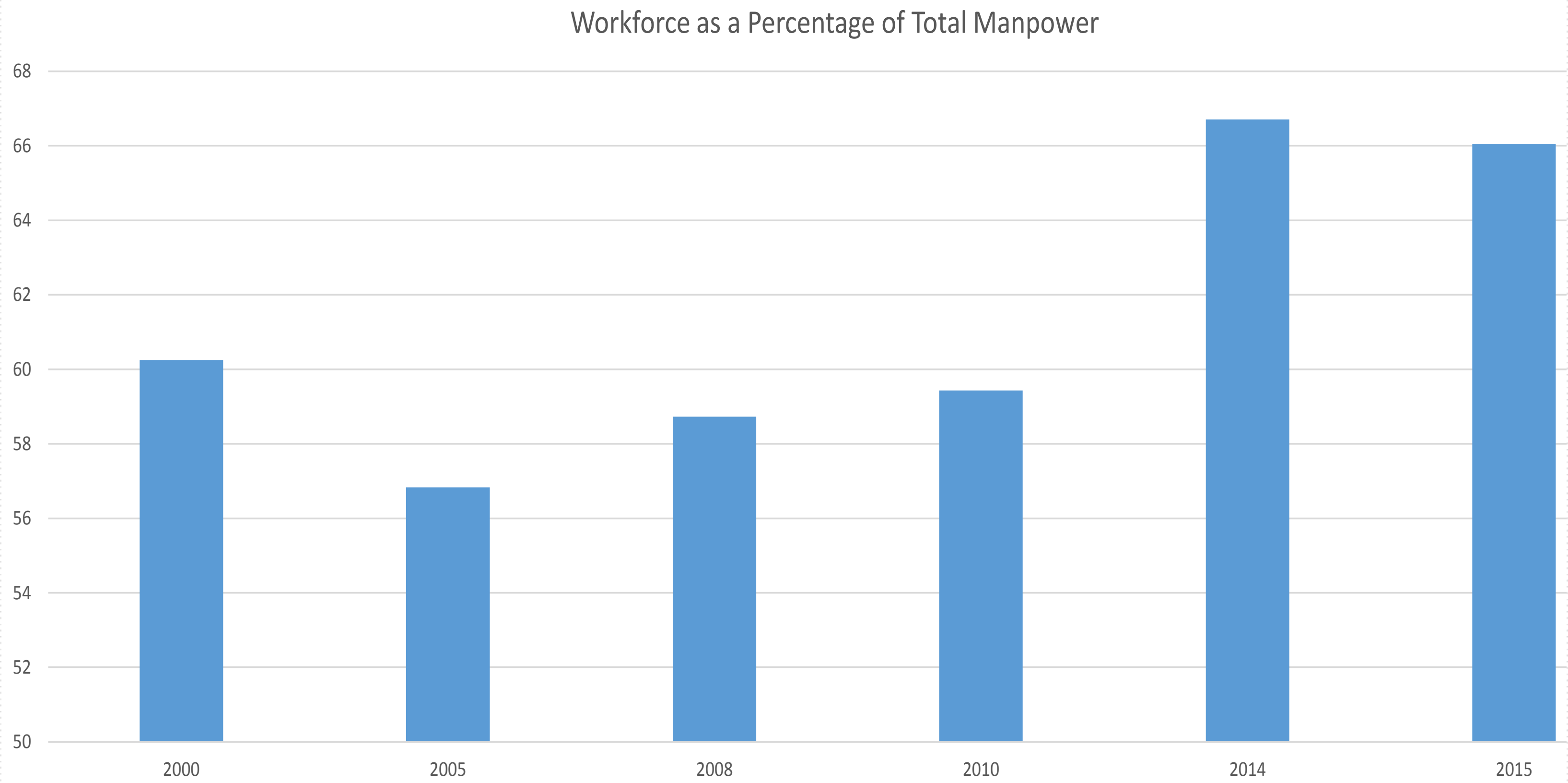
with rising minimum wages factories are cutting working hour



Source: DR. Ari Kuncoro based on BPS-Statistics Indonesia

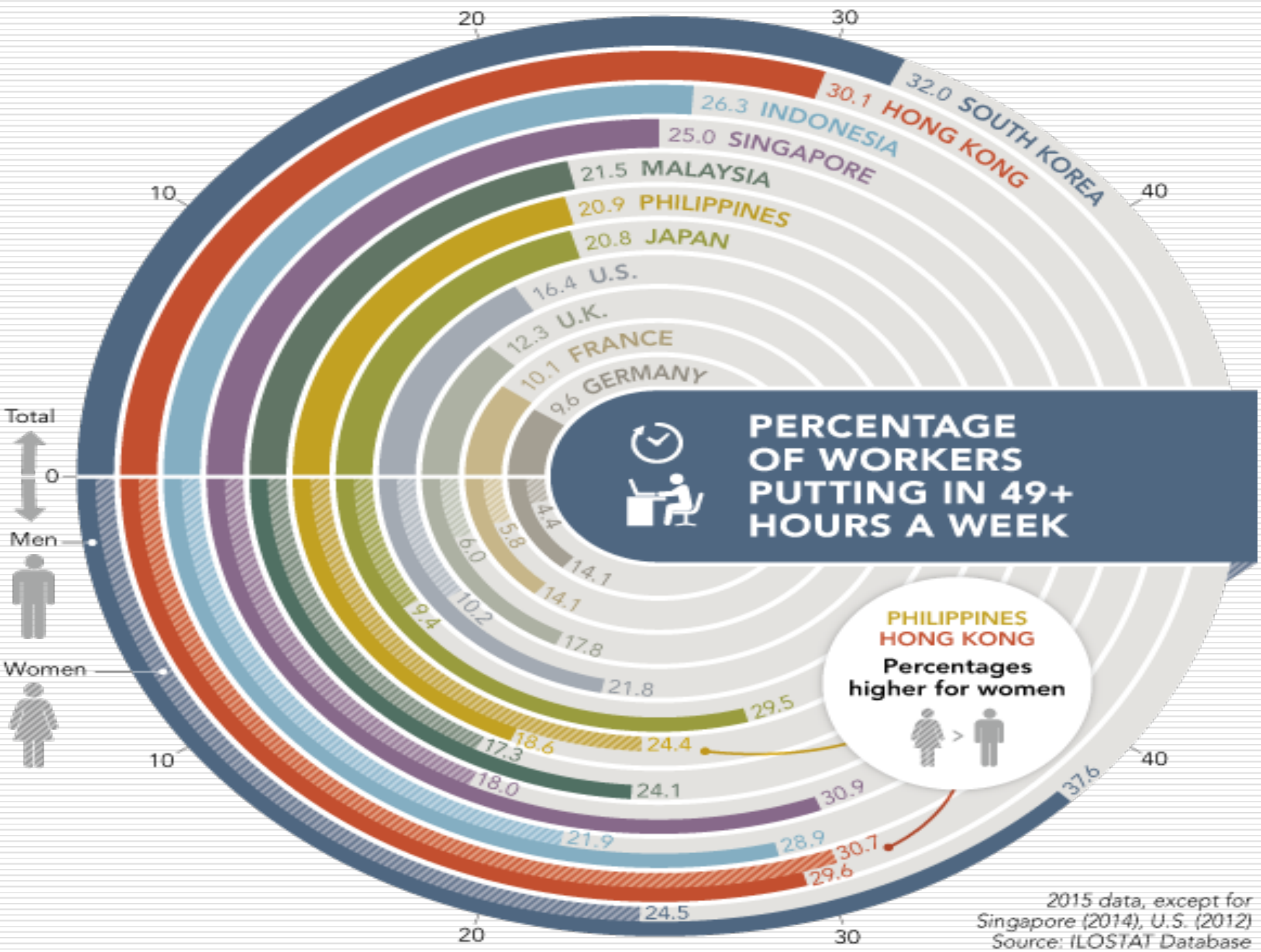
An increase at the household level?

Labor force participation rate is on the rise to compensate for stagnation/declining real wage and shorter working hours



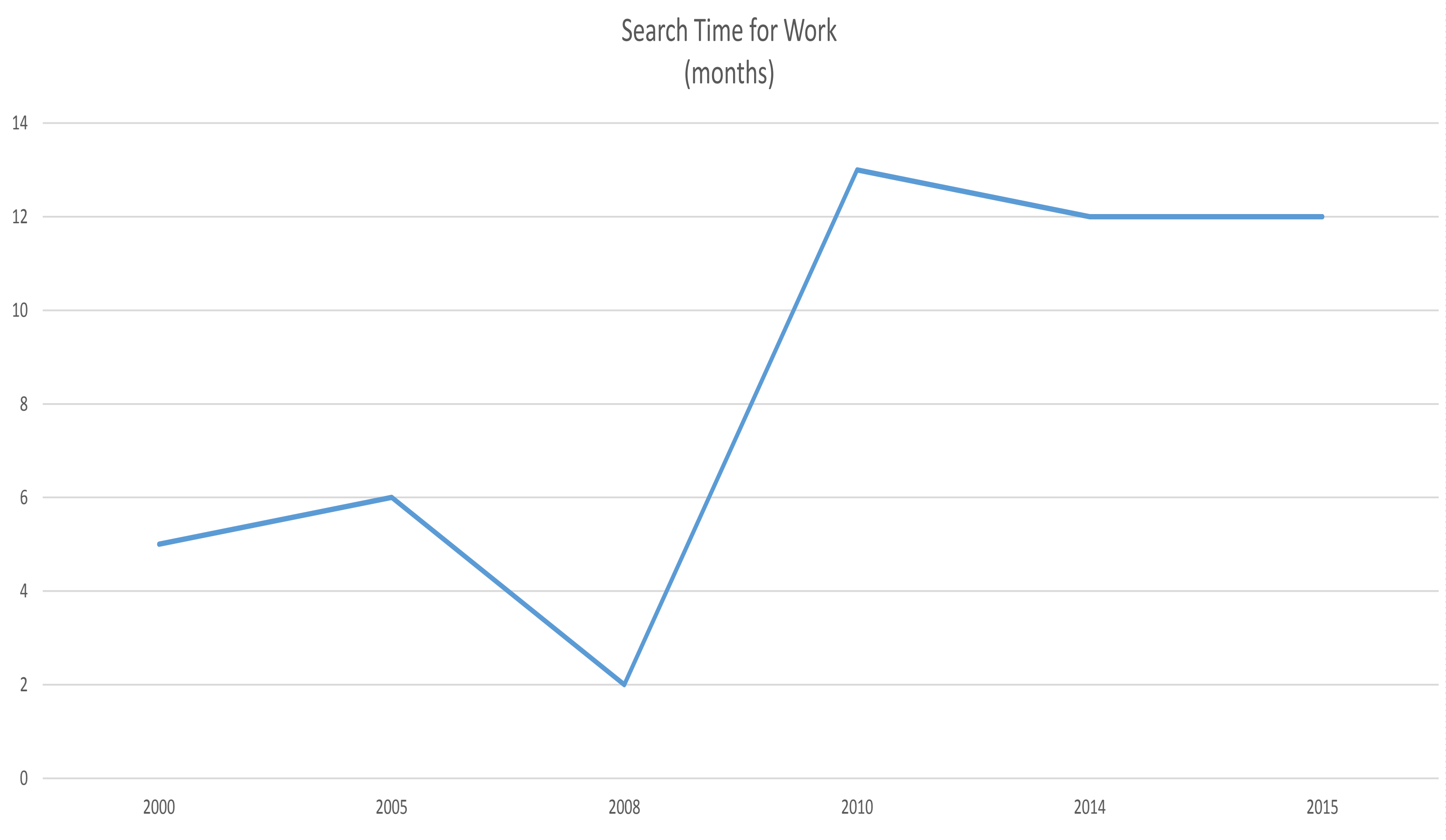
Source: DR. Ari Kuncoro based on BPS-Statistics Indonesia.

Grappling with the issue of overwork: 26.3% of workers in Indonesia worked 49+ hours per week



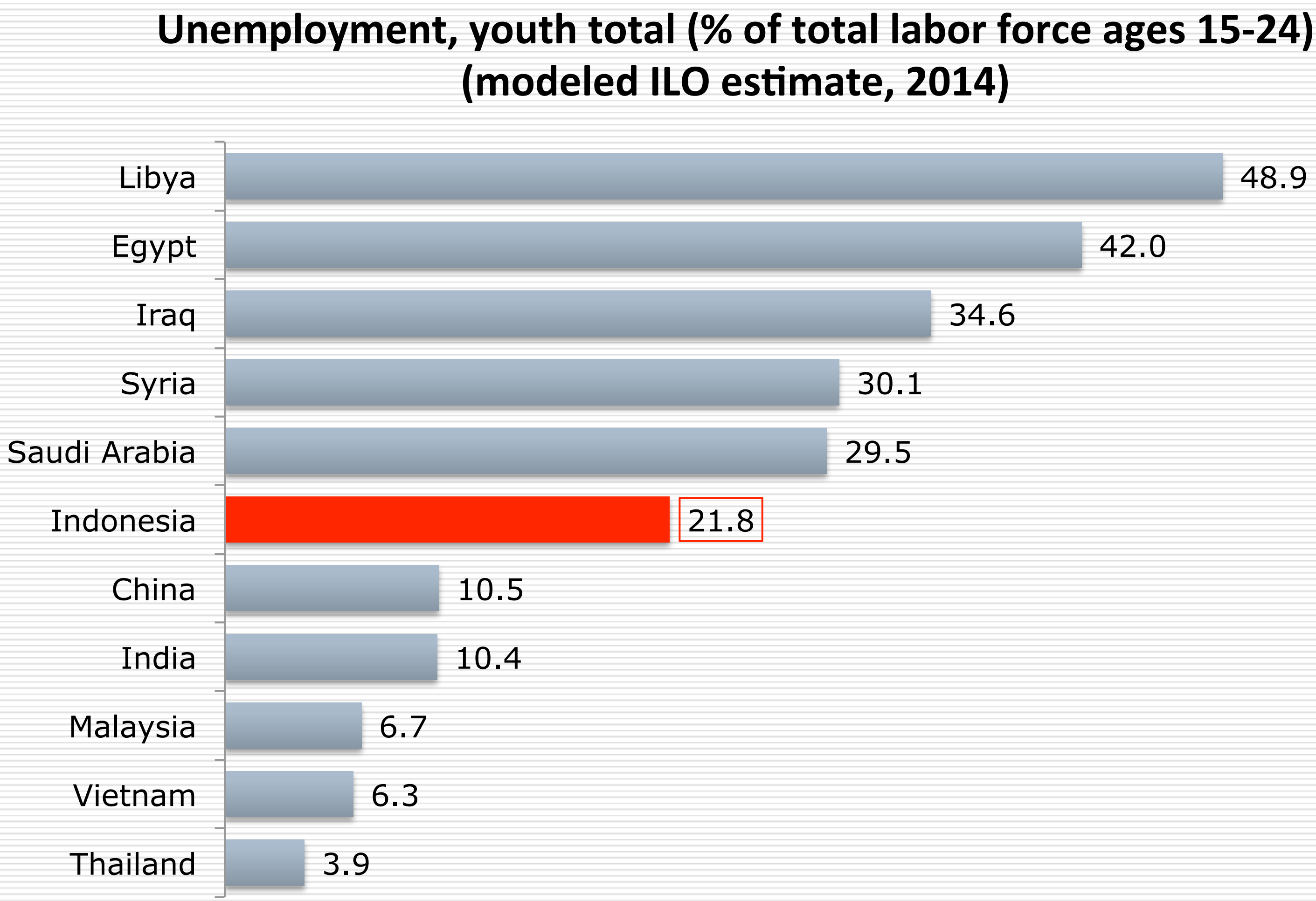
Source: Nikkei Asian Review http://s.nikkei.com/2hvdkNO

Takes longer to find a job



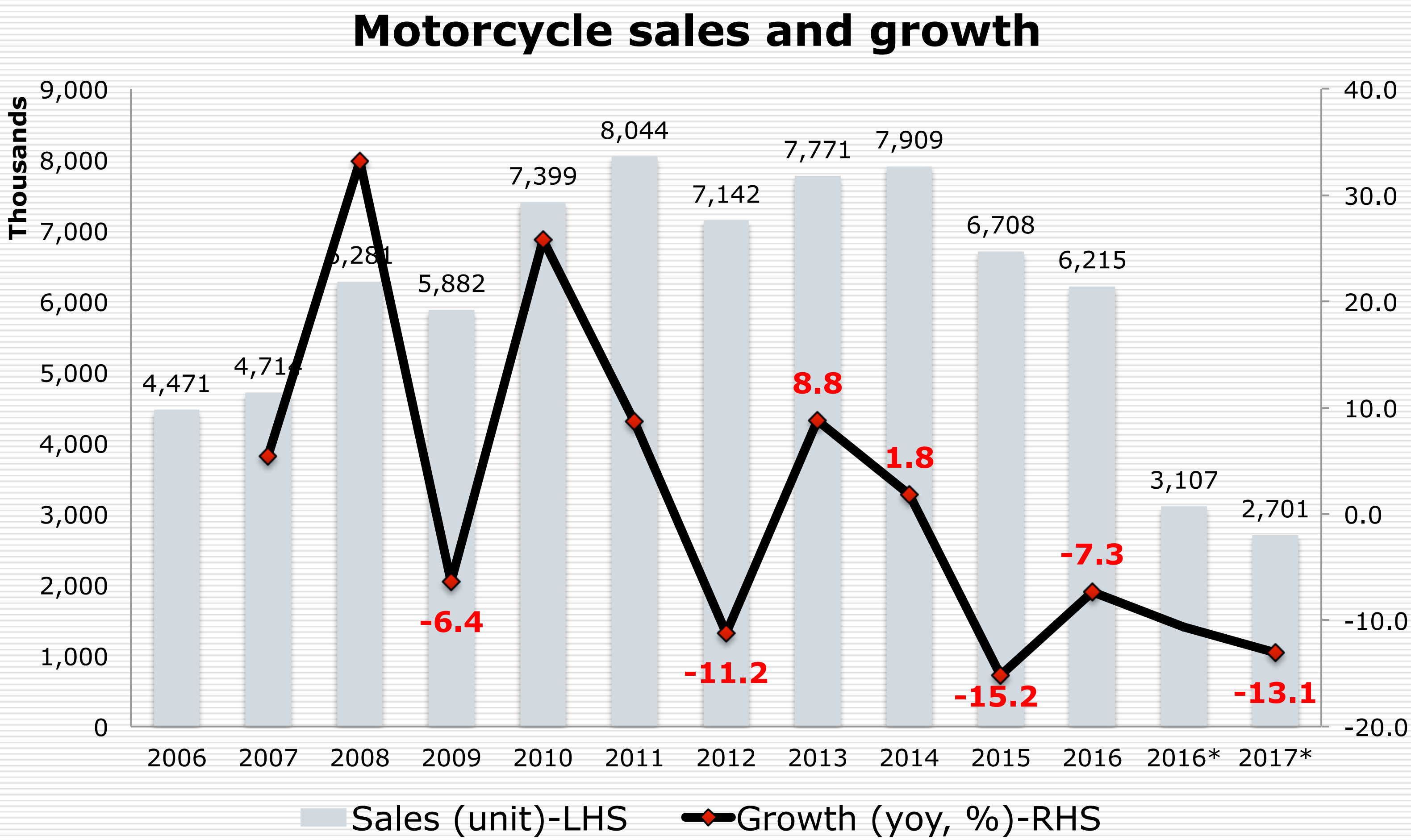
Source: BPS-Statistics Indonesia.

Youth unemployment



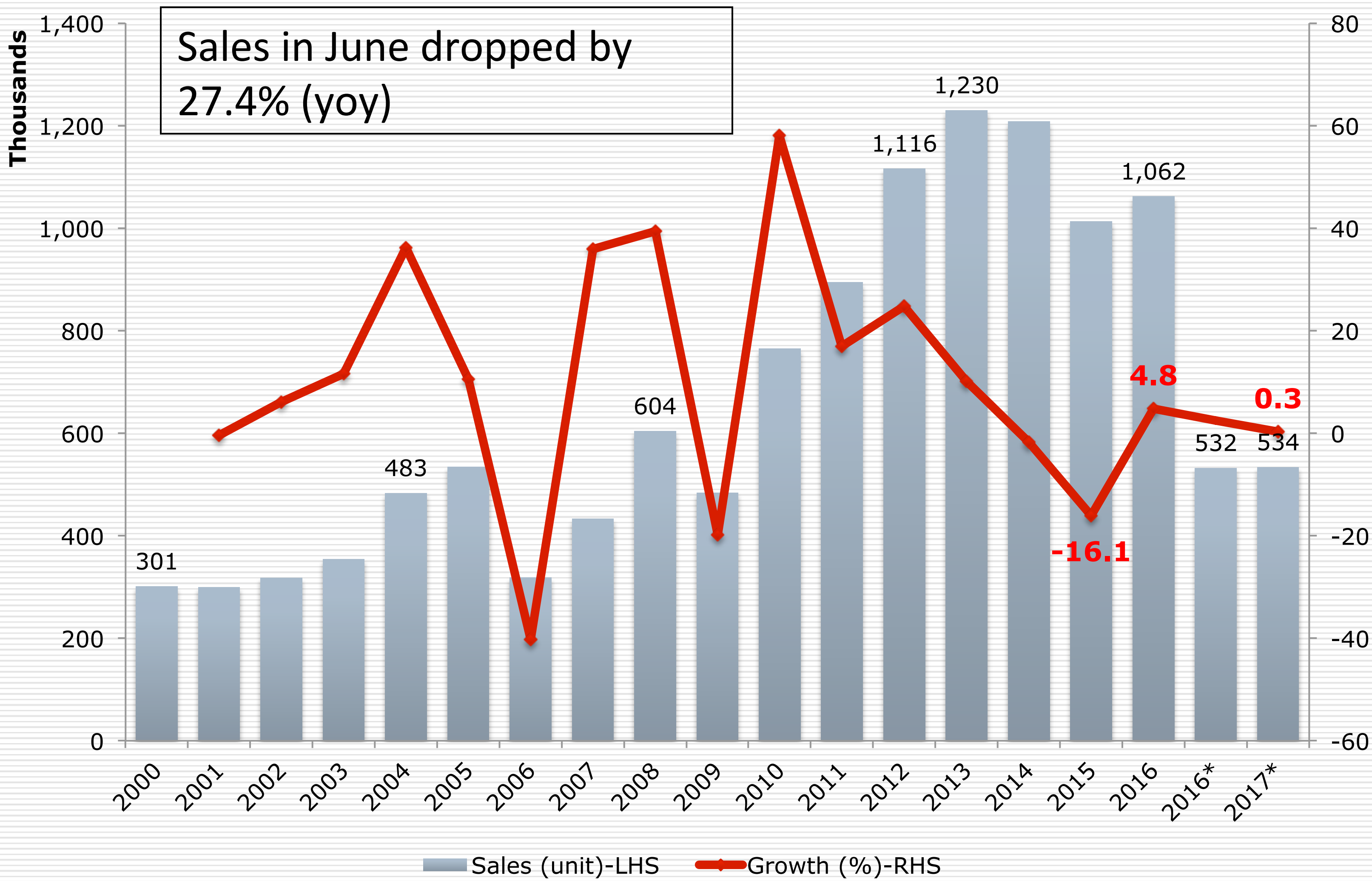
Source: World Bank.

Motorcycle sales and growth dropped sharply since 2015



* January-June.
Sources: Asosiasi Industri Sepeda Motor Indonesia (AISI) and ASEAN Automotive Federation.

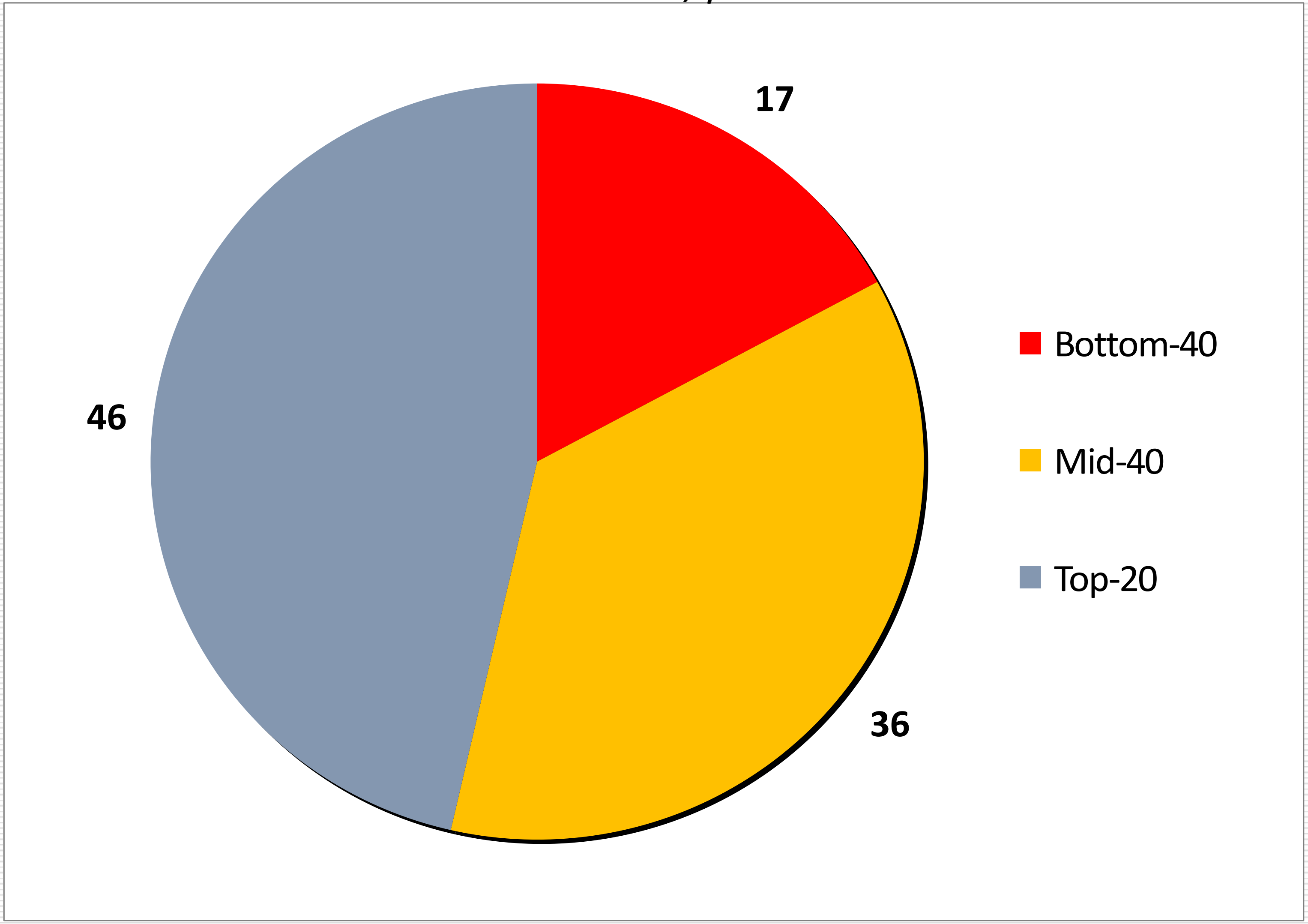
Car sales increased by 6.0 percent in Q1-2017



* January-June.
Source: Gaikindo

Distribution of spending by “income” group

March 2017, percent



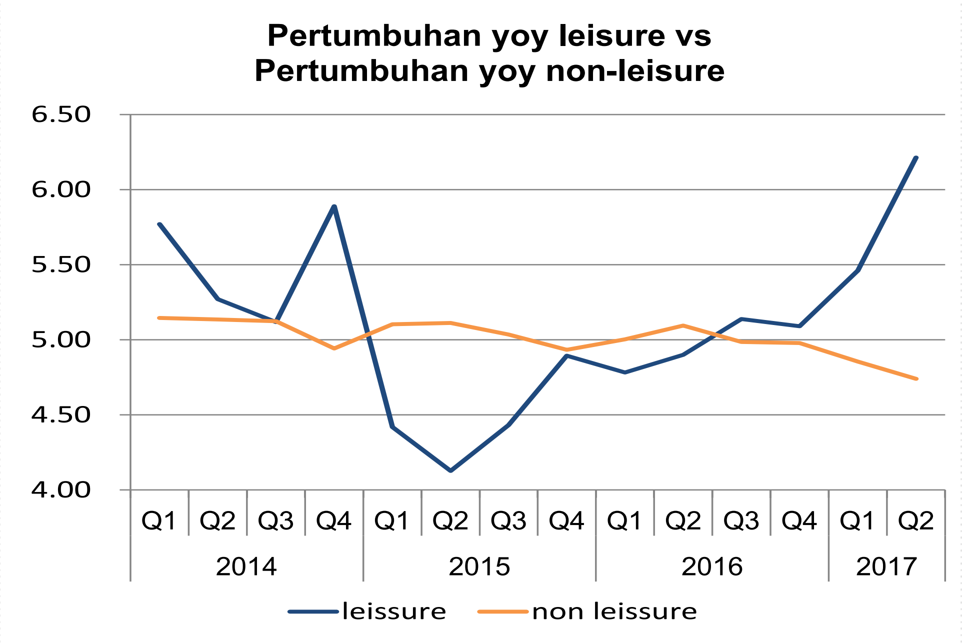
Source: BPS-Statistics Indonesia.

Began to spread to the lower-middle ...

- Elimination of of electricity subsidies for 900 VA customers (approximately 19 million). The average spending on electricity of this group went up from Rp 80,000 to Rp 170,000.
- Salaries of civil servants, soldiers, and police officers have not risen in the last two years. Also due to budget cuts for current expenditures.
- 4X2 car sales fell by 11% in Jan-Jun 2017, switched to “cheap” cars (LCGC) that grew sharply by 34.1%.
- Some Mid-40 and up were switching to savings amid rising political tensions and short-term uncertainties.

Changes in lifestyle

- Shift in consumption pattern from food and apparel to “leisure”.
- Leisure: hospitality (restaurants and hotels) and recreation & culture.



Source: BPS-Statistics Indonesia

Tax revenue target is still too ambitious, considering the 2017 tax revenue target may not be achieved

	2014 Actual audited	2015 Budget	2015 Revised Budget	2015 Actual audited	2016 Budget	2016 Revised Budget	2016 Actual	2017 Budget	2017 Revised Budget	2018 Proposed Budget
A. Revenues	1,550	1,794	1,762	1,508	1,822	1,786	1,552	1,750	1,736	1,878
I. Tax revenues	1,147	1,380	1,489	1,240	1,547	1,539	1,284	1,499	1,428	1,609
a. Income tax	546	644	679	602	757	856	667	788	784	853
i. Oil and gas	87	89	50	50	41	36	36	36	42	36
ii. Non-oil & gas	459	556	630	553	716	819	631	752	742	817
b. VAT/LGST	409	525	576	424	572	474	411	494	475	535
c. Excises	118	127	146	145	146	148	143	157	153	155
d. Others	73	84	88	70	71	61	62	60	60	66
II. Non-tax revenues	399	410	269	256	274	245	262	250	260	268
B. Expenditures	1,777	2,040	1,984	1,806	2,096	2,083	1,860	2,080	2,133	2,257
C. Overall balance	-227	-246	-223	-298	-274	-297	-308	-330	-397	-379
as percent of GDP	-2.2	-2.1	-1.9	-2.6	-2.2	-2.4	-2.5	-2.41	-2.93	-2.19

Sources: Ministry of Finance..

Pertumbuhan penerimaan pajak

Tahun	persen
2012	12.2
2013	9.9
2014	6.5
2015	8.1
2016*	3.5
2017**	16.7

*Realisasi sementara
**APBN 2017 dibandingkan realisasi 2016.

- Pertumbuhan 2015 semu karena praktek "ijon" dan penundaan pembayaran restitusi. Tak ada lagi akrobat pajak pada 2016.
- Pertumbuhan 2016 tanpa penerimaan uang tebusan dari program amnesti pajak = -4,8%.
- Pertumbuhan 2017 (APBN) dibandingkan realisasi 2016 tanpa uang tebusan = **26,9%**.

- Pada APBN-P 2017, target penerimaan pajak **dipangkas sebesar Rp 71 triliun** dari target pada APBN 2017.
- Sehingga, pertumbuhan 2017 (APBN-P) dibandingkan realisasi 2016 tanpa uang tebusan = **20,9%**.

Risiko shortfall masih menghadang

- Dengan skenario pertumbuhan 15% pada 2017, penerimaan pajak 2017 Rp 1.358, lebih rendah **Rp 70 triliun** dibandingkan dengan APBN-P 2017.
- Hingga Mei 2017, penerimaan perpajakan Rp 463,5 triliun atau 30,9% dari target sebesar Rp 1.428 triliun.
- Berdasarkan perhitungan sangat sederhana, penerimaan rerata bulanan Rp 92,7 triliun. Diekstrapolasi ke tahunan, penerimaan pajak 2017 adalah Rp 1.112 triliun. Dengan demikian kemungkinan ”shortfall” = **Rp 315.6 triliun**.

Berbagai pemberitaan belakangan ini

Pemerintah Belum Bayar Dana Subsidi Elpiji ke Pertamina Rp 16 Triliun

"Total tagihan Pertamina ke Pemerintah Rp 35 triliun."

http://katadata.co.id/berita/2017/06/09/subsidi-elpiji-jadi-utang-terbesar-pemerintah-ke-pertamina

Menteri Keuangan Sri Mulyani Ubah Batas Dana Wajib Lapor Pajak Jadi Rp 1 Miliar

Penerimaan pajak hingga Mei baru 31% dari target

http://nasional.kontan.co.id/news/penerimaan-pajak-hingga-mei-baru-31-dari-target

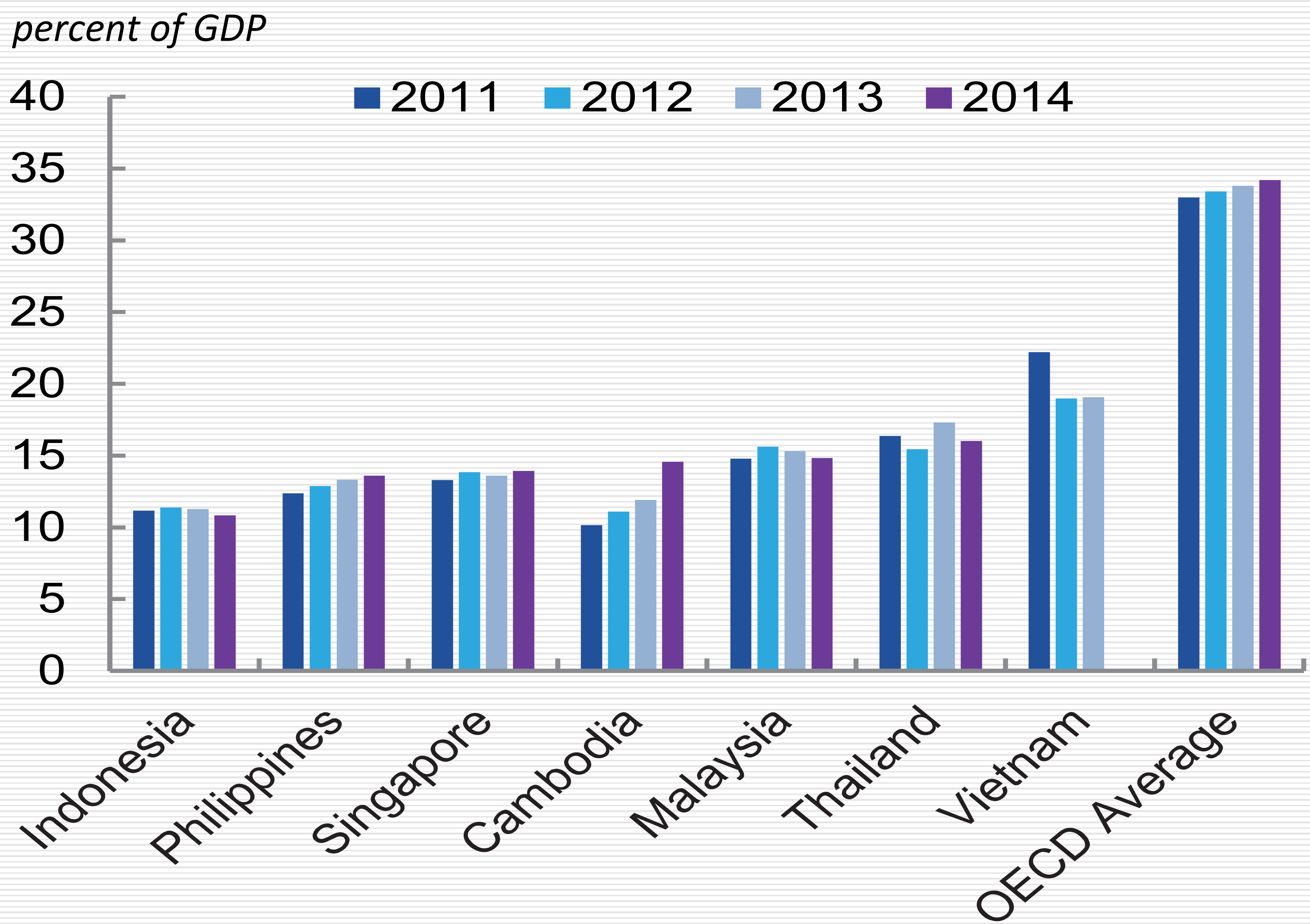
Ditjen Pajak: Batas Gaji Bebas Pajak Belum Bakal Turun

http://bisnis.liputan6.com/read/3029289/ditjen-pajak-batas-gaji-bebas-pajak-belum-bakal-turun

Gaji ke-13 Telat, Konsumsi Masyarakat Lesu?

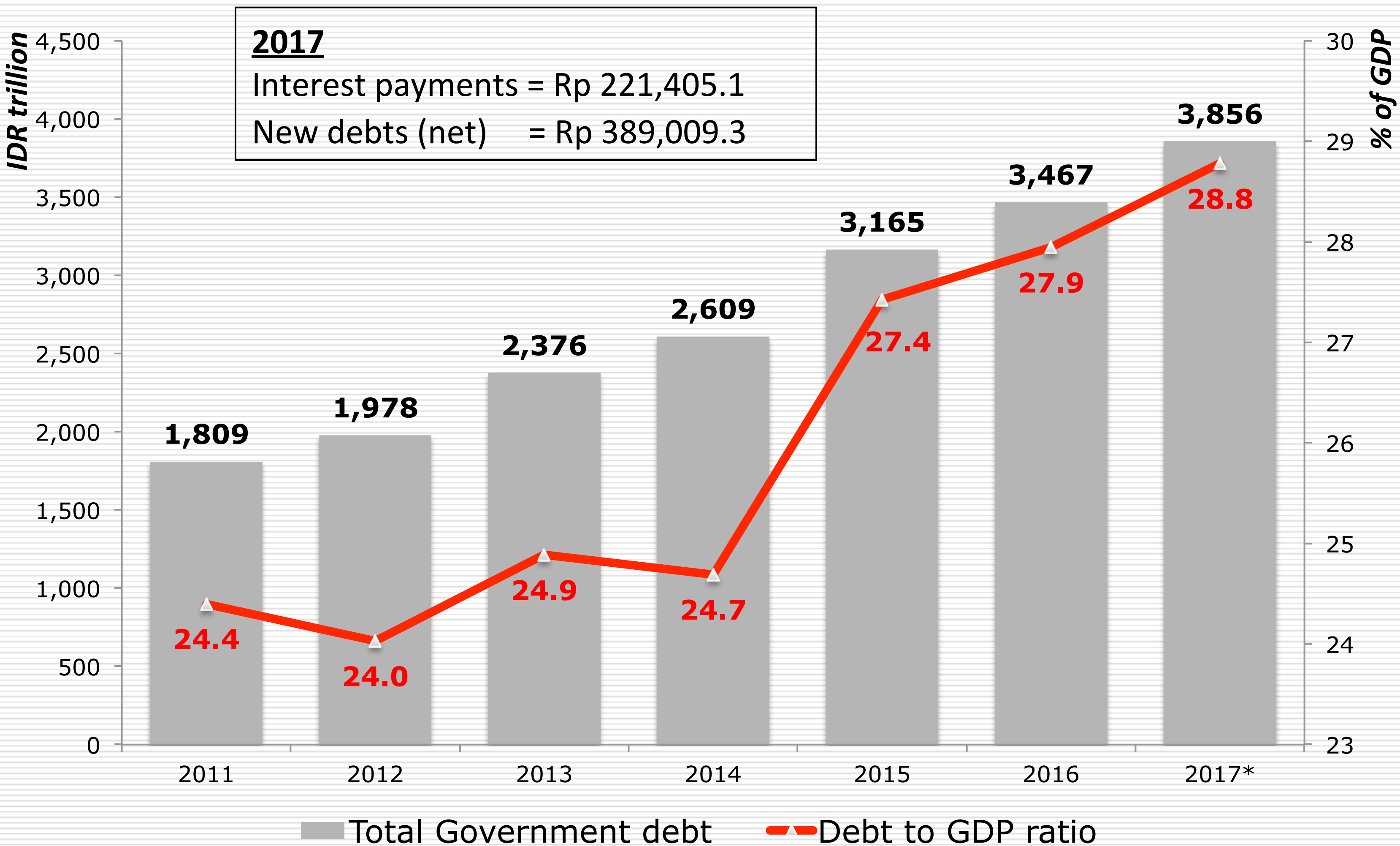
http://ekonomi.kompas.com/read/2017/07/21/194500126/gaji-ke-13-telat-konsumsi-masyarakat-lesu-

Indonesia's tax-to-GDP ratio is low compared to peers



Source: World Bank, Indonesia Economic Quarterly, March 2017, p. 21.

Government debt increased sharply in the last 3 years



* 2016 plus additional Government plan for net new debts; and own projection for nominal GDP.
Sources: BPS-Statistics Indonesia and Ministry of Finance.

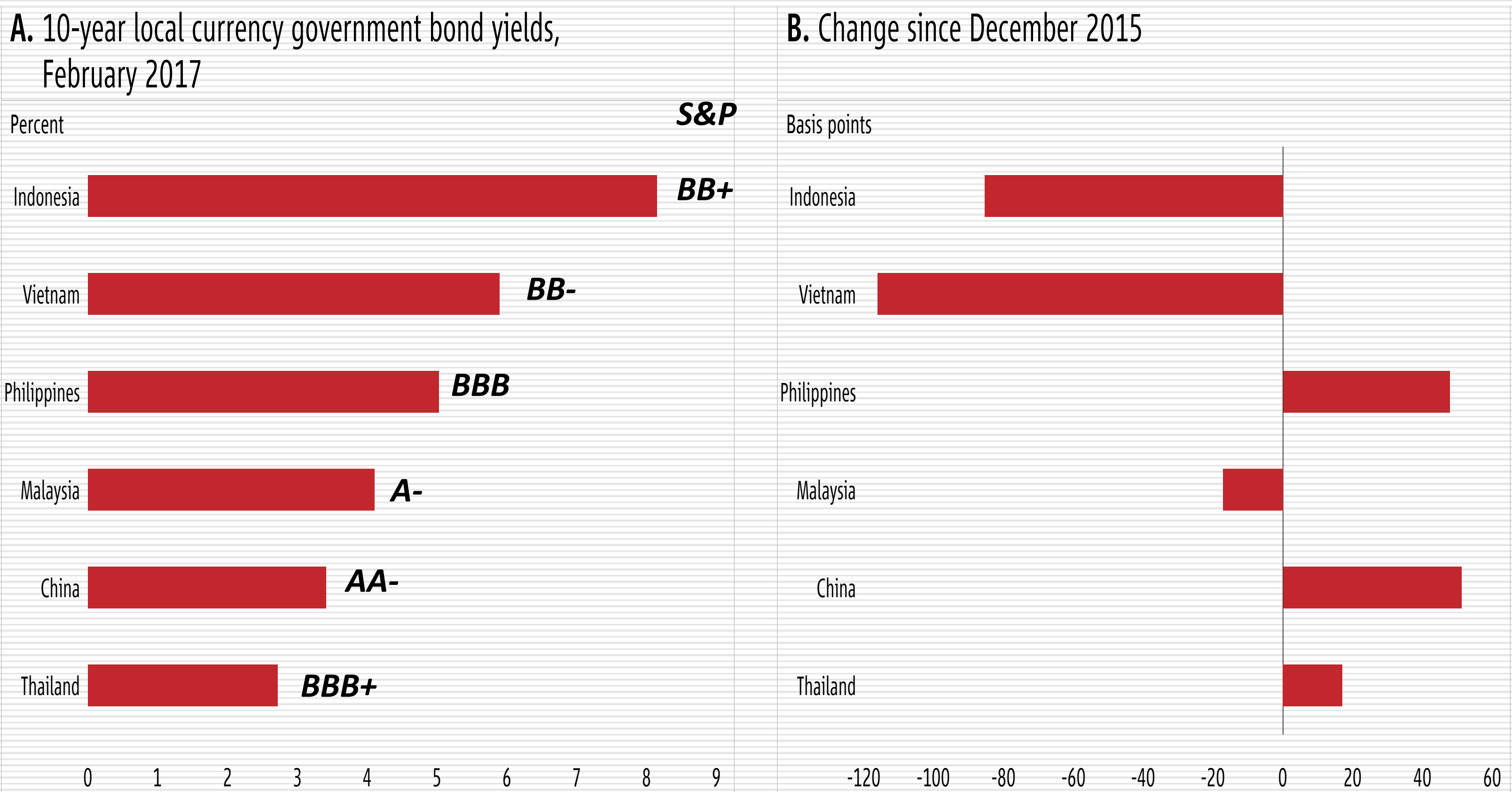
Indonesia's sovereign rating by 5 agencies

Rating Agency	Rating	Latest Awarded Date	Outlook	Note
Moody's	Baa3	Feb. 8, 2017	Positive*	IG
Fitch	BBB-	Dec. 21, 2016	Positive*	IG
Rating and Investment	BBB-	Apr. 5, 2017	Positive*	IG
Japan Credit Rating Agency	BBB-	Mar. 7, 2017	Positive*	IG
Standard & Poor's	BBB-*	May 19, 2017	Stable	IG

IG = Investment Grade
* Revised from stable
** Raised by one notch from BB+
Source: Bank Indonesia.

S&P rating and sovereign bond yields

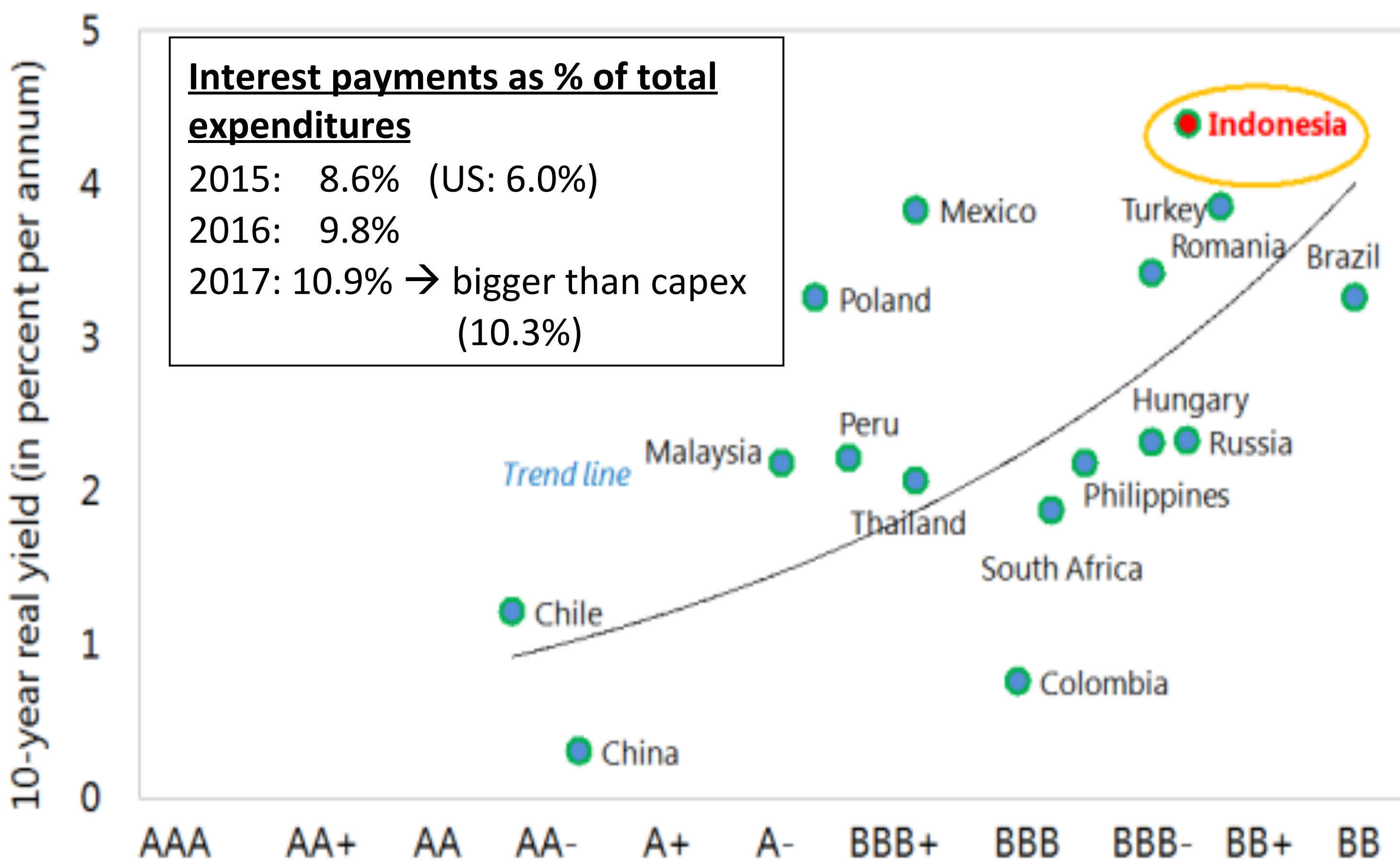
Government bond yields had significantly decreased over the past year in Indonesia and Vietnam even though both countries had not yet obtained investment grade status



Sources: Haver Analytics; CEIC.

http://pubdocs.worldbank.org/en/164681492024146238/EAP-Economic-Update-April-2017.pdf?cid=EXTEAPMonth1

Government bond real yield and credit rating



Interest payments as % of total expenditures

2015: 8.6% (US: 6.0%)

2016: 9.8%

2017: 10.9% → bigger than capex (10.3%)

Sources: Bloomberg L.P.; IMF, *Information Notice System*; and IMF staff estimates.

1/ Real yield is defined as nominal bond yield minus inflation rate. Credit Rating represents average of ratings from S&P, Fitch, and Moodys for each country. Data as of November 2016 or latest available.

http://www.imf.org/en/Publications/CR/Issues/2017/02/11/Indonesia-Selected-Issues-44654

Low quality of investment

Structure of gross fixed capital formation, percent

	2011	2012	2013	2014	2015	Average 2011-15
Construction	73.1	72.9	73.5	74.6	75.4	73.9
Machinery & equipment	**11.4**	**11.7**	**11.2**	**10.2**	**9.6**	**10.8**
Vehicles	6.0	6.3	5.7	4.6	4.4	5.4
Other equipments	1.4	1.4	1.4	1.4	1.5	1.4
Cultivated biological resources	5.9	5.6	5.8	6.0	6.1	5.9
Intellectual property products	2.1	2.1	2.4	3.2	3.0	2.6

Source: BPS-Statistics Indonesia.

Part V

Economic Prospect 2017-2018

Policy responses matter: projections of GDP growth of ASEAN countries

year-on-year, percent

	2013	2014	2015	2016	2017*	2018*
Brunei Darussalam	-2.1	-2.5	-0.4	-2.5	1.0	2.5
Cambodia	7.4	7.1	7.0	7.0	7.1	7.1
Indonesia	**5.6**	**5.0**	**4.9**	**5.0**	**5.1**	**5.3**
Lao PDR	7.8	7.5	6.7	6.8	6.9	7.0
Malaysia	4.7	6.0	5.0	4.2	4.7	4.6
Myanmar	8.4	8.0	7.3	6.4	7.7	8.0
Philippines	7.1	6.2	5.9	6.8	6.5	6.7
Singapore	4.7	3.6	1.9	2.0	2.4	2.5
Thailand	2.7	0.9	2.9	3.2	3.5	3.6
Vietnam	5.4	6.0	6.7	6.2	6.5	6.7
Memo: **ASEAN**	**5.0**	**4.6**	**4.6**	**4.7**	**4.8**	**5.0**

* Projections.

Source: Asian Development Outlook 2017, April 2017, and Asian Development Outlook Supplement, July 2017.
https://www.adb.org/sites/default/files/publication/237761/ado-2017.pdf

Asumsi APBN-P 2017 dan RAPBN 2018

Indikator	APBN-P 2017	RAPBN 2018
Pertumbuhan ekonomi (%)	5.2	5.4
Inflasi (%)	4.3	3.5
Nilai tukar (Rp/US$)	13.500	13.400
SPN (%)	5.2	5.3
Indonesian Crude Price (US$/barrel)	48	48
Lifting minyak (ribu barrel/hari)	815	800
Lifting gas (ribu barrel/hari setara minyak)	1.150	1.200

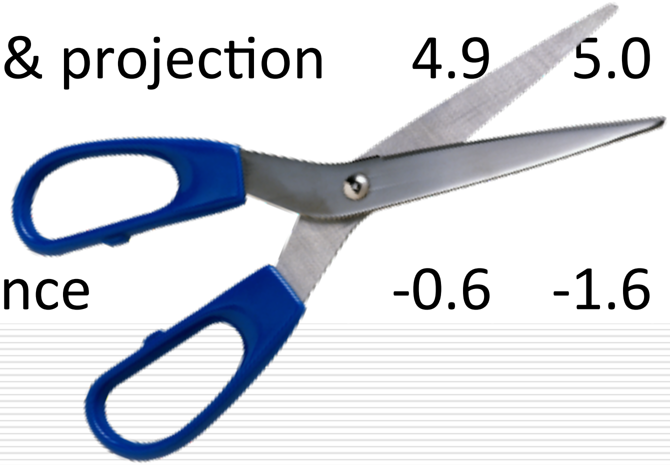
Projections of GDP growth by several agencies

No	Agency	Latest Published	2014	2015*	2016*	2017	2018
1	Gov't of Indonesia	Aug. 2017	5.2 (+0.2)	5.2 (+0.4)	5.1 (+0.1)	5.2	5.4
2	Bank Indonesia	Mar. 2017	5.3 (+0.3)	5.2 (+0.4)	5.2 (+0.2)	5.2	--
3	IMF	Apr. 2017	5.2 (+0.2)	5.2 (+0.4)	5.0 (0.0)	5.1	5.3
4	World Bank	Jun. 2017	5.1 (+0.1)	4.7 (-0.1)	5.1 (+0.1)	5.2	5.3
5	ADB	Jul. 2017	5.1 (+0.1)	5.0 (+0.2)	5.0 (0.0)	5.1	5.3
6	The Economist	Aug. 2017	5.1 (+0.1)	4.9 (+0.1)	5.0 (0.0)	5.2	5.4
7	**Faisal Basri**	**Aug. 2017**	**5.0 (0.0)**	**4.9 (+0.1)**	**4.9 (-0.1)**	**5.0**	**5.2**

* As of April-July

Economic growth is far below the government's target

	2015	2016*	2017**	2018**	2019**	Average 2015-19
RPJM target	5.5	6.6	7.1	7.5	8.0	6.9
Actual & projection	4.9	5.0	5.0	5.4	5.9	5.2
Difference	-0.6	-1.6	-2.1	-2.1	-2.1	-1.7



* Estimate
** Projection

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