Indonesia Economic Quarterly
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In times of global volatility

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Introduction

- These are times of heightened global volatility…
- …making policy making in emerging economies challenging.
- In this difficult environment, Indonesia is forecast to grow at 4.7 percent in 2015 and 5.3 percent in 2016
- But there are important downside risks …
- … triggering a policy response to support businesses and people in the short run…and to facilitate investment and long-term growth.
Uncertain global conditions

Recent developments and outlook for Indonesia

Uncertainty and risks

Recent government policy response
Global growth is still subdued

*World Bank projections for global growth in 2015, 2016 and 2017, percent*

Source: World Bank East Asia Pacific Economic Update, October 2015: Staying the Course
China’s economy rebalancing and slowing down

Source: CEIC; World Bank staff projections
Global commodity prices are also persistently low

Index, 2010 = 100

Source: World Bank Commodity Outlook, October 2015
Emerging market currencies and asset prices under significant pressure

Emerging market stock price and currency indices, June 3, 2015=100

Source: Financial Times; JP Morgan

World Bank Group
Uncertain global and regional conditions

Recent developments and outlook for Indonesia

Uncertainty and risks

Recent government policy response
As in other emerging economies, growth in Indonesia is slowing

World Bank growth projections, percent

Source: World Bank East Asia Pacific Economic Update, October 2015: Staying the Course
Public capital spending improved significantly in recent months

January – September cumulative realization in nominal and real terms (LHS), IDR trillion; real capex growth (RHS), percent*

Note: * Real capital expenditure is calculated using the implicit total fixed investment deflator with 2010 base from the national accounts
Source: Ministry of Finance; World Bank staff calculations
Revenue collection remains challenging

Contributions to yoy nominal growth, percent

- O&G related revenues
- Income tax N-O&G
- VAT/LGST
- Excises
- Import duties
- Export tax

Jan-Sept 2013: [Bar chart showing contributions]
Jan-Sept 2014: [Bar chart showing contributions]
Jan-Sept 2015: [Bar chart showing contributions]

Source: Ministry of Finance; World Bank staff calculations
Baseline GDP growth in 2015 unchanged

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<thead>
<tr>
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<th>October 2015 IEQ</th>
<th>Revisions</th>
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<tbody>
<tr>
<td>(percentage change, unless otherwise indicated)</td>
<td>2014</td>
<td>2015p</td>
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<tr>
<td>Real GDP</td>
<td>5.0</td>
<td>4.7</td>
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<tr>
<td>Consumer prices</td>
<td>6.4</td>
<td>6.5</td>
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<tr>
<td>Current account balance (% of GDP)</td>
<td>-3.1</td>
<td>-2.0</td>
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Note: Revisions are relative to July 2015 IEQ.
Source: BI; BPS; World Bank staff projections
Uncertain global and regional conditions

Recent developments and outlook for Indonesia

Uncertainty and risks

Recent government policy response
Near-term uncertainty and risks are elevated

- Uncertainty about timing and short-term impact of FED lift off
- Risk of China slowing more than expected;
- Risk of severe El Niño;
- Corporate balance sheets, in particular in resource sector;
- These risks to the outlook imply that the forecast pick-up in growth is not guaranteed.
Uncertain global and regional conditions

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Recent government policy response
Room for strong countercyclical policy response limited

- Monetary easing space may be expanding but uncertainty about FED lift-off is a constraint.

- Space for a stronger fiscal boost is constrained by the sharp decline in oil and gas fiscal revenues and weakening VAT/LGST collection.
Short-term stimulus and structural reforms through policy packages

- Efforts to support businesses and people are justified;
- Efforts to accelerate capex spending and budget absorption are important;
- Steps taken to reduce regulatory burden and obstacles to business conduct welcome;
- Certain aspects of the package are particularly encouraging:
  - Removal/ simplification of import licenses (11 regulations so far),
  - Simplification of investment licensing,
  - New wage setting mechanism,
  - Measures to expedite application process for land use permits.
Going forward

- Further measures to support manufacturing and tourism growth and export would help enhance growth and maintain a low CAD.

- Process improvements (e.g. fully paperless electronic applications and a risk-based import approval regime), and an institutionalized, centralized screening process for new regulations will further help.

- Strong recovery in growth that generates strong capital inflows (FDI) could strengthen the Rupiah.
El Niño is expected to moderately raise domestic rice prices and inflation

- El Niño is projected to increase rice prices by about 5 percent and CPI inflation by 0.3 p.p.

- Poor households spend a larger share of their income on food and may be impacted more by higher prices.

- More severe El Niño conditions may double the above effects.
Implementing Indonesia's national health insurance system

- JKN aims to provide access to healthcare to all Indonesians, thus supporting broader developmental objectives.

- Implementation is proceeding, but more can be done to expand coverage and improve financial sustainability.
Improving housing outcomes

- Indonesia faces a large housing deficit and an increasing need for affordable housing, particularly in urban areas.

- There is strong political momentum to increase the supply of affordable housing, but spending in the sector needs to be more equitable and effective.