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# Sustaining Resilience

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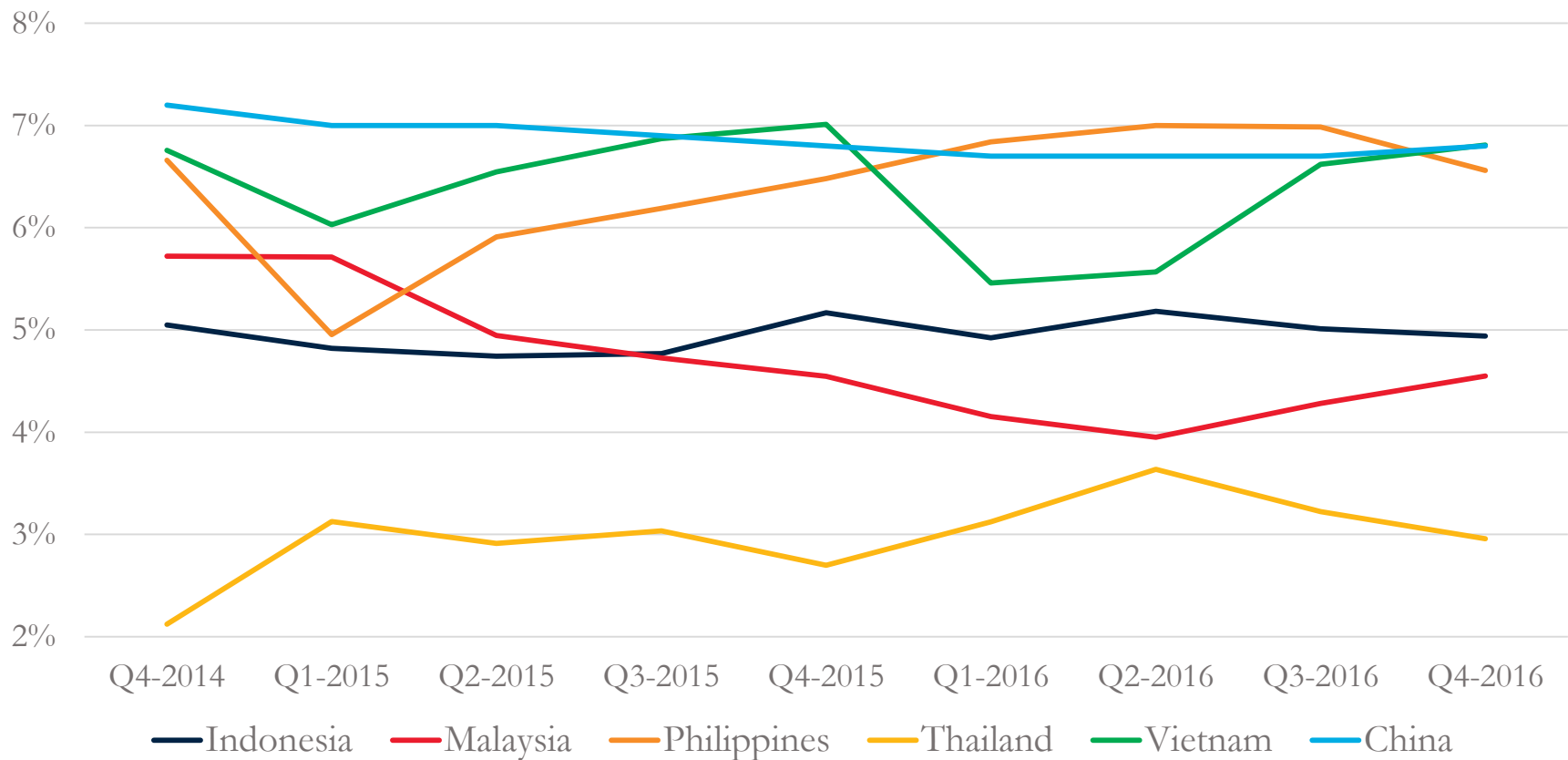


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# **RECENT TRENDS**

# Growth remains resilient

GDP growth  
(year-on-year percent change)

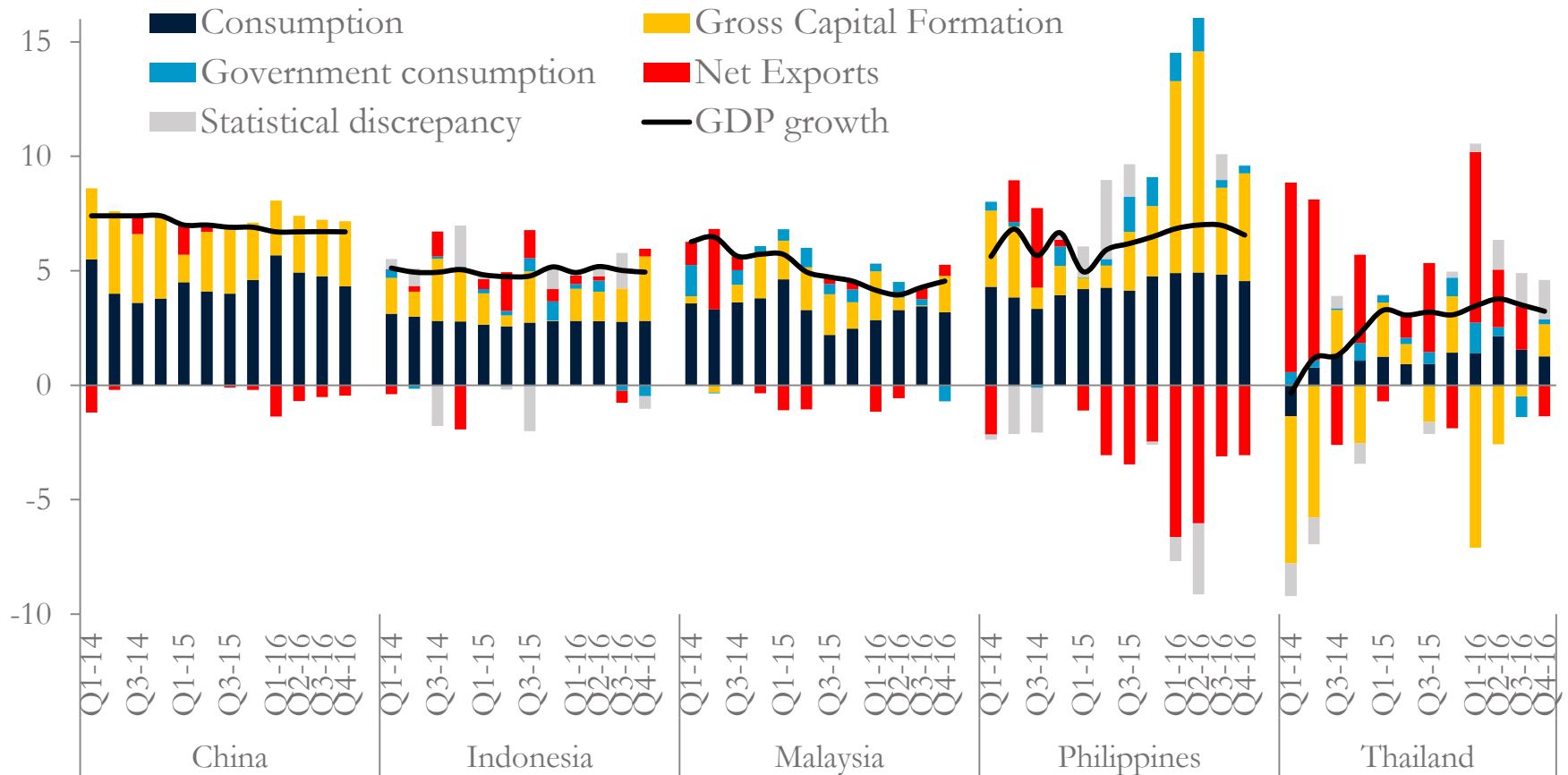


Sources: Haver Analytics; World Development Indicators.

# ... with robust domestic demand

## Contribution to GDP growth

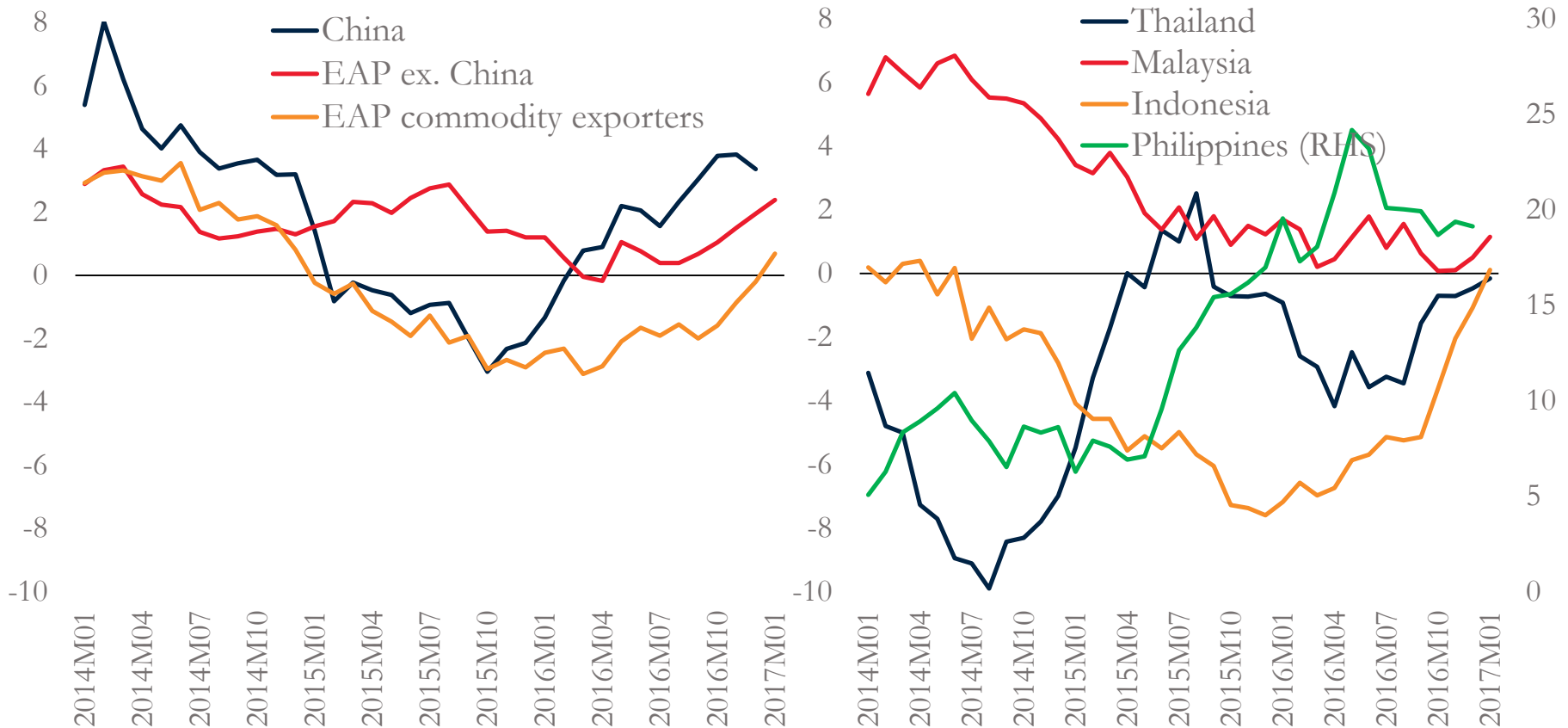
(percentage points, year-on-year)



Sources: Haver Analytics; World Bank staff estimates.

# ... and rising exports

## Export volume growth (percent, 12-month growth rate)

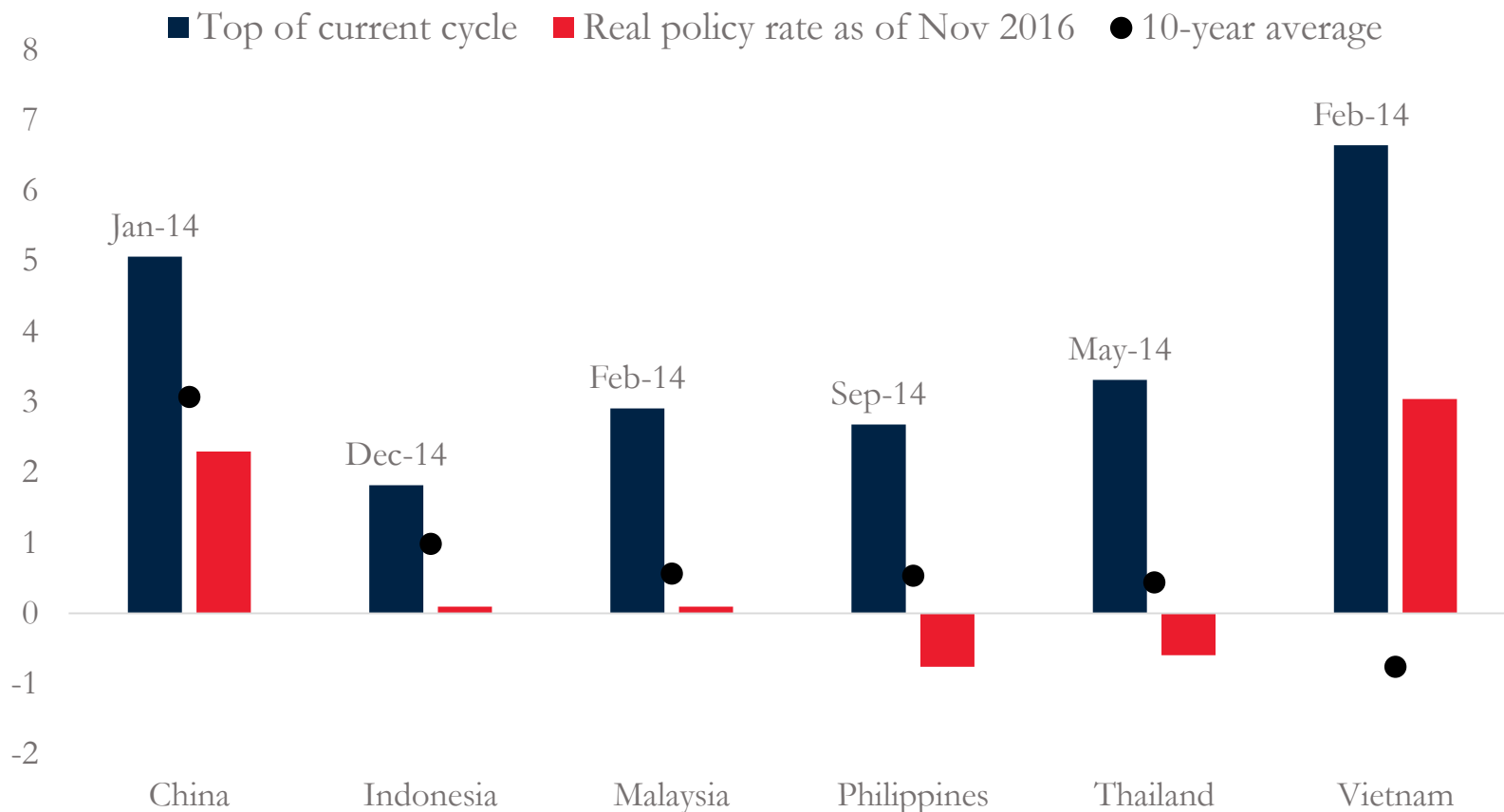


Sources: Haver Analytics; World Bank staff estimates.

Note: RHS = right-hand side.

# Monetary policy has remained accommodative

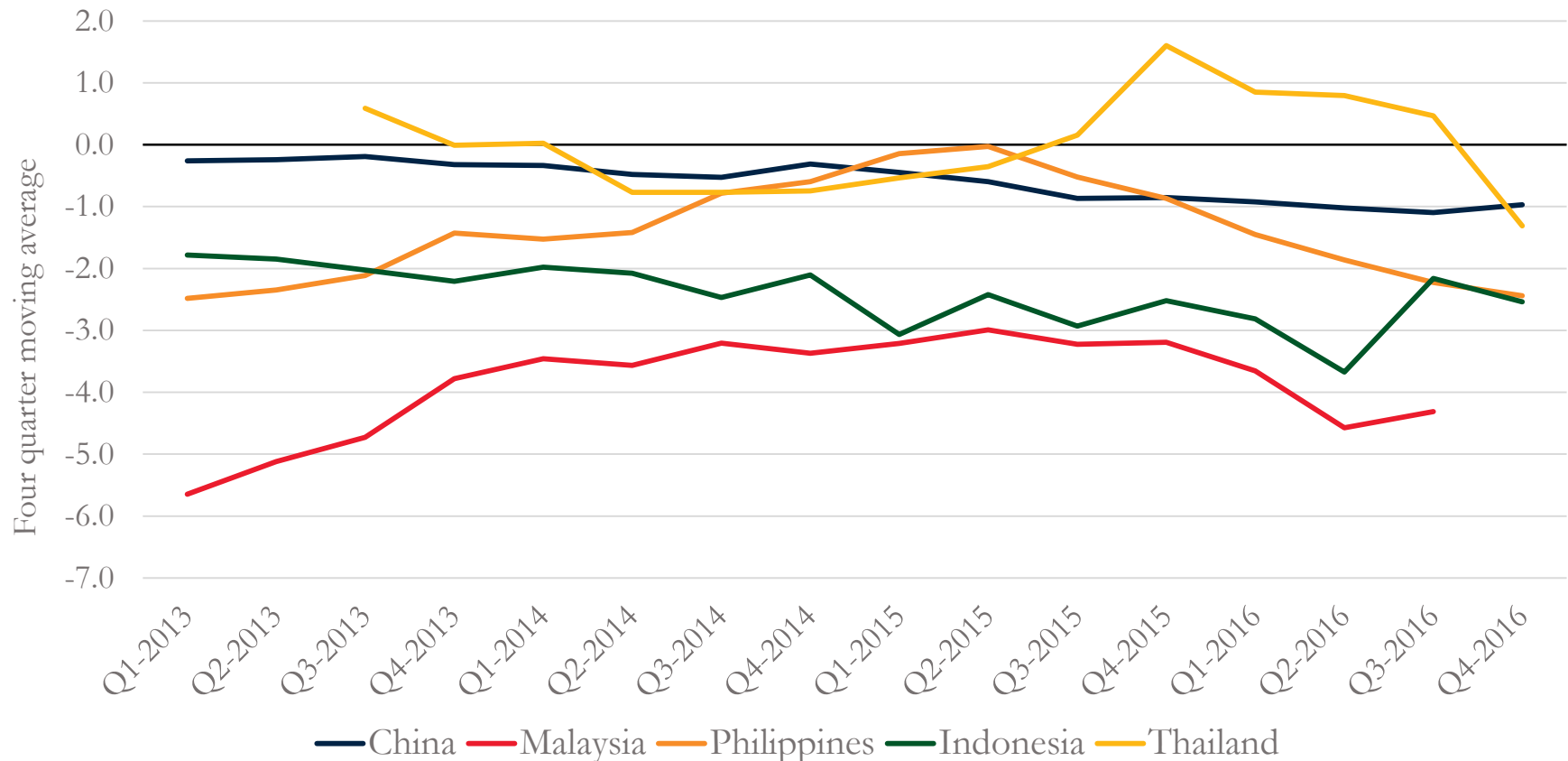
## Real policy rate (percentage points)



Sources: Haver Analytics; World Bank staff estimates.

# Fiscal deficits have generally stabilized

## General government fiscal balance (percent of GDP)

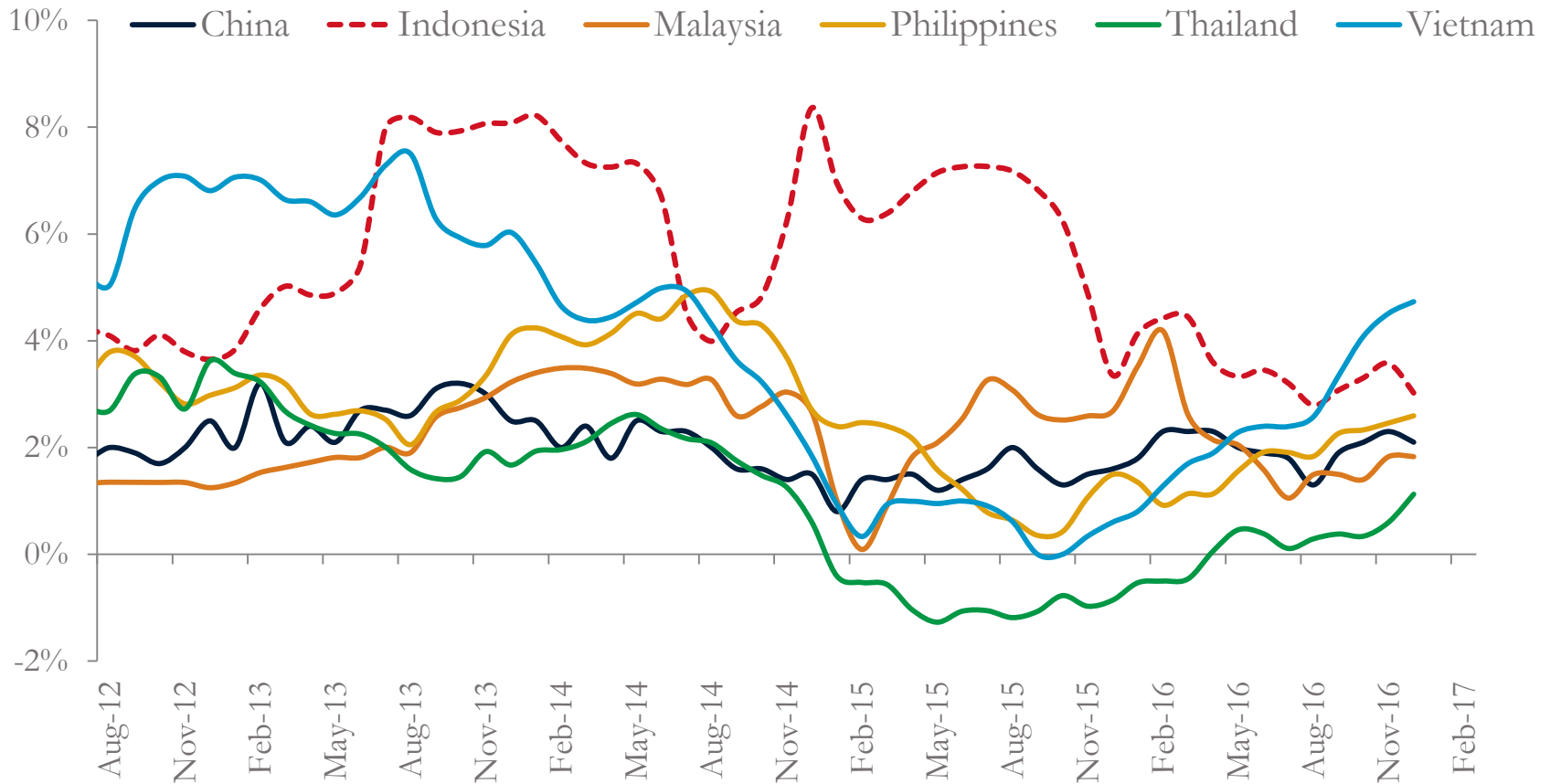


Sources: CEIC; World Bank staff estimates.

Note: Data refer to general government fiscal balance, except for Indonesia, where data refer to central government fiscal balance.

# Inflation has been rising but remains low

Headline inflation  
(end of period year-on-year, percent)

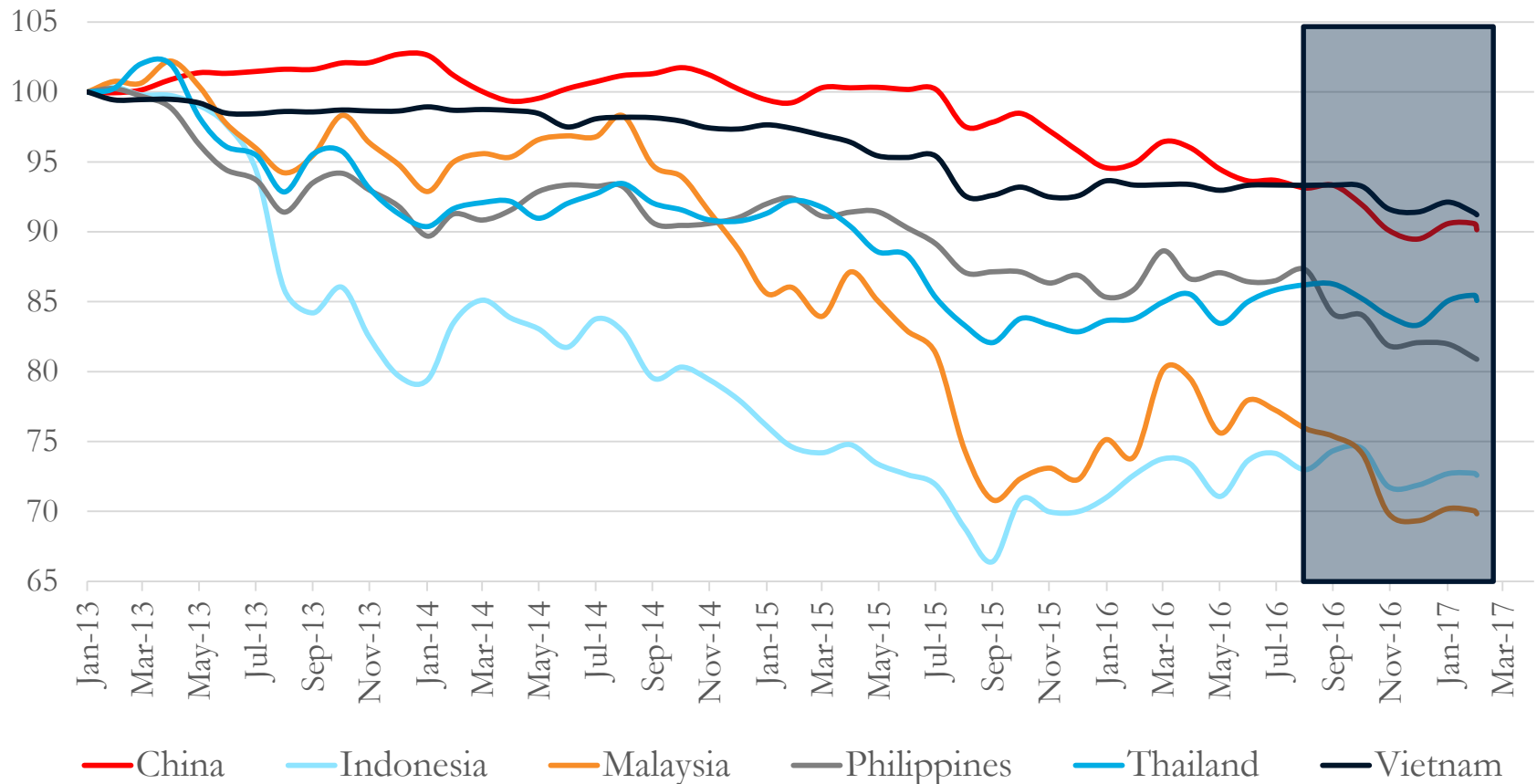




# Currencies generally depreciated

## Index of U.S. dollar to local currency

(Jan 2013 = 100)



Source: Bloomberg.

Note: Decrease denotes depreciation.

# Resilience has also characterized Indonesia's performance

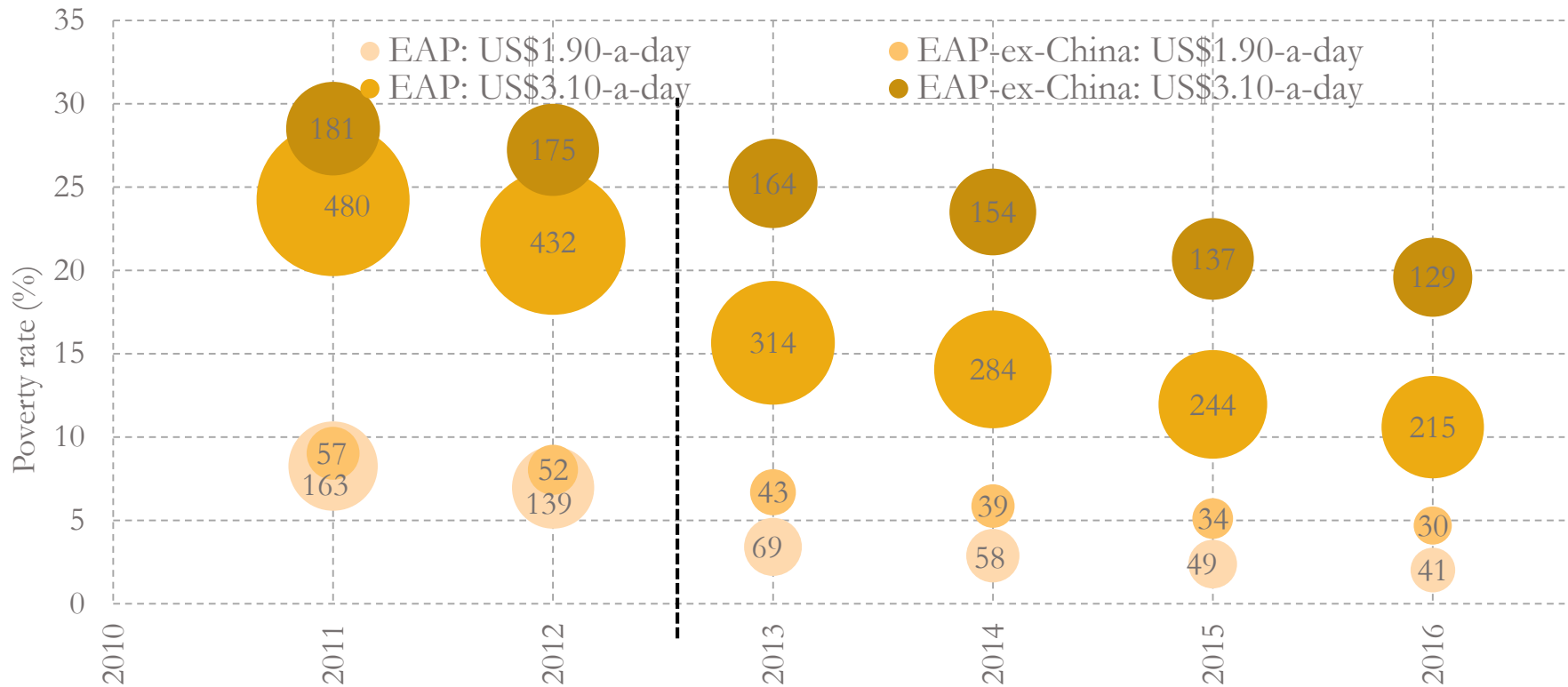
		2015	2016
<b>Real GDP</b>	(Annual percent change)	4.9	5
<b>Consumer price index</b>	(Annual percent change)	6.4	3.5
<b>Current account balance</b>	(Percent of GDP)	-2.0	-1.8
<b>Budget balance</b>	(Percent of GDP)	-2.6	-2.5

Source: BI; BPS; MoF; World Bank staff calculations

Note: 2016 actual outcome; f stands for forecast

# Poverty continued to fall across the region ...

Poverty rates, and number of poor, in million  
for US\$1.90-a-day (2011 PPP) and US\$3.10-a-day (2011 PPP) poverty lines



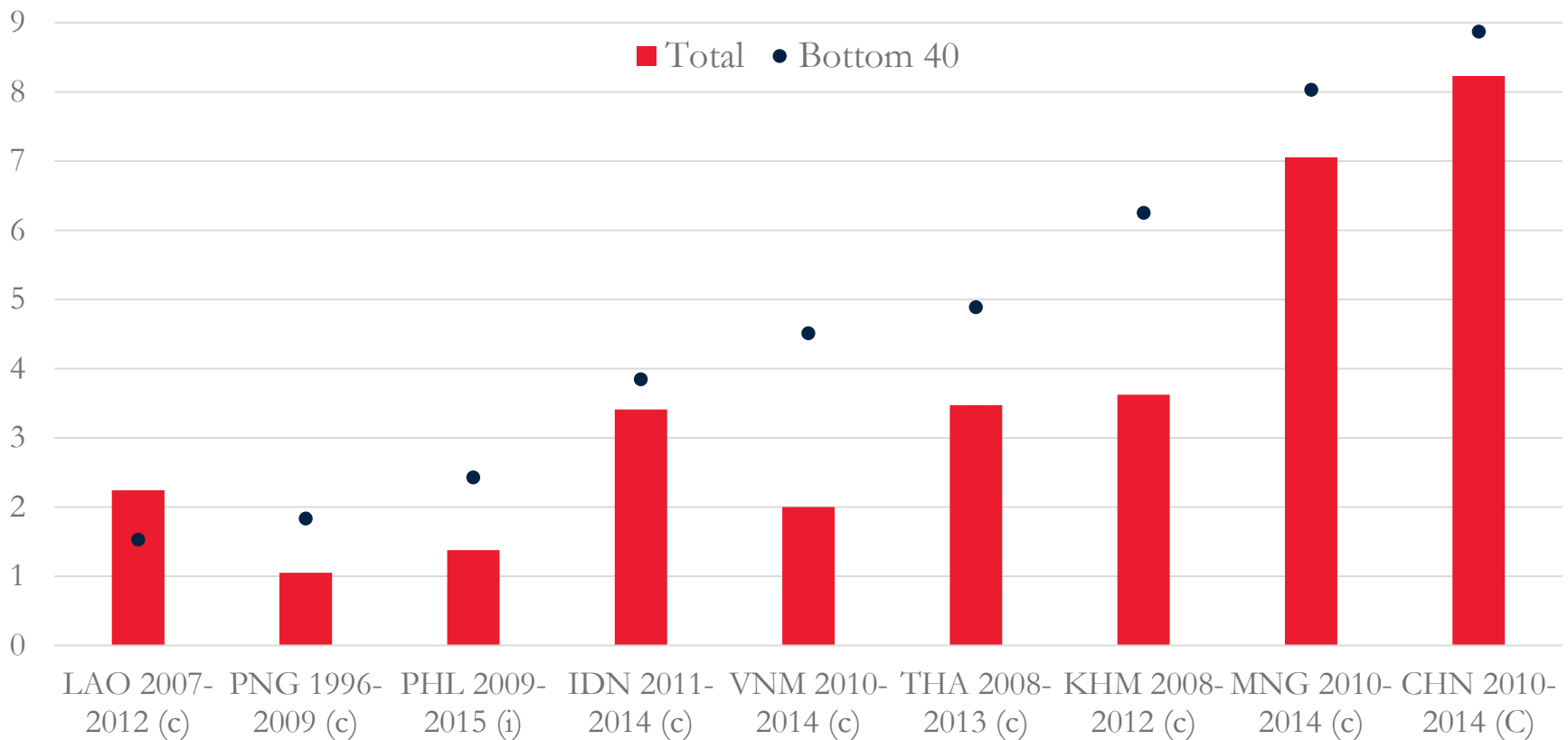
Sources: World Bank East Asia and Pacific Team for Statistical Development; PovCalNet.

Note: The most recent household survey used for actual estimates vary from 2006 in Kiribati to 2015 in the case of Indonesia. Estimates prior to 2015 are: (i) derived directly from household survey data; (ii) China 2013 is a survey break and data are not comparable with previous years (iii) interpolated between existing surveys; or (iv) extrapolated based on per-capita GDP growth and historical estimates of the growth elasticity of poverty (GEP), but China, Papua New Guinea and Pacific Island countries based on neutral growth distribution.

# ... and benefits from growth are generally shared

## Annualized income/consumption growth

(average of poorest 40 percent of population and total population, percent)



Sources: World Bank, East Asia and Pacific Team for Statistical Development; PovCalNet.

Note: Welfare aggregates are spatially deflated. Data for all countries refer to consumption, except for the Philippines, where they refer to income. China's consumption data are based on grouped data.



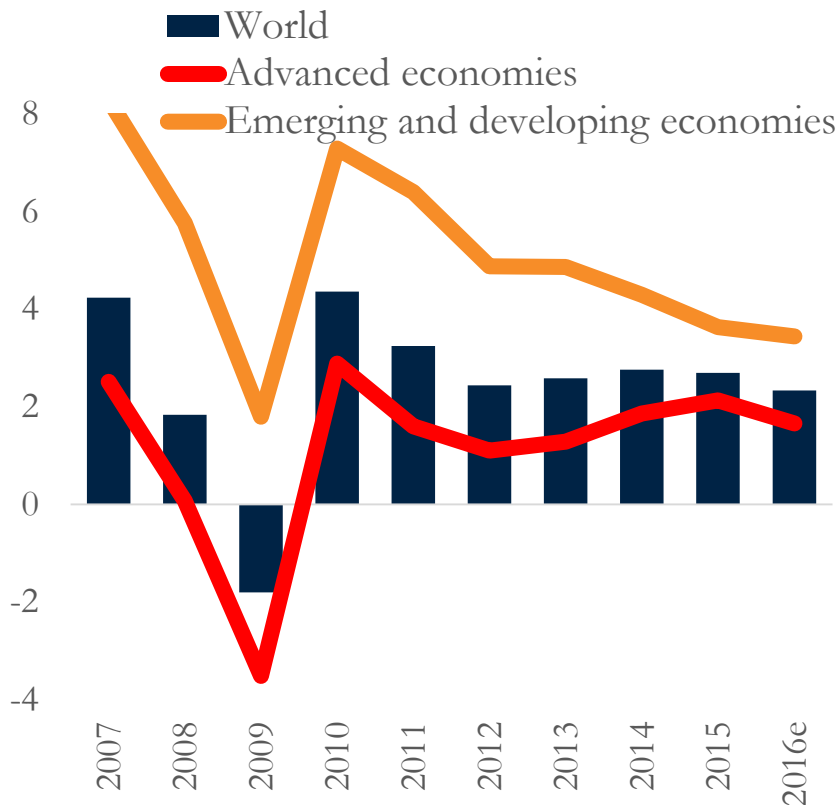
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# **THE BACKDROP**

# Modest recovery in the global economy

## Global GDP growth

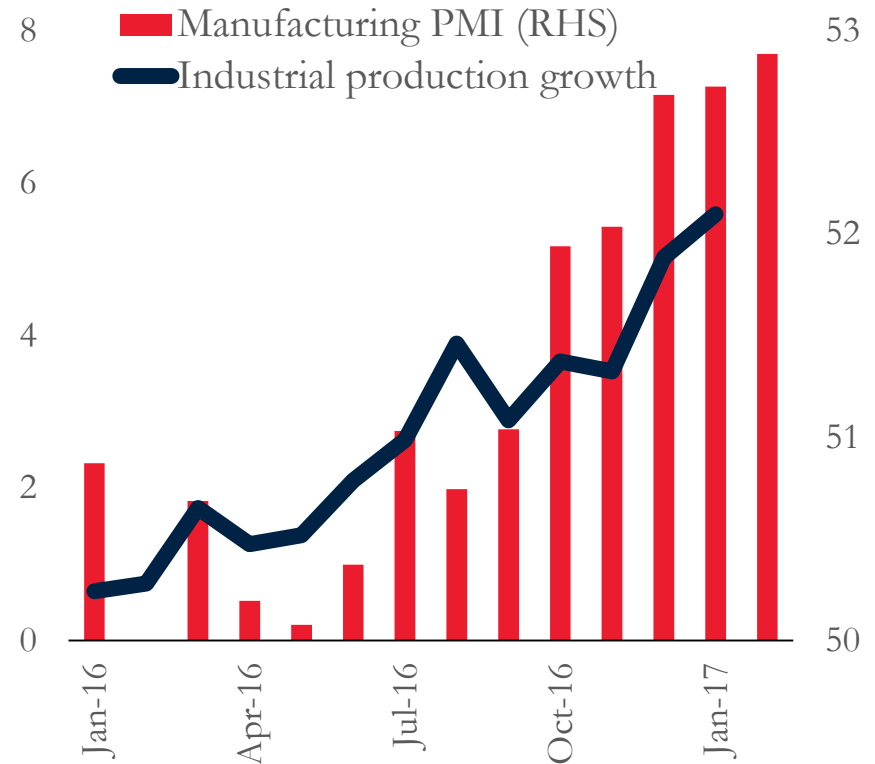
(Year-on-year growth)



Sources: World Development Indicators; Haver Analytics; and World Bank staff estimates.

## Global IP and manufacturing PMI

(IP – yoy growth, left scale; PMI – index, right scale)

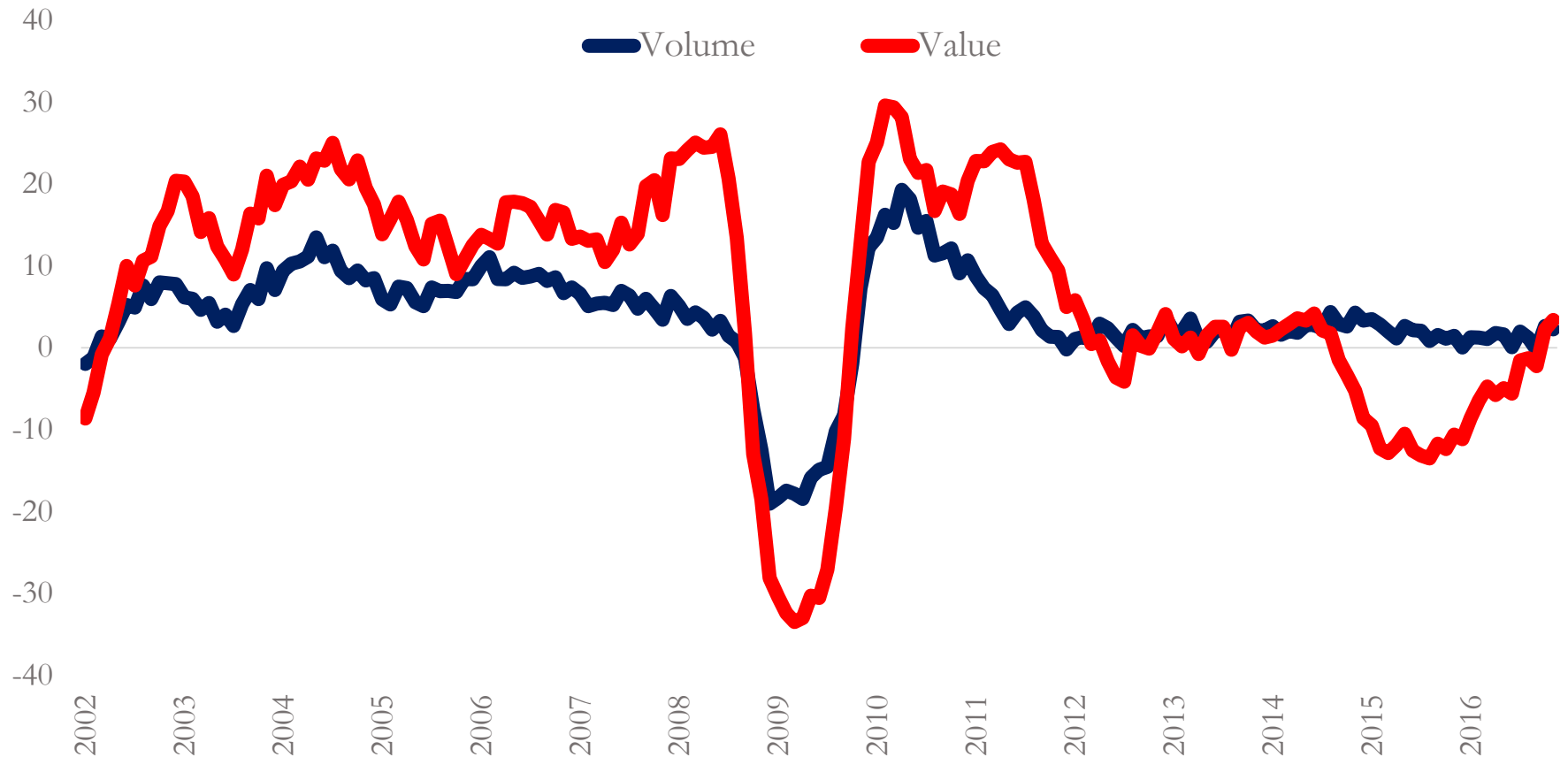


Sources: Haver Analytics, World Bank staff estimates.

Note: LHS: percent, 3-month on 3-month moving average, SAAR; RHS: index, >50 denotes expansion

# Stronger global trade growth

Global trade growth  
(Percent)

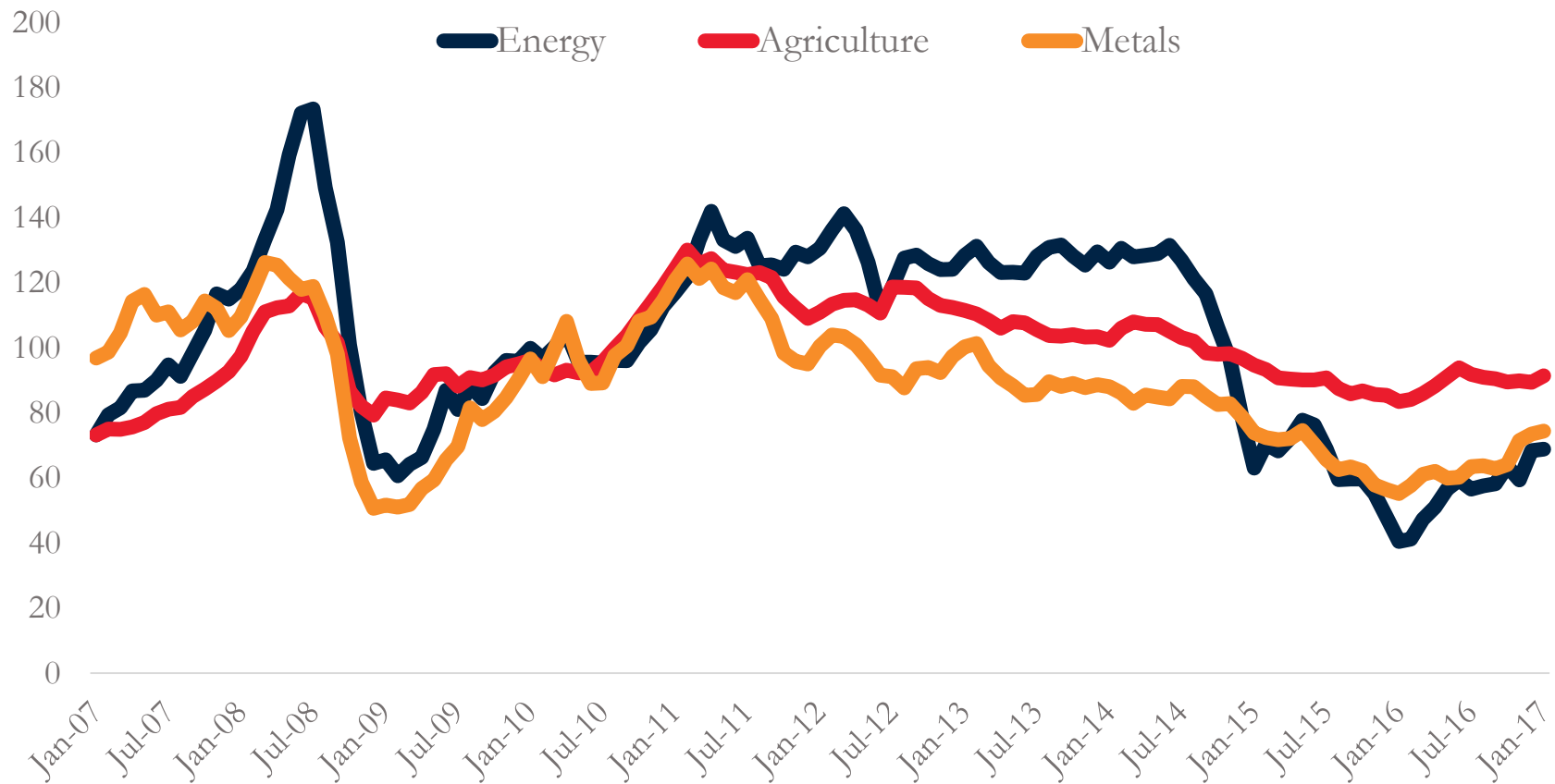


Source: CPB Netherlands Bureau of Policy Analysis.  
Note: Last observation is December 2016.

# Rising commodity prices

## International commodity prices

(Index, nominal term, 2010=100)



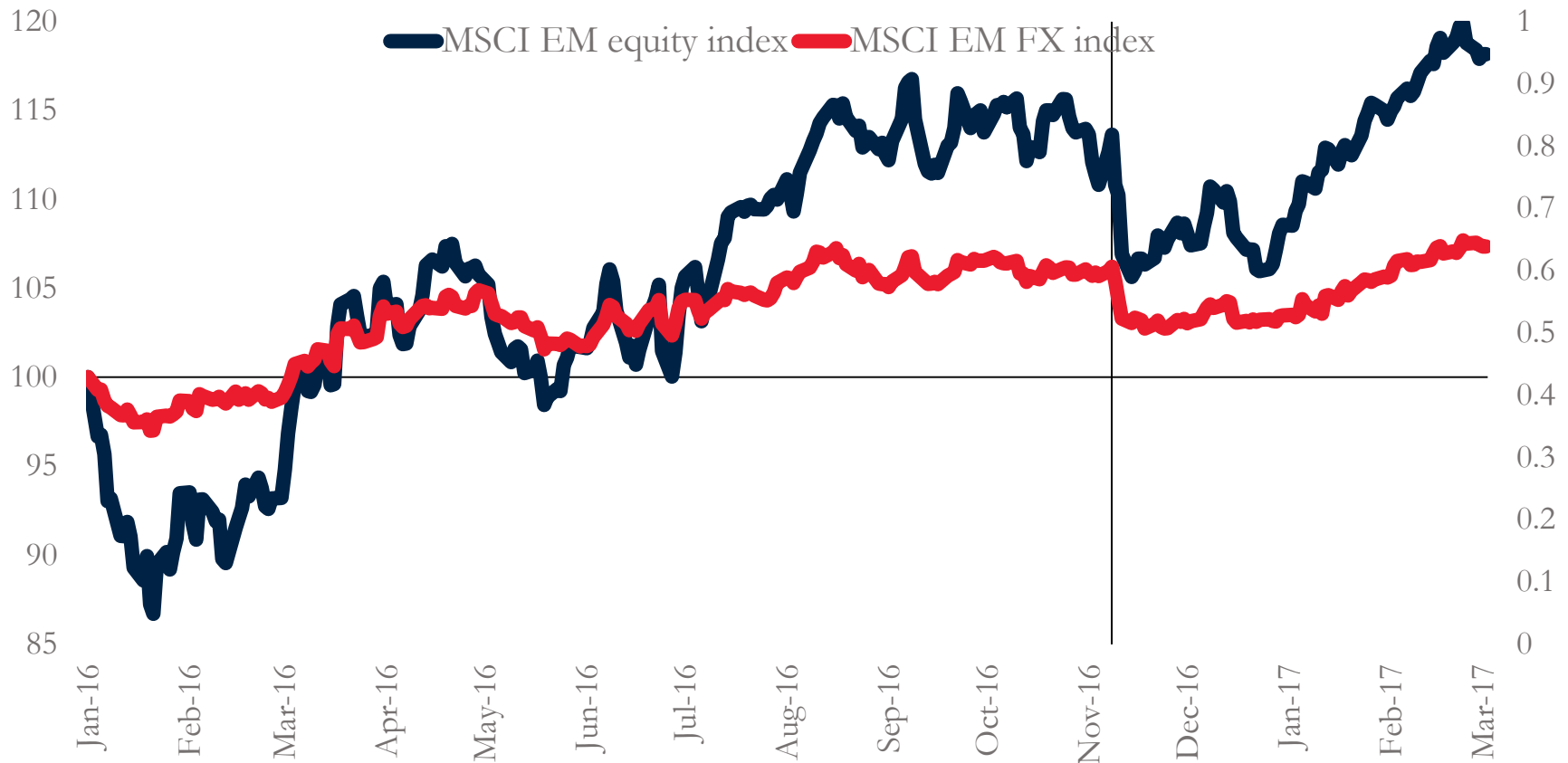
Source: World Bank.



# But jittery financial markets

## Emerging market stocks and currencies

(Index, Jan 1, 2016 = 100)



Sources: World Development Indicators; Haver Analytics.

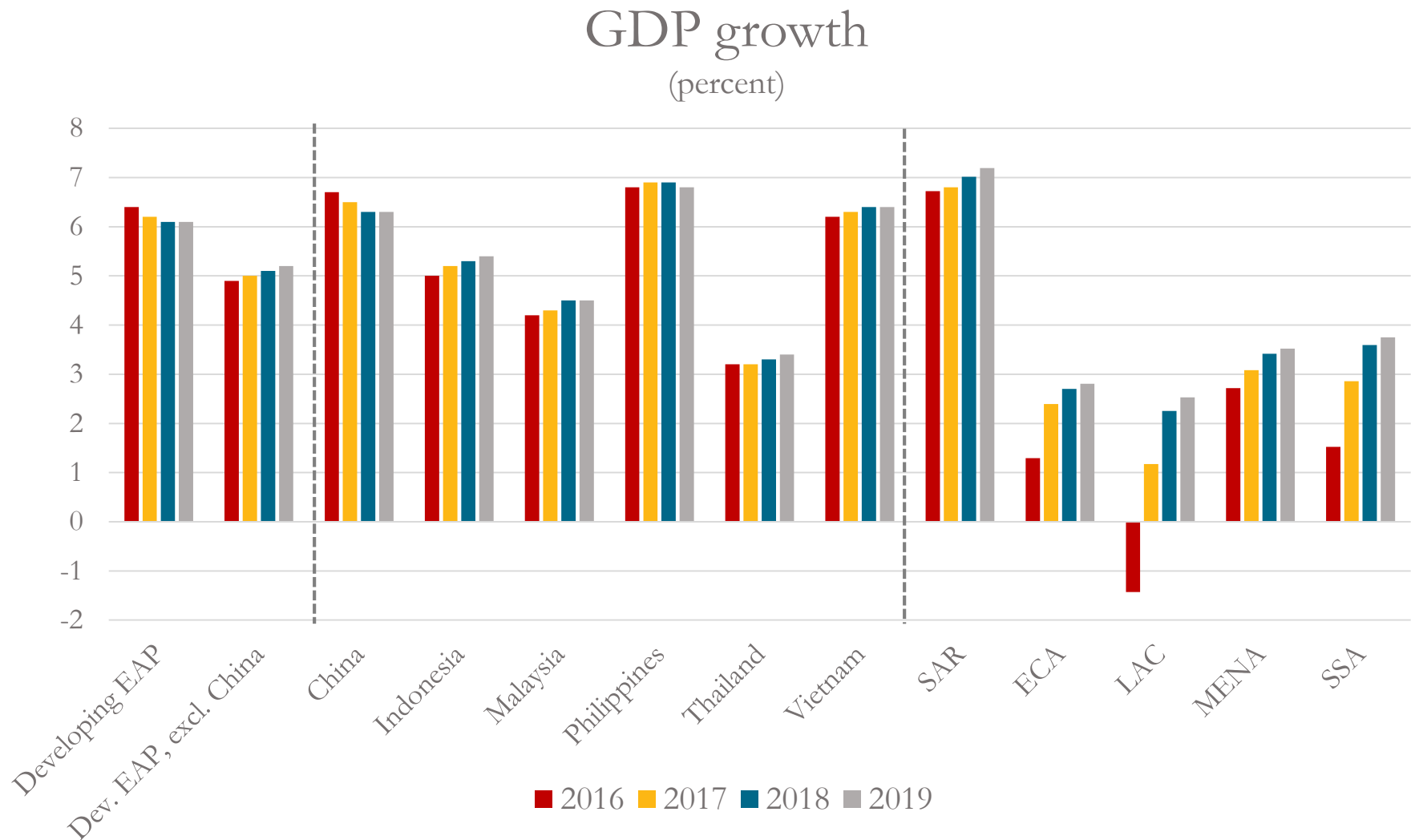
Note: Vertical line denotes U.S. presidential election. EM = emerging market; FX = foreign exchange.



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# **OUTLOOK AND RISKS**

# Growth in the region likely to remain resilient



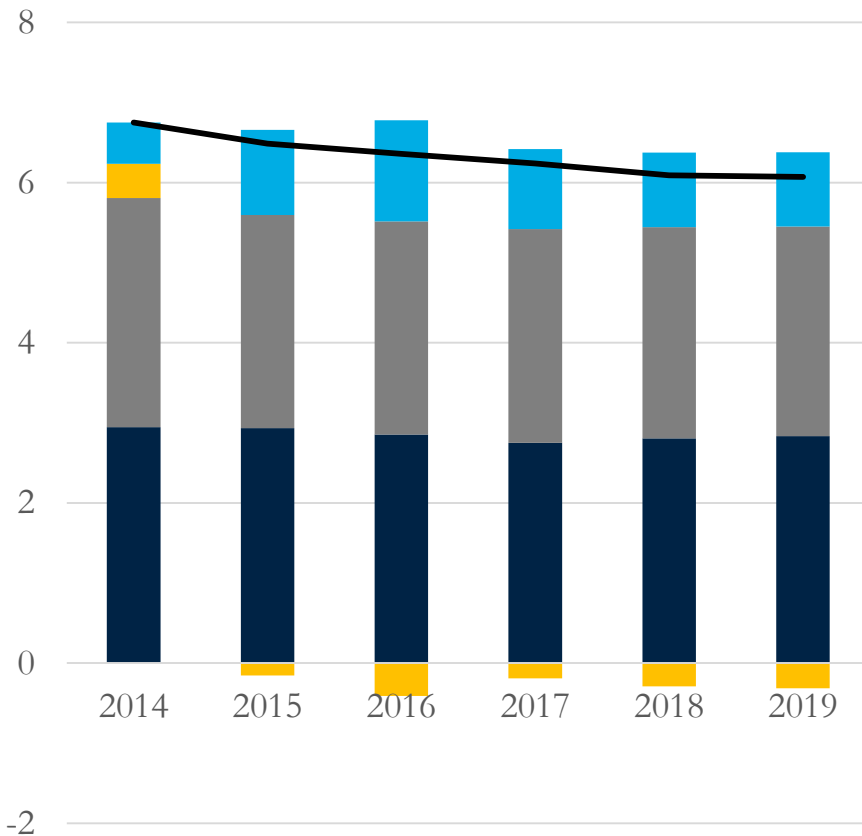
Source: World Bank staff estimates.

# With domestic demand continuing to support growth

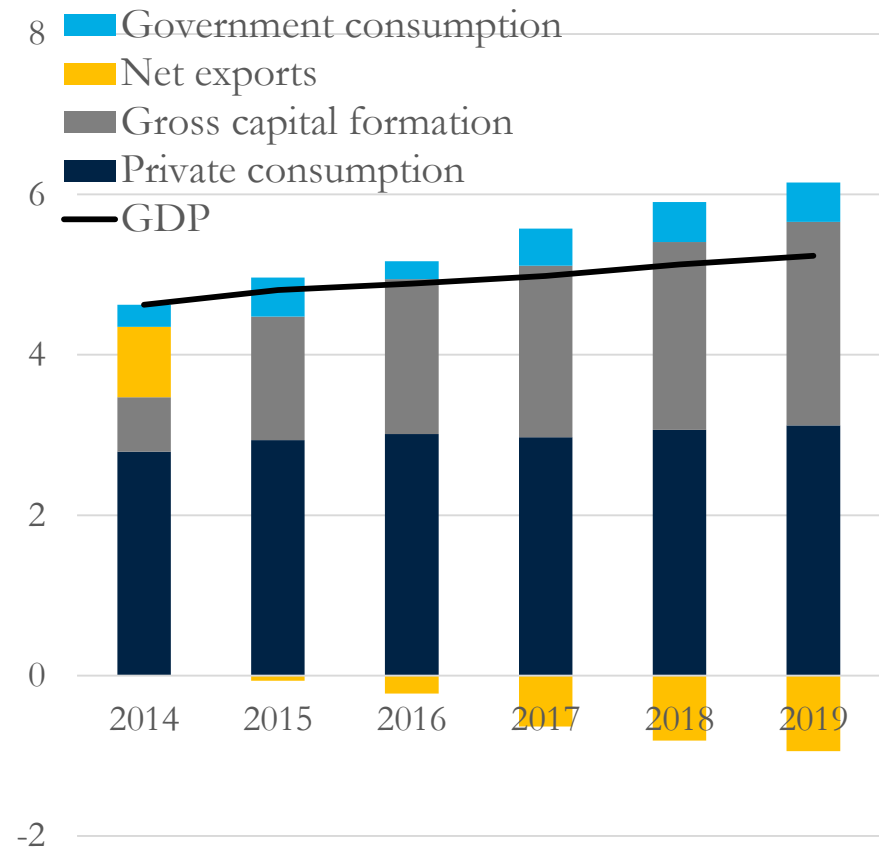
## Contribution to GDP growth

(percentage points)

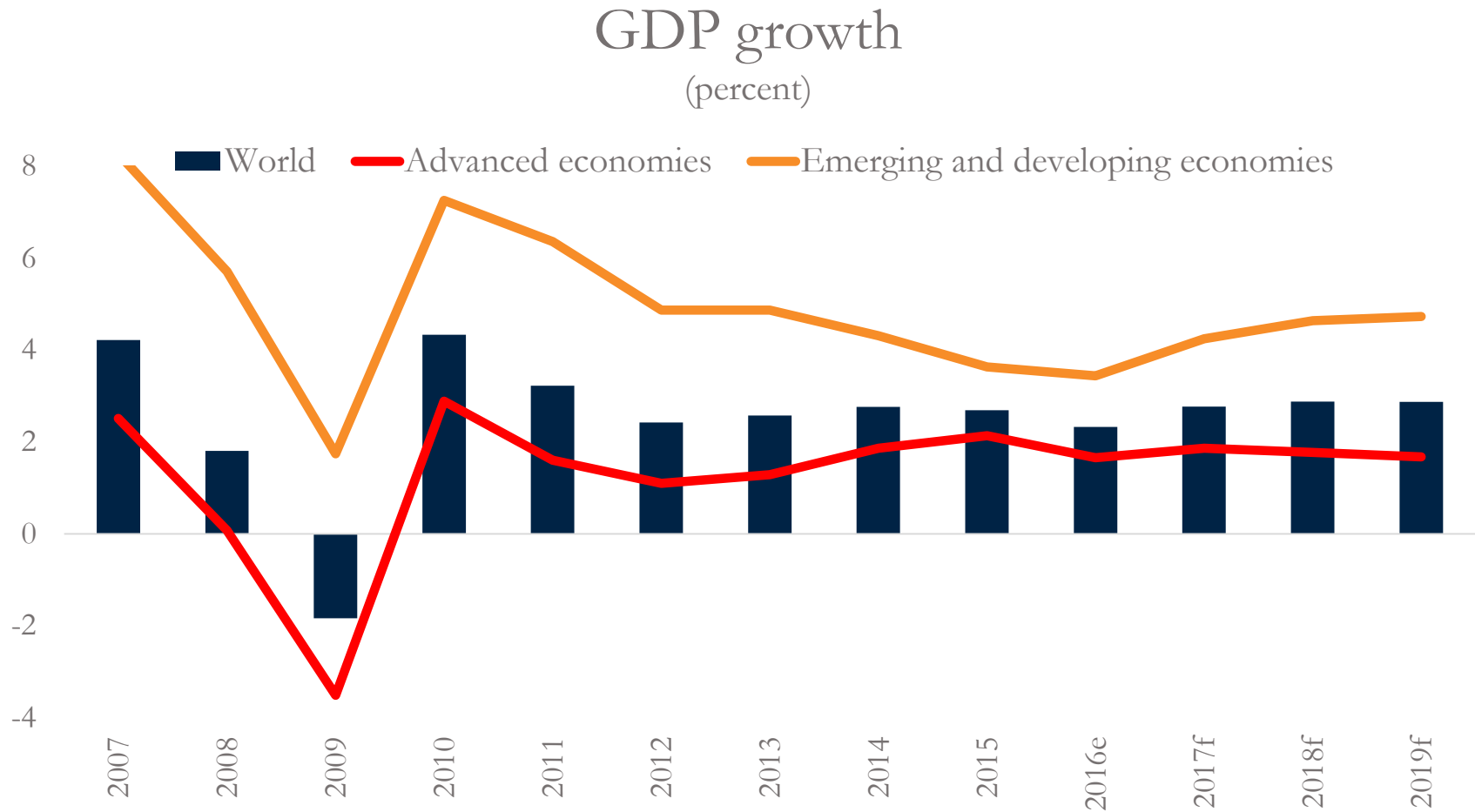
### Developing EAP



### Developing EAP excluding China



# Growth in advanced economies will strengthen



Source: World Bank staff estimates.

# Poverty will likely continue to fall

## Poverty rates, and number of poor people, in million (at U.S.\$1.90-a-day PPP poverty line)

DEVELOPING EAP				
	2016	2017	2018	2019
Poverty rate (%)	2.0	1.7	1.5	1.3
Number of poor (millions)	41	35	31	27
DEVELOPING EAP EX-CHINA				
	2016	2017	2018	2019
Poverty rate (%)	4.7	4.2	3.7	3.3
Number of poor (millions)	30	27	25	22

Sources: World Bank East Asia and Pacific Team for Statistical Development; PovCalNet.

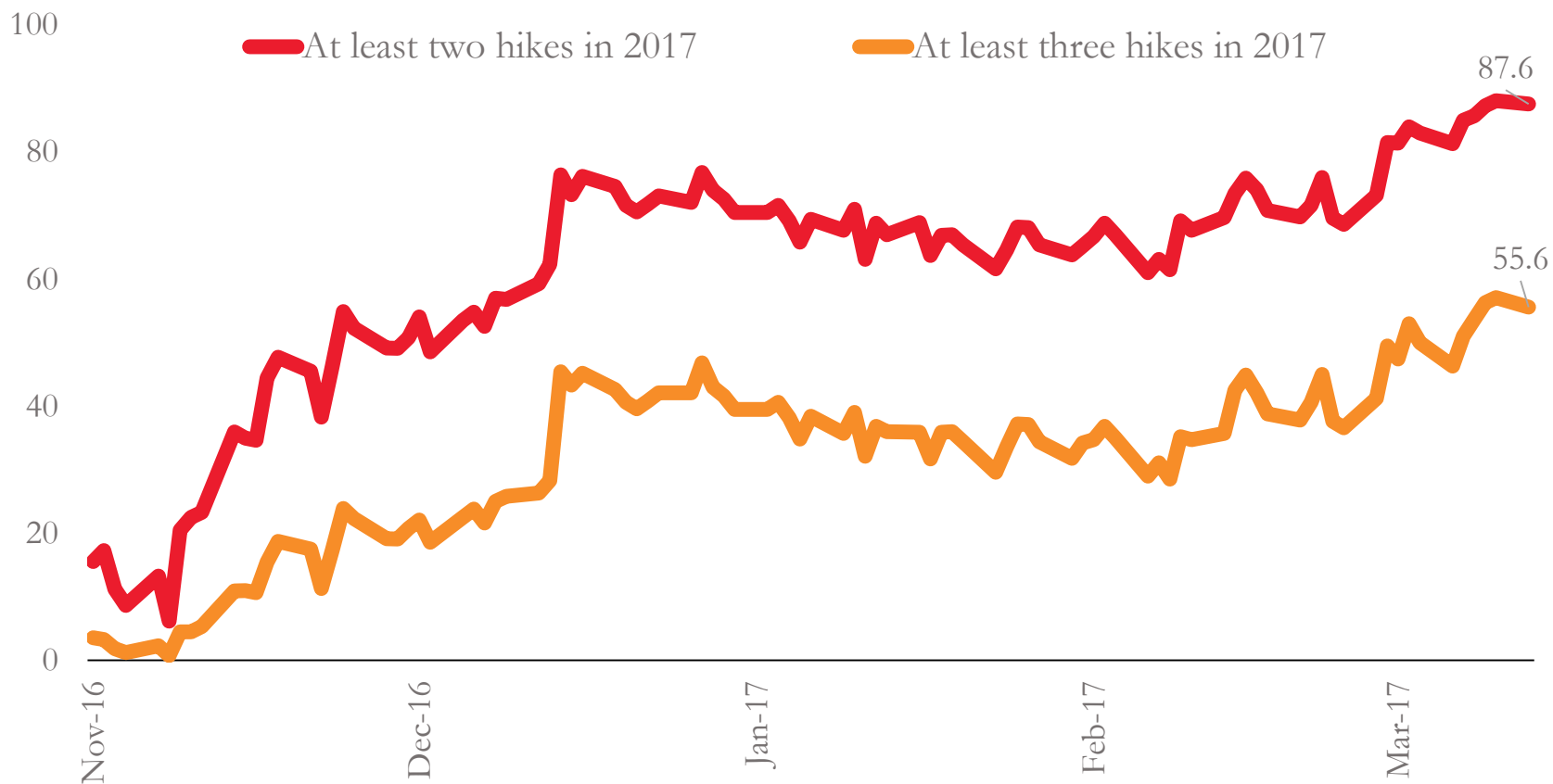
Note: The most recent household income and expenditure surveys vary from 2006 in Kiribati to 2015 in Indonesia. Estimates are extrapolated based on per capita GDP growth and historical estimates of the growth elasticity of poverty. PPP = purchasing power parity.

# But there are significant risks to these prospects

- **Shocks to financial sectors in the large regional economies**
  - *External financial conditions tighten faster than anticipated*
  - *Domestic financial vulnerabilities due to growing leverage*
- **Slowdown in global trade growth**
  - *Rising protectionism in some advanced economies*
  - *Weaker-than-expected growth in main trading partners*
- **Challenges to fiscal sustainability**
  - *High fiscal deficits*
  - *Elevated public debt levels*

# U.S. monetary policy could tighten more quickly ...

Probability of increases in the U.S. federal funds rate  
(percent)



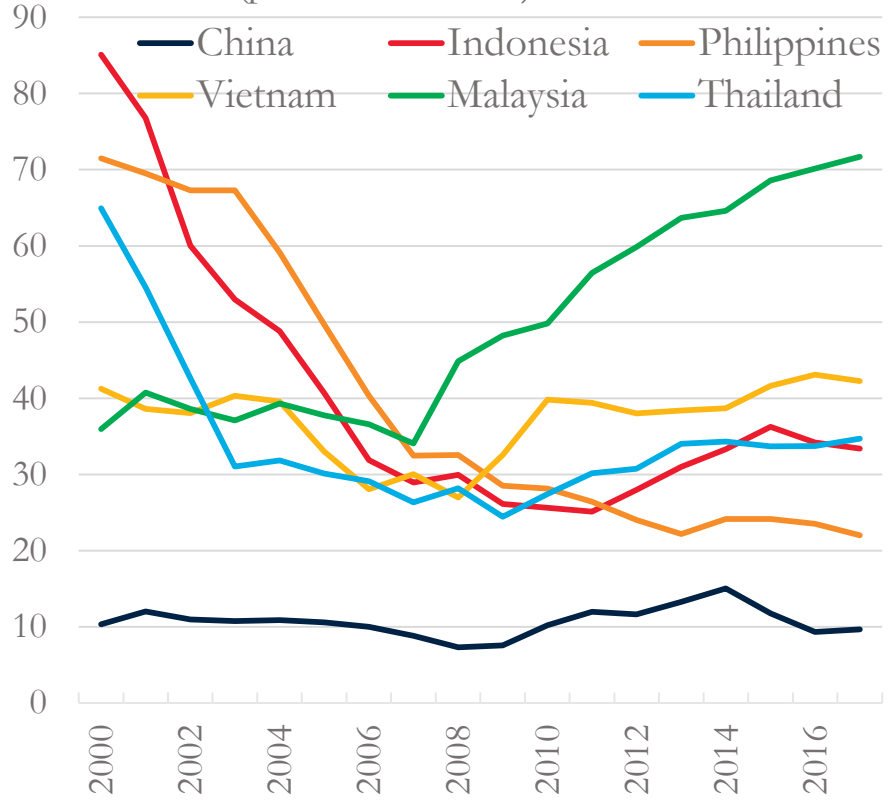
Source: World Bank staff estimates, based on Bloomberg data.



# ... raising external debt servicing costs and roll-over risks

## Gross external debt

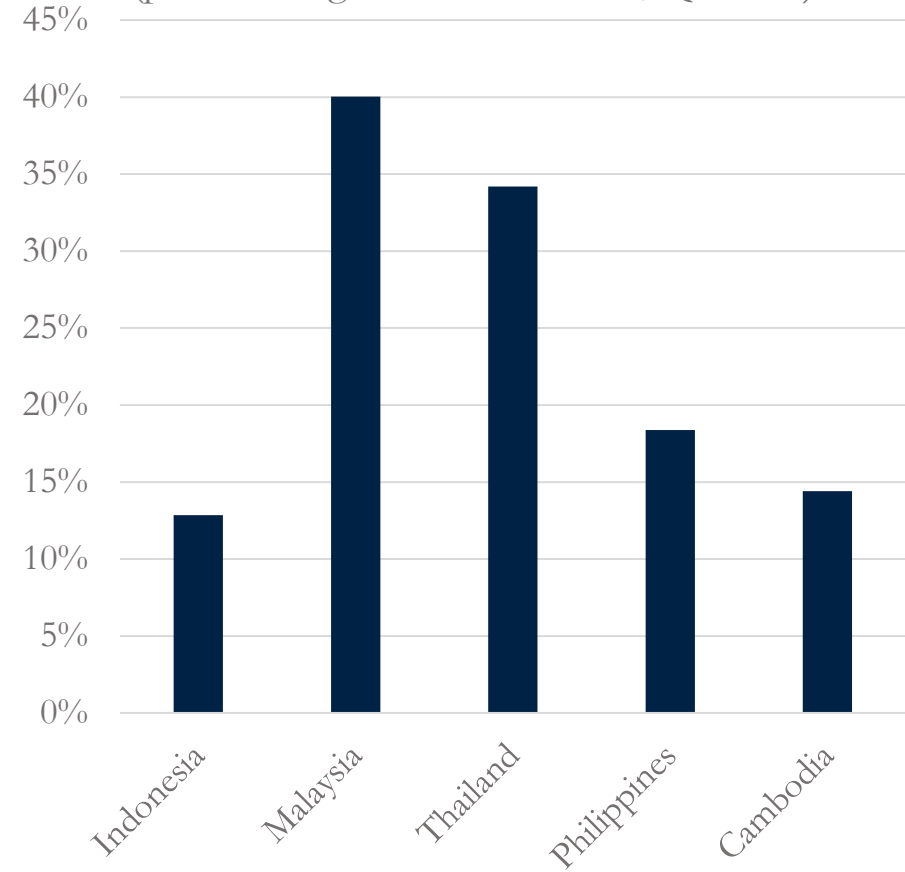
(percent of GDP)



Sources: Bank for International Settlements; IMF; World Bank.

## Short-term debt

(percent of gross external debt, Q3 2016)

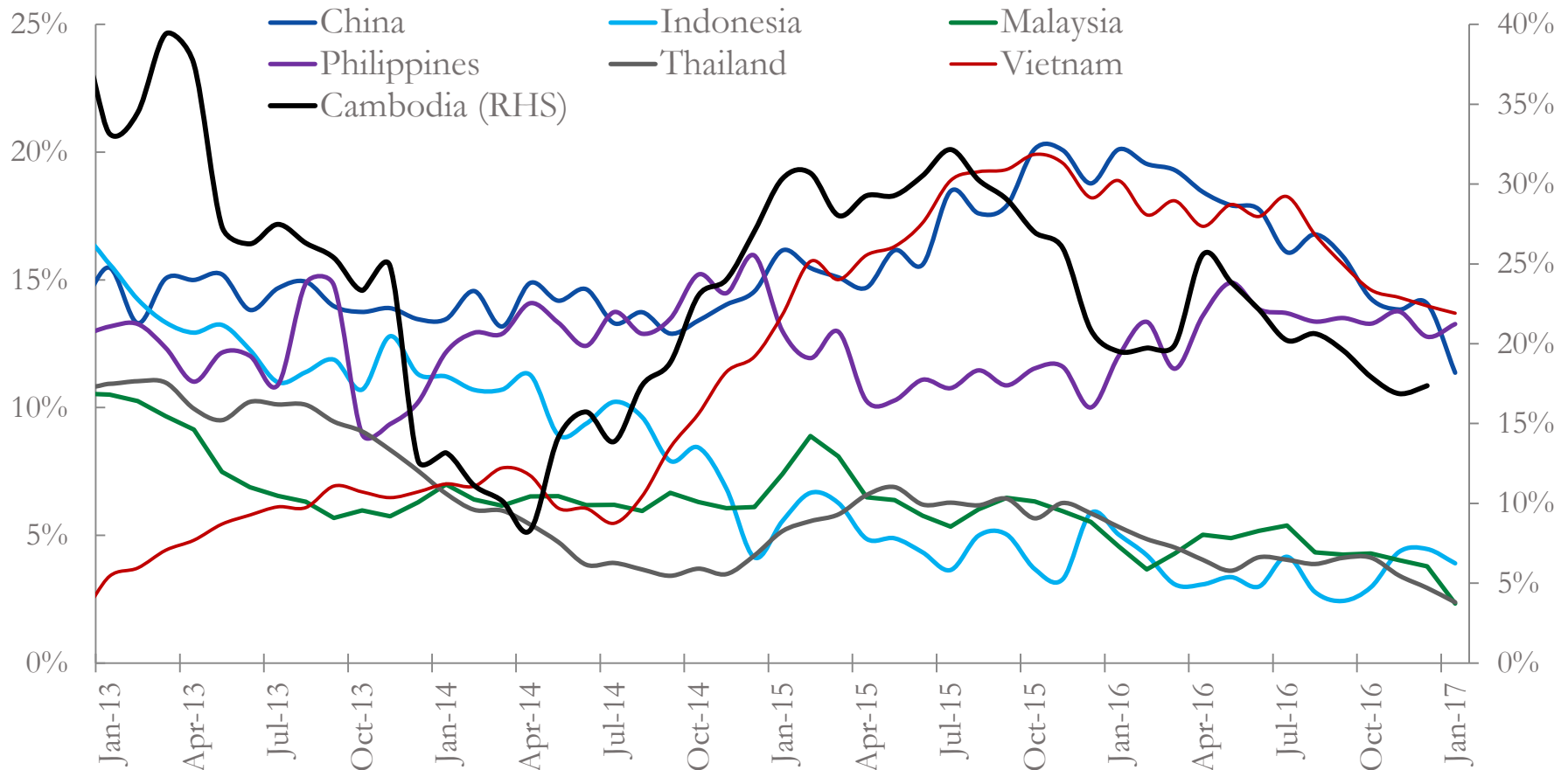


Source: World Bank-International Monetary Fund Quarterly External Debt Statistics Database.

# Continued rapid credit growth reinforces concerns ...

## Real growth in net domestic credit

(percent, year-on-year)

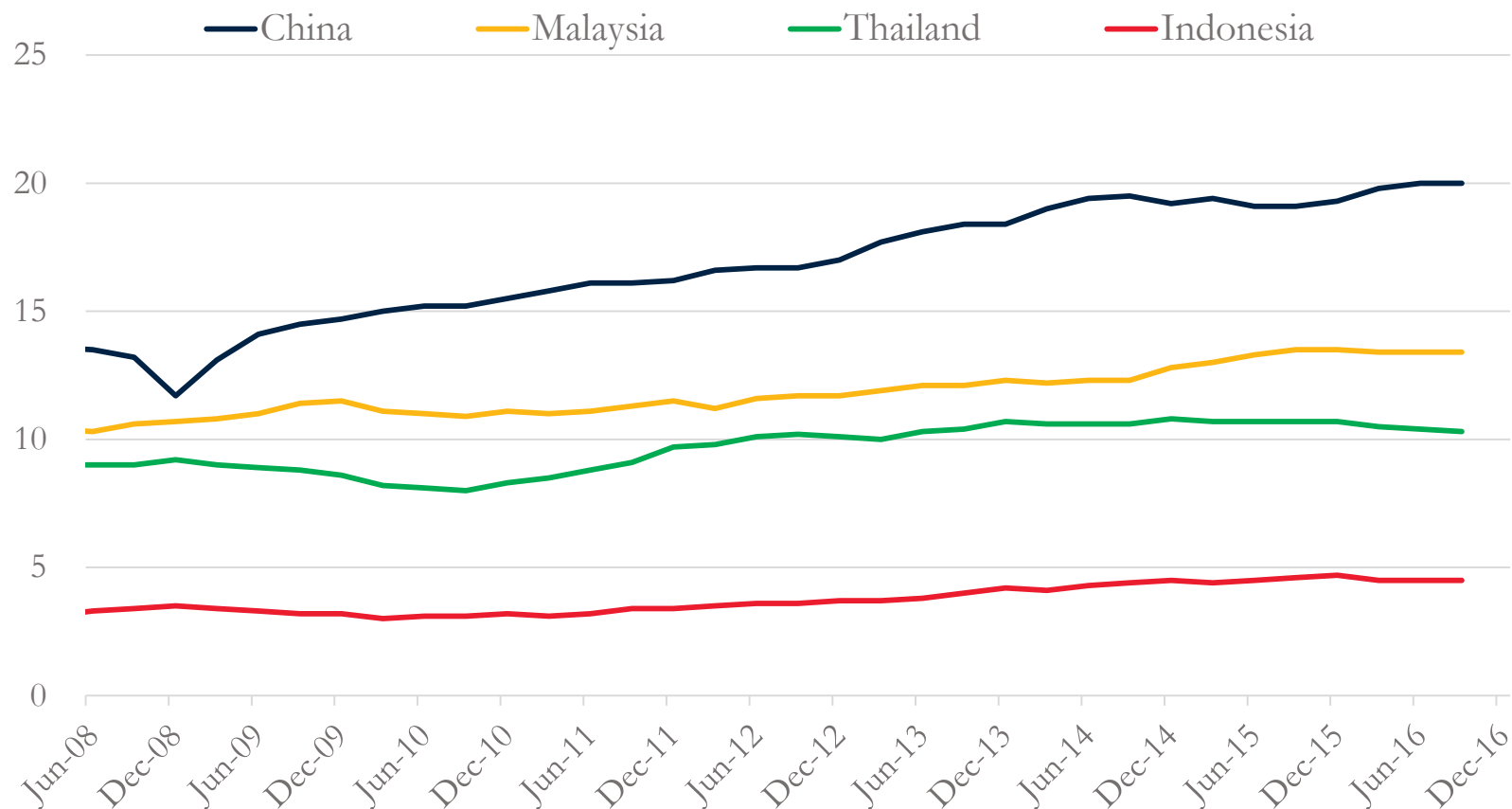


Sources: Haver Analytics; World Bank staff estimates.

Note: Deflated by CPI.

... along with falling debt-servicing capacity

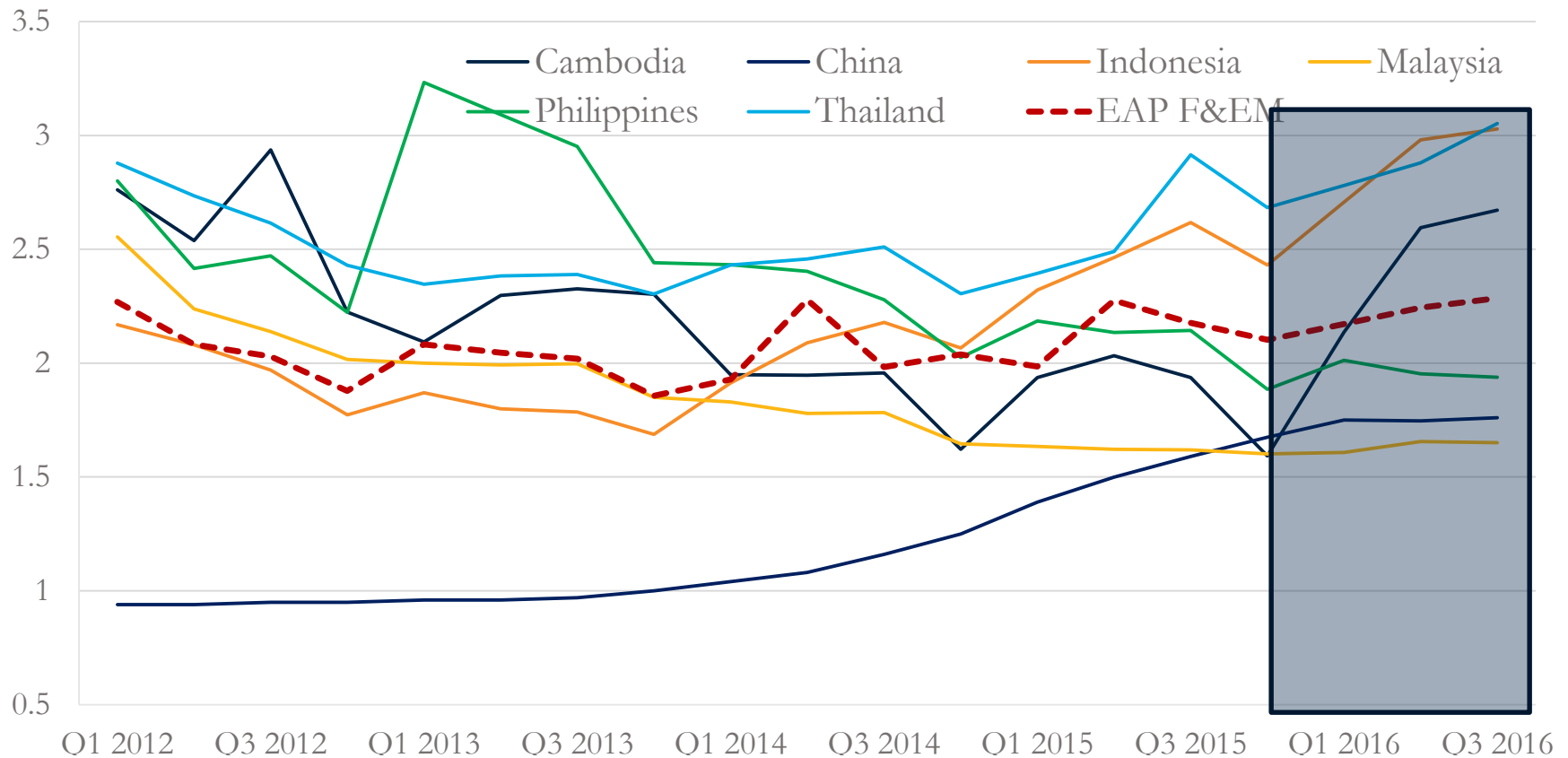
## Debt service ratio of private nonfinancial sector (percent of income)



Source: Bank for International Settlements.

# ... and pressures on banks' profitability

## Nonperforming loans (percent)



Source: IMF Financial Soundness Indicators.

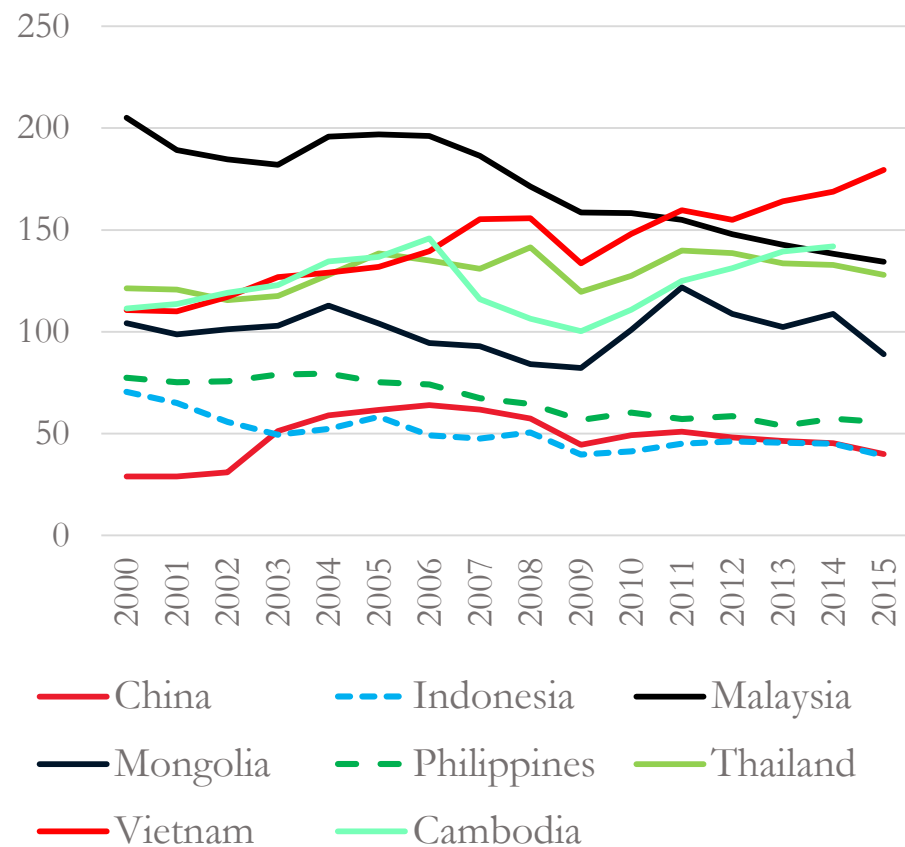
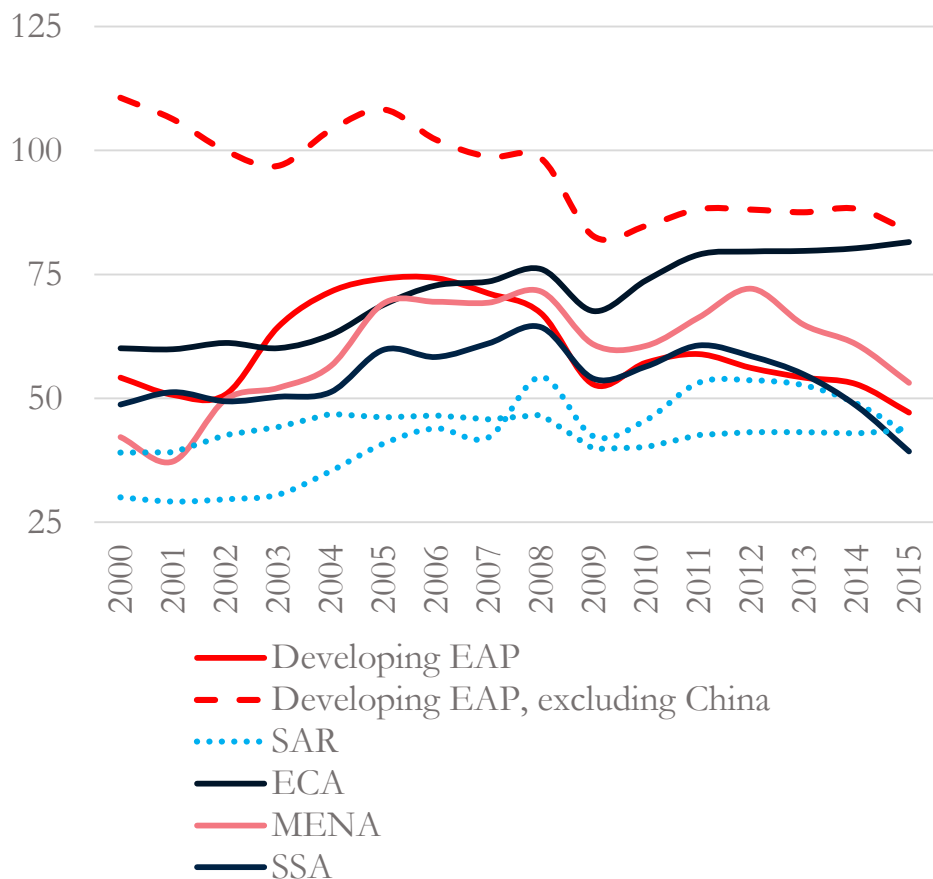
# Openness exposes the region to a slowing of global trade

## Exports plus imports

(percent of GDP)

Developing regions

Developing EAP

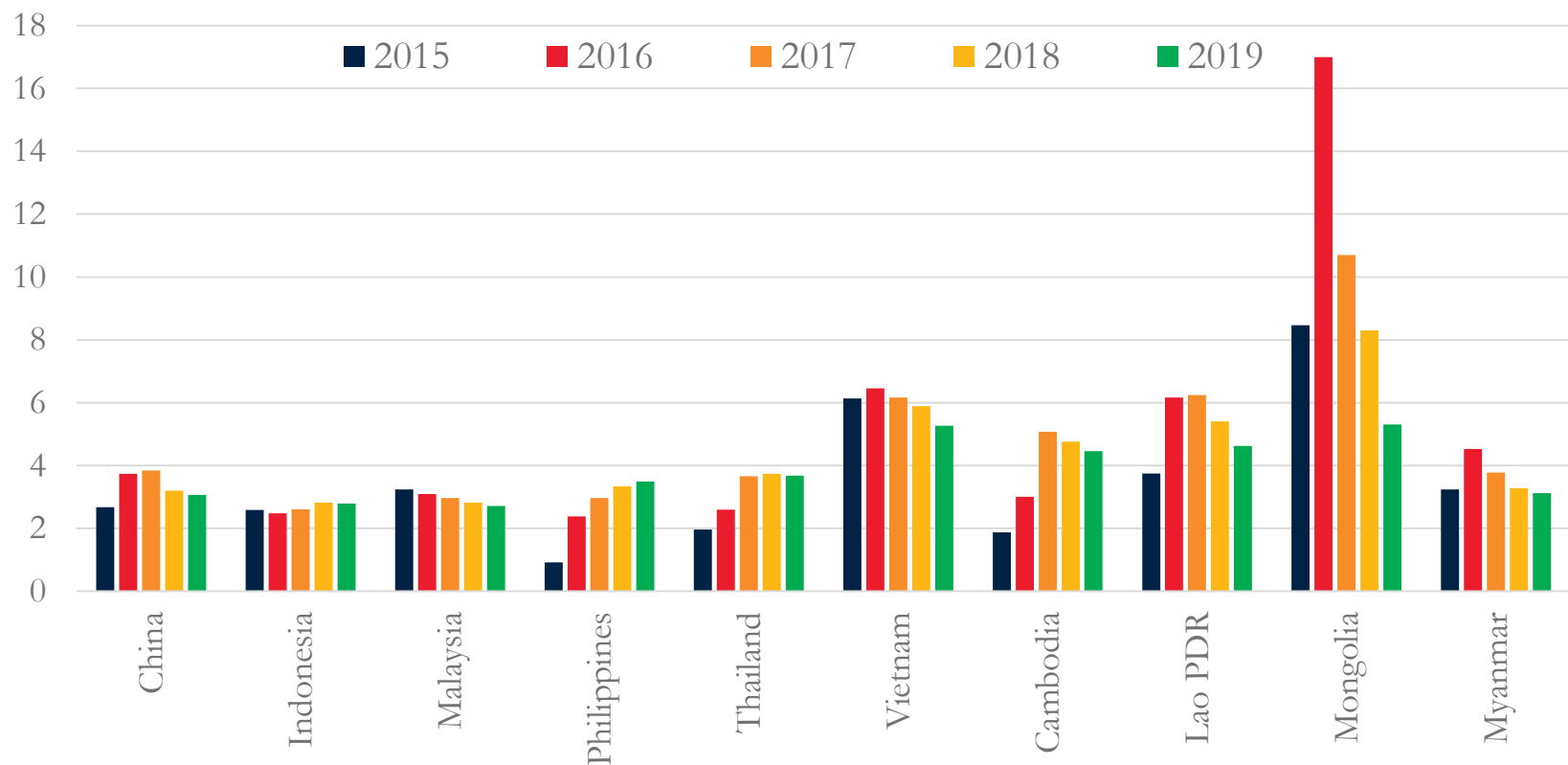


Sources: IMF World Economic Outlook; World Bank staff estimates.

Note: Trade openness is defined as total exports and imports of goods and services, as a ratio to GDP.

# Fiscal deficits will remain high in some countries ...

## Fiscal deficits (percent of GDP)

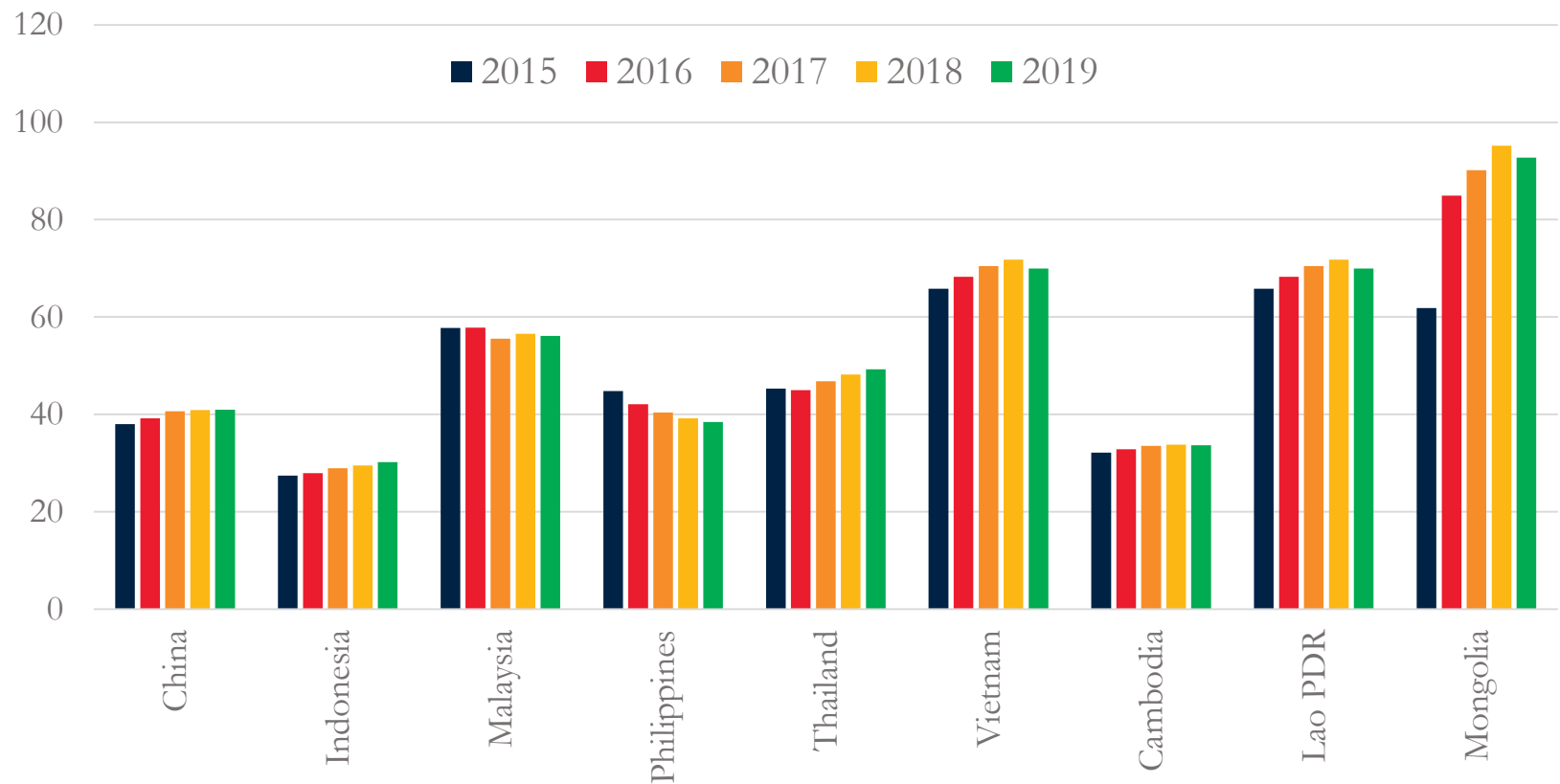


Source: World Bank staff estimates.

Note: Data refer to general government fiscal deficit, except for Indonesia, where they refer to central government fiscal deficit, and Cambodia, where they refer to general government fiscal deficit before grants.

# ... as will public debt levels

## General government debt (percent of GDP)



Source: World Bank staff estimates.

Note: Data refer to general government fiscal balance, except for Indonesia, where data refer to central government debt.



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# **POLICY PRIORITIES FOR THE REGION**



# A premium on macroeconomic prudence (1)

- **Maintain sustainable medium-term fiscal frameworks**
  - In China, strengthen budget discipline and harden budget constraints on SOEs
  - In several of the region's other large economies, focus on mobilizing additional revenues
  - In some smaller commodity-exporting economies, emphasize reducing threats to fiscal solvency
- **Stand ready to adjust accommodative monetary policies**

# A premium on macroeconomic prudence (2)

- **Address corporate and financial vulnerabilities**

- In China, emphasize reforms of the corporate sector, including restructuring of SOEs, and measures to bring credit growth under control

- Elsewhere in the region, containing risks from rapid credit growth requires improvements in supervision and prudential regulation

# Spurring growth and fostering inclusion (1)

- **Improving the quality of public spending is key to raising productivity growth and sustaining investment**
  - In China, access to and quality of public services can be improved through reform of public finances
  - In other economies, focus on improving service delivery and sustaining infrastructure spending
  - Public investments and logistics reforms can have a significant impact on agricultural productivity and help reduce food prices

# Spurring growth and fostering inclusion (2)

- **Deepening regional and global integration can help offset global trade challenges**
  - The RCEP could help sustain the integration agenda, provided it addresses such issues as non-tariff barriers
  - The ASEAN Economic Community (AEC) could help promote further liberalization, especially in services
  - There is scope to reduce barriers to labor mobility within ASEAN

# Ensuring sustainability

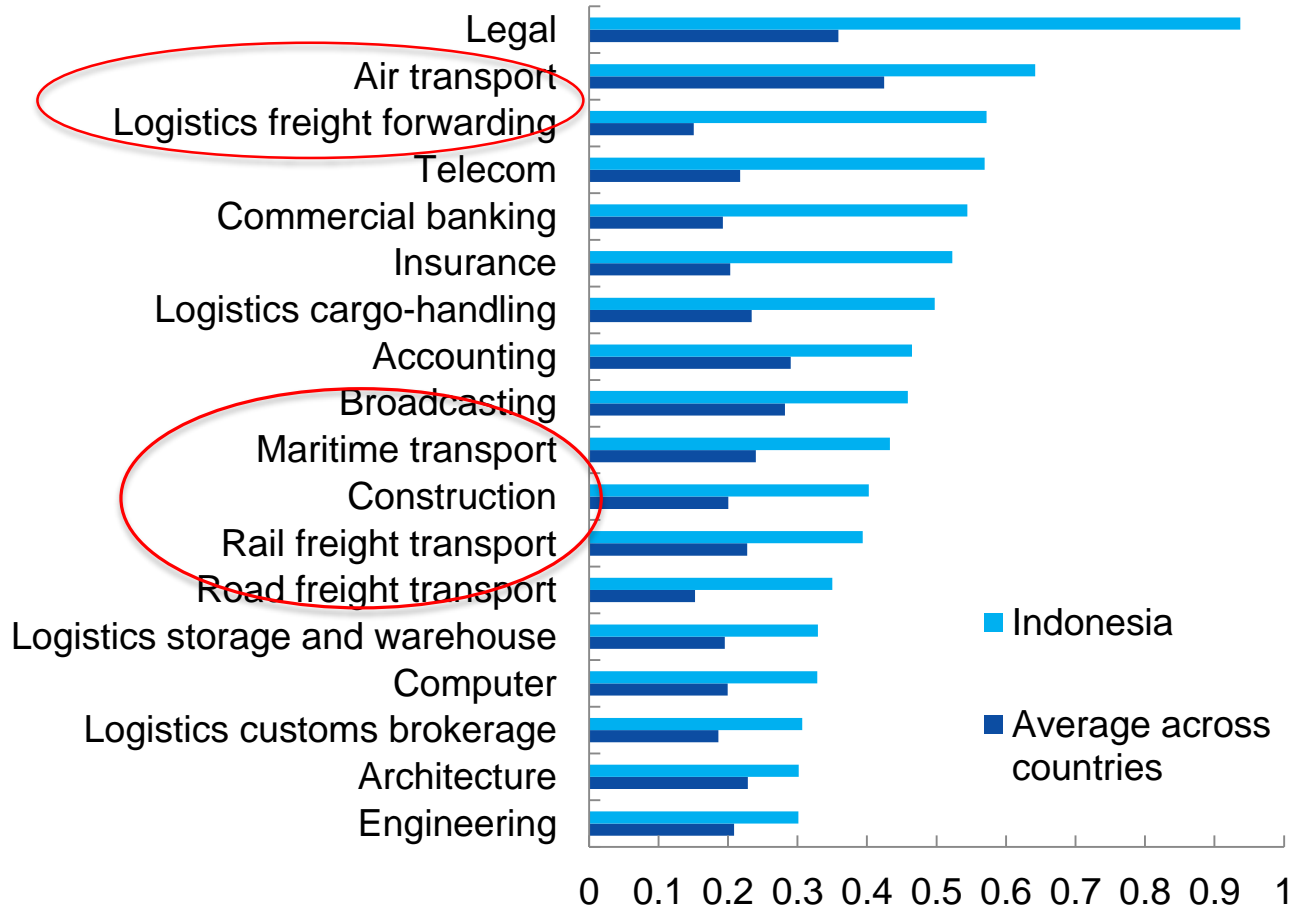
- **Success in agricultural intensification has left an increasingly adverse environmental footprint across the region**
  - Current policy responses have been ineffective or have contributed to greater agricultural pollution
  - More focus on appropriate pricing of agricultural inputs
  - Greater weight to resource conservation
  - Attention to strengthening regulatory capacities

# Policy Priorities for Indonesia

- With fundamentals having strengthened, growth prospects for 2017-2019 are more favorable
- But this recovery is subject to significant risks, both external and domestic
- Further tax policy and administration measures may be needed to meet the 2017 deficit target
- Domestic monetary tightening may be warranted if US interest rates rise faster than expected
- Maintain vigilance with prudential regulation and supervision to address vulnerabilities
- Improve efficiency of social sector spending with more and better infrastructure spending
- Stay the course on structural reform, including reducing trade restrictions

# One priority structural reform: reduce restrictions on services trade

- Indonesia is in the top decile of countries in terms of restrictions



OECD Services Trade Restrictiveness Index for Indonesia

