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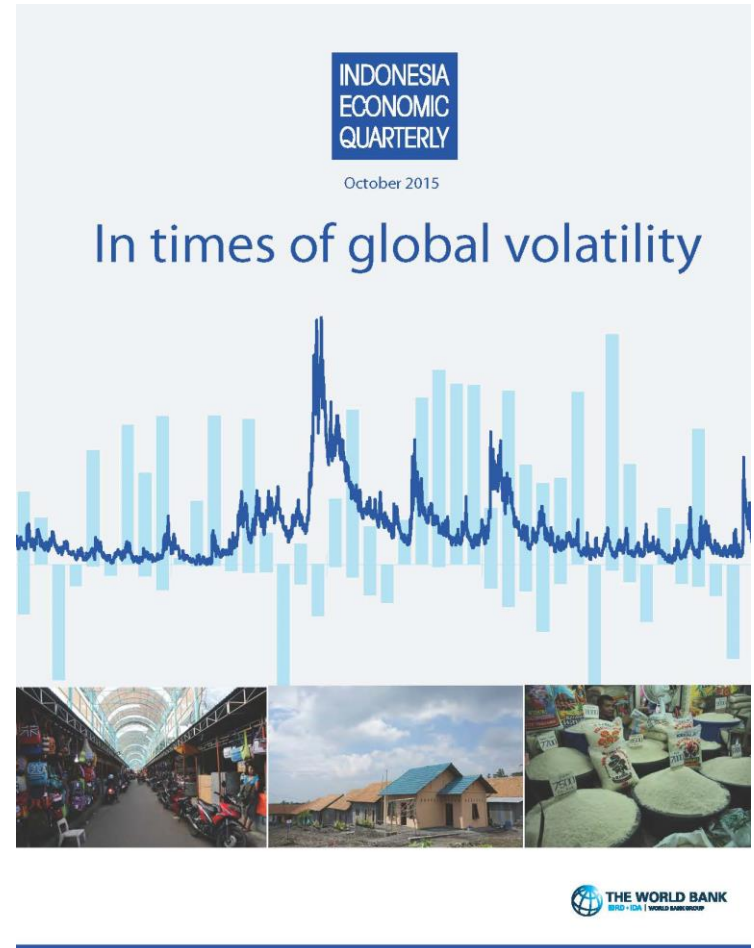
# **Indonesia Economic Quarterly October 2015**

***In times of global volatility***

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***Lead Economist, Indonesia***  
October 22, 2015

# 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**

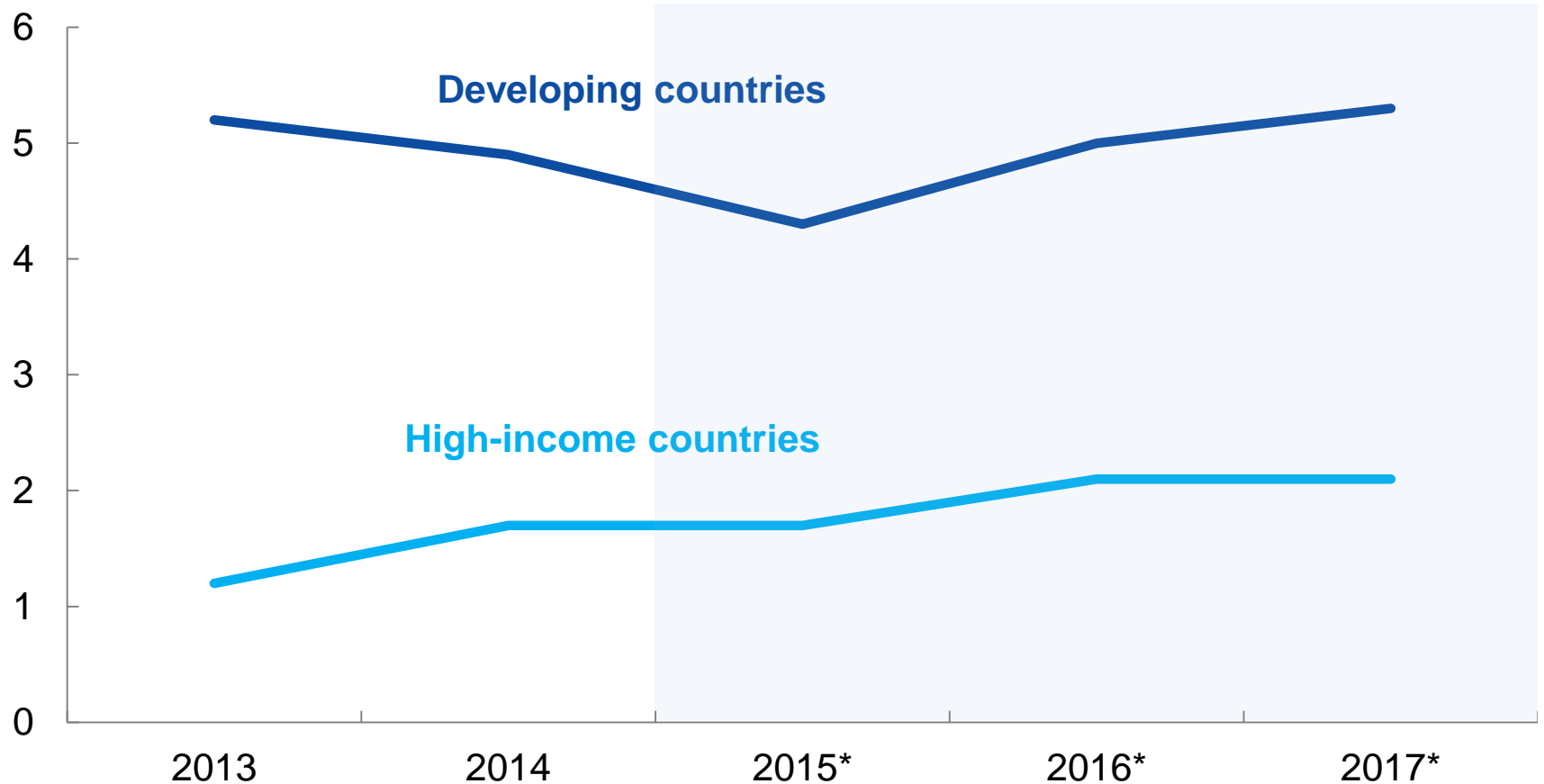
**Recent developments and outlook for Indonesia**

**Uncertainty and risks**

**Recent government policy response**

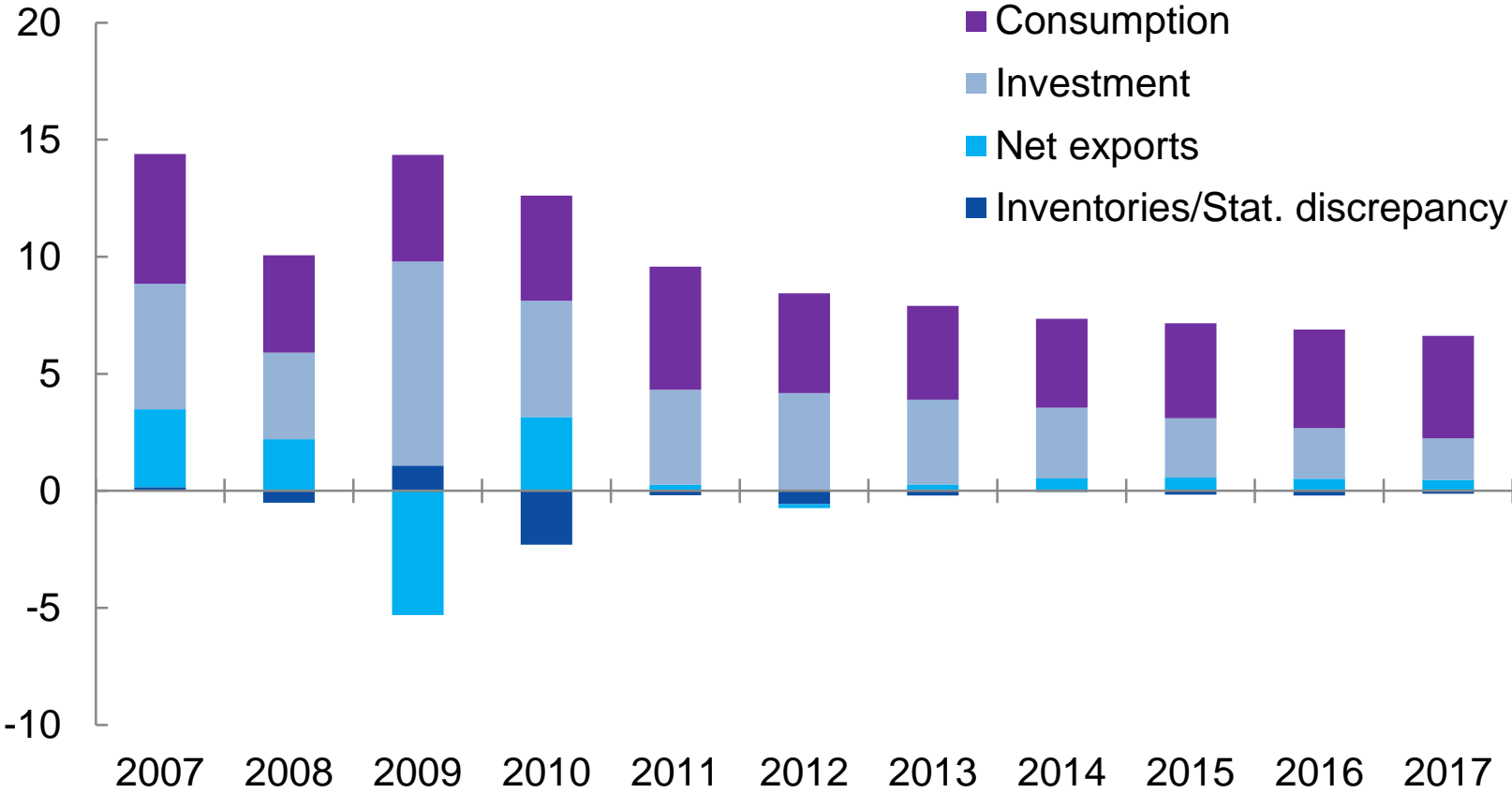
# Global growth is still subdued

*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

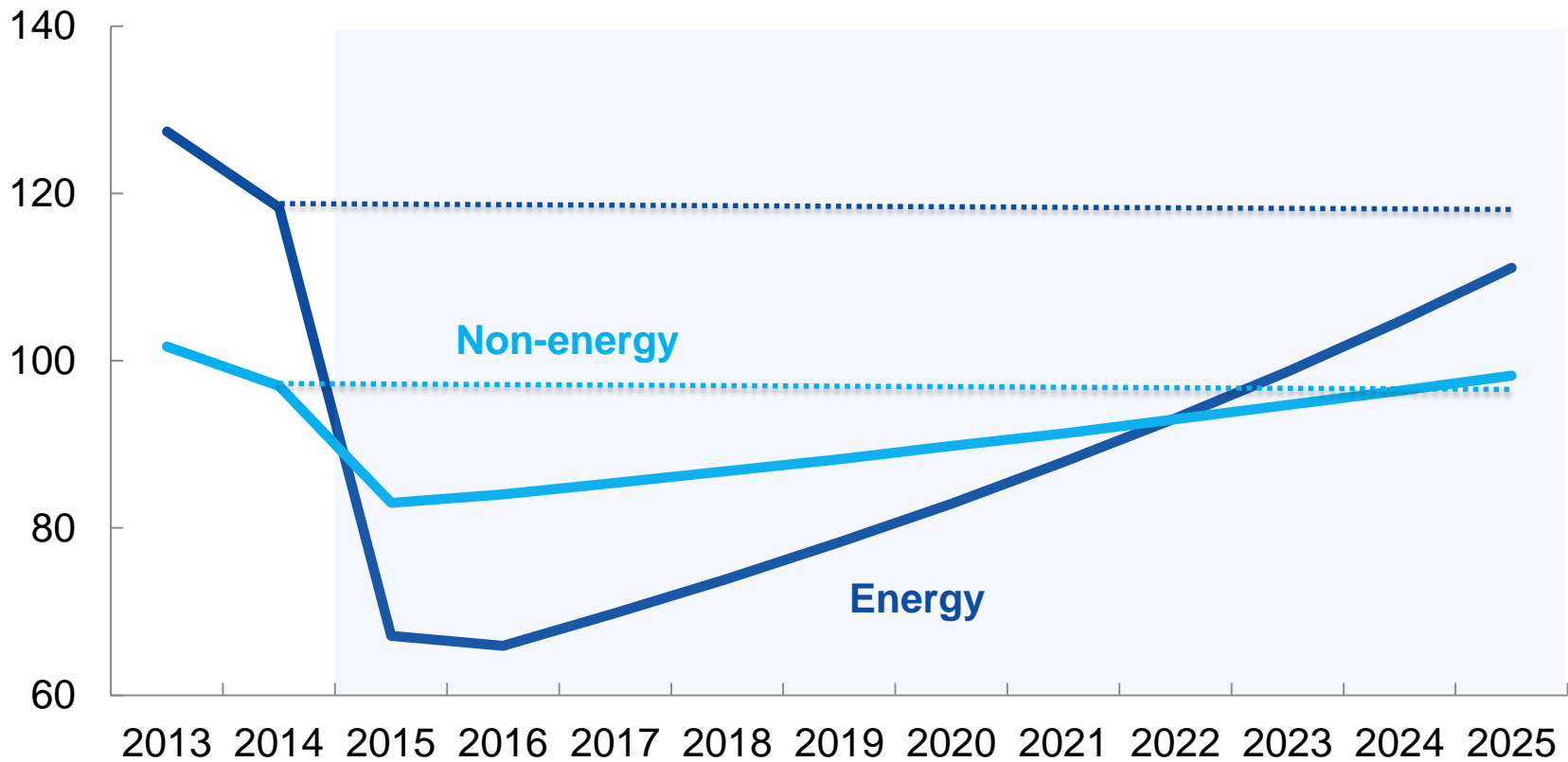
# China's economy rebalancing and slowing down



Source: CEIC; World Bank staff projections

# Global commodity prices are also persistently low

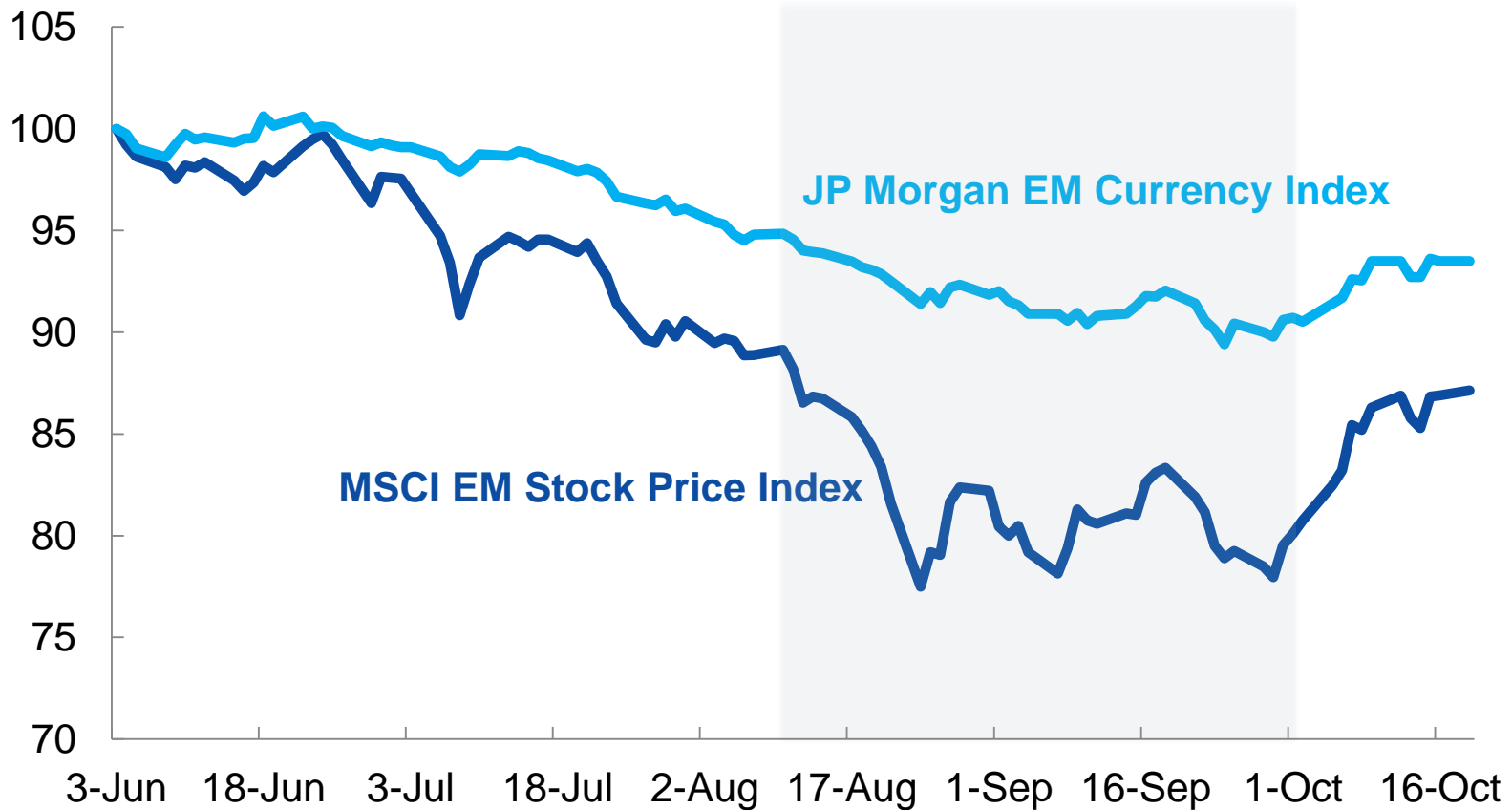
*Index, 2010 = 100*



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

**Uncertain global and regional conditions**

**Recent developments and outlook for Indonesia**

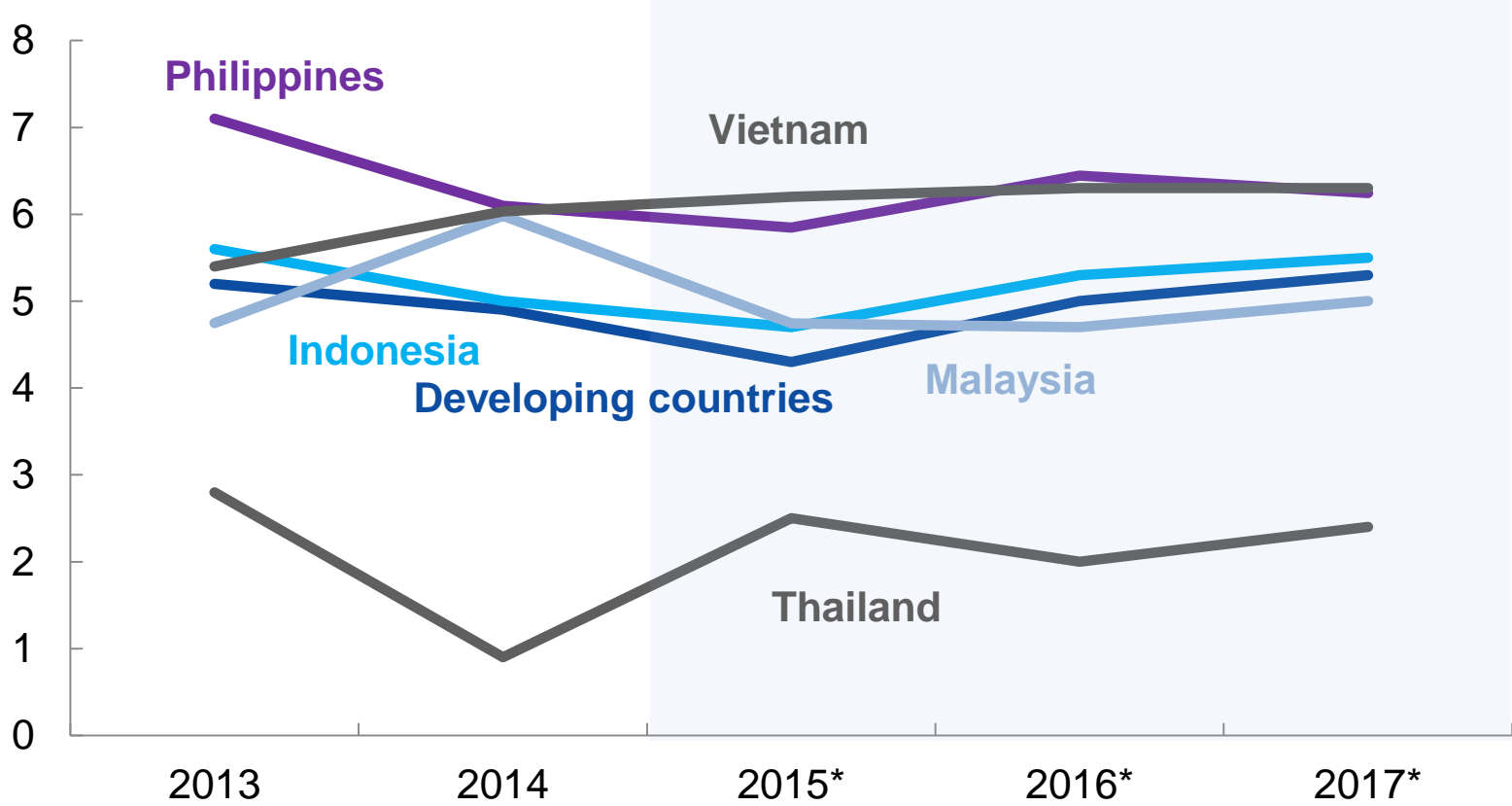
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# As in other emerging economies, growth in Indonesia is slowing

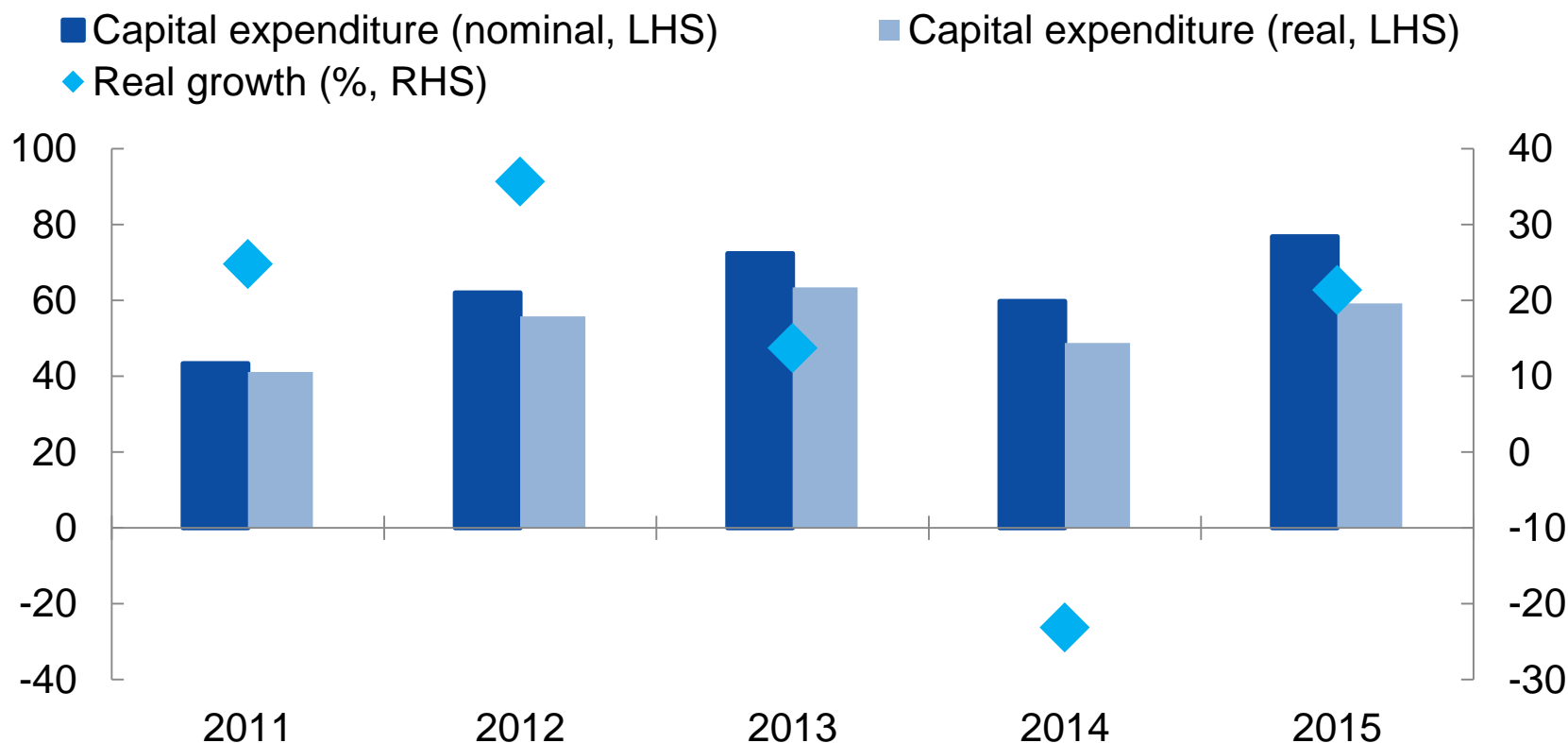
World Bank growth projections, percent



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\**

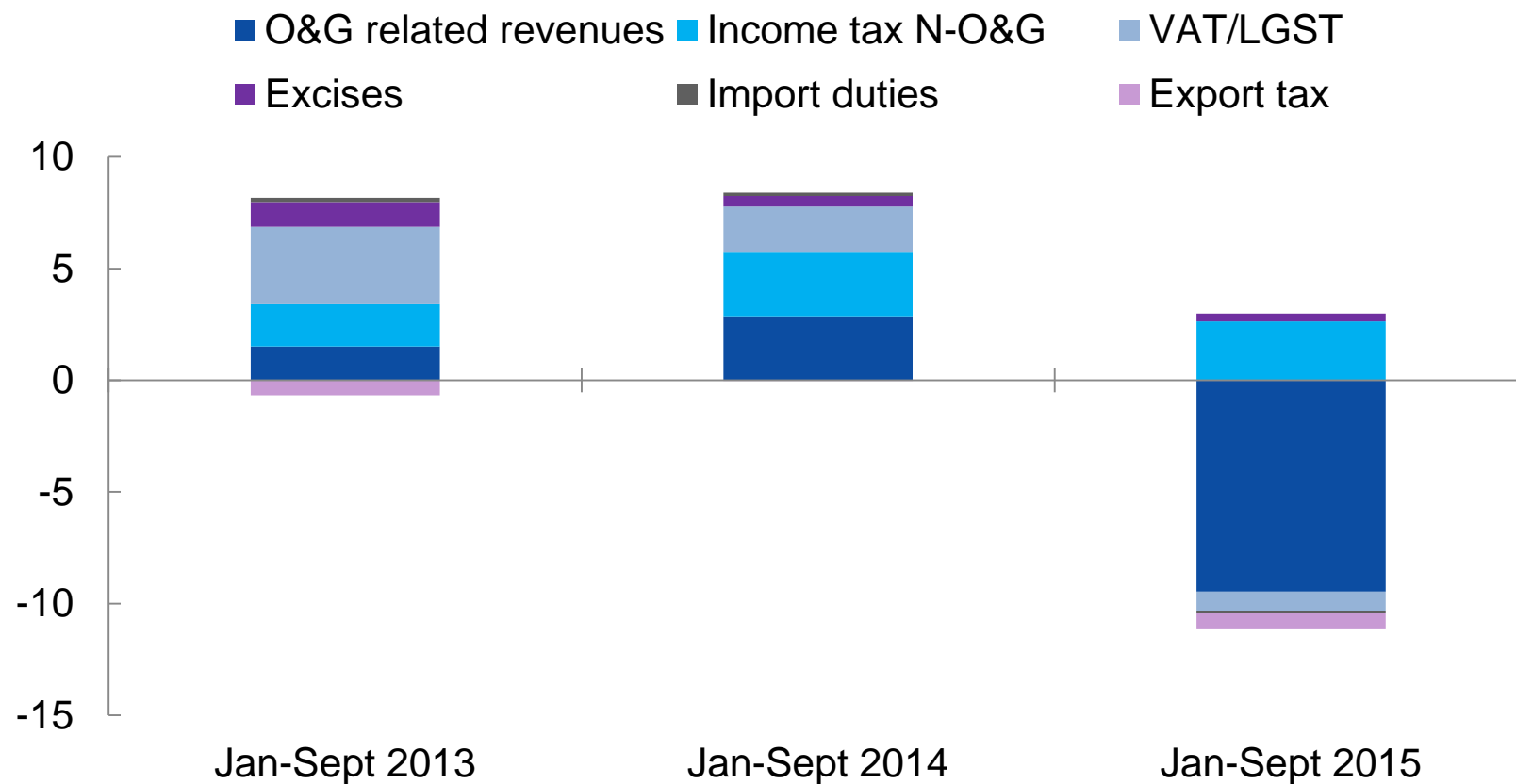


Note: \* Real capital expenditure is calculated using the implicit total fixed investment deflator with 2010 base from the national accounts

Source: Ministry of Finance; World Bank staff calculations

# Revenue collection remains challenging

*Contributions to yoy nominal growth, percent*



Source: Ministry of Finance; World Bank staff calculations

# Baseline GDP growth in 2015 unchanged

	October 2015 IEQ			Revisions	
<i>(percentage change, unless otherwise indicated)</i>	2014	2015p	2016p	2015	2016
Real GDP	5.0	4.7	5.3	0.0	-0.2
Consumer prices	6.4	6.5	5.2	-0.3	-0.1
Current account balance (% of GDP)	-3.1	-2.0	-2.6	0.7	0.3

Note: Revisions are relative to July 2015 IEQ.

Source: BI; BPS; World Bank staff projections

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# 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.

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# 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.

