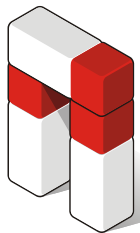


Summary of Discussion: Indonesia, Foreign Investment, and the Global Financial Crisis

German World Bank Group Forum
20 November 2008



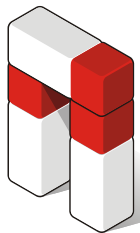
Investing in Indonesia's Institutions
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Indonesia is doing well, but can do even better ...

- Indonesia is in the middle of a remarkable transformation toward a modern state and modern economy
 - Remarkably effective political transformation 1997-2008
 - Democratization and big bang decentralization
 - Commitment to good governance
 - Growing sense of confidence
- Macroeconomic policies have been conducted well
 - Growth and macroeconomic performance have been increasingly strong
 - Prudent fiscal management has reduced public debt to 30% of GDP
 - Until recently balance of payments surplus and growing reserves
 - The financial sector is on a much stronger footing
 - Investment is still low but rising fast
- But a lot remains to be done to complete the transformation
 - Poverty and unemployment remain high
 - Lagging in some MDG indicators, including education and health
 - Concerns about inequality are rising
 - Building effective state institutions that translate increasing resources into development outcomes is the key challenge



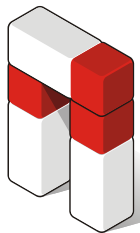
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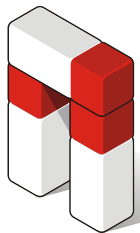
The Role of Foreign Investment for Indonesia's Development

- Private sector would be the driving force to sustain and accelerate growth
- Foreign investors play an important role, but will require improvements in the investment climate
 - FDI provides additional capital
 - Central government spending increased relatively modestly in real terms
 - Improve the quality of economic growth through higher labor productivity
- Investors' concerns have shifted from macro- to micro-economic concerns
- Some important measures to improve investment and regulatory environment have been taken
 - Economic policy packages covering investment climate, infrastructure, financial sector reforms in each of the last three years
 - Passage of Investment Law and Tax Administration Law in 2007
 - Establishment of Team to Enhance Exports and Investment (PEPI)
 - Major reforms of tax and customs administration underway
- More needs to be done
 - the local level investment climate remains a concern because of inconsistent and often arbitrary regulations imposed by local governments
 - effective implementation is slowed by poor coordination
 - Legal/judicial uncertainty remain high



Indonesia and The Global Financial Crisis

- Indonesia is entering the current turmoil in a strong position
 - Economic growth is strong and the economy is well balanced
 - Government debt is low
 - There is little direct exposure to high-income countries financial woes
 - Financial and corporate sectors are stronger and less leveraged
- How the global turmoil is affecting Indonesia
 - Falling real demand for Indonesians exports
 - Falling commodity prices lowering the terms of trade
 - Higher risk aversion and tighter global credit markets for private and public sector
 - Substantial government borrowing needs amidst uncertainty in domestic and foreign financial markets
 - Risk of capital flow reversal
- The government is actively managing the impact of the crisis
 - By managing short-term vulnerability
 - By positioning Indonesia as a ‘winner’ in the medium term
 - Policies designed to reassure financial markets, such as raising deposit insurance limit
 - Defending spending on social and infrastructure
 - Supporting the real economy through measures to support investments, exports and domestic demands
 - Seeking support from international development partners



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