

# THE INFLUENCE OF GLOBAL ECONOMY CRISIS IN INVESTMENT MANAGEMENT IN INDONESIA

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## ABSTRACT

*July 2007 is the beginning of the world's subprime mortgage crisis. Since then, the world's liquidity crisis occurred and never found any solution until now. The liquidity crisis began to spread from developed countries to poor countries, developing countries and emerging markets with two channels. This contagious crisis made growing economy and emerging economy fell. No country in the world survived, including Indonesia. This paper discussed the management of investments in Indonesia. It started from the spread of global crisis to Indonesia and its impact on investment in Indonesia. Then, we discussed the government's efforts to encourage investment. The last was the view of the investment for the next three years (2010-2014)*

**Keywords:** *economy crisis, investment, government's efforts, investment outlook*

## ABSTRAK

*Juli 2007 adalah awal krisis subprime mortgage di dunia. Krisis likuiditas dunia terjadi dan tidak pernah ada solusi sampai sekarang. Krisis likuiditas mulai menular dari negara maju ke negara-negara miskin, negara-negara berkembang dan pasar yang muncul dengan dua saluran. Krisis yang menular ini membuat ekonomi yang berkembang dan ekonomi yang muncul jatuh. Tidak ada negara di dunia ini yang bertahan dari krisis ini, termasuk Indonesia. Makalah ini membahas pengelolaan investasi di Indonesia. Diawali dari krisis global yang menyebar ke Indonesia dan dampaknya terhadap investasi di Indonesia. Kemudian membahas upaya pemerintah untuk mendorong investasi. Terakhir adalah pandangan terhadap investasi untuk tiga tahun ke depan (2010-2014).*

**Kata kunci:** *krisis ekonomi, investasi, upaya pemerintah, pandangan terhadap investasi*

## INTRODUCTION

Since July 2007, subprime mortgage has been triggered the world's financial crisis until now. Financial crisis from economy developed countries makes their financial source lower than before. For that reason, developed countries have withdrawn their investment from developing and emerging market countries. This condition makes economic growth in developing and emerging countries become worse.

The contagious financial crisis from the developed countries to the developing and emerging countries affects on two channels. First, economy developed countries grow slowly, that they reduces their demand for importing goods from developing countries. Second, financial liquidity of developing countries leads them to withdraw their investment in these countries. Thus, the growth of emerging and developing economies is decreasing.

Based on IMF World Economic Outlook, the growth of emerging and developing economies goes down 8.3% in 2007, 6.3% in 2008, 3.3% in 2009, 5.3 % in 2010, 3.9 % in 2011, 3.5% in 2012 and 3.9% in 2013 (Table 1).

Table 1 Overview of the World Economic Outlook Projections (IMF World Economic Outlook, 2012)

	2007	2008	2009	2010	2011	2012 (proj.)	2013 (proj.)
<b><u>Economic growth</u></b>							
World Output	5.2	3.4	0.6	5.3	3.9	3.5	3.9
Advanced Economies	2.7	1.0	-1.8	3.2	1.6	1.4	1.9
United States	2.0	1.1	-1.6	3.0	1.7	2.0	2.3
Euro Area	2.6	1.0	-2.0	1.9	1.5	-0.3	0.7
Emerging and developing economies	8.3	6.3	3.3	7.5	6.2	5.6	5.9

The number of economic growth of major emerging market economies is lower than the projections. The projections suggest that the development will result only in a minor setback to the global outlook, with global growth at 3.5% in 2012 and 3.9% in 2013, lower than in 2011 or 2010. In the past five years, the global recovery was not strong enough. No country is able to avoid this global crisis effect, so is Indonesia. Indonesia's economic growth is 6.3 % in 2007, 6.2% in 2008, 5.0% in 2009 (Table 2). Thus, Indonesia's government finds out other alternative by using domestic demand of economic growth. Furthermore, they supports investment by moneter dan fiscal policy. Monetary policy uses interest regulation, that is decreasing bank interest from 9.5% to 8.75% since November 2008 to January 2009. Other side, regulation fiscal regulation uses cut of tax. Both regulations aim to increase the buying power of Indonesian. This study aims to show the Indonesia's investment management. We have three points to discussed. First is how the global crisis spreads to Indonesia and its impact on investment in Indonesia. Second is discussing the government's efforts to encourage investment, and the possible impacts. Third is the investment outlook for the next two years (2013-2014).

## METHOD

This paper aims to show the managing Indonesia's investment. For that, we used secondary data from Statistic Bureau, IMF World Economic Outlook and Central Bank of

Indonesia. The scope of data involved Indonesia's economic growth from 2007 to 2011. The secondary data was analysed using qualitative method based on conceptual economy.

## RESULTS AND DISCUSSION

### Contagious Crisis

The crisis affects two channels, which are international trade channel and international capital channel.

On international trade, the goods export from Indonesia to developing countries goes slowly. The growth of Indonesia's trading only increased 1.0% in 2008, which was lower than the growth in 2007 (2.7%), and the worst was 1.8% in 2009. Recently our orientation trading has been focused to China. Even though, export to China went slow, 9.0% in 2008 and 6.7% in 2009, compared to 13.0% in 2007 (Table 1). It happened because China's economy was in the same situation with other countries on crisis. Nevertheless, Indonesia trading with China is more beneficial than with other developing countries.

According to Table 2 below, the decreasing world's economic growth causes others countries' worse. The growth of emerging and developing economies countries were 5.6% in 2008 and 9.6% in 2007, that negative growth -0.8%.

Table 2 Overview of the World Economic Outlook Projections (IMF World Economic Outlook, 2012)

	2007	2008	2009	2010	2011	2012 (proj.)	2013 (proj.)
<b><u>Economic Growth</u></b>							
World Output	5.2	3.4	0.6	5.3	3.9	3.5	3.9
Advanced Economies	2.7	1.0	-1.8	3.2	1.6	1.4	1.9
United States	2.0	1.1	-1.6	3.0	1.7	2.0	2.3
Euro Area	2.6	1.0	-2.0	1.9	1.5	-0.3	0.7
Emerging and developing economies	8.3	6.3	3.3	7.5	6.2	5.6	5.9
<b><u>Economic Growth</u></b>							
Japan	2.4	-0.3	-2.6	4.4	-0.7	2.4	1.5
China	13.0	9.0	6.7	10.4	9.2	8.0	8.5
India	9.3	7.3	5.1	10.8	7.1	6.1	6.5
Emerging Asia (excl. China & India)	6.0	3.7	-0.7	9.7	7.8	7.1	7.5
<b><u>World Trade Volume</u></b>							
Imports	7.2	4.1	-2.8	12.8	5.9	3.8	5.1
Advanced economies							
Emerging and developing economies	4.5	1.5	-3.1	11.5	4.4	1.9	4.2
Exports	14.5	10.4	-2.2	15.3	8.8	7.8	7.0
Advanced economies	5.9	3.1	-3.7	12.2	5.4	2.3	4.3
Emerging and developing economies	9.6	5.6	-0.8	14.4	6.6	5.7	6.2

That condition also happened in Indonesia economy. Graph 1 showed that non oil crude export Indonesia tended to decrease in October and November and continued to the following month (Figure 1).

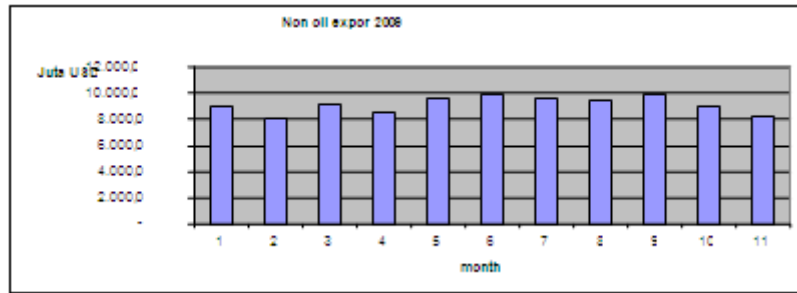


Figure 1 Non Oil Export 2009 (Statistic Bureau of Indonesia, 2009)

On international capital channel, since July 2007 subprime mortgage crisis has been caused liquidity crisis in United State and developing countries. It made limited capital inflow to developing countries and emerging countries (Table 3).

Table 3 Nett Inflow Capital to Developing and Emerging Countries (in Billion US\$) (IMF World Economic Outlook, 2008)

	Average 1997-99	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Emerging and developing economies</b>											
Private capital flows, net	118.9	71.5	75.5	77.1	162.5	236.5	248.7	223.0	632.8	528.6	286.6
Inflow	253.1	314.3	160.1	167.8	414.8	634.7	838.9	1,276.9	2,017.0	1,344.3	1,293.6
Outflow	-87.0	-242.3	-90.5	-90.4	-256.4	-400.3	-591.1	-1,053.8	-1,384.4	-815.7	-1,006.6

The effect of liquidity crisis in Indonesia could be noticed on Table 4. It showed the capital outflow as much as US\$2.5 Billion in 2008 and US\$2.1 Billion in 2009. Foreign direct investment in long run (FDI) to Indonesia was as much as US\$6.9 Billion in 2007, US\$6.7 Billion in 2008 and US\$5.9 Billion in 2009. In the short run, portfolio investment to Indonesia's economy in 2007 was US\$10.0 Billio and it became lower to US\$3.0 Billion in 2008.

According to our second research question, that the government steps in an effort to encourage investment, and their possible impact. In this, government has been done for some steps in effort to encourage investment, and their possible impact according of limitation of fund.

Limitation of fund in developing countries is caused by the developing countries pulling their money from developing and emerging countries. Indonesia as one of developing countries is effected from this situation. Table 4 showed Indonesia's foreign domestic investment (FDI) in 2008, that was US\$6.7 billion and US\$5.9 billion in 2009. Funding comes from stock market as stock and obligation. Fortunately, it did not effect much for the whole investment in Indonesia. Short run capital flew from non bank (stock and obligation) which brought only small influences to investment. Since 2001 – 2006, financial banking departement had contributed 2.04% in 2003 and 0.35% in 2006, meanwhile non bank contribution had contributed less than 1%. Figure 2 supported these statements.

The effect of inflow fund can be direct and non direct to economic growth for every countries. The world's economic growth went down, so did Indonesia's. It reduced the export of all products in the world (Figure 3). This world economy makes unconductive export market. It makes investment desire to investment falls down. It happens because the export price falls down so the benefits from their export also falls down.

Tabel 4 Indonesia's Balance of Payment in 2010-2014 (Central Bank of Indonesia, 2009)

**BALANCE OF PAYMENT 20010-2014 (in (US\$ Billion)**

	Realisation	Realisation	Estimate					
	2007	2008	2009	2010	2011	2012	2013	2014
<b>Trade Balance</b>	<b>10,3</b>	<b>0,2</b>	<b>4,5</b>	<b>4,2</b>	<b>2,1</b>	<b>0,1</b>	<b>-1,7</b>	<b>-2,7</b>
Ekspor	118,0	140,3	123,7	130,2	138,3	151,0	163,8	185,6
Oil Crude	24,9	31,7	19,5	21,8	23,4	27,0	29,3	32,8
Non Oil	93,1	108,7	104,2	108,4	114,9	124,1	136,5	152,8
Import	-85,3	-117,9	-101,7	-160,5	-114,2	-174,9	-204,4	-239,7
Oil Crude	-19,2	-24,3	-15,9	-16,4	-17,7	-18,7	-19,3	-20,5
Non Oil	-66,1	-93,6	-85,8	-90,1	-96,4	-108,6	-126,7	-141,6
Services	-22,4	-22,3	-17,2	-19,5	-22,0	-23,7	-25,0	-26,2
<b>Capital and Financial Balance</b>	<b>3,5</b>	<b>-2,5</b>	<b>-2,1</b>	<b>1,2</b>	<b>4,7</b>	<b>9,5</b>	<b>13,0</b>	<b>13,9</b>
Capital balance	0,5	0,4	0,1	0,1	0,1	0,1	0,1	0,1
Financial balance	2,9	-2,9	-2,2	1,1	4,6	9,4	12,9	15,8
Direct Investment	2,3	1,2	1,1	2,0	3,2	5,3	6,6	7,5
Inflow	-4,7	-5,5	-4,9	-4,8	-4,5	-3,9	-3,0	-3,0
Outflow	6,9	6,7	5,9	6,7	7,7	9,1	9,9	10,5
Portfolio	5,5	1,6	-0,5	0,6	2,0	3,5	5,0	6,2
Public asset	-4,5	-1,1	-5,0	-4,8	-4,5	-4,0	-3,5	-3,3
Liabilities	10,0	3,0	4,5	5,4	6,5	7,5	8,5	9,5
Government and BI	5,3	3,3	2,7	3,1	3,5	4,0	4,5	5,0
Private sector	4,7	-0,3	1,8	2,3	3,0	3,5	4,0	4,5
Lainnya	-4,9	-5,9	-2,7	-1,5	-0,5	0,6	1,3	2,3
Private Asset	-4,6	-8,2	-5,6	-5,1	-4,6	-3,9	-3,6	-3,0
Liabilities	-0,3	2,3	2,9	3,5	4,0	4,4	4,9	5,3
Government and BI	-2,4	-1,2	-0,6	-0,3	-0,3	-0,3	-0,3	-0,2
Private sector	2,1	3,5	3,5	3,8	4,3	4,7	5,2	5,5
<b>Total</b>	<b>13,8</b>	<b>-2,3</b>	<b>2,8</b>	<b>5,3</b>	<b>6,8</b>	<b>9,5</b>	<b>11,3</b>	<b>13,2</b>
Nett accounting	-1,1	0,1	0	0	0	0	0	0
Total balance	12,7	-2,2	2,8	5,3	6,8	9,5	11,3	13,2

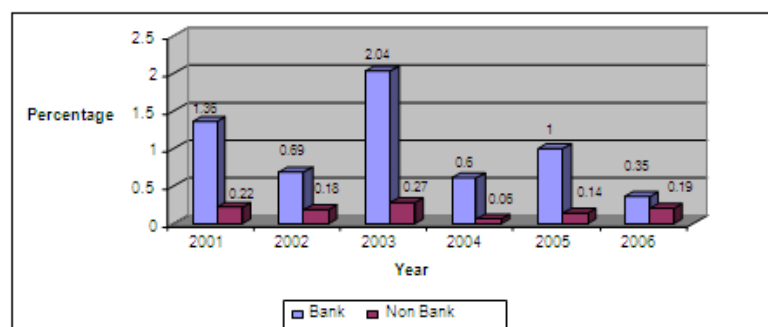


Figure 2 Funding from Banks and non Banks (Statistic Bureau of Indonesia, 2006)

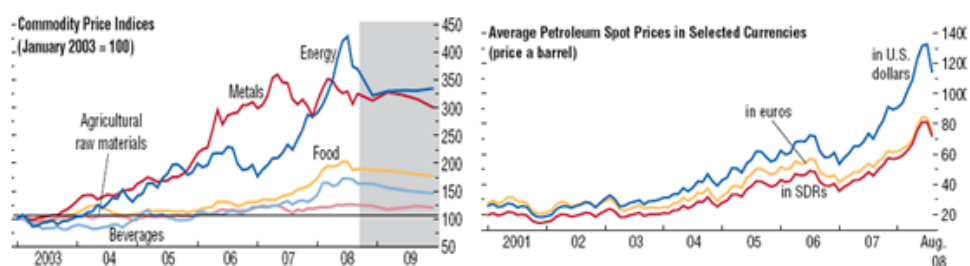


Figure 3 Commodity Price Indices and Average Petroleum Spot Prices (IMF World Economic Outlook, 2008)

The lower expectation of domestic economic growth influences banking credit liquidity. Banking credit liquidity goes down because credit rationing falls down. It lowers the total investment. Figure 4 showed that the lower expectation of domestic economy since 2008 lower capital credit agreement.

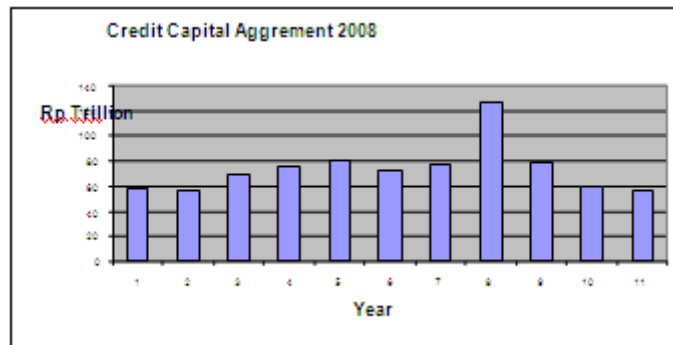


Figure 4 Capital Credit Agreement 2008 (Central Bank of Indonesia, 2008)

The signals of global crisis shows by the falling down of stocks indexes and depreciation of domestic currency. It happens either in advanced countries or developing countries like Indonesia. In 1997, Indonesia's economy had a very sharp depreciation which leads to losing trust in rupiah, economic crisis and social-politics crisis. This condition should be avoid as long as we could.

One alternative to avoid rupiah depreciation is using interest rate strategy. When the interest rate is made higher than before, it will make the investment going down. It is such a dilemma. In one side interest rate has to be higher to manage the rupiah depreciation. In other side, interest rate has to be lower in order to raise the investment for recovering the bad economy. Therefore, what should government do? Government should be wait and see. Once the world stocks cool down and stable, the government can lower the interest rate, so it will not fall more sharply. After lowering the interest rate, we focus on: (1) world's economy stabilization and world's stocks fluctuation; (2) lower expectation domestic inflation, which makes lower inflation. Thus, we can get margin from real interest rate and nominal interest rate.

Figure 5 and 6 showed that global stock market indices improved in November and Desember 2008. The inflation fell down in November and Desember 2008, so central bank of Indonesia started to decrease the interest rate in Desember 2008. Bank Indonesia expected correlation between lower interest rate and higher investment in next year.

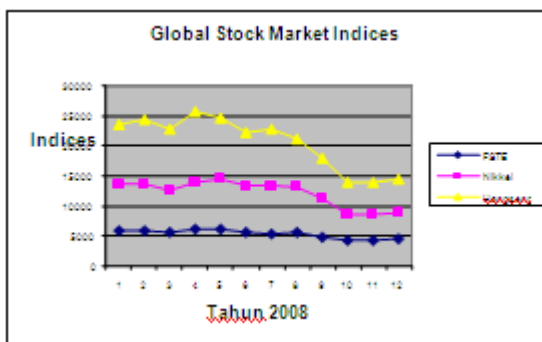


Figure 5 World's Stocks (Central Bank of Indonesia, 2008).

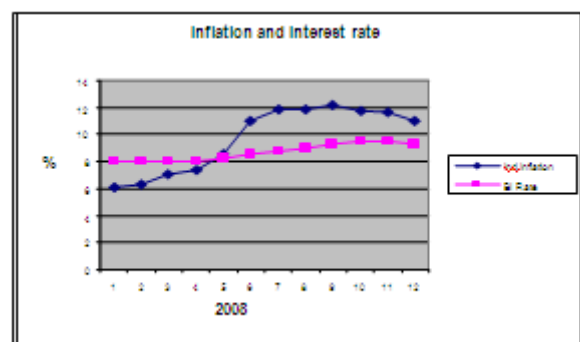


Figure 6 Indonesia's economy: Inflation and Interest rate (Central Bank of Indonesia, 2008).

## Government's Policy

One of the government policies is managing the interest rate. As the investment increases, the economic growth raises. For example in January 2009, Bank Indonesia managed interest rate low until 8,75%, so inflation went down.

The government can support investment by using fiscal policies, such as: (1) faster performance of government and BUMN projects; (2) stimulating fiscal for business and economy infratructures; (3) supporting real sectors and promote export, for example is government guarantee for trade financing facilities; (4) cutting off the gasoline price, adjusting national gasoline price to world's oil price, and cutting off solar oil price for business in order to reduce the high production cost. Regarding to fiscal stimulus, goverment tried to continue fiskal policy implementation in 2009, changing from defensive fiscal to offensive fiscal (Figure 7).

To anticipate the global crisis in 2009, our government did fiscal simulus with three targets. First, goverment took labor force and supported small and medium bussiness (UKM) by infrastructure development as followed: (1) lowering poverty using some programs; (2) supporting prime sector development by faster liquidity credit banking; (3) providing more jobs for labor force.

Second, goverment supported the people's buying power with: (1) subsidizing the price of medicine and cooking oil; (2) direct subsidiary using cash transfer and conditional cash transfer for poor people; (3) direct subsidy and indirect subsidy for education and health sector.

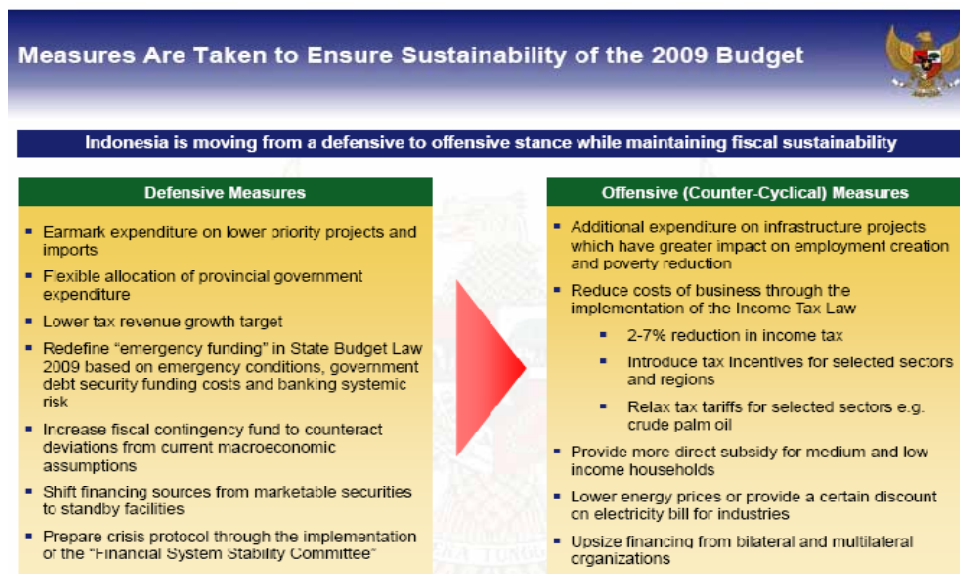


Figure 7 Changing from defensive measures to offensive measures (Indonesia's Financial Departement, 2009)

Third, goverment pursues trading and promoting entrepreneur. Tool for these activity use giving facility for special of import duty, guarantee for export financing, reducing tax for firm income and individual and making higher minimize standar labor tax, reduce electtricity cost in peak-hour for business sector and reduce dissel oil.

## 2014 Investment Projection

The goverment projection of national economic growth in 2009 was reduce into 7.5% from the previous 13.1% in goverment planning performance book or buku Rencana Kerja

Pemerintah (RKP). This number (7.5%) has been accomodating of regulation on fiscal and monetary in order to support investment. Other assumption of using in this number is the limit of import liquidity funding so the investment can focus on demand domestic.

World Bank (2009) expects global crisis in U shape. This means that world recovery process needs long time. Number of investment still depends on domestic demand in two years, which is investment growth around 8.1% and 8.7%. After two years restructuring process, the growth of investment came back higher in 2012-2014, which were 10.1%, 10.5% and 11.1% (Table 5).

Foreign Domestic Investment increased from US\$3.2 Billion in 2011 to US\$5.3 Billion in 2012, and increased again to US\$6.6 Billion in 2013 and US\$7.5 Billion in 2014. Portfolio investment increased from US\$2.0 Billion in 2011 to US\$3.5 Billion in 2012, and increased again to US\$5.0 Billion in 2013 and US\$ 6.2 Billion in 2014.

Others investment increased from US\$0.5 Billion in 2011 to US\$0.6 Billion in 2012. It increased again to US\$1.3 Billion in 2013 and US\$2.3 Billion in 2014.

Based on investment growth above, the national investment needs Rp10.042 billion for five years; Rp1.547,7 billion in 2010, Rp1.743,4 billion in 2011, Rp1.975,8 billion in 2012, Rp2.239,1 billion in 2013 dan Rp 2.536,0 billion in 2014.

Table 5 The projection of national economic growth of 2013 and 2014  
(Statistics Bureu of Indonesia, 2008)

	REALISASI	PERKIRAAN		PROYEKSI 2010-2014					RATA-RATA
	2007	2008	2009	2010	2011	2012	2013	2014	2010-2014
PERTUMBUHAN EKONOMI (%)	6,3	6,2	5,0	5,5	5,9	6,3	6,7	7,0	6,3
SISI PENGELUARAN									
Konsumsi Masyarakat	5,0	5,4	4,8	4,9	5,3	5,5	5,7	6,1	5,5
Konsumsi Pemerintah	3,9	8,9	6,1	6,3	6,4	6,5	6,6	6,7	6,5
Investasi	9,2	12,4	7,5	8,1	8,7	10,1	10,5	11,1	9,7
Ekspor Barang dan Jasa	8,0	13,8	2,5	3,3	4,9	6,5	8,1	9,7	6,5
Impor Barang dan Jasa	8,9	14,0	6,5	7,0	7,6	10,8	11,9	12,5	10,0
SISI PRODUKSI									
Pertanian, Perkebunan, Peternakan Kehutanan, dan Perikanan	3,5	4,0	3,5	3,5	3,6	3,6	3,7	3,7	3,6
Pertambangan dan Penggalian	2,0	0,0	1,2	1,2	1,3	1,3	1,3	1,4	1,3
Industri Pengolahan	4,7	4,0	3,9	5,0	5,4	5,8	6,2	6,4	5,8
Industri Bukan Migas	5,2	4,4	4,3	5,5	5,9	6,3	6,7	6,9	6,3
Listrik, Gas dan Air	10,4	10,0	8,0	8,1	8,4	8,7	8,8	10,0	8,8
Konstruksi	8,6	8,3	6,8	7,0	7,1	7,2	7,2	7,3	7,2
Perdagangan, Hotel, dan Restoran	8,5	8,3	6,0	6,5	7,4	8,2	8,7	9,0	8,0
Pengangkutan, dan Telekomunikasi	14,4	13,0	8,0	10,0	10,6	11,2	12,4	13,3	11,5
Keuangan, Real Estat, dan Jasa Perusahaan	8,0	7,8	6,5	5,8	5,8	6,0	6,0	6,1	5,9
Jasa-jasa	6,6	6,4	5,0	5,5	5,7	5,9	6,1	6,3	5,9
I / Y (%)	24,9	26,0	26,3	26,7	27,1	27,6	28,1	28,6	
KEBUTUHAN INVESTASI (Rp Triliun)	983,8	1212,9	1366,7	1547,7	1743,4	1975,8	2239,1	2536,0	10042,0 *

\* Jumlah Total 2010 s/d 2014

## CONCLUSION

The global crisis spreads to Indonesia and impacts on the investment. The impacts influences two channel, which are international trade channel and international capital channel. The government has established policies to encourage investment. The most possible is funding limitation. Government uses monetary policy (monetary stimuly) and fiscal policy in order to support demand side, which can increase investment, and supports the overall economic growth.



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