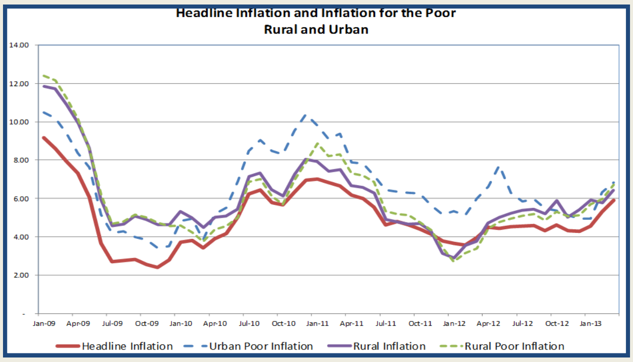
Poverty and the Economy April 2013

INFLATION



Inflation in March

The inflation rate for March 2013 was 0.6%, the highest figure for March for the last five years. Year-on-year it was 5.9%, higher than in 2012 (4%) but still lower than March 2011 (6.65%). The monthly inflation for March is usually low because it coincides with the harvest period.

The high inflation in March 2013 was not broad-based. Rather it was due to the continuing high price of such foods as onions, garlic and red chilies, of which some part is usually imported. Government restrictions on imports were largely responsible for the inadequate supply and high prices. The food price inflation was 2.4% for March and contributed 0.5% out of 0.6% monthly inflation. The year-to-date food price inflation for March 2013 of 2.4% was more than double that in the previous two years. At 13% year-on-year it was unusually high.

The price of onion increased more than 60% from November 2012 to March 2013. The price of chilies rose by about 20% in January, but then declined to less than 10% in March 2013.

Because food price inflation was higher than inflation in general, both in urban and rural areas, inflation for the poor was higher than for the population as a whole. Year-on-year in urban areas inflation was 6.8% for the poor and headline inflation was 5.9%; in rural areas it was 6.7% for the poor while general rural inflation was 6.4%.

World food prices

World food prices in March 2013 were lower than February 2013 by 1.1% while beverages eased by 0.6%. The lower food price in the world market should benefit the poor in Indonesia if import policies are not too restrictive.

DEVELOPMENT

Southeast Asia's Growth Benefits from Robust Domestic Demand and Intra-region Trade

The Asian Development Bank just released its Asian Development Outlook 2013 and forecasts that developing Asia's GDP will expand by 6.6% in 2013 and 6.7% in 2014, following the slower 6.1% pace in 2012. Growth in the two biggest Asian countries, China and India, will rebound. China's economic growth will be driven by strong consumption and investment, while India needs to create a more favorable environment for investment if it is to sustain this higher rate. Other countries in Southeast Asia are benefiting from robust domestic demand and greater trade within the region.

However, continued sluggishness in the United States (US), euro area, and Japan suggests that developing Asia must continue to shift toward more domestic demand and trade with emerging markets. Developing Asia's favorable fiscal position cannot be taken for granted, as longer-term structural issues need to be addressed to ensure inclusive growth in the future.

Meanwhile, The World Bank's latest East Asia and Pacific Update scaled back slightly its 2013 growth forecasts for developing East Asia and warned about possible over-heating in the region's larger economies that could stoke inflation and asset bubbles. The forecasts for EAP (East Asia and the Pacific) for 2013 and 2014 remain roughly similar to those of December last year. The regional growth will rise moderately to 7.8% in 2013 and then adjust back to 7.6% in 2014 and 2015.

Indonesia to have slower growth in 2013 and 2014

The ADB Outlook 2013 praised Indonesia's achievement of 6.2% in 2012 despite falling exports. Sluggish world exports combined with stronger domestic demand brought Indonesia's current account into deficit for the first time in five years. ADB predicted that Indonesia's economic growth for 2013 and 2014 will be 6.4% and 6.6% respectively because of the robust private consumption, the improvement in investment performance and a gradual pickup in world trade.

On the other hand, World Bank lowered its forecast for Indonesia to 6.2% from 6.3% due to an expected moderation in investment growth.

The expected slower growth in Indonesia will generate more pressure for the government to take strong action to reduce poverty. To contribute to reducing poverty and narrowing the gap between rich and poor improved public infrastructure is certainly of high priority. Better transportation and a more reliable electric supply are particularly important to support growth in manufacturing and generate jobs in the formal sector.

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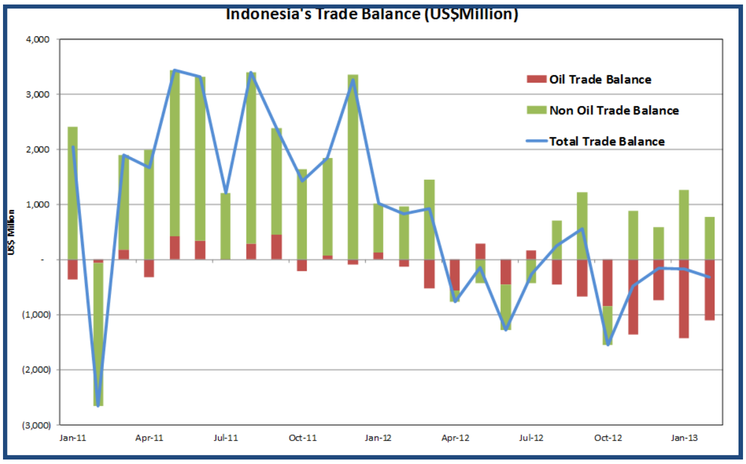
Lower exports, higher imports left Indonesia in larger deficit on current account

Exports in February 2013 declined by another $ 0.4 billion compared to January, because of a decline in manufactures, while imports increased slightly. As a result the trade deficit in February 2013 was almost double that a month earlier (-$327 and -$171 million respectively). The import of consumer and capital goods was lower in February 2013 compared to January while the import of intermediary goods was higher.

Combining January and February the balance of trade [exports of goods minus imports of goods] has gone from a positive balance of $ 4.5 billion in 2011 to a positive balance of $ 1.7 billion in 2012 and to a negative balance of $ 0.5 billion in 2013. The decline in export earnings puts a limit on Indonesia's capacity to import and therefore on the growth rate, since an expansion of the economy requires an expansion in imports.



SPECIAL REPORT

Increasing disparities in regional real wages indicate rising differences in the income of the poor

Indonesia, like other large countries, has substantial regional and provincial differences in income and large differences in the wages of unskilled and semi-skilled workers. Disparities in real wages, which is the purchasing power, of agricultural laborers reflect changes in the income of the poor. In 1987 agricultural wages in the highest wage provinces were triple those in the lowest wage ones. Poverty is concentrated in Java. Real wages outside of Java were roughly 50% higher than those in Java. Economic theory and experience agree that workers will move from low-wage to high-wage areas. Legally workers can move quite freely. And indeed substantial migration has taken place and is continuing. But the *barriers to such movement –physical, financial, social, political, linguistic- are high enough so that in 1987, nearly 40 years after Independence, these large differences in wages continue to persist.*

In fact, *over the 25 years from 1987 to 2012 the differences among regions and Provinces increased further*. Real wages in the richer provinces outside of Java increased by 20 percentage points more than in poorer Java; the difference between resource-rich[1] and resource-poor provinces was over 30%. The increase among provinces was widely dispersed, ranging from 293% to 52%. But generally *high wage provinces in 1987 were still high wage in 2012 and most low wages in 1987 still had low wages in 2012.*

Changes in Real Wages in Different Time Periods by Regions in Percent (1987 - 2012)[2]

			Resource	
	Java	Non-Java	Poor	Rich
1987-2012	89%	111%	96%	128%
1987-1992	10%	2%	7%	5%
1997-1998	-21%	-19%	-20%	-21%
1998-2011	71%	146%	93%	148%
2007-2011	-5%	2%	-4%	7%

Increasing inequality in wages did not hold true throughout this period but was affected by t*he pattern of development. During the years of rapid growth in manufacturing [1987-92], and especially in labor-intensive manufactured exports, real agricultural wages in Java, where industry was principally located, increased 5 times as fast as outside Java*. As some of the agricultural laborers found work in industry, or in other sectors servicing industry such as construction and trade, wages in agriculture rose as well. Since wages in Java were one-third below wages in non-Java, low-wage workers in Java were the principal beneficiaries of this period of rapid growth in labor-intensive exports. This means that the poor benefited more than the non-poor. However, low-wage workers in Provinces without industrial growth (NTB, NTT, and Southeast Sulawesi) did not benefit.

The Asian Monetary Crisis seems to have hit agricultural wage earners throughout the country to roughly the same extent. It was *during the subsequent commodity boom* [1998 to 2011] *that the resource-rich provinces outside Java had far higher increases in real agricultural wages.* Weighted average wages outside Java increased twice as fast as in Java and for the commodity-rich provinces wages increased nearly 60% more than for the commodity-poor Provinces. Since it was the high wage provinces whose wages increased more rapidly there was increasing inequality among provinces for agricultural wage earners and the poor benefited less than the near-poor.

1 Defined as those deriving less than 14.5% of their GDP from minerals, timber and non-food crops.

2 The data in the table are weighted averages. Provinces are weighted by the number of workers in agriculture

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