

Economic update

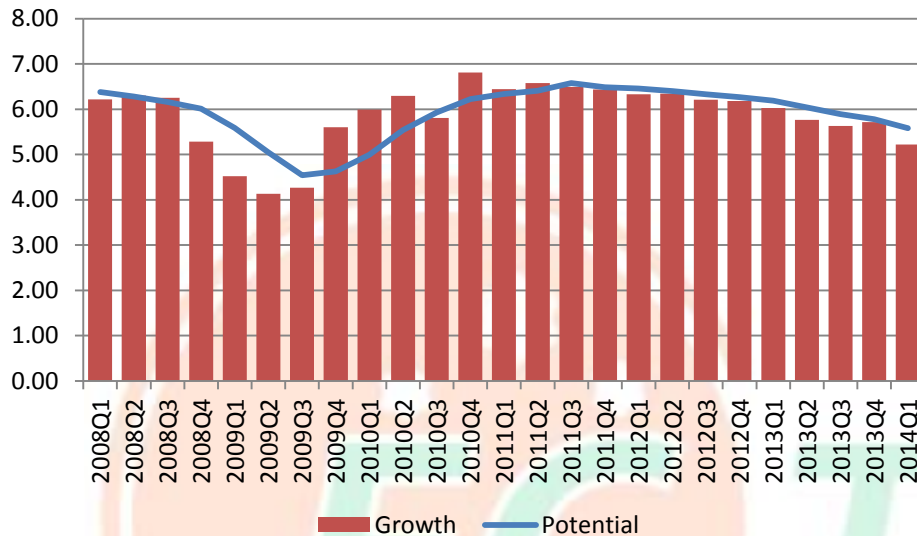
Reverting the slow down



EC-Think Corp.

Sept 2014

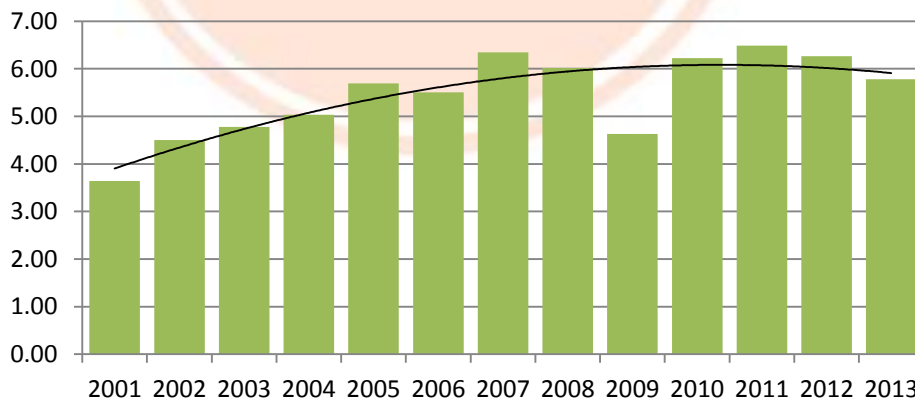
Headline (1)



From 2011 Q3 the economic growth showed a slowing down:

Quartely data (year on year growth) indicates clearly that, the economy persistently grows at a slowing phase than before. The “potential” growth has reached it maximum (6.6 percent), and then moved down

Yearly data shares the same trend. After a consistent increasing, the growth leveled off and then demise.



It becomes important to decompose the sources of this slows down. Without denying the importance of global economy, it is more interesting to look at domestic factors.

Headline (2)

	Tade Balance	Income & Transfer	Current Account	Net Capital	Balance of Payments
2010Q1	4,848	(2,958)	1,891	4,730	6,621
2010Q2	4,572	(3,231)	1,342	4,079	5,421
2010Q3	5,439	(4,396)	1,043	5,912	6,955
2010Q4	6,445	(5,575)	870	10,419	11,289
2011Q1	7,442	(4,496)	2,947	4,719	7,666
2011Q2	6,090	(5,816)	273	11,603	11,876
2011Q3	7,137	(6,371)	766	(4,726)	(3,960)
2011Q4	3,481	(5,782)	(2,301)	(1,425)	(3,726)
2012Q1	1,826	(5,018)	(3,192)	2,158	(1,034)
2012Q2	(1,972)	(6,177)	(8,149)	5,338	(2,811)
2012Q3	830	(6,095)	(5,265)	6,099	834
2012Q4	(2,397)	(5,415)	(7,812)	11,038	3,225
2013Q1	(985)	(5,024)	(6,009)	(606)	(6,615)
2013Q2	(4,050)	(6,083)	(10,133)	7,656	(2,477)
2013Q3	(2,663)	(5,972)	(8,634)	5,989	(2,645)
2013Q4	1,646	(5,960)	(4,314)	8,726	4,412
2014Q1	1,332	(5,522)	(4,191)	6,257	2,066

Trade balance becomes relatively thinner and sometimes negative, and not enough to outbalance the increasingly negative income & transfer components of the current account

The lessons from 2013 is that some times hot money cannot be expected to be always sufficiently available

In that case, exchange rate stability cannot be warranted by the authority

Thus, in the longer term the government should focus on improving trade balance and reducing the burden of foreign debt

Headline (3)

	Trade Balance		
	Total	Oil&Gas	Non O&G
2010Q1	4,848	1,142	3,706
2010Q2	4,572	967	3,605
2010Q3	5,439	988	4,450
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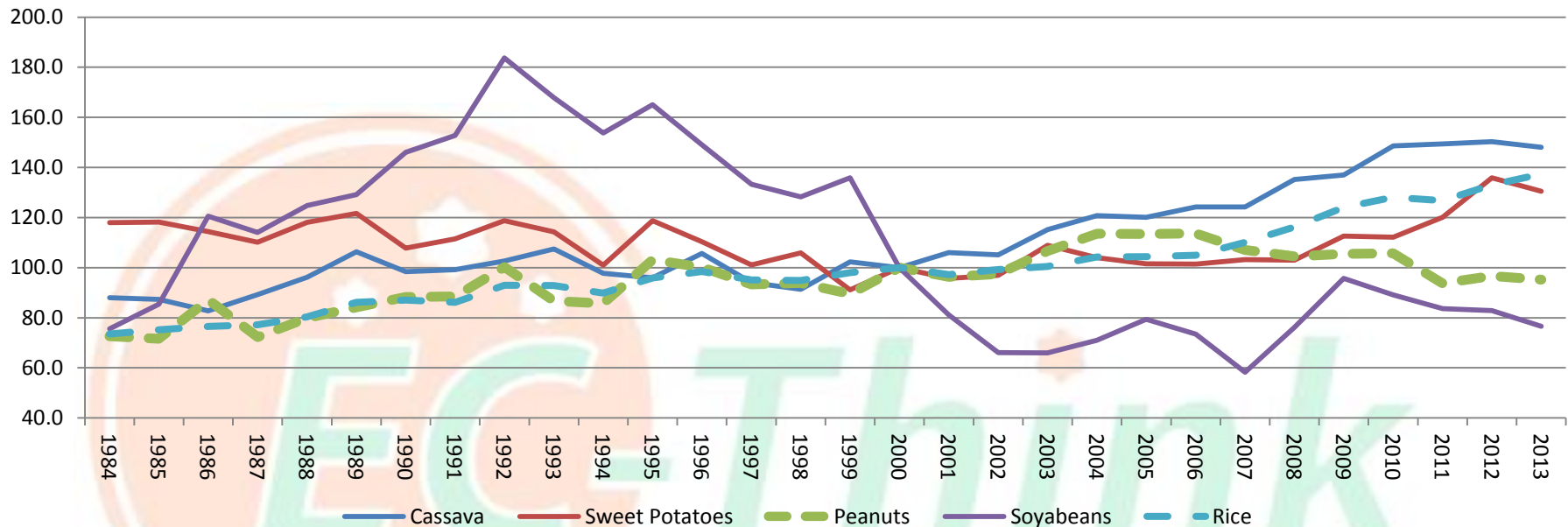
There is no easy way to improve trade balance in the short run:

The oil and gas deficits will continue to worsen as domestic production of oil and gas continue to decline and at the same time the consumption continue to increase

The non-oil surplus have to be increased, but that would depend on competitiveness and world demand

In the near term, the government will maintain weak exchange rate to stimulate export and to tighten imports (artificial competitiveness)

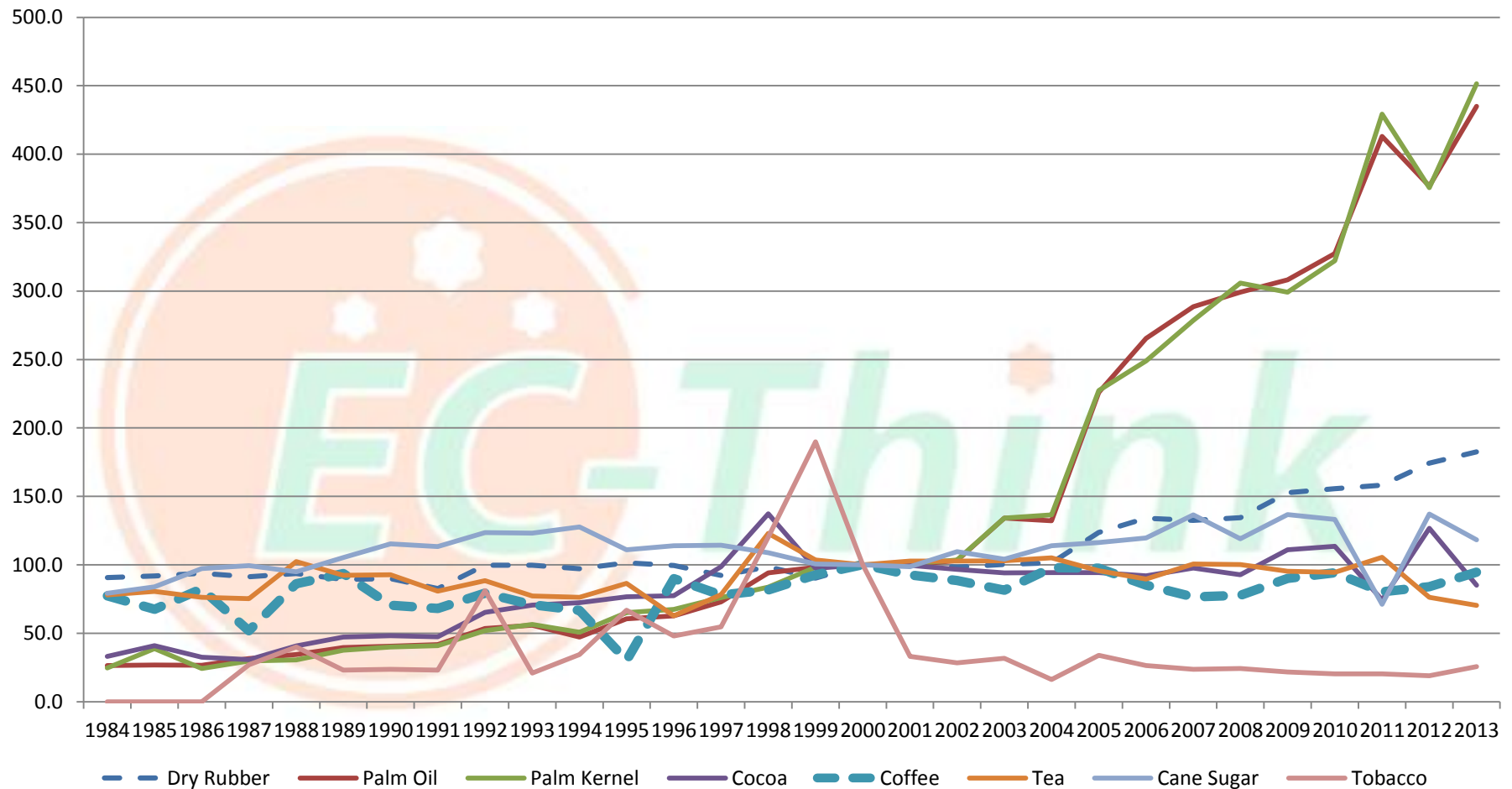
Production indices: Food



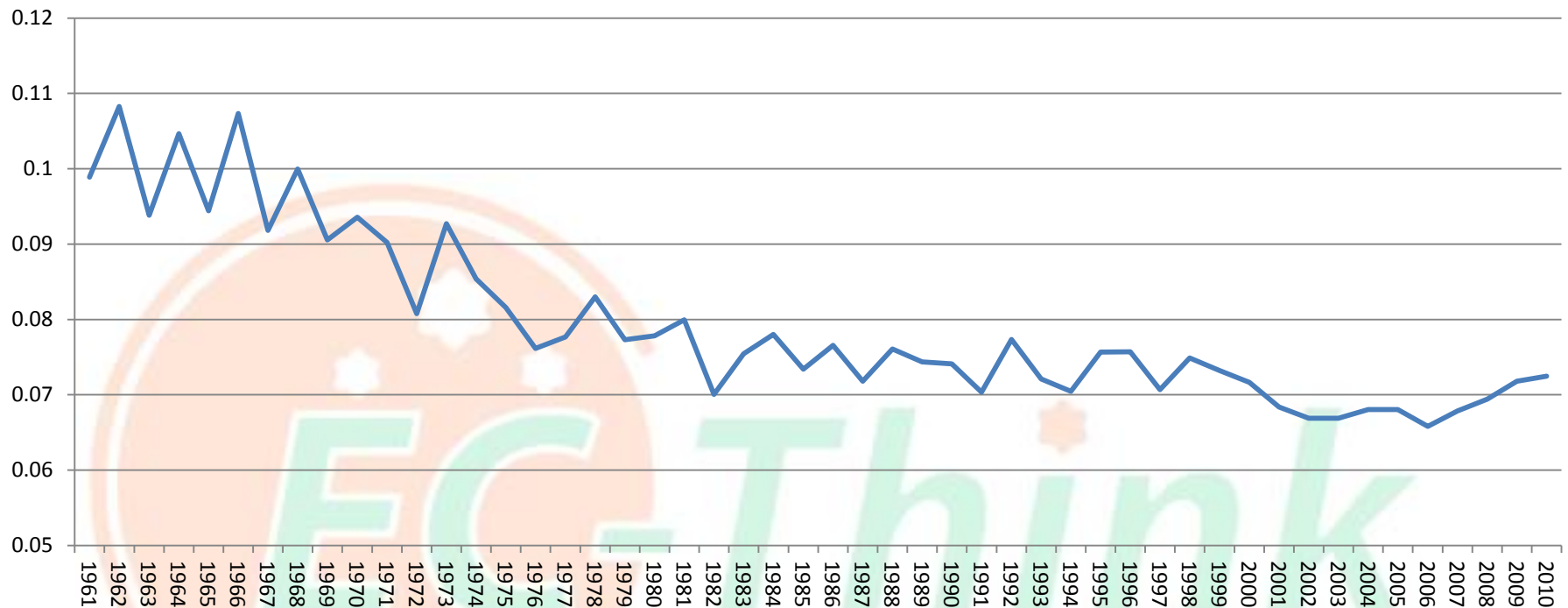
	Produksi (000 Ton)	Luas Panen (000 Ha)	Produktivitas (Ku/Ha)
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Behind the past:
Soybean
Peanut

Behind the past: cocoa, coffee, tea

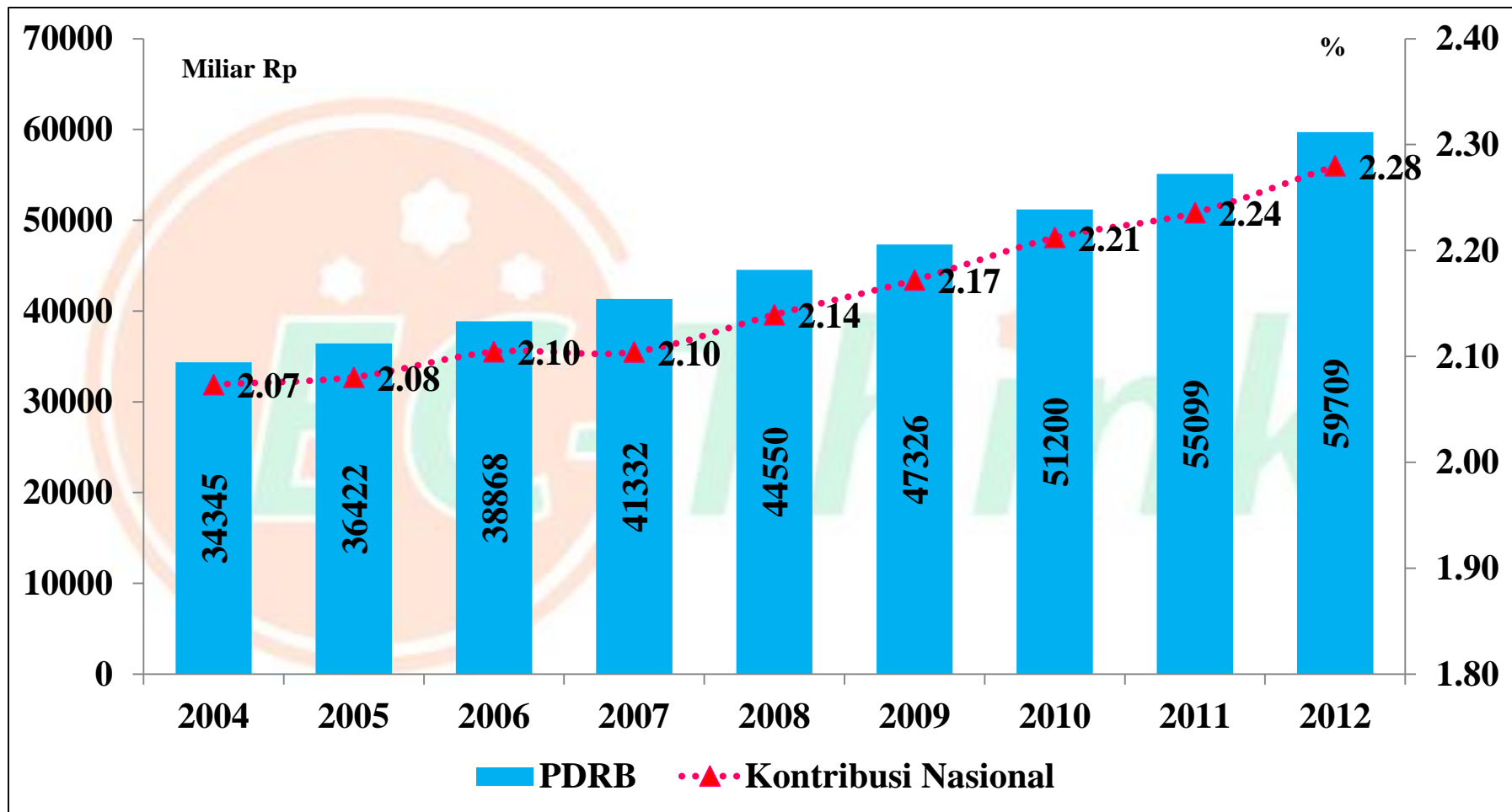


Food area to man ratio (Ha per person)



Additional land needed (Ha)	
European norm	4,650,164
Brazilian norm	5,590,269
US norm	27,189,292

PDRB SULAWESI SELATAN



Sumber : BPS

Policy measures

- Focus on solving medium to longer term problems
- Prepare stronger foundation for sustainable high-growth
- High priority:
 - Conversion of gasoline and diesel to CNG/LGV, the infrastructure would be completed by the end of 2017 and the main target would be motor cycles and bi-fuel cars (tax incentives)
 - Improving competitiveness: reducing energy cost, logistic costs (rail ways + sea freight), bureaucratic reforms, labor policy, education, health etc

Program unggulan Pertanian

- Infrastruktur pertanian/desa:
 - 1 juta ha sawah baru (Sulsel)
 - 9 juta ha lahan kering
 - 50 bendungan multifungsi (pengairan, air minum, PLTA)
 - Jalan perdesaan/pertanian
 - 5000 pasar tradisional
 - Revitalisasi pergudangan Bulog → cadangan pangan nasional
- Island of best practices:
 - 1000 desa benih
 - 500 desa green agriculture

L A M P I R A N



The question of internal or external factors

	2010	2011	2012	2013	average
Export	15.27	13.65	2.00	5.30	9.06
Export of Goods	15.57	13.99	1.72	4.93	9.05
Export of Services	12.78	10.86	4.38	8.35	9.10
Import	17.34	13.34	6.66	1.21	9.64
Import of Goods	18.59	16.33	7.91	1.37	11.05
Import of Services	13.49	3.64	2.13	0.58	4.96

There is no clear answer about which one is stronger, but both global and domestic factors play a role in the slow down

Export growth is clearly lower than before, indicating a weaker global demand on exportables. Thus there is an evident of the effect of external factors on domestic growth

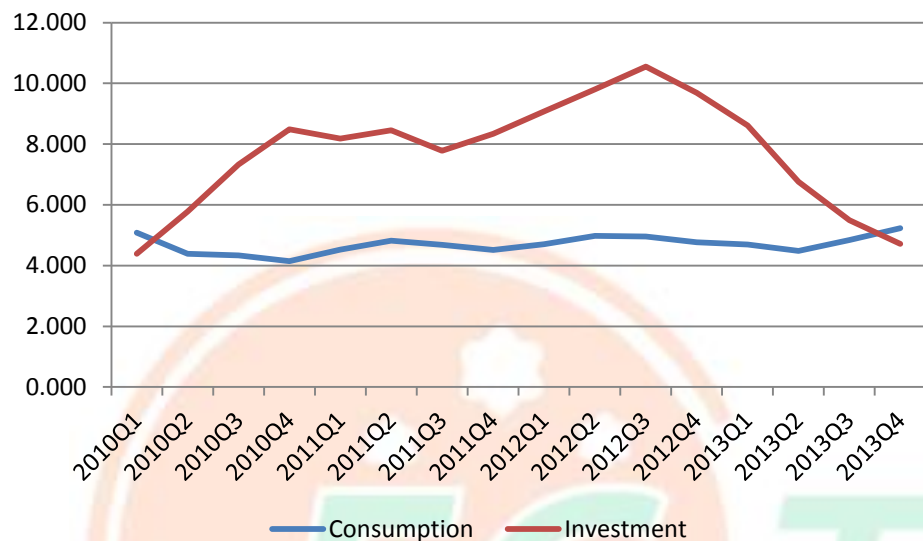
Import growth tells us that domestic factors are also important in the slowing down. Thus we can not blame the global economy alone.

Weakening of investment

Components	2010	2011	2012	2013	Average
GDP Growth	6.22	6.49	6.26	5.78	6.19
Consumption Expenditure	4.14	4.51	4.76	5.23	4.66
Household	4.74	4.71	5.28	5.28	5.00
Household: Food	3.60	3.75	4.30	4.39	4.01
Household: Non-Food	5.70	5.50	6.08	6.00	5.82
Government	0.32	3.22	1.28	4.87	2.42
Government: Material	-2.94	3.77	0.97	7.68	2.37
Government: Personnel	4.65	5.39	1.82	1.45	3.33
Government: Goods and Services	-1.14	18.06	1.99	5.67	6.15
Gross Fixed Capital Formation	8.48	8.34	9.69	4.71	7.81
Building	6.95	6.07	7.39	6.57	6.75
Domestic Machine, Equipment	5.49	0.31	3.37	4.71	3.47
Foreign Machine, Equipment	19.60	21.37	14.16	-0.38	13.69
Domestic Transportation	12.41	1.96	21.57	12.96	12.23
Foreign Transportation	9.20	16.73	27.81	-10.13	10.91
Others Domestic	-4.15	2.83	5.91	16.02	5.15
Others Foreign	14.30	4.89	19.63	4.96	10.95

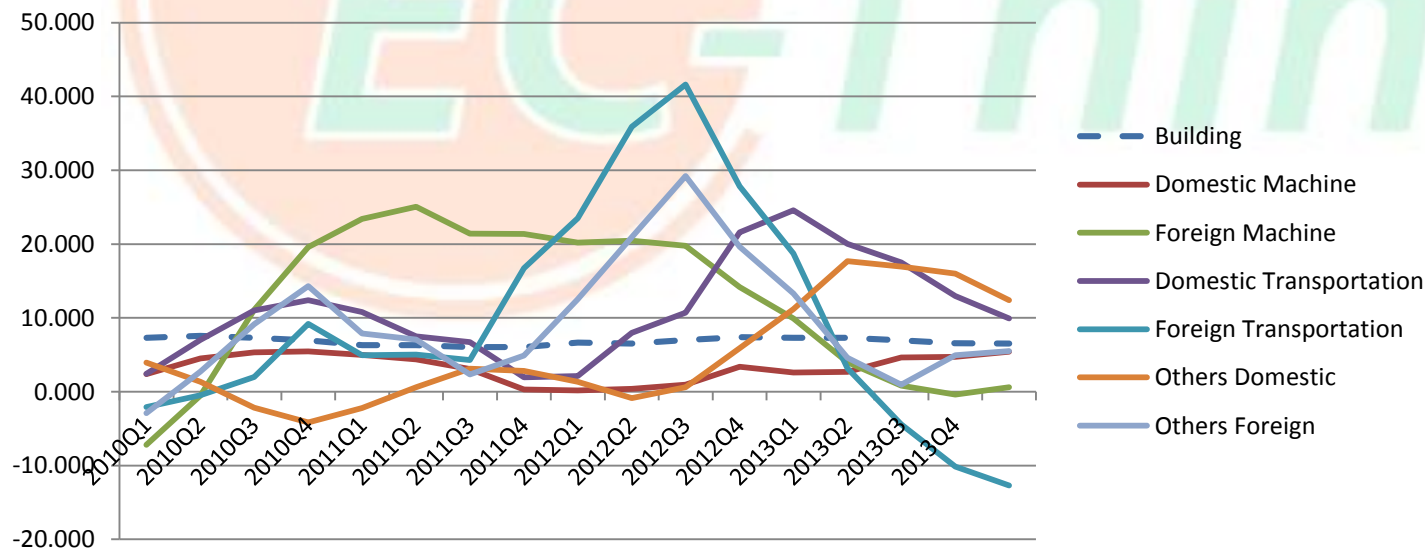
While the consumption (both household and government) remain robust, investment slowed down remarkably in 2013. This is a worrying sign, as it may affect future growth prospects. It is expected that the slow down will continue

A closer look at quarterly data



The problem is clearly on the investment side especially:

- Domestic machine
- Foreign machine
- Domestic transportation
- Foreign transportation



Sector decomposition

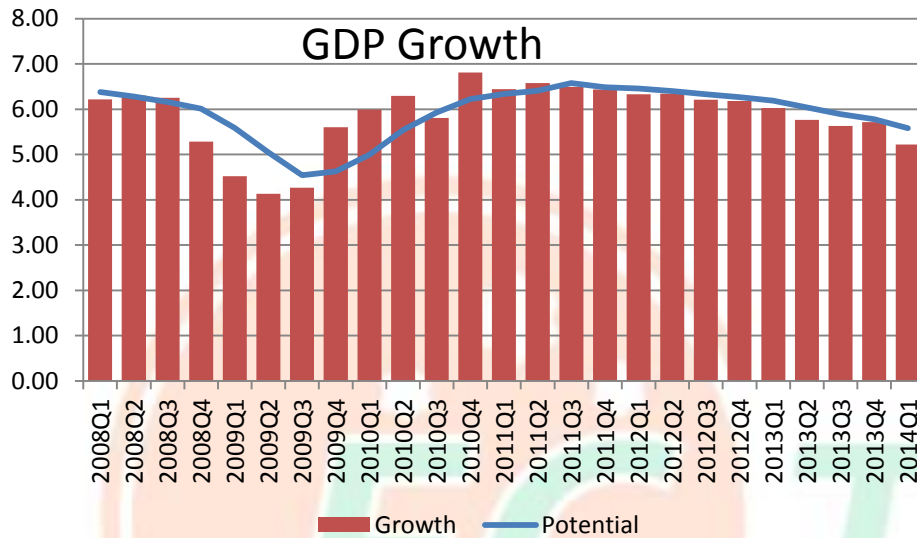
	2010	2011	2012	2013	average
Gross Domestic Product	6.22	6.49	6.26	5.78	6.19
Agriculture	3.01	3.37	4.20	3.54	3.53
Mining and Quarrying	3.86	1.60	1.56	1.34	2.09
Manufacturing Industries	4.74	6.14	5.74	5.56	5.55
Electricity, Gas and Water Supply	5.33	4.71	6.25	5.58	5.47
Construction	6.95	6.07	7.39	6.57	6.75
Trade, Hotel and Restaurant	8.69	9.24	8.15	5.93	8.00
Banking, Leasing & Business	5.67	6.84	7.15	7.56	6.80
Services (other)	6.04	6.80	5.25	5.46	5.89

Slowing down is particularly evident in (1) mining and quarrying, (2) trade, hotel and restaurant, and (3) manufacturing industries

The sign of slowing down is also showed by (1) agriculture, (2) electricity, gas and water supply, construction, and (3) banking, leasing and business

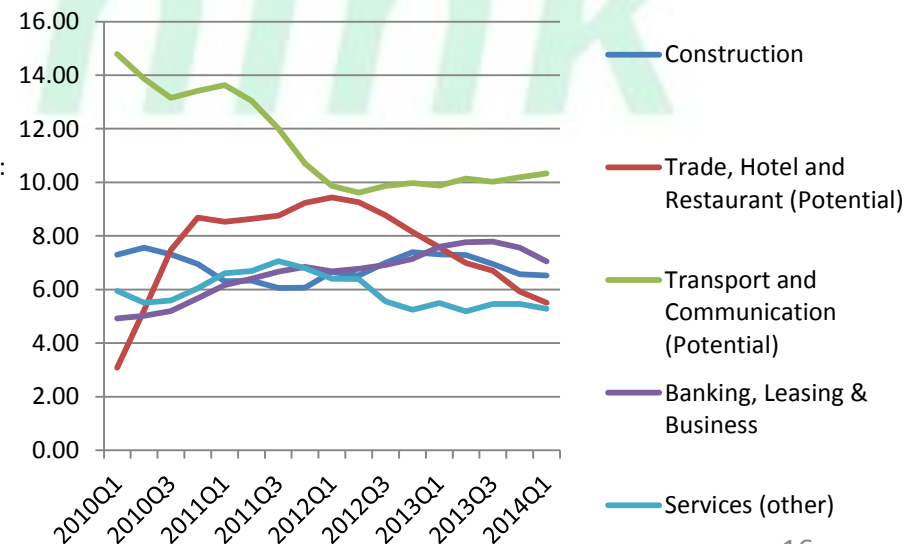
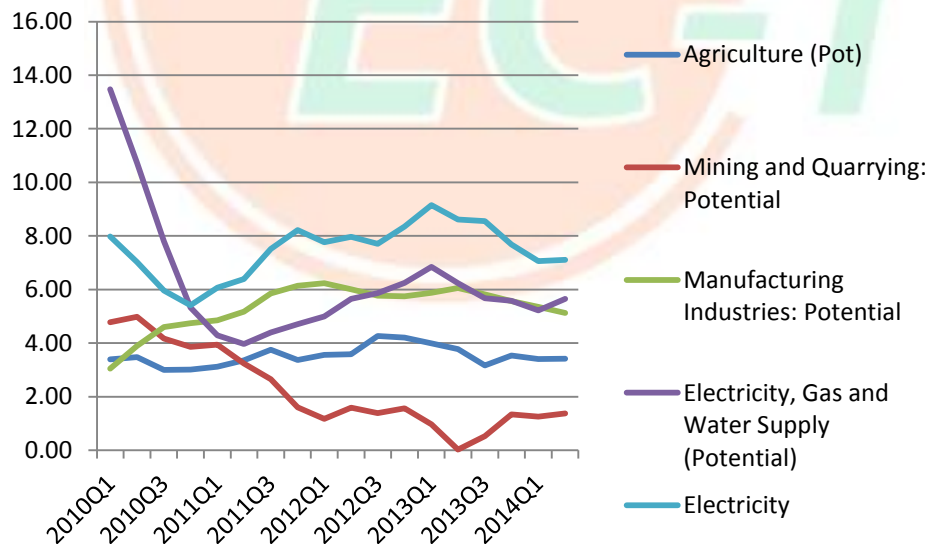
Banking, Leasing and Business Services remain robust, or at least would be affected sooner or later

Headline

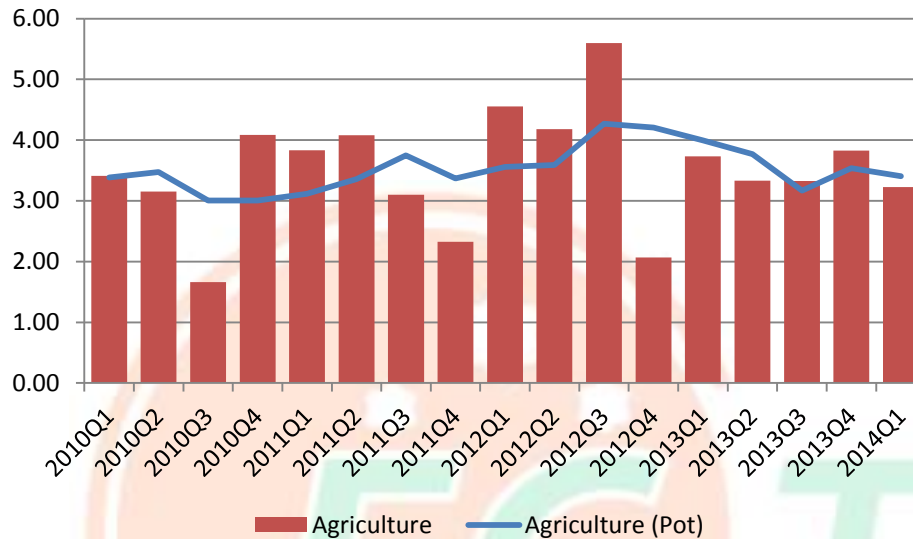


Entering the first quarter of 2014, it is very clear that all sectors are slowing down. Thus, it should be expected that the economy would slow down further for a few quarter ahead

Until the end of 2013, the banking, leasing, and business services seemed to be robust. However, they are now being affected finally.



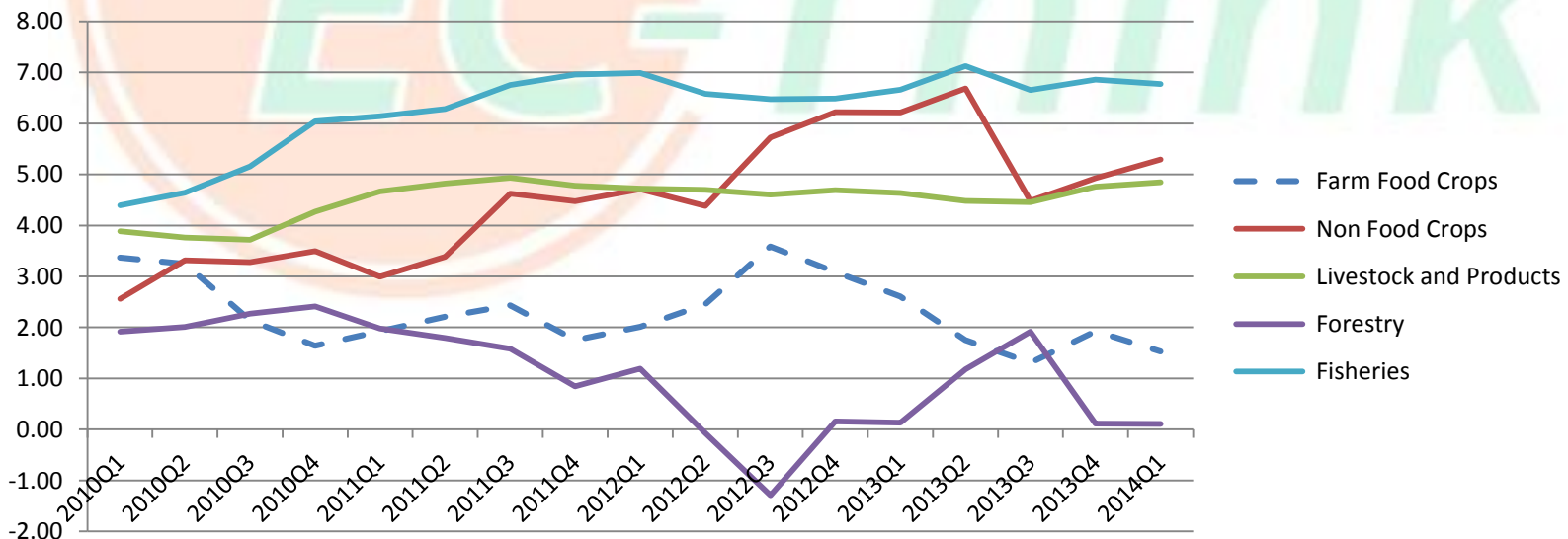
Agriculture



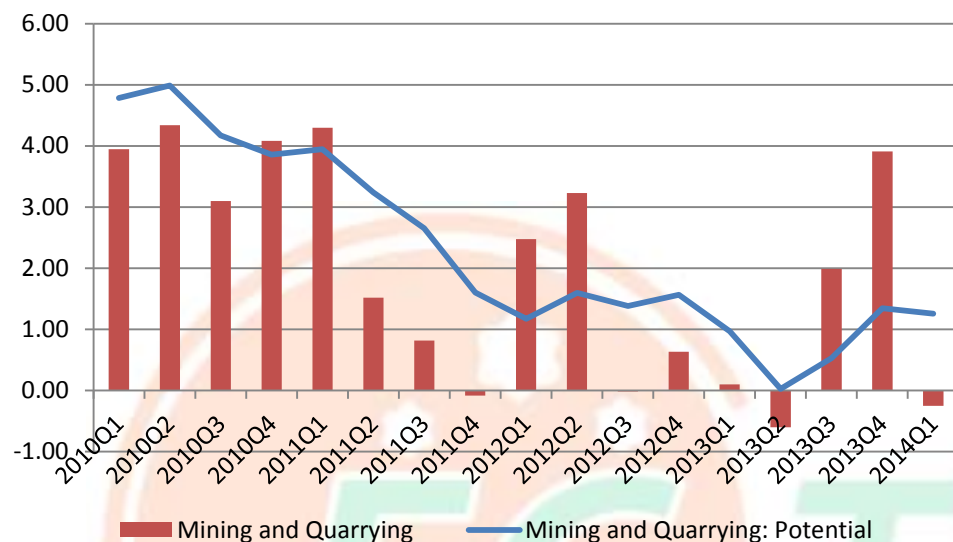
Agriculture is on the declining trend of growth

This is particularly evident in food crops and forestry

Meanwhile non food crops, livestock, and fisheries remain on the increasing growth

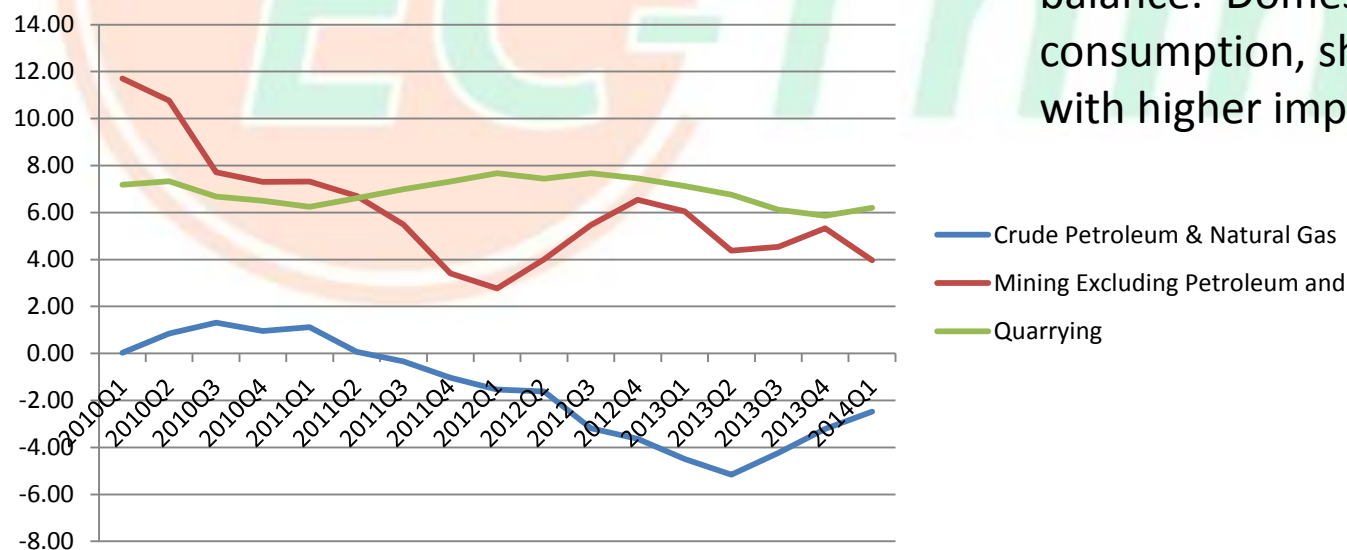


Mining

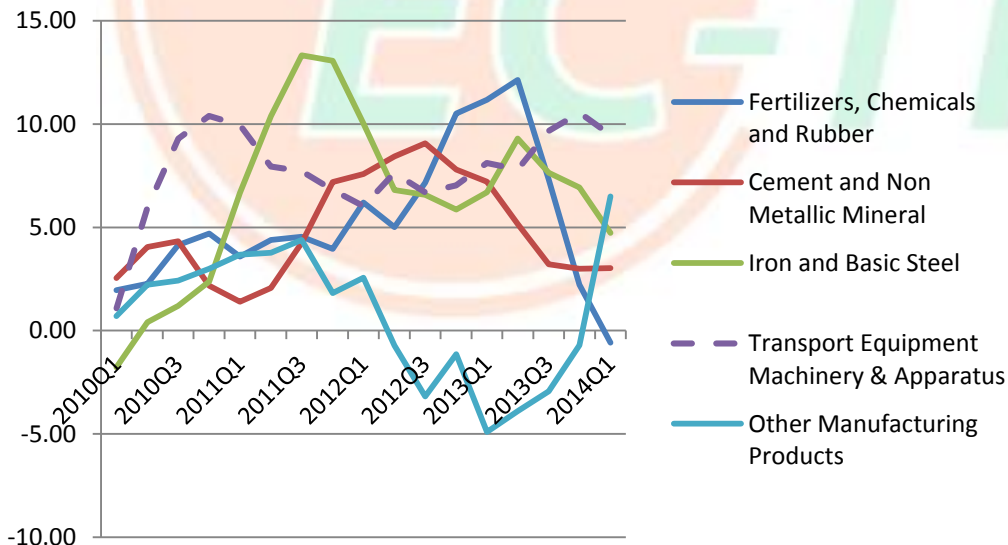
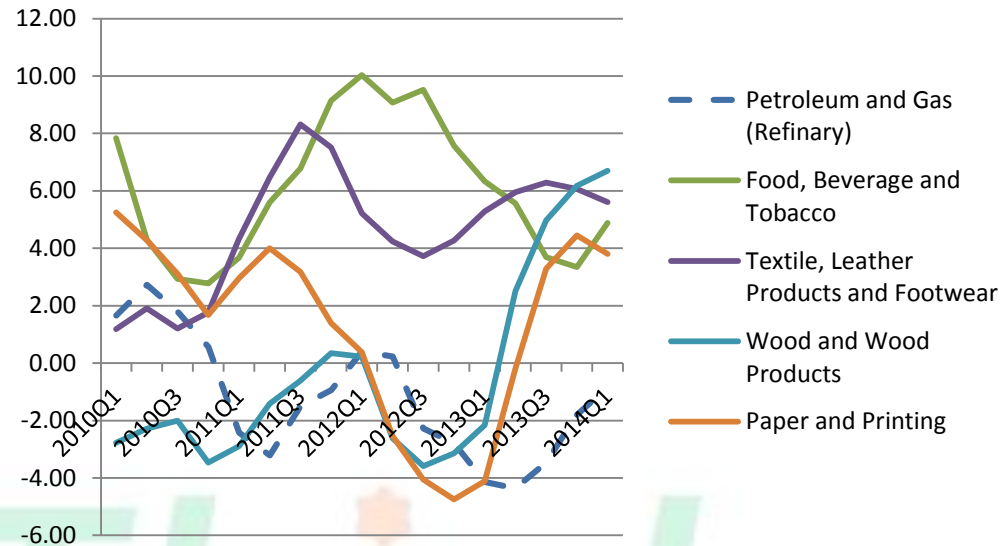
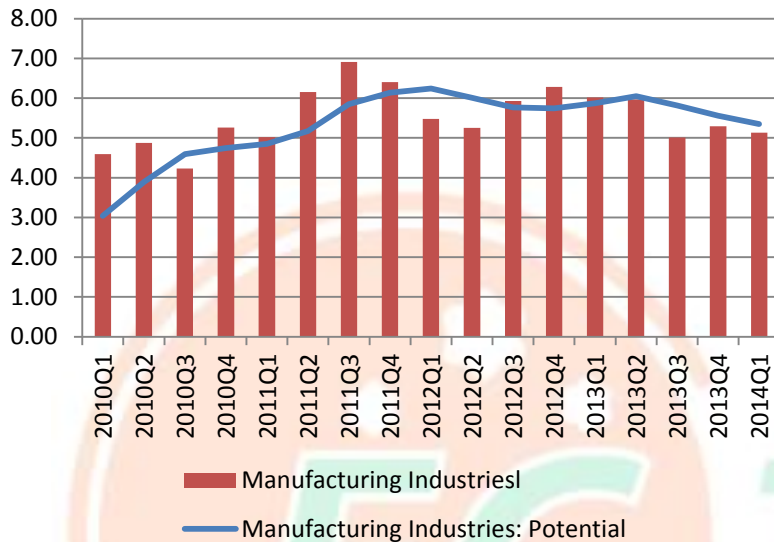


The growth rate of the mining sector is in a sharp diminishing trend

Oil and gas industry is already in a negative growth. While domestic consumption is in the increasing phase, this would imply a higher burden on trade balance. Domestic oil consumption, should be met with higher imports



Manufacturing

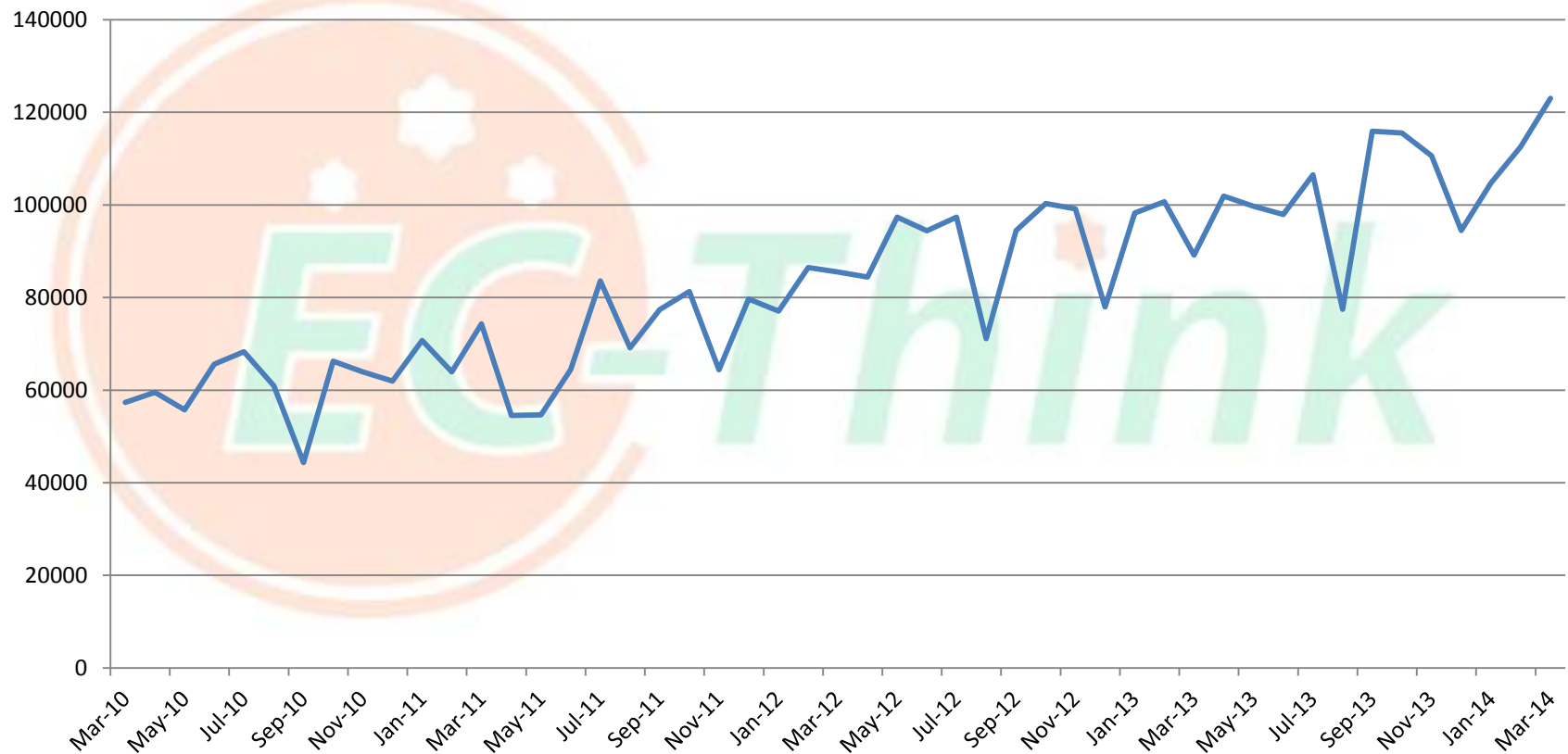


A clear slowing down: (1) Food, beverage and tobacco and (2) cement and non metallic material

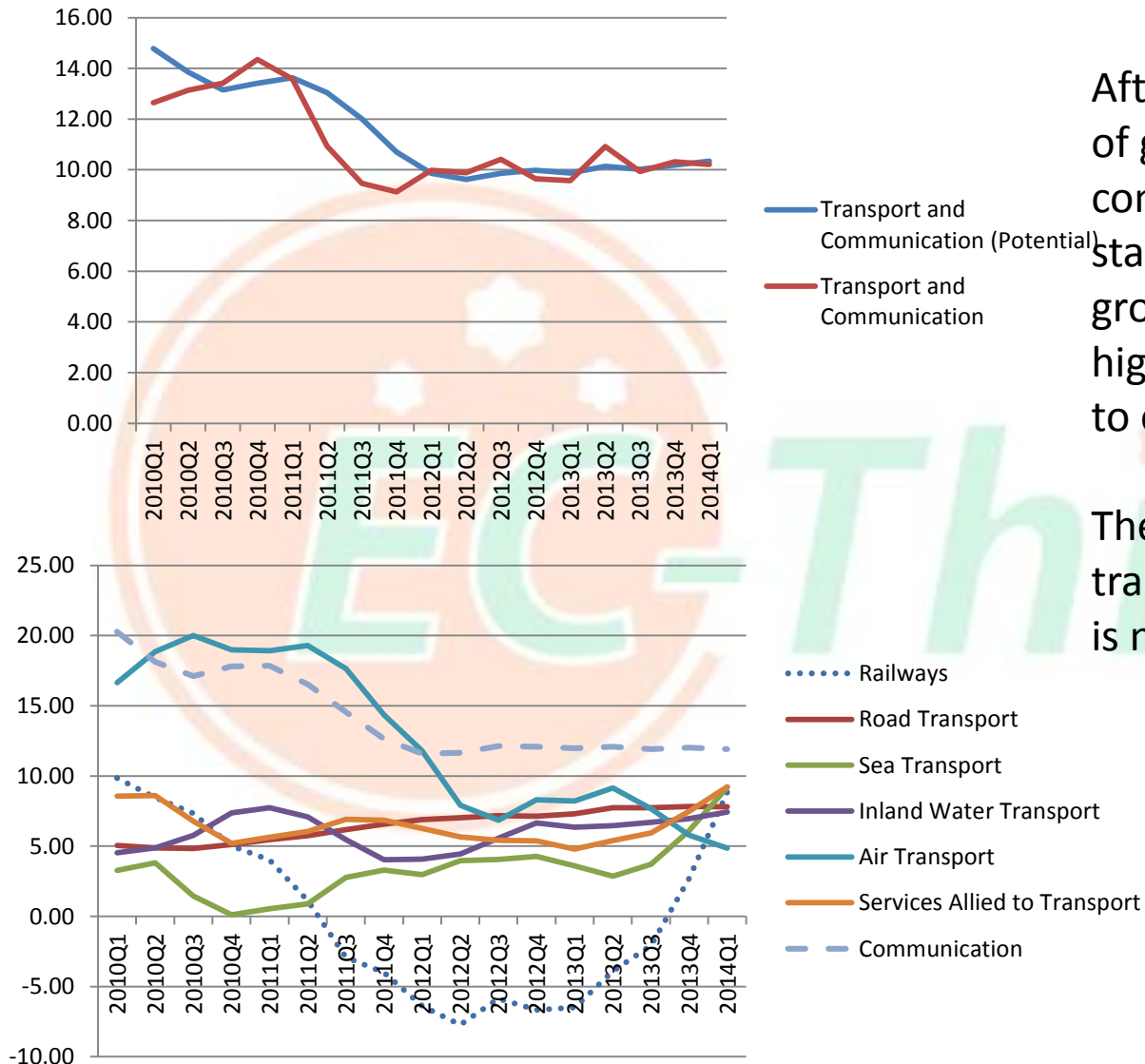
Transport equipment seems to remain robust

Motor vehicle is an exception

Motor Vehicle Production: GAI



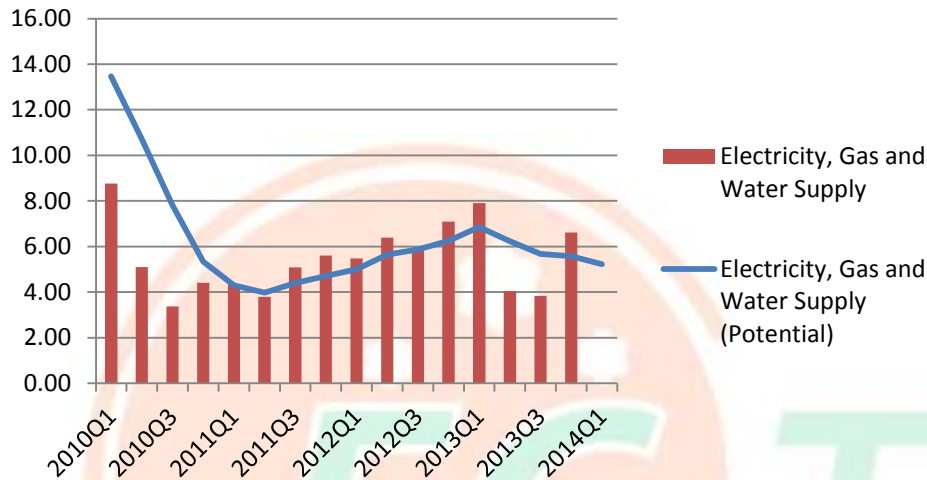
Transport and communication



After an earlier sharp decline of growth, transport and communication sector is now stabilize at a lower level of growth (but still at a relatively higher growth rate compared to other sectors)

The two engine of growth, air transport and communication is now at a slower phase

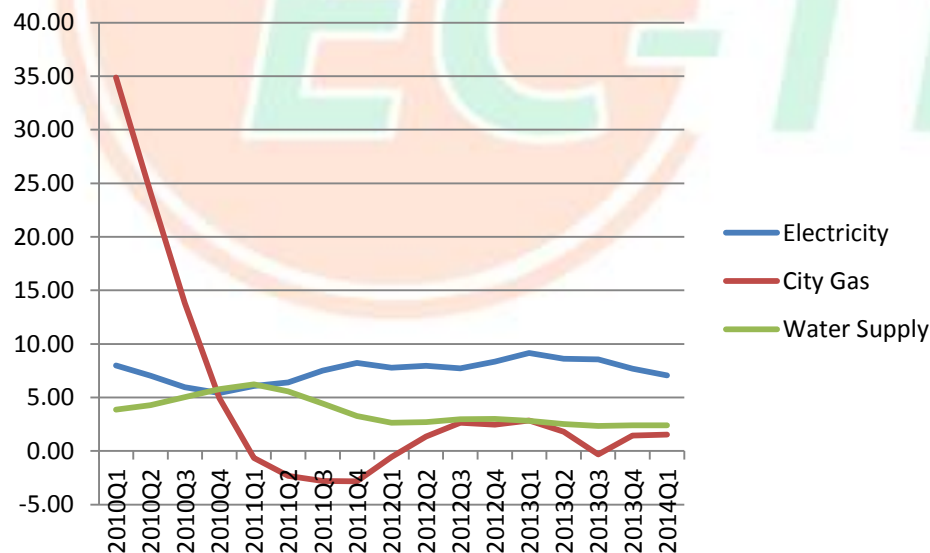
Electricity, Gas and Water Supply



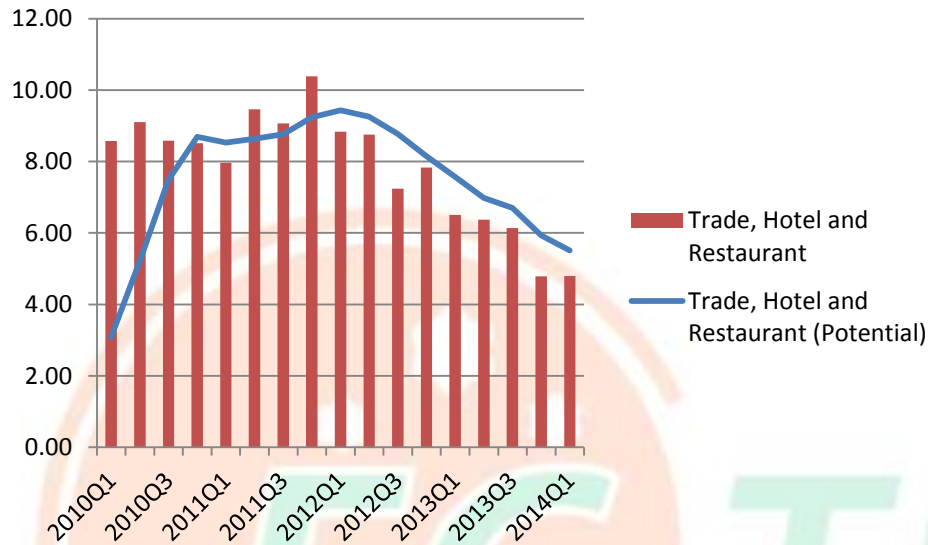
This sector losses its engine of growth (City gas)

May be related to investment rather than demand

Note that demand for gas, electricity and water are not sufficiently met by supply

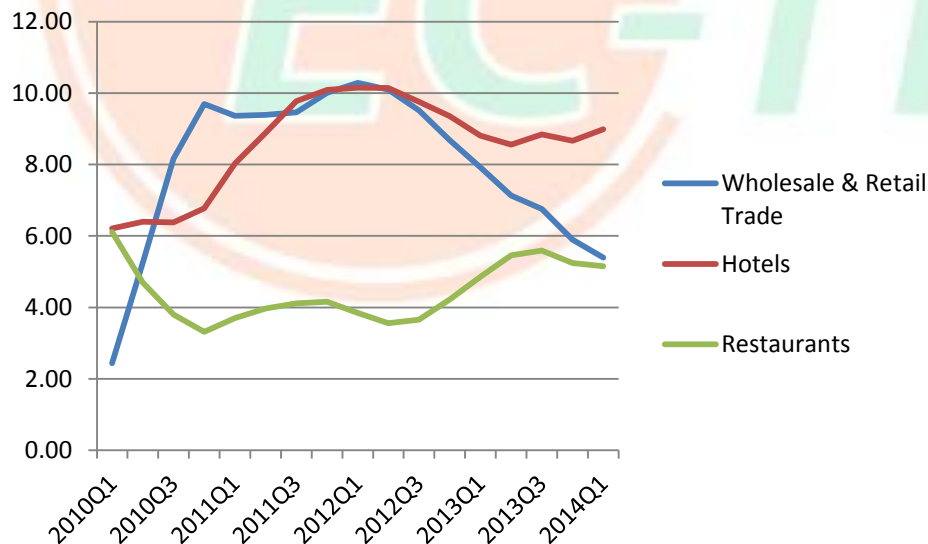


Trade, hotel and restaurant



Trade, hotel , and restaurant experienced a sharp decline in growth

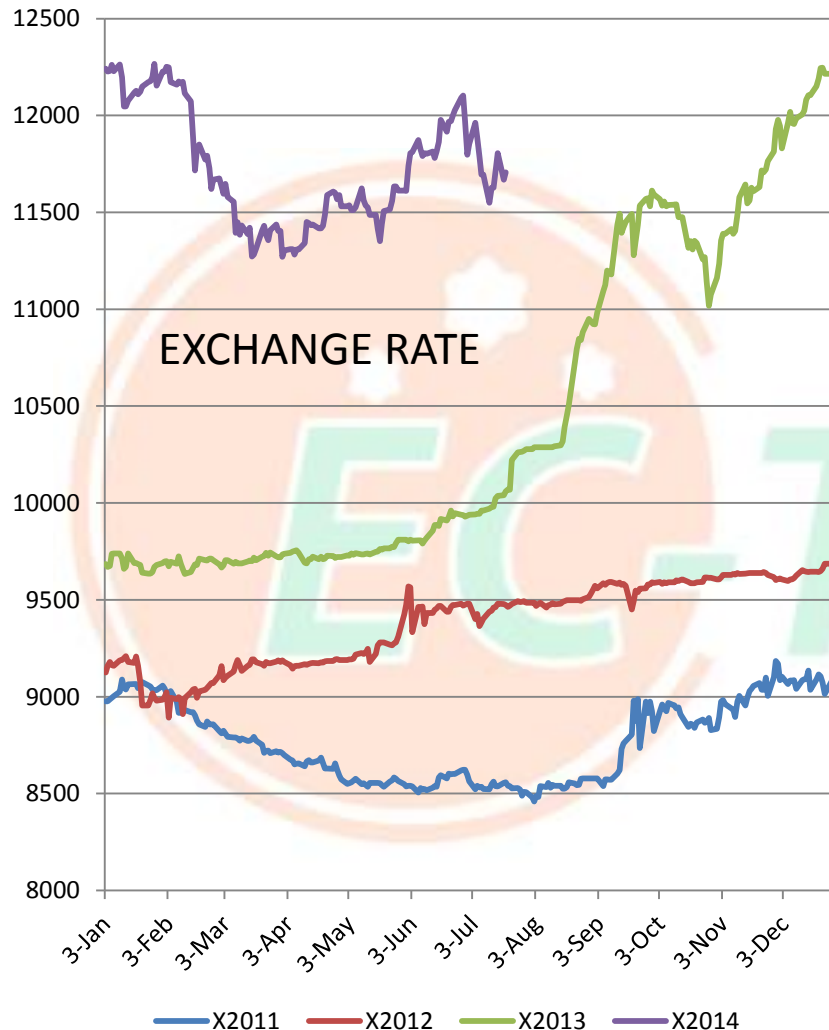
The decline in growth of wholesale and retail trade should indicate that the slowing down of the economy has affected the household.



This suggest that, in the near future the growth rate of consumption would also weakening.

Thus eventually, both consumption and investment would decline. This would be expected in the few coming months

Headline



External sector volatility may be best captured by the ups and downs in exchange rate

After a dramatic volatility in 2013, the authority seemed to be able to strengthen the exchange rate through the first quarter of 2014

However, they lost control again in the second quarter

Two underlying problems, (1) current account deficits and (2) foreign debt burden were behind this

Since they are financed by hot money, the risk is that the availability of that money would depend on investors' confidence

Persistent current account deficits

	Tade Balance	Income & Transfer	Current Account	Net Capital	Balance of Payments
2010Q1	4,848	(2,958)	1,891	4,730	6,621
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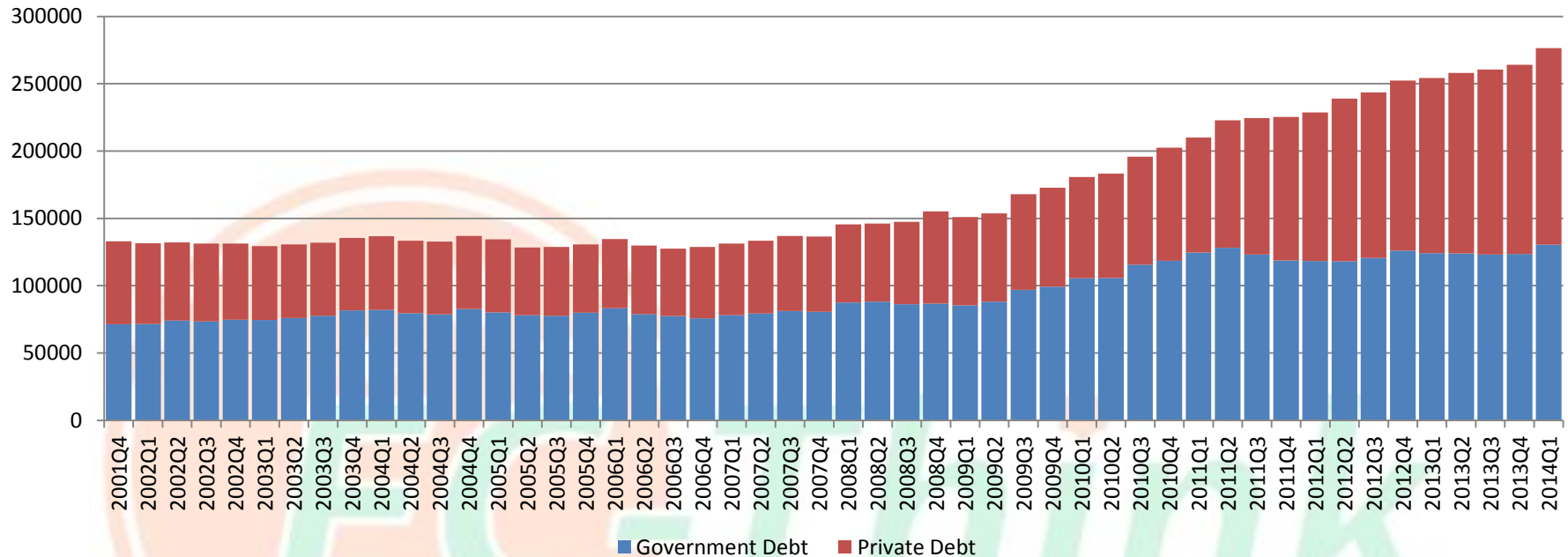
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In that case, exchange rate stability cannot be warranted by the authority

Thus, in the longer term the government should focus on improving trade balance and reducing the burden of foreign debt

Increasing burden of private debt ..



	Government	Private	Total
2005Q1	80,241	54,122	134,363
2009Q4	99,265	73,606	172,871
2014Q1	130,512	145,980	276,492

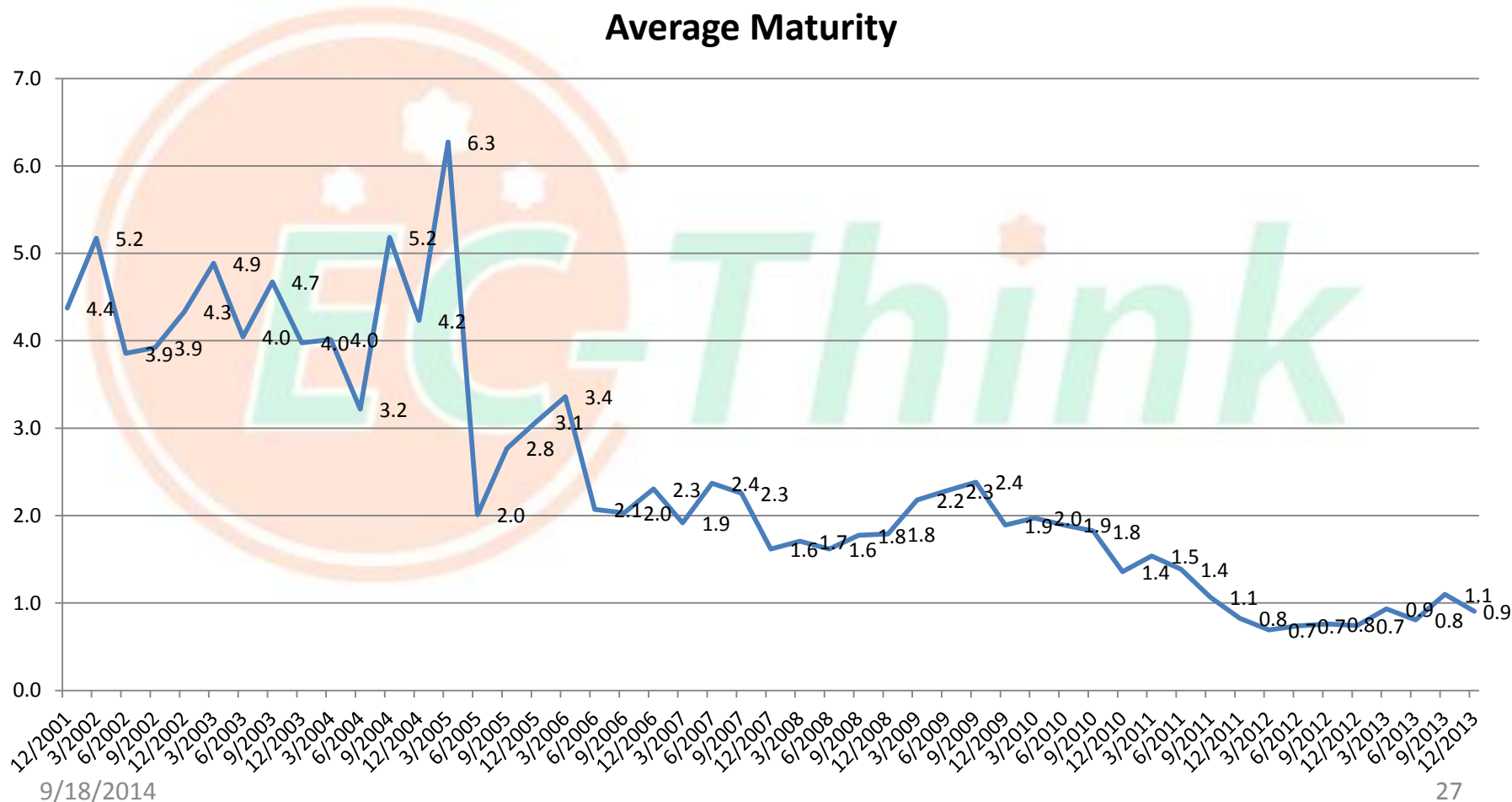
Private debt becomes larger than government debt, and accelerates at very rapid phase

This was the result global liquidity abundance coupled with high domestic interest rate

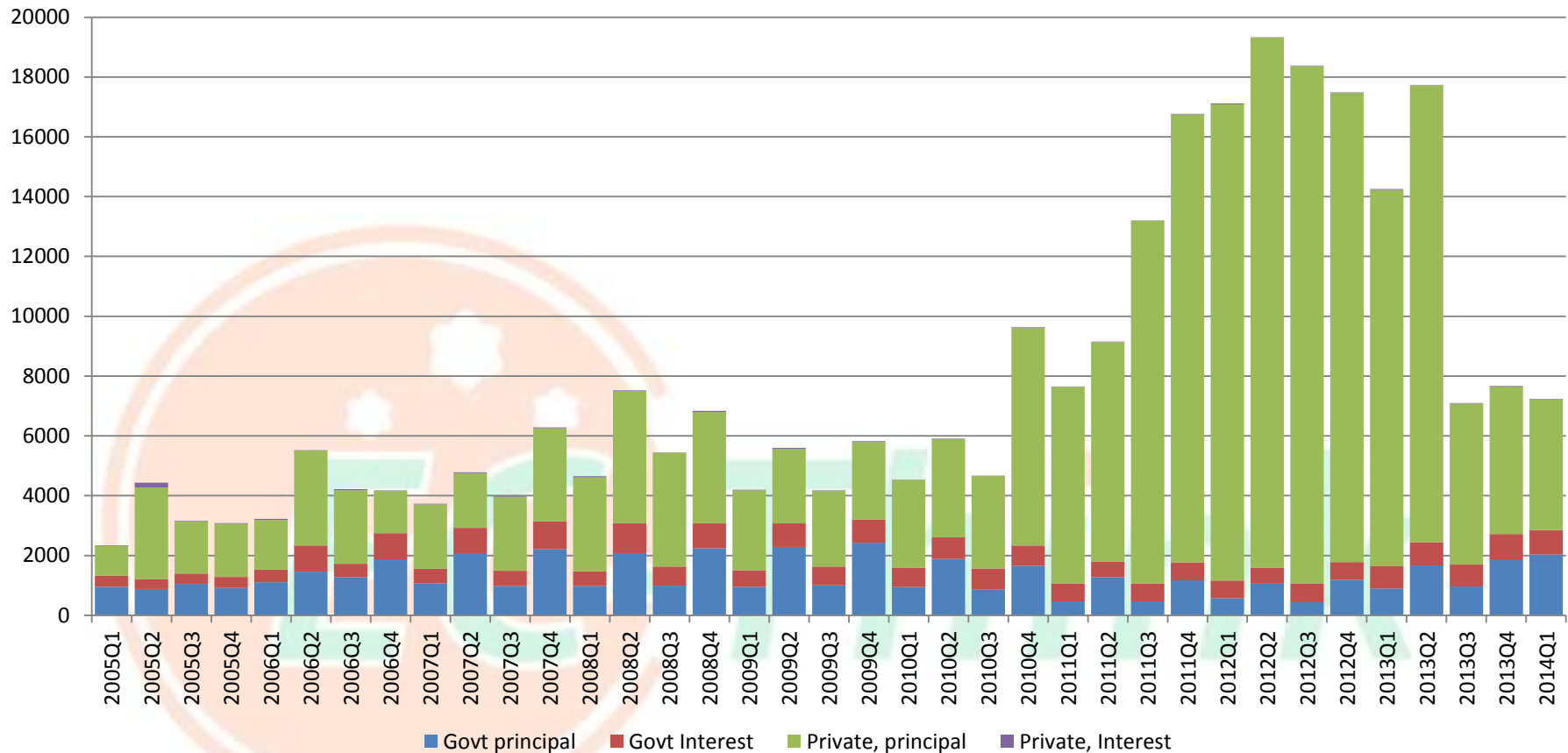
The major problem is that the average maturity of private debt becomes shorter

The sustainability of the debt become increasingly dependent on the ability to refinance, most often using short-term instrument

This can be a big problems for exchange rate management



The size of the burden



The size of the burden in 2013 is about 47 billion USD, and 38 billion of which is due to private burden

Hence, the country has to rely on foreign capital inflow to sustain the debt

It has to let the private sector to re-borrow abroad but with more favorable maturity

Trade balance would not be easy to improve

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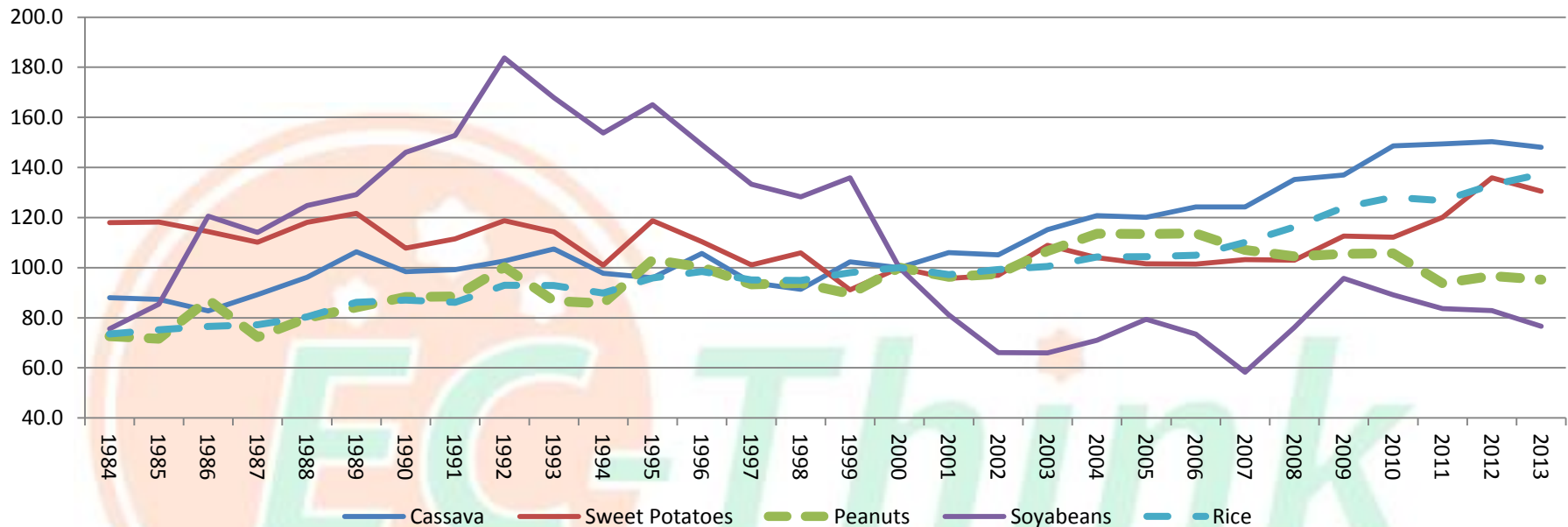
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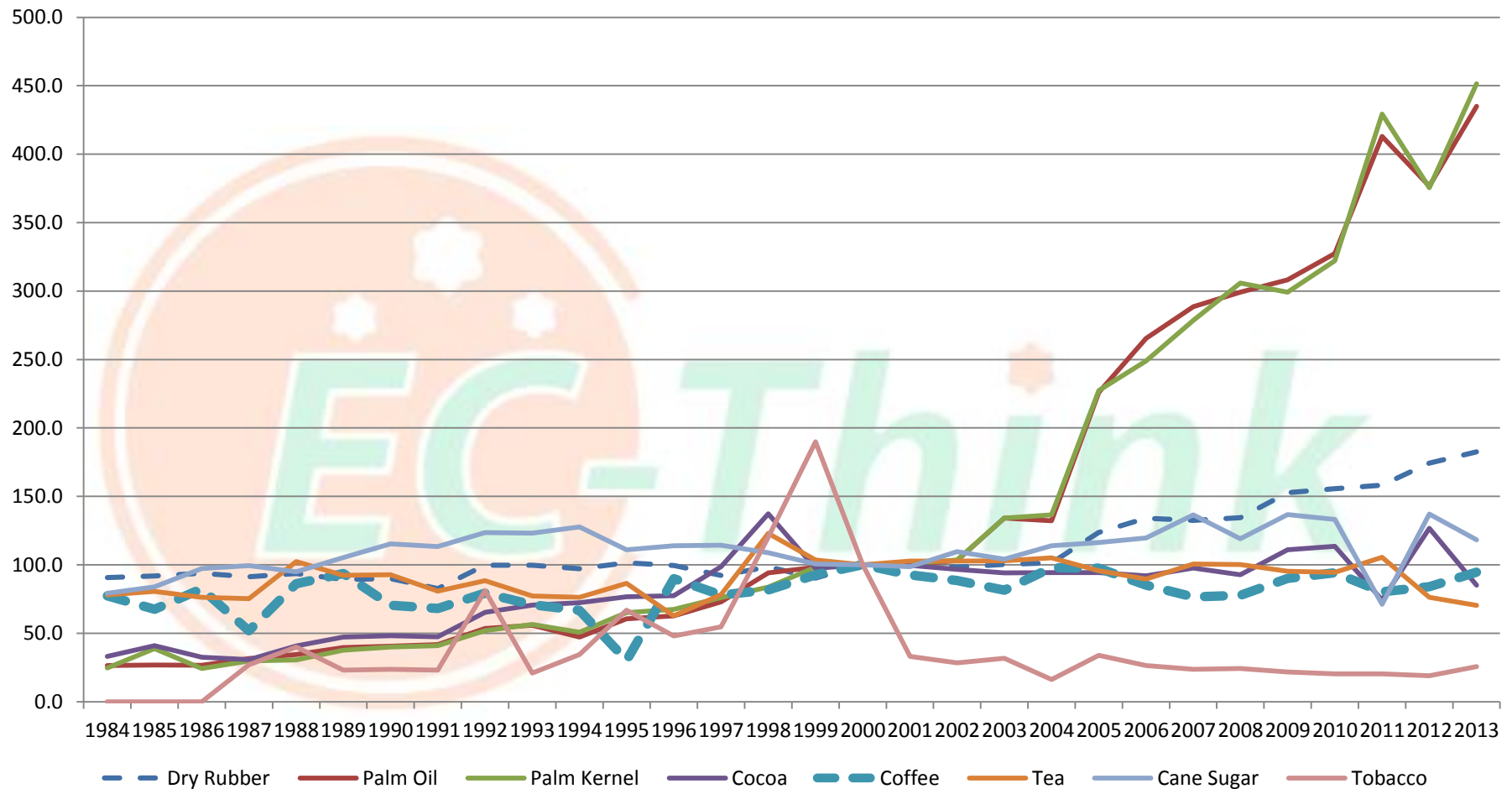
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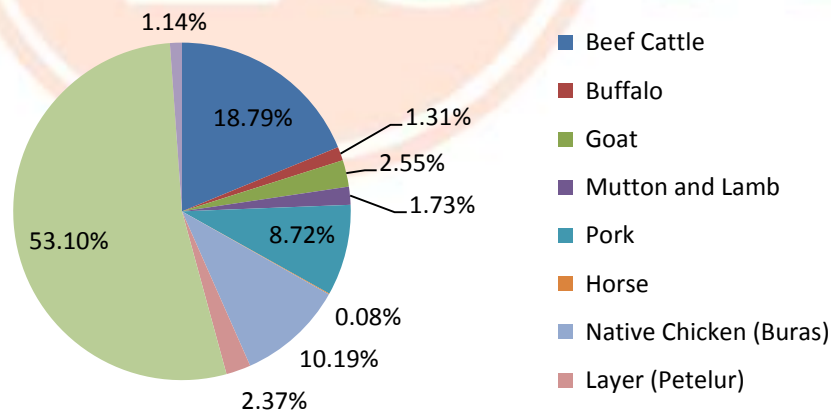
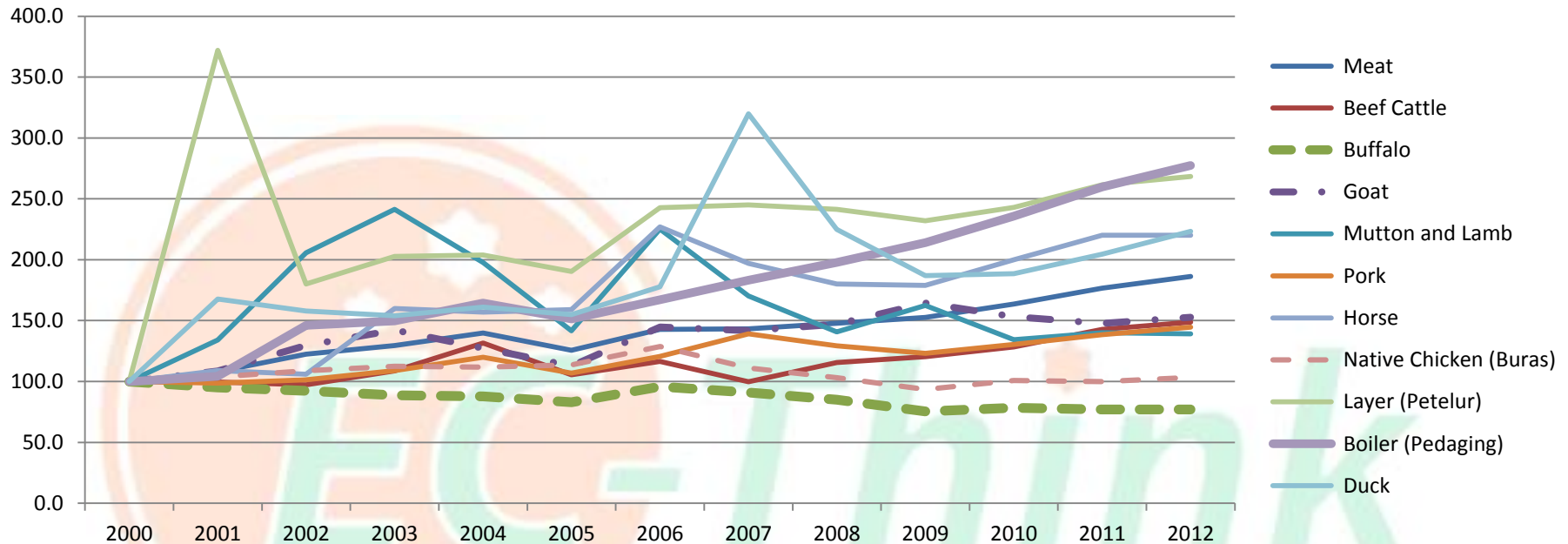
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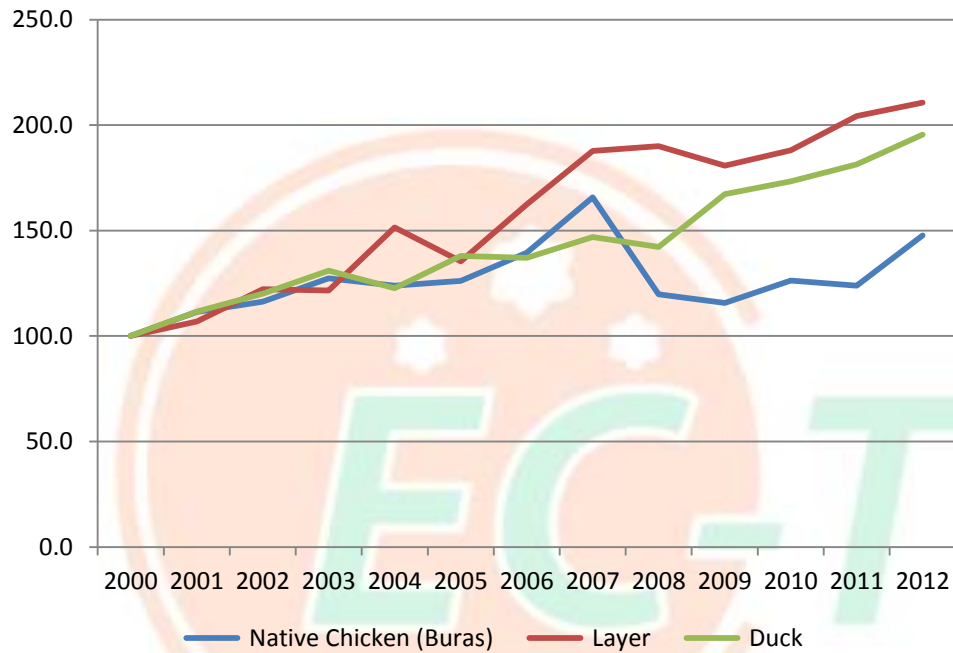
Behind the past: cocoa, coffee, tea



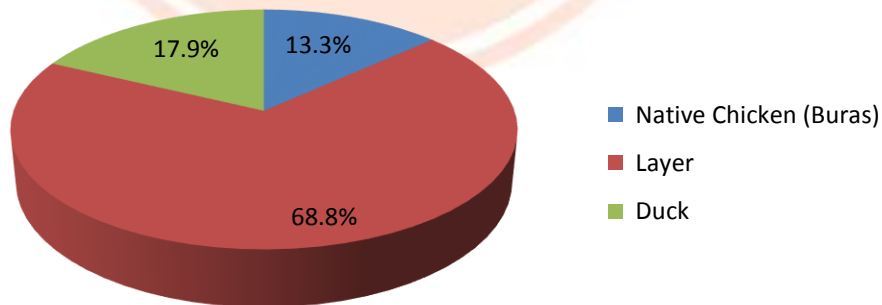
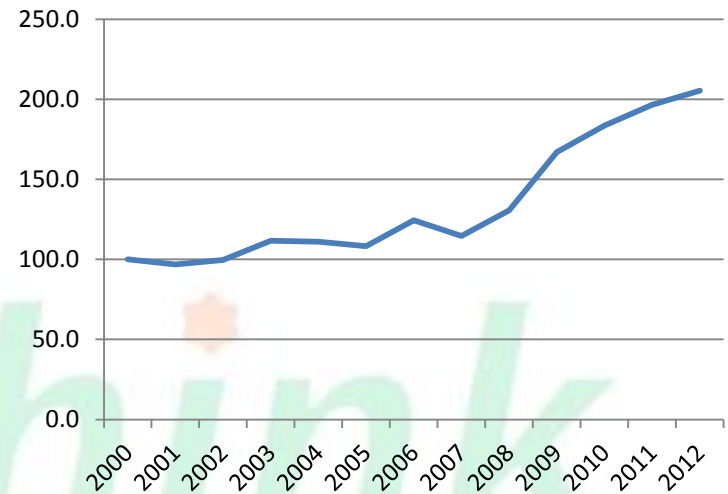
Behind the past: Buffalo, native chicken



Egg & milk



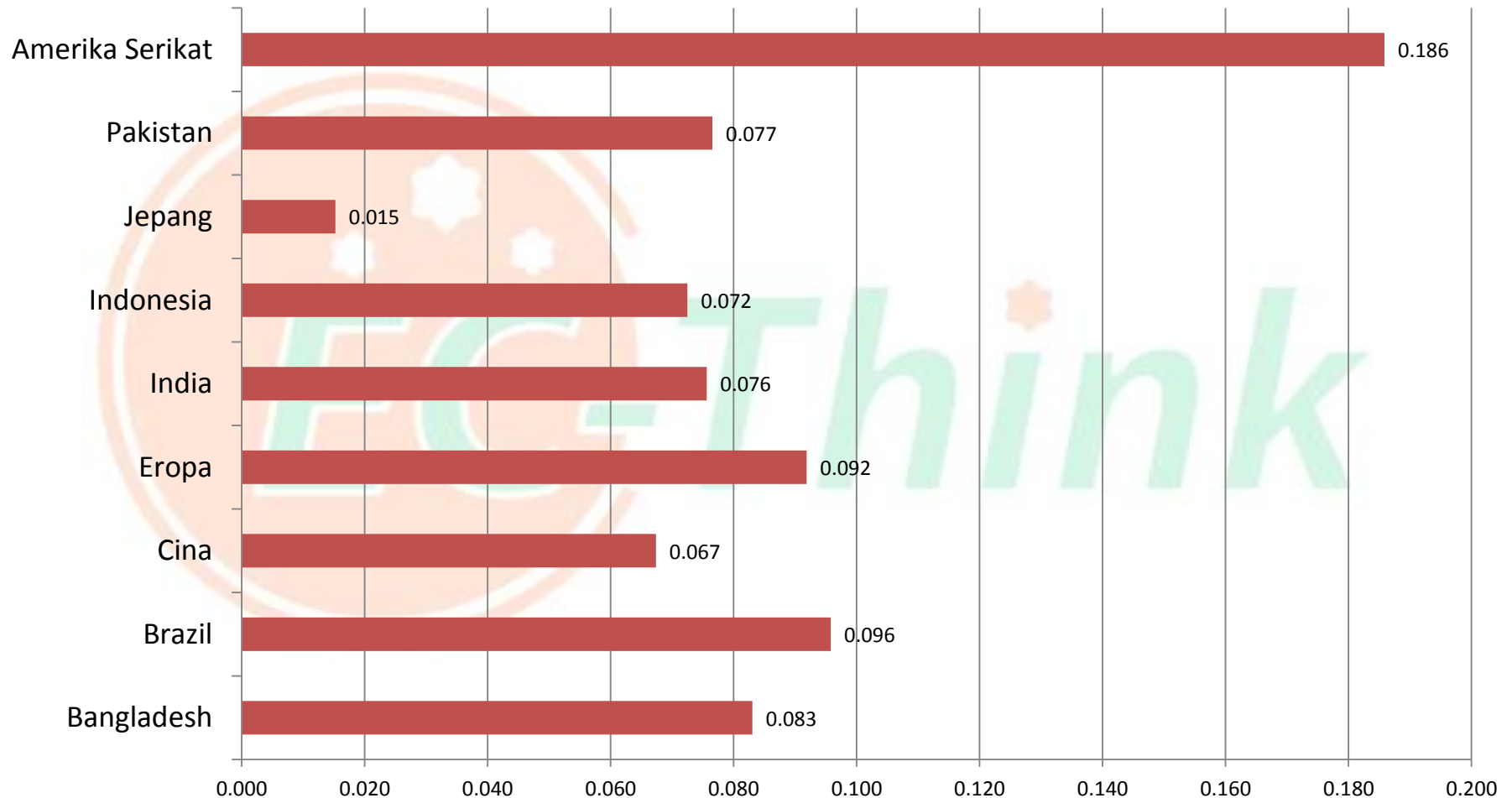
Milk



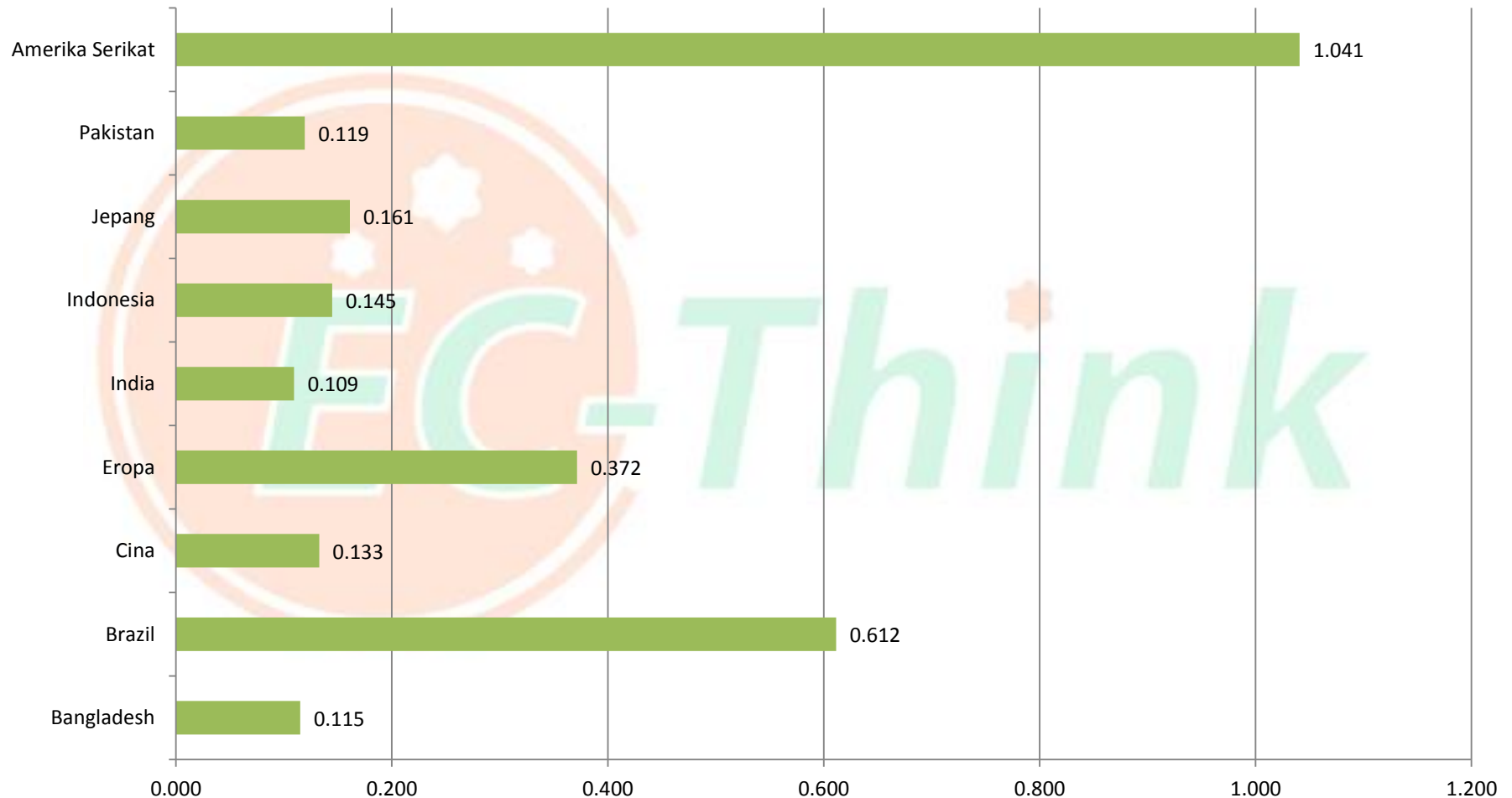
Land to man ratio (Ha per person)



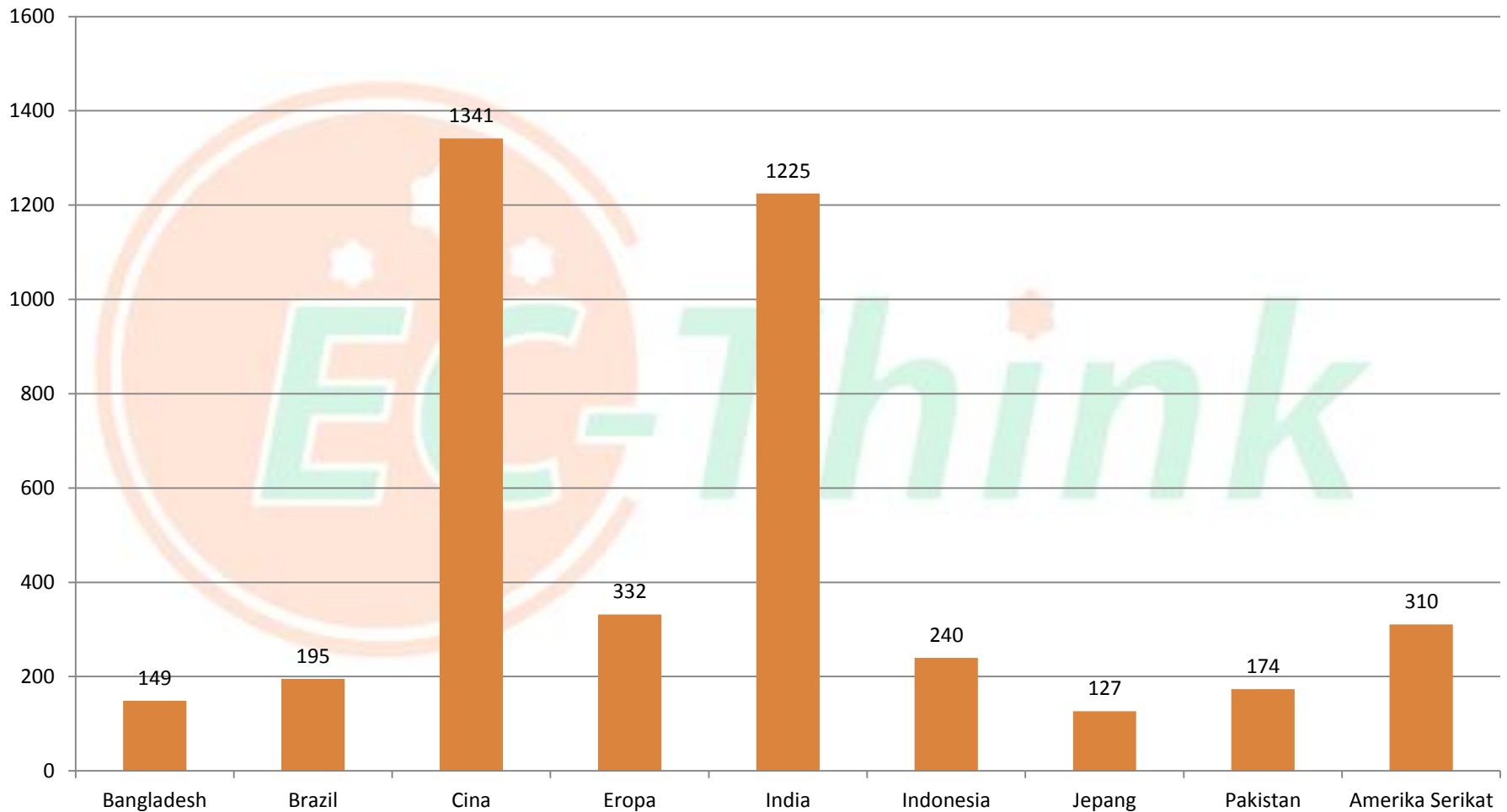
Land to man ratio (Ha per person)



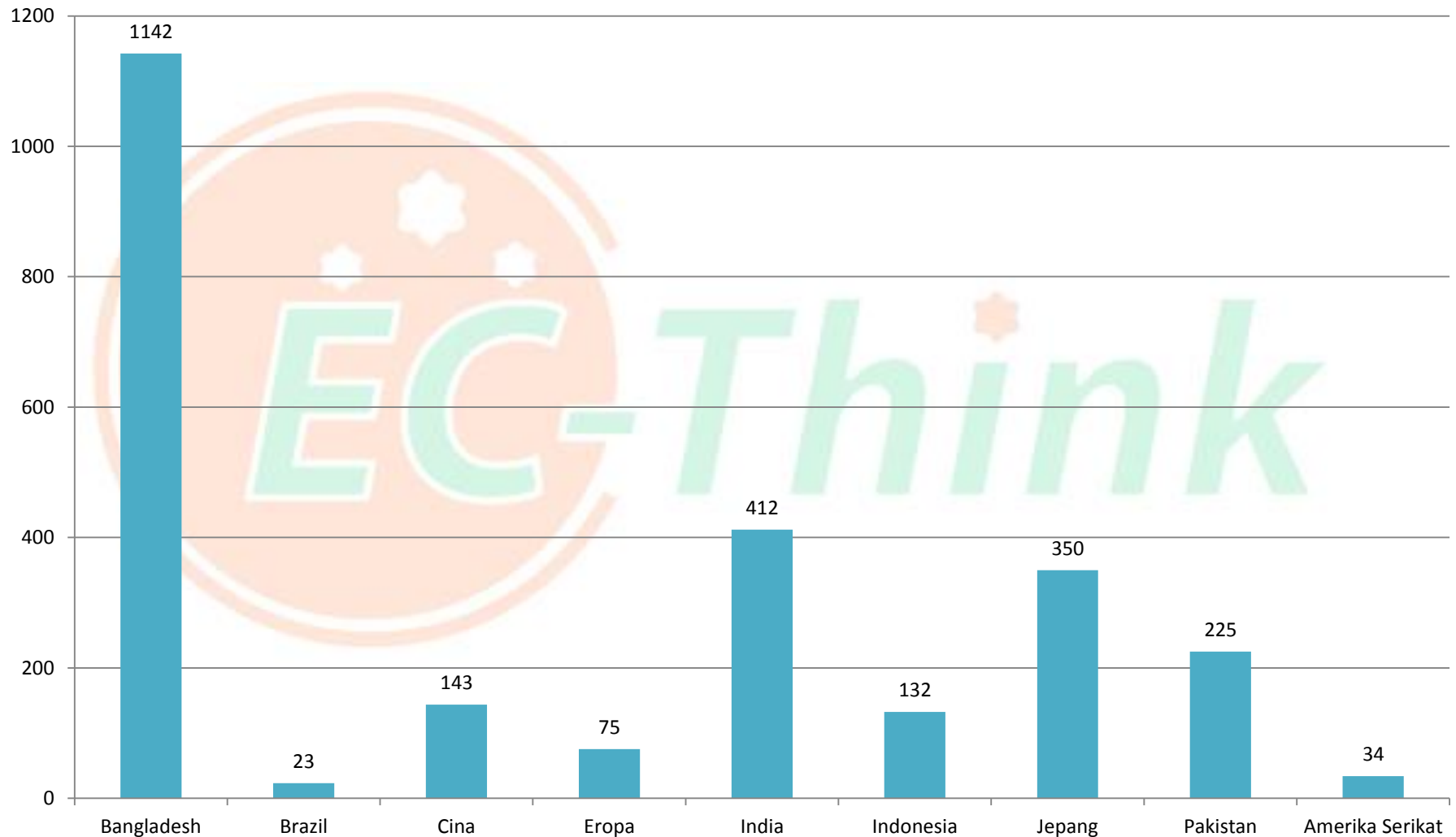
Land to man ratio (Ha per villager)



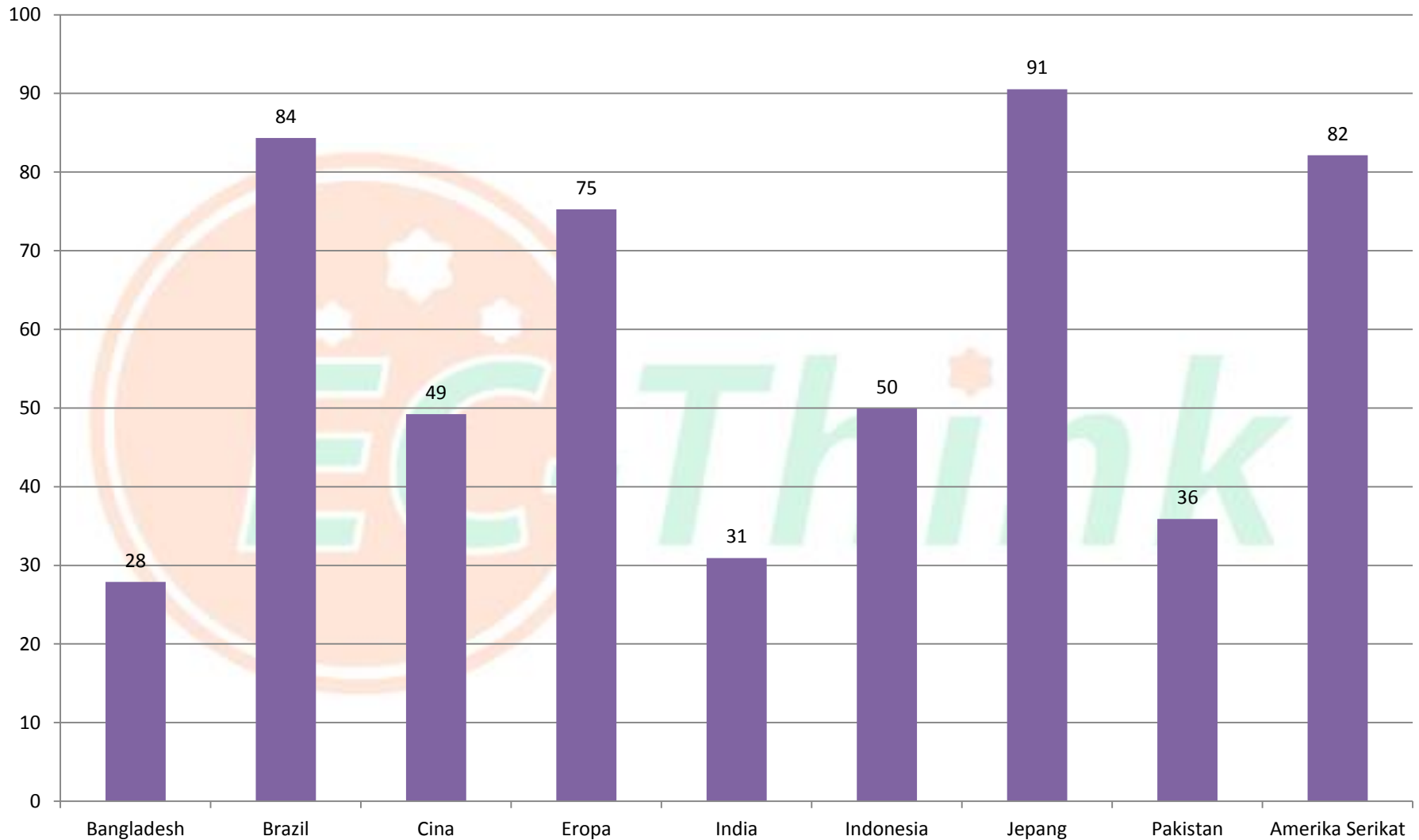
Big countries



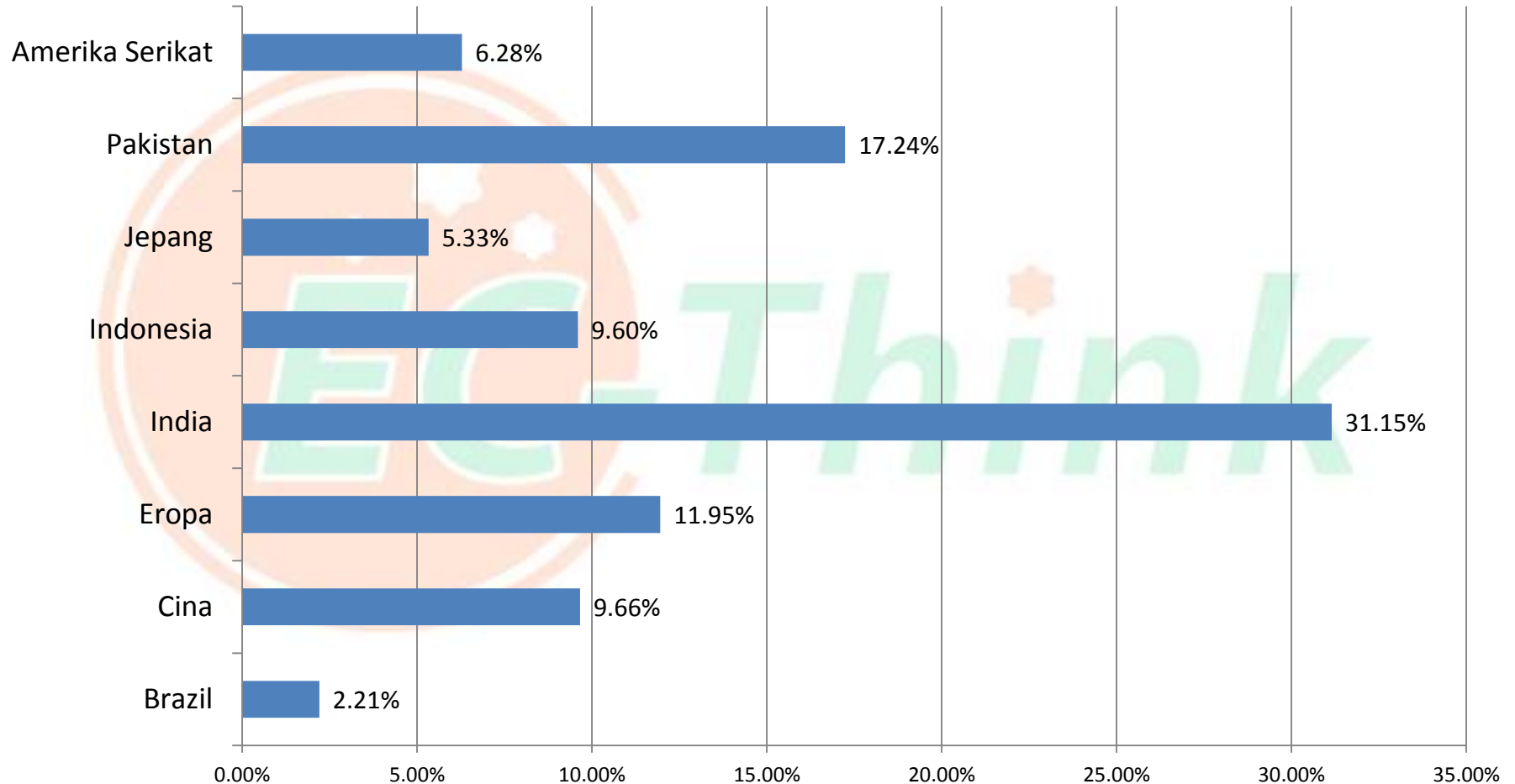
Population densities (person per km²)



Urbanisation



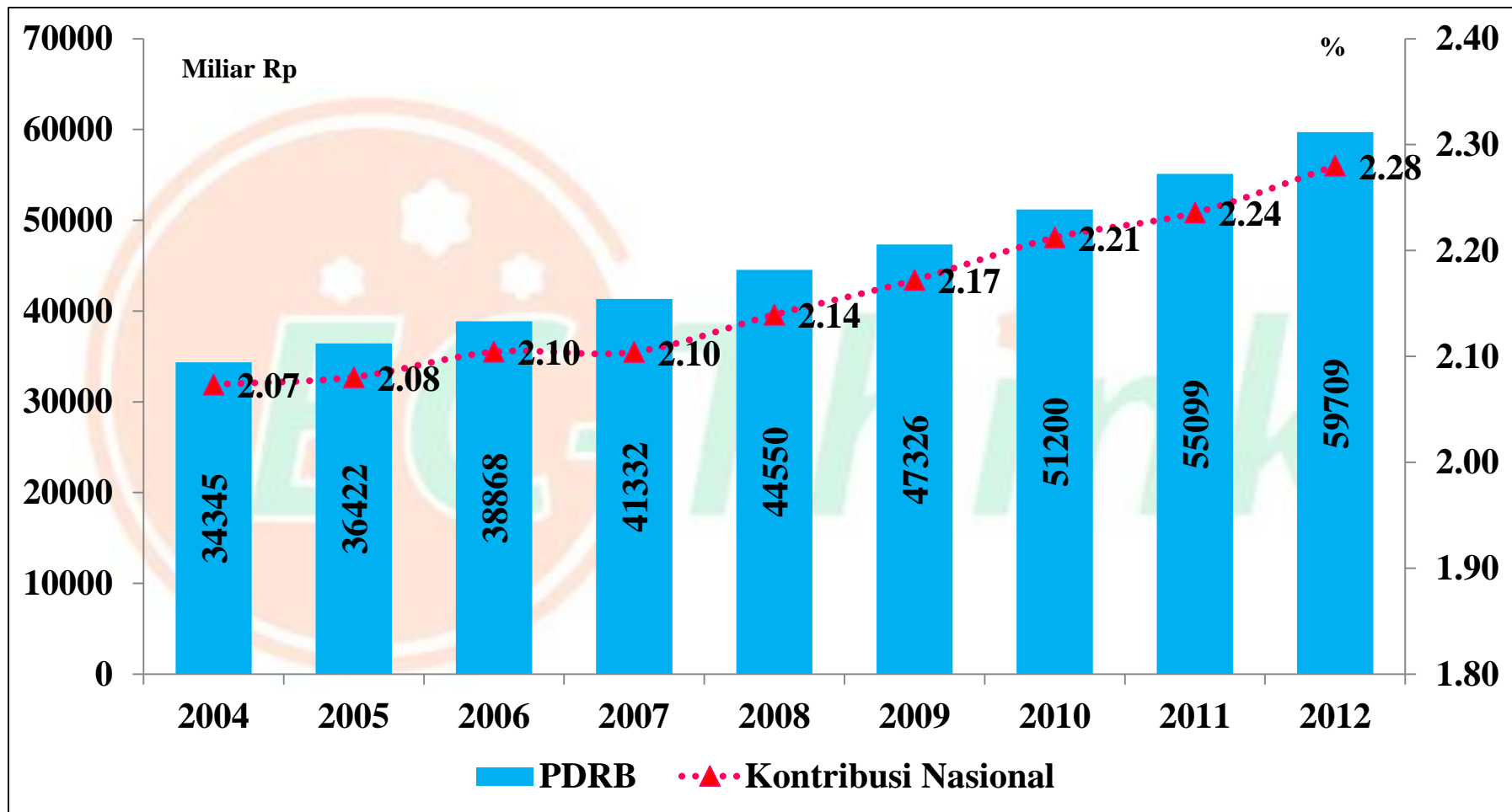
Food crop area (% of land)



Solution

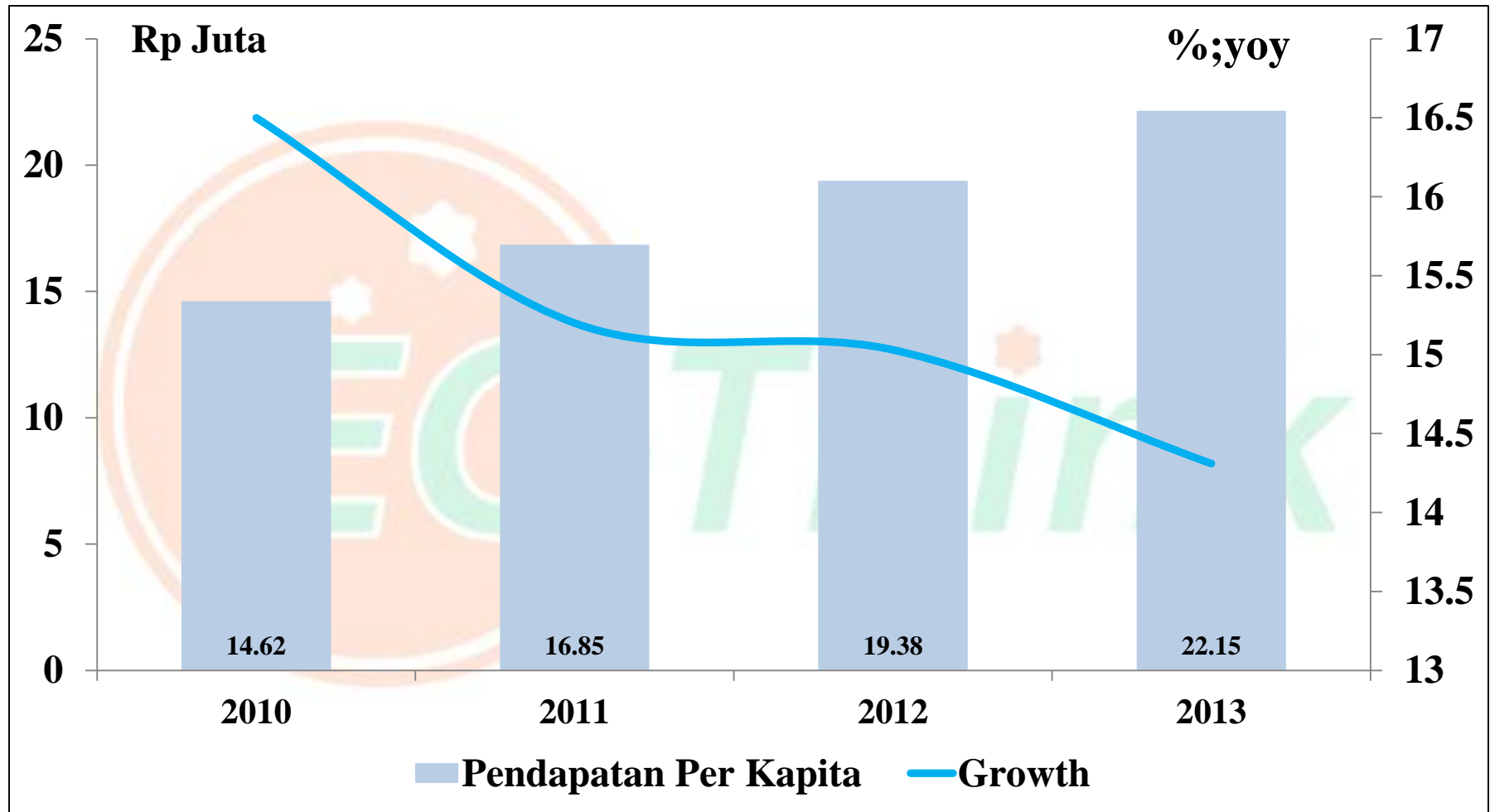
	Additional land needed (Ha)
European norm	4,650,164
Brazilian norm	5,590,269
US norm	27,189,292

PDRB SULAWESI SELATAN



Sumber : BPS

PENDAPATAN PERKAPITA SULAWESI SELATAN

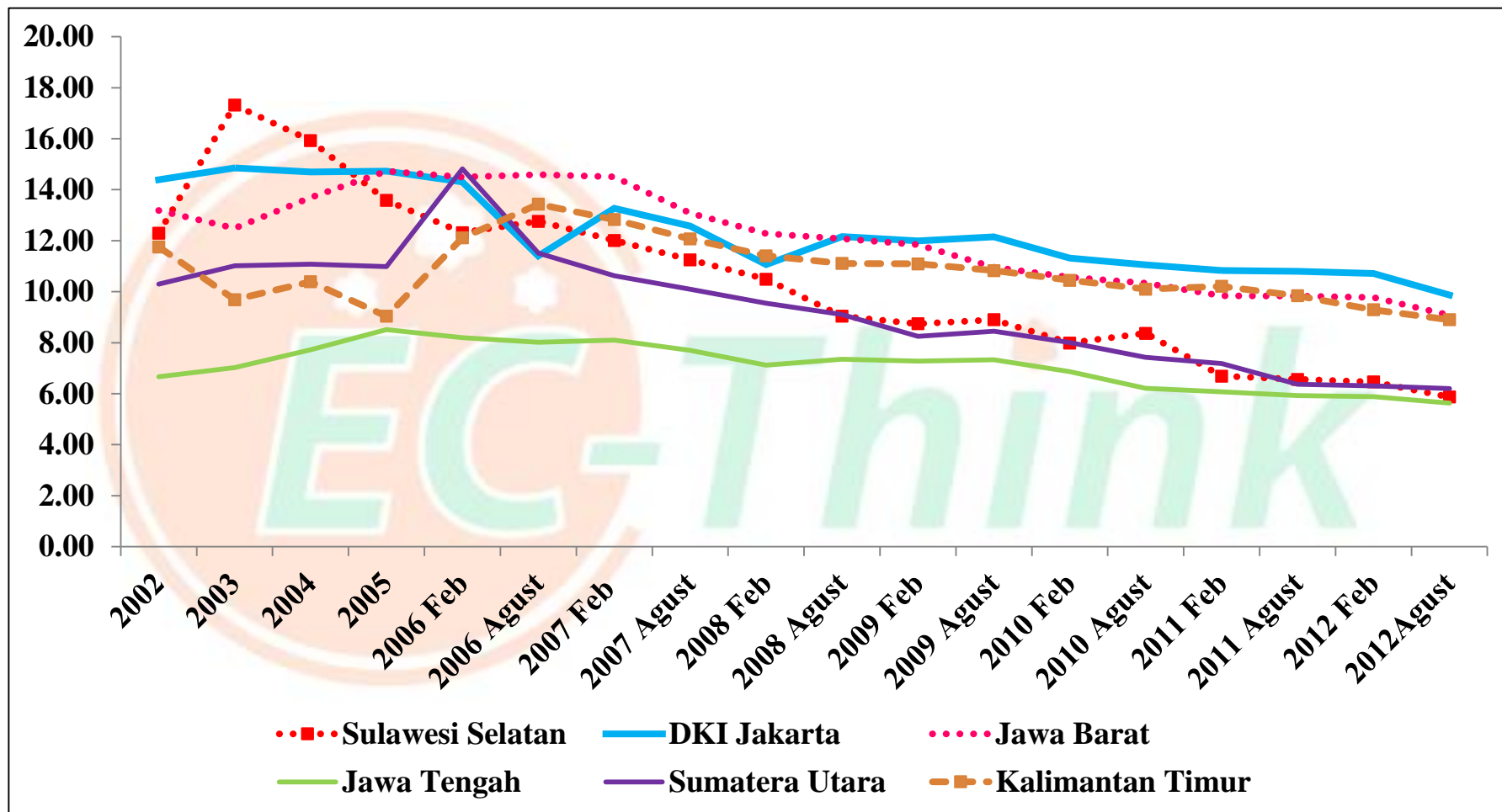


Sumber : BPS

PERKEMBANGAN NILAI EKSPOR
SULAWESI SELATAN MENURUT KOMODITAS

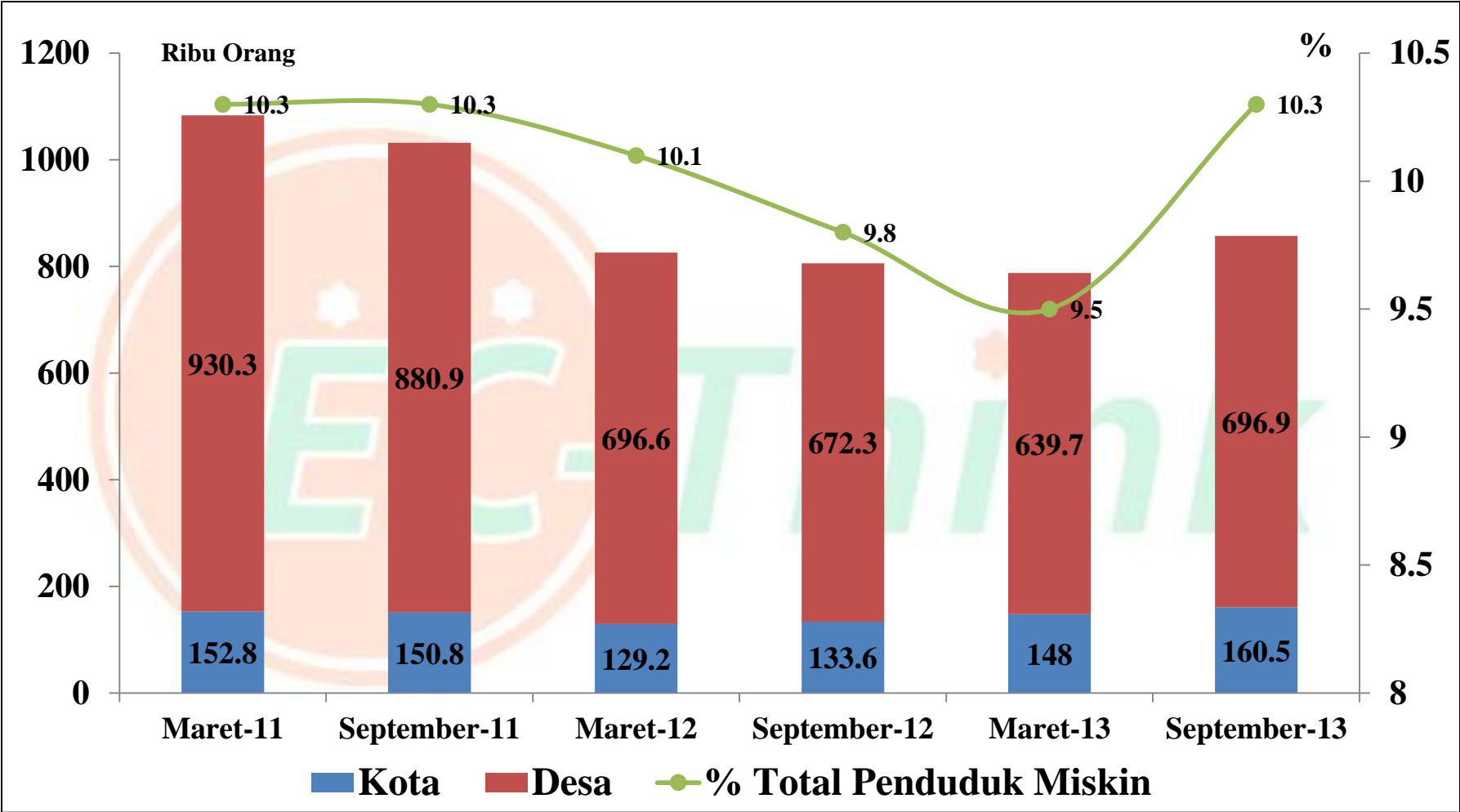
Kelompok Komoditas	Nilai FOB (juta US\$)					Peran thdo Total Juli 2014 (%)	Prbhn Juli 2014 thdp Juni 2014 (%)	Prbhn Juli 2014 thdp Juli 2013 (%)	Prbhn Jan-Juli 2014 thdp Jan-Juli 2013 (%)
	Juli 2013	Jan-Juli 2013	Juni 2013	Juli 2014*)	Jan-Juli 2014				
Nikel	61.12	566.87	107.68	88.45	570.92	57.84	-17.85	44.72	0.71
Kakao	26.30	124.66	26.76	29.85	147.84	19.52	11.58	13.53	18.59
Ikan dan Udang	8.50	47.89	9.85	8.07	51.29	5.28	-18.01	-5.04	7.11
Biji-bijian berminyak	6.63	43.58	20.72	10.98	80.09	7.18	2.51	65.62	83.76
Kayu Barang dari Kayu	3.68	27.03	2.49	3.45	26.71	2.26	38.54	-6.24	-1.18
Garam, belerang, Kapur Semen	4.36	20.93	2.54	1.90	11.10	1.24	23.45	-56.47	-49.67
Gula dan Kembang Gula	0.00	2.15	0.00	0.00	4.64	0.00	0.00	0.00	116.30
Buah-buahan	2.84	15.81	2.66	1.34	15.18	0.88	-49.65	-52.81	-3.97
Ampas/Sisa Industri Makanan	0.00	10.81	2.23	1.31	11.14	0.86	-41.35	0.00	3.06
Daging dan Ikan Olahan	2.22	11.36	2.38	1.87	13.24	1.22	-21.39	-15.99	16.57
Total 10 Kelompok komoditas	115.66	871.09	166.30	147.23	932.15	96.27	-11.47	27.30	7.01
Lainnya	11.83	37.55	7.20	5.71	32.88	3.73	-20.79	-51.77	-12.44
Total Ekpor	127.49	908.64	173.50	15.94	965.03	100.00	-11.85	19.69	6.21

TINGKAT PENGANGGURAN TERBUKA



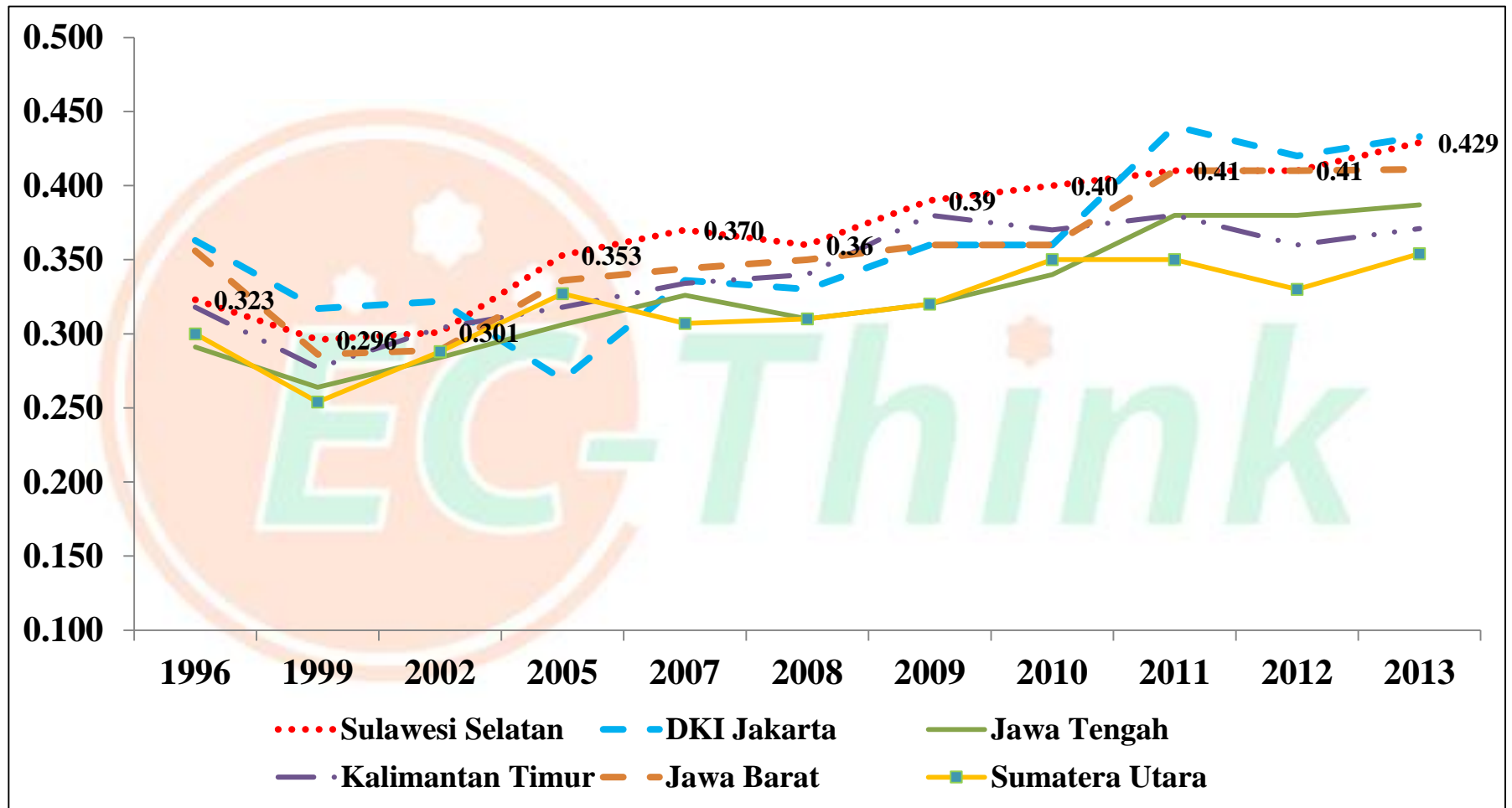
Sumber : BPS

JUMLAH PENDUDUK MISKIN SULAWESI SELATAN



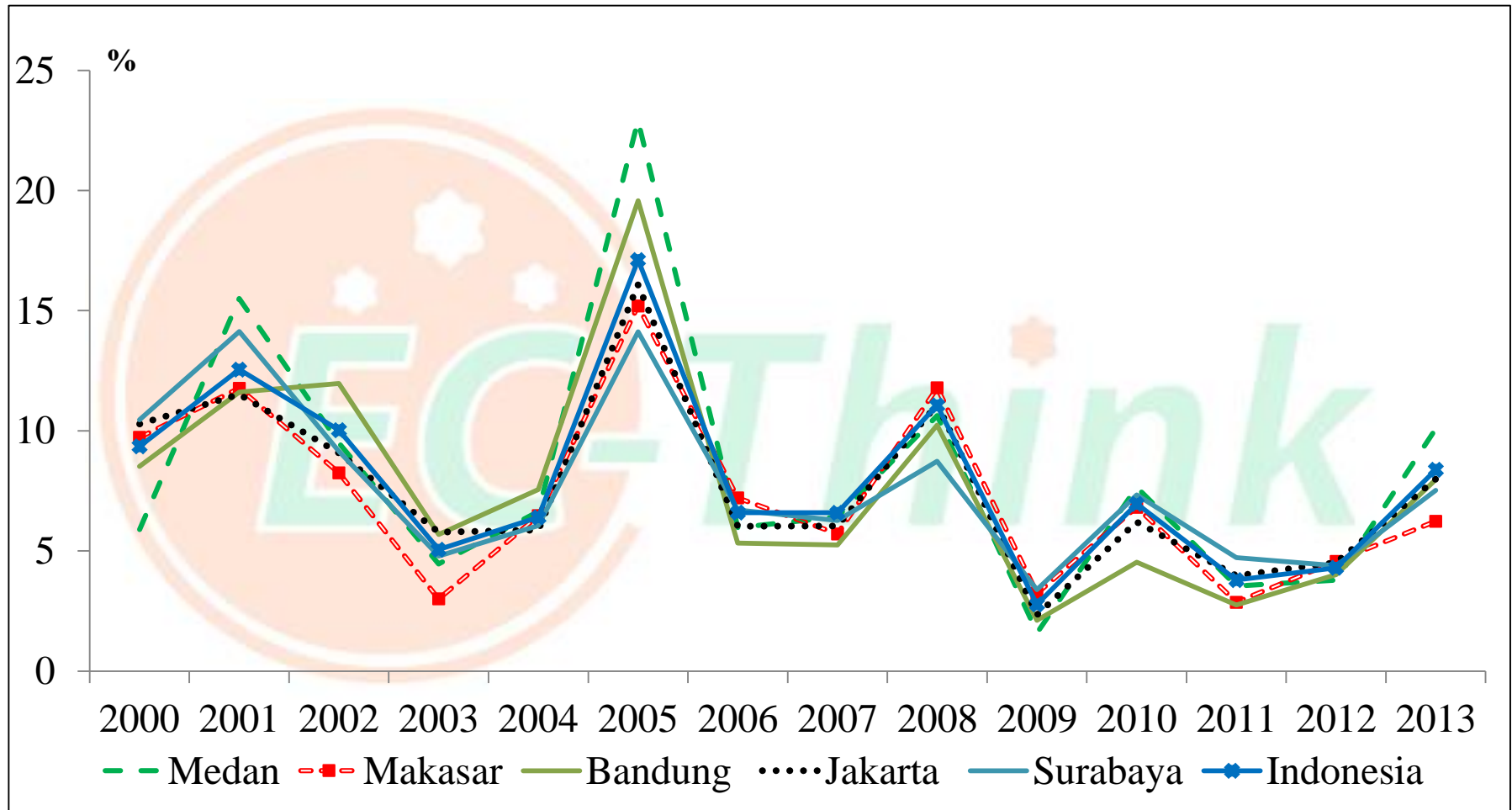
Sumber : Bank Indonesia

GINI RATIO



Sumber : BPS

LAJU INFLASI



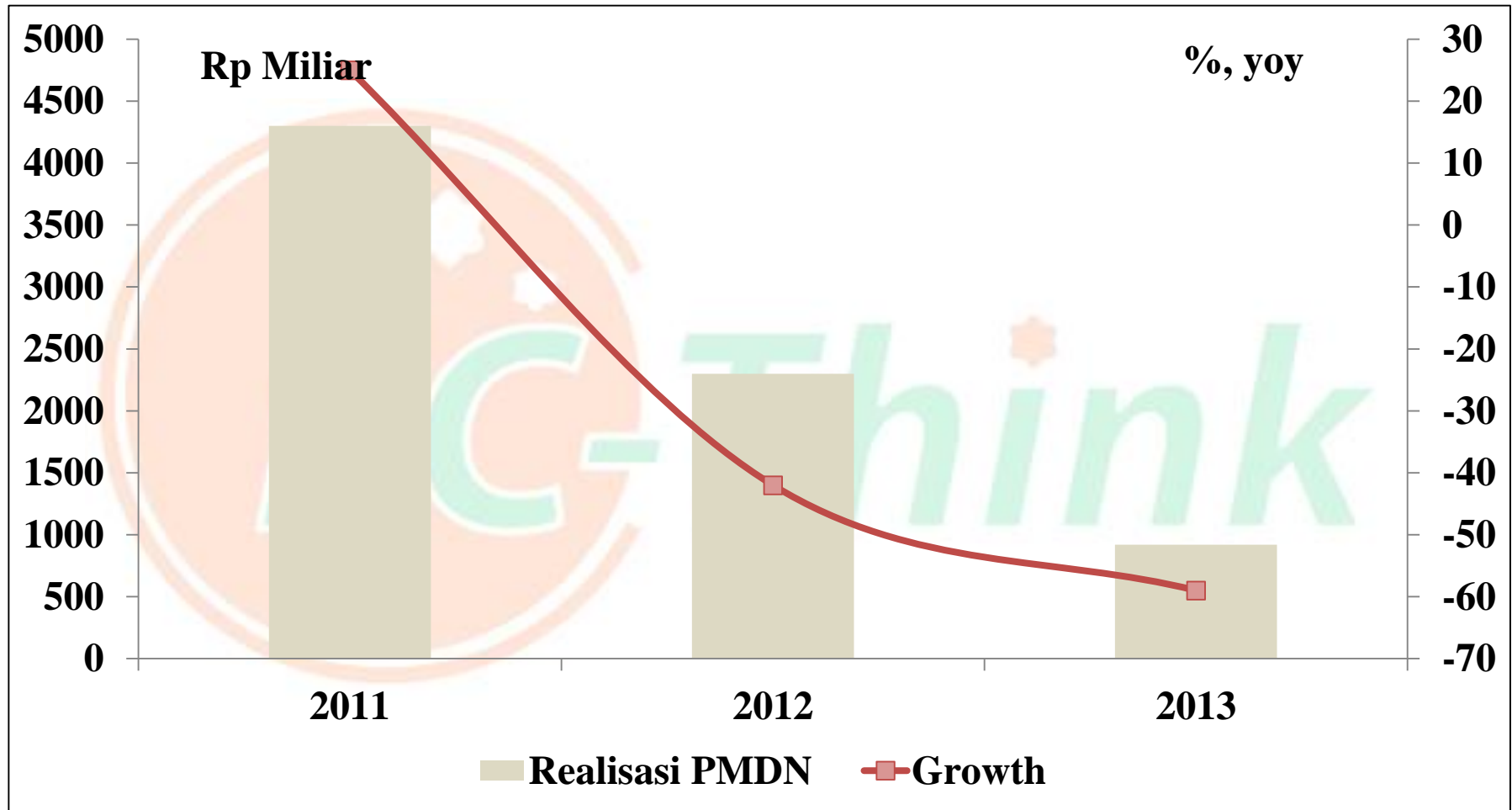
Sumber : BPS

PDRB SEKTORAL SULAWESI SELATAN (Milyar Rp)

SEKTORAL	2004	2005	2006	2007	2008	2009	2010	2011
Pertanian	14124.24	16188.36	18513.26	20900.36	25071.81	28008.21	30442.43	34788.23
Pertambangan	3957.33	4714.27	5249.99	5894	6201.5	5503.78	7119.68	8345.85
Industri Pengolahan	6248.76	7137.86	8245.34	9158.55	11060.44	12514.89	14457.26	16789.29
Listrik, Gas dan Air Bersih	483.28	548.87	629.31	721.96	838.1	949.24	1087.97	1245.91
Bangunan	2142.06	2479.27	2790.79	3204.1	4253.53	5387.79	6534.51	7760.9
Perdagangan, Hotel dan Restoran	6815.44	7880.01	9507.87	10986.58	13913.8	16690.29	20434.95	24236.35
Pengangkutan dan Komunikasi	3263.23	4007.93	5102.84	5769.05	6972.02	7953.95	9445.57	10849.84
Keuangan, Persewaan dan Jasa	2734.73	3098.67	3675.19	4285.18	5203	6241.52	7810.11	9513.69
Jasa-Jasa dan Servis	4975.46	5725.2	7188.24	8352.14	11629	16704.94	20529.72	23859.82

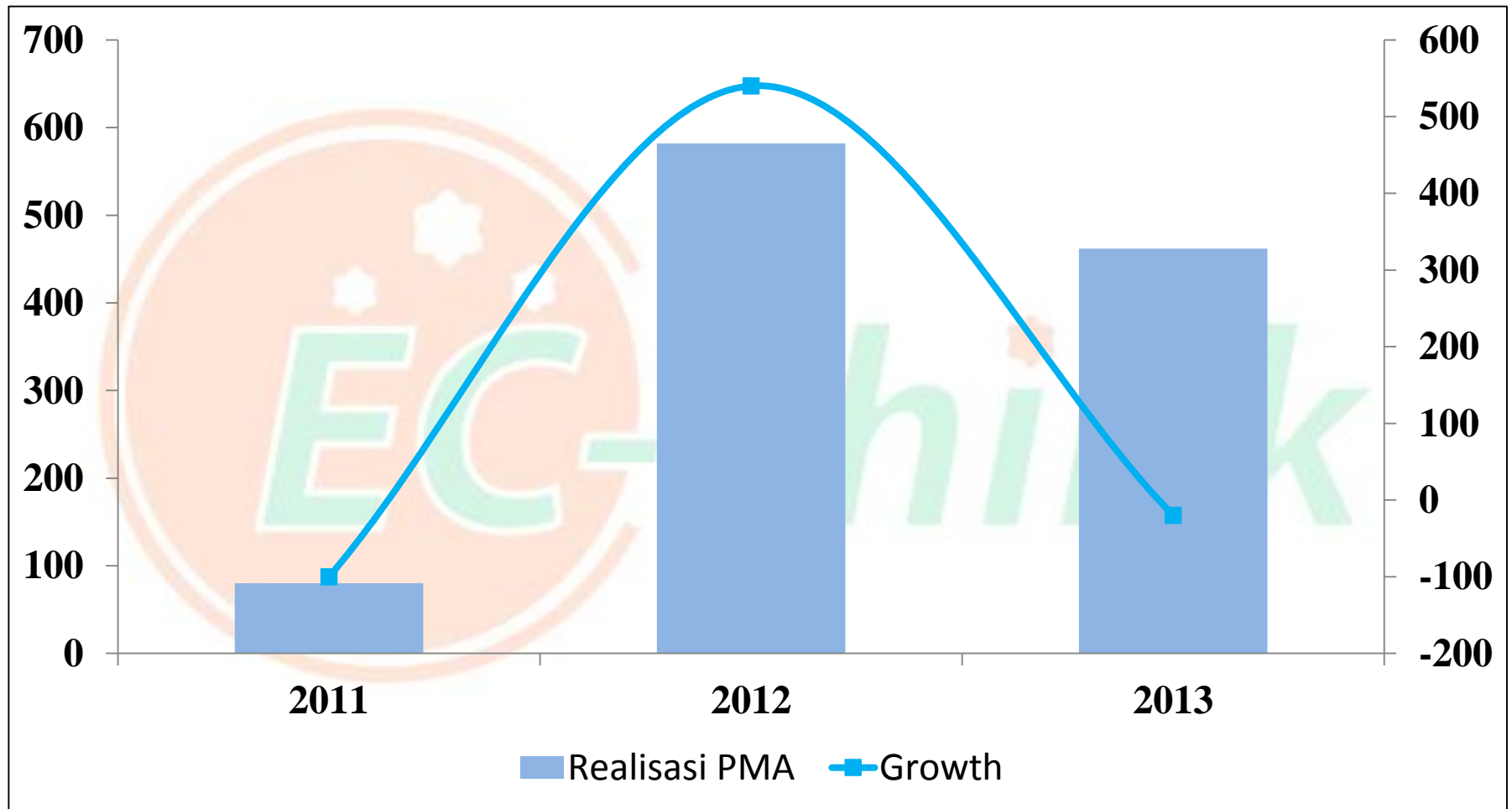
Sumber : BPS

INVESTASI PMDN SULAWESI SELATAN



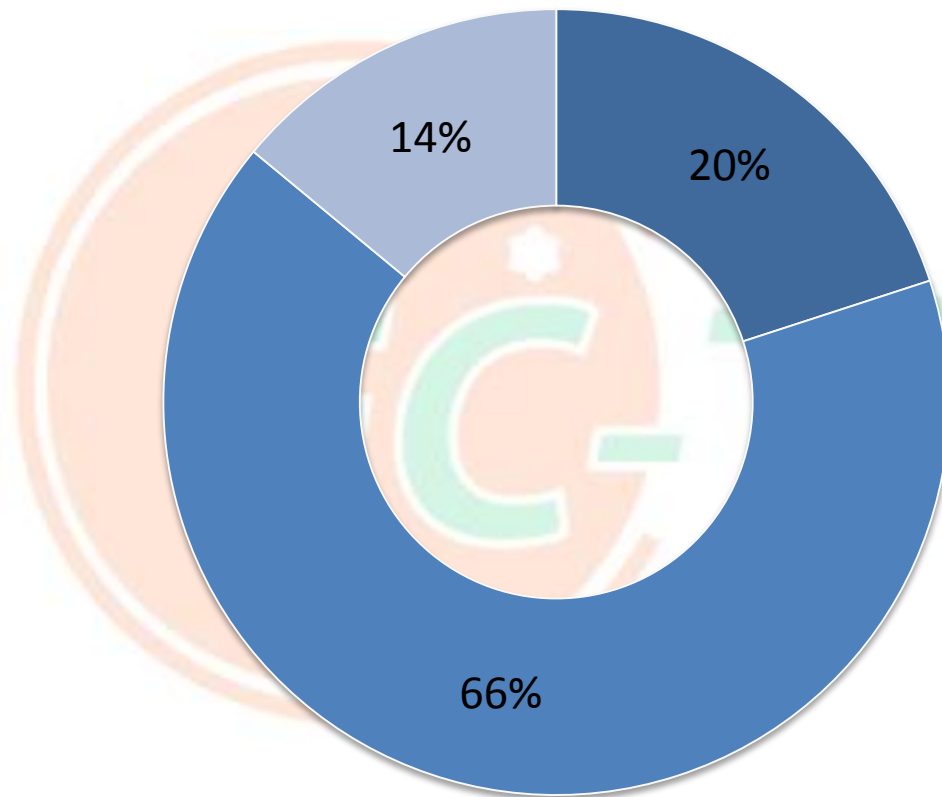
Sumber : Bank Indonesia

INVESTASI PMA SULAWESI SELATAN



Sumber : Bank Indonesia

SEKTOR TUJUAN PMA SULAWESI SELATAN

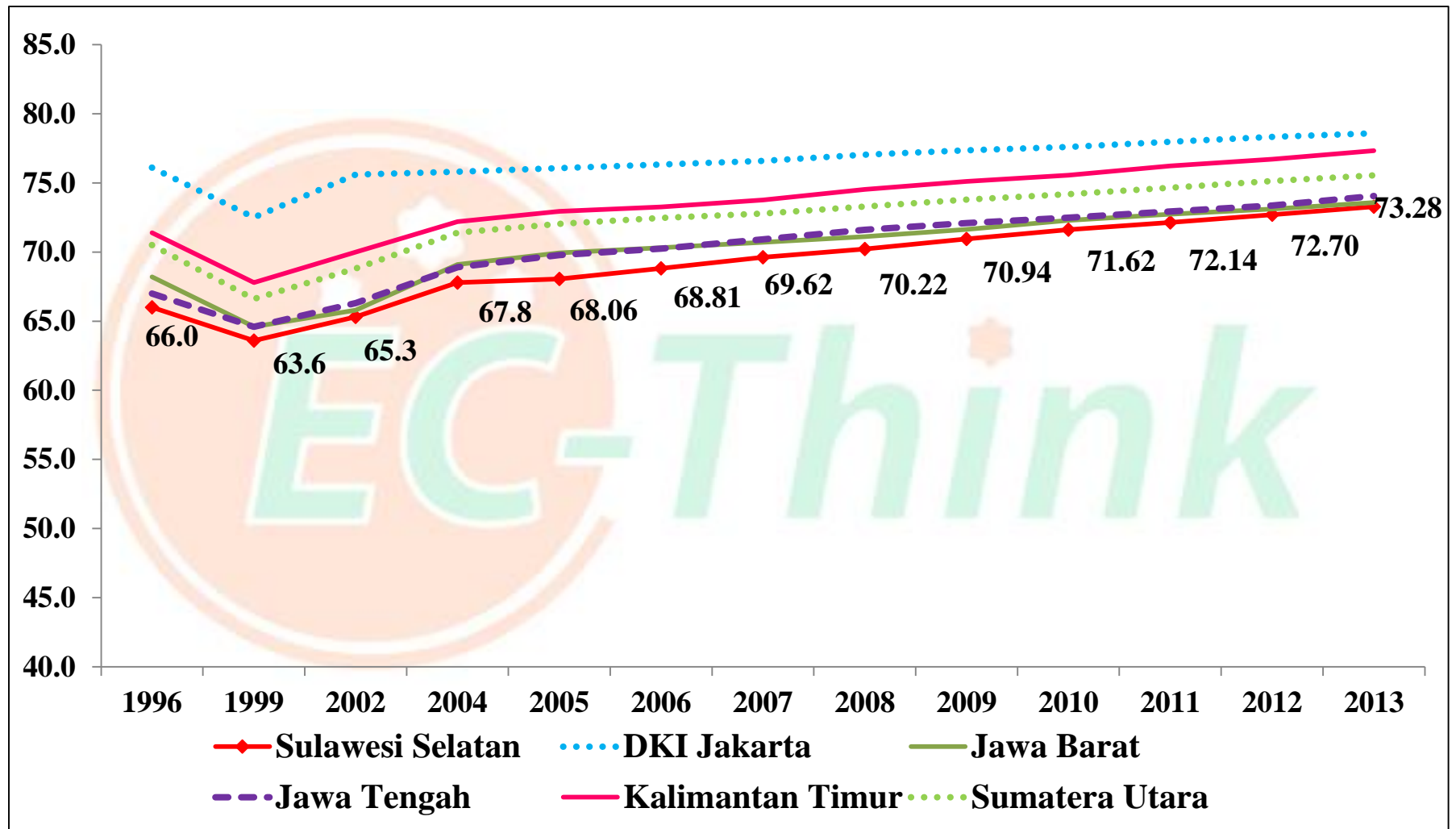


Pangsa Tahun 2013

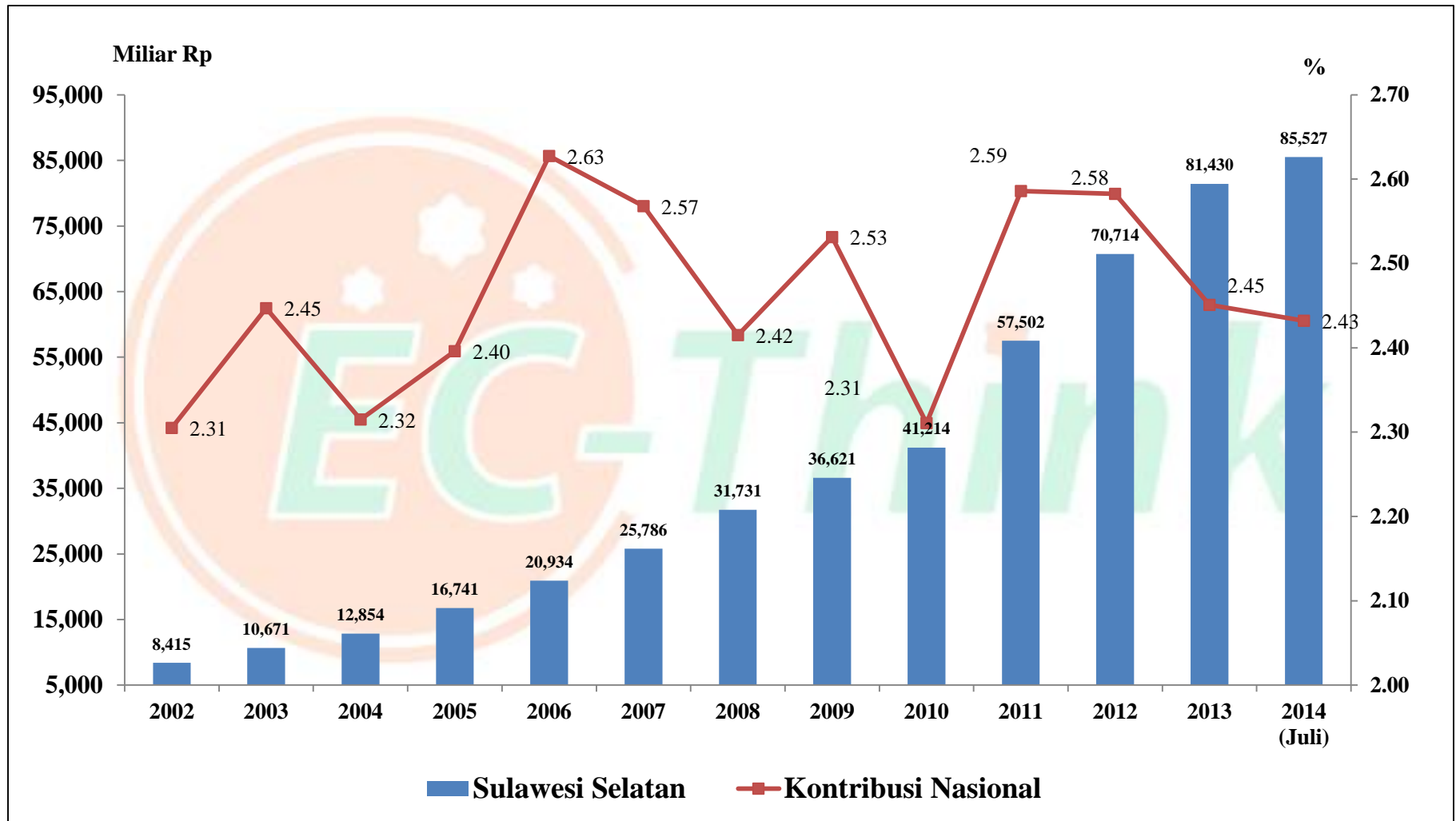
- **Sektor Primer :USD94 Miliar**
- **Sektor Sekunder : USD303 Miliar**
- **Sektor Tersier : USD66 Miliar**

Sumber : Bank Indonesia

INDEKS PEMBANGUNAN MANUSIA

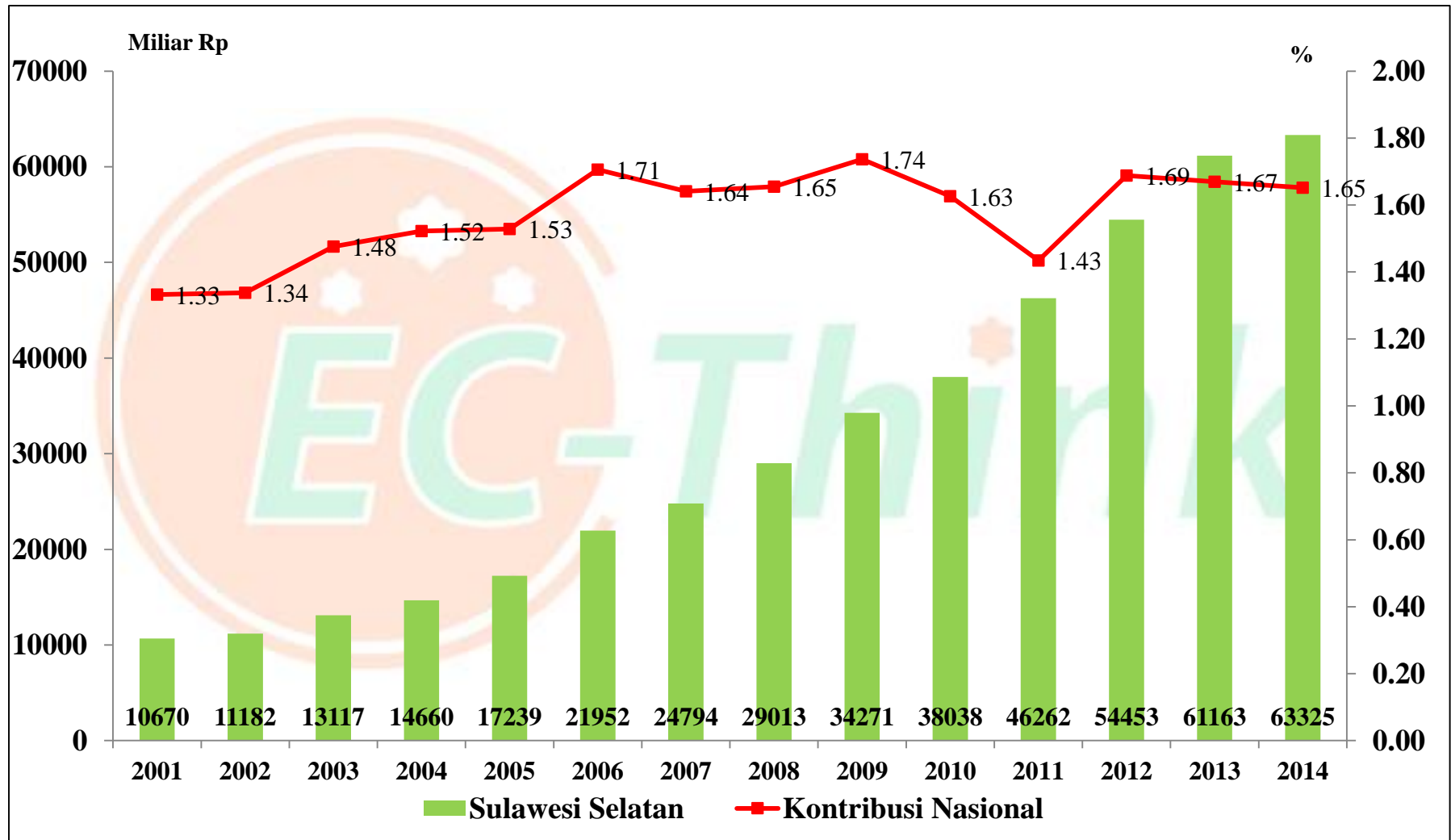


TOTAL KREDIT



Sumber : Bank Indonesia

TOTAL DPK



Sumber : Bank Indonesia

