

pemerintah daerah *Opening Remarks*

“Global Economic and Market Outlook 2017”

(as prepared for Pre Annual Investment Forum 2017)

24-25 November 2016, Surabaya, Indonesia

Honorable,

- Our esteemed guest speakers,
 - Mr. Richard Kelly from TD Securities
 - Mr. Bilal Hafeez and Euben Paracuelles from Nomura
 - Mr. Jahangir Aziz from JP Morgan
 - Mr. Andre De Silva from HSBC
 - Mr. Gundy Cahyadi from DBS
- My fellow colleagues from Bank Indonesia,
- Distinguished Guests, Ladies and Gentlemen,

Good morning,

1. I would like to begin by thanking God the Almighty, Allah SWT who has blessed us with the opportunity to meet here in the occasion of Bank Indonesia Pre Annual Investment Forum 2017. I would like to express my sincere appreciation towards our international guest speakers who have travelled a long way to attend this event. I also hope that you can take time to explore the beauty of East Java as part of the magnificent Indonesia.
2. The main agenda of this forum is to discuss about the “Global Economic and Market Outlook 2017”. I believe now is a perfect time for such discussions to take place, in the face of heightened global uncertainty. On this note, I encourage all of us here today to actively

participate in exchanging views and ideas so that we can have a spirited discussion filled with fruitful conclusions.

Distinguished Guests, Ladies and Gentlemen,

3. As we all may know, **the financial market in 2016, has been moderately challenging compared to 2015 and shall face more headwinds ahead.** To this date, the global market has been filled with surprising “tail risk” events and outcomes. The two main unpredictable events that we can easily recall are Brexit in last June and the elected US President, Mr. Donald Trump in last November 8th.
4. Aside from “tail-risk” events, the main challenge we face ahead is growth. The global economic outlook projection by IMF has shown that **global economic recovery remains sluggish as reflected by a more subdued outlook** for advanced economies. This becomes more evident following the Brexit and weaker-than-expected growth in the United States.
5. In October, IMF downgraded the outlook for growth in advanced economies, down by 0.2 percentage points in 2016 and unchanged in 2017. On the other hand, the outlook for emerging markets was raised by 0.1 percentage points in 2016 and unchanged in 2017.
6. Under this backdrop of sluggish growth, most central banks in advanced economies have set an accommodative monetary policy and even negative policy rates in order to boost the economy and escape the deflation trap. While there has been a downward pressure on global interest rates due to slow growth, heightened uncertainty following the “trump fever” have led to further volatility that is caused by **movements in the global capital flow.**
7. Global investors are speculating against Trump’s expansionary fiscal policy that is expected to drive higher economic growth and inflation,

beyond the current Fed inflation target. Meanwhile, US Treasuries 10 year yield has strengthen to its highest level in a week of about 11%. Movements in global capital flow which has a significant impact to exchange rate and global financial market volatility will greatly affect the way Central Banks manage their reserves.

Distinguished Guests, Ladies and Gentlemen,

Now, allow me to talk about the developments in our domestic market.

8. I will start by **highlighting the uniqueness of Indonesia given the Indonesia's national motto, Unity in Diversity**. Indonesia is the largest economy in South East Asia. The world's fourth most populous country which approximately 64% of the population are in productive age, growing middle class income, and entering a period of political consolidation in an open and free democracy. All of which has gone hand in hand with positive economic performance.
9. We believe the **impact of Brexit and the new President of United States to the Indonesian economy are relatively limited as the economy remains on strong grip**. Indonesia's economy performs relatively well in 2016. In the 2nd quarter of 2016, economic growth picked up to 5.18%, higher than it was in the 1st quarter of 2016 at 4.91%. The economic growth of 2016 is expected to be in the range of 4.9 to 5.3%. This is supported by fiscal stimulus to accelerate infrastructure project developments. Private investment is expected to rise as well as a result of government policy packages and measurable monetary easing. We expect inflation to be within the targeted range of $4 \pm 1\%$ as well as the current account deficit maintained below 3% of GDP. Credit growth is expected in the range of 7-9% supported by monetary easing, macroprudential loosening and acceleration of fiscal stimulus.

10. Indonesia's tax amnesty program is turning out to be one of the world's most successful repatriation program. A total of nearly 90,000 people have participated in the program. The declared assets have reached 1,030 trillion rupiahs with 69% from domestic assets, 25% from foreign assets not repatriated, and 5% from foreign assets that is repatriated. This have well succeeded earlier market expectation of 30 to 50 billion USD or equivalent to 390 to 650 trillion rupiahs (if using exchange rates of 13,000 rupiahs per USD) in declared assets. Most economist expect the amounts to be doubled by next March to about 2,000 trillion rupiahs and create fiscal income ranging around 0.3 to 0.5% of total GDP.
11. I am also delighted to share that based on The Economist, Asia Business Outlook Survey 2016, Indonesia is among the top three most attractive destination to invest in Asia after India and China. Also, according to Japan Bank for International Corporation (JBIC) Survey, amongst the ASEAN Countries, Indonesia is the most preferred place for business investment. This is in line with the World Bank's Ease of Doing Business (EODB) 2016 survey, whereby Indonesia is ranked at number 109, up by 11, for ease of doing business out of 189 surveyed countries.

Distinguished Guests, Ladies and Gentlemen,

12. This Pre Annual Investment Forum is expected to provide our Reserve Management Department with valuable insights on the global economic and market outlook of 2017. We hope this forum will provide us with a more comprehensive overview on the current and future investment challenges to better manage our reserves in future.
13. Therefore, I have high expectations that this forum will bring-in new insights on how as an investor we can seize the opportunity for better

returns amidst higher volatility, whilst maintaining the common Central Banks principles of safety, liquidity, and profitability.

14. Before we start the discussion, please allow me to thank the committee for their hard work in preparing this event. Also, I would like to thank all the speakers, respectable asset managers and my colleagues from Bank Indonesia for the willingness and enthusiasm to participate in this event.
15. With that final note, I hope this forum can continue to have a positive impact on our reserve management strategy, specifically in seizing a workable strategy that optimizes our investment goals, while minimizing our risk. May The Almighty bless us and lighten our steps forward.

Thank you.

Deputy Governor Bank Indonesia

Erwin Rijanto