

Indonesia Economic Quarterly March 2015

High expectations



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Introduction

Ambitious economic policy reforms initiated, setting high expectations for what these could achieve:

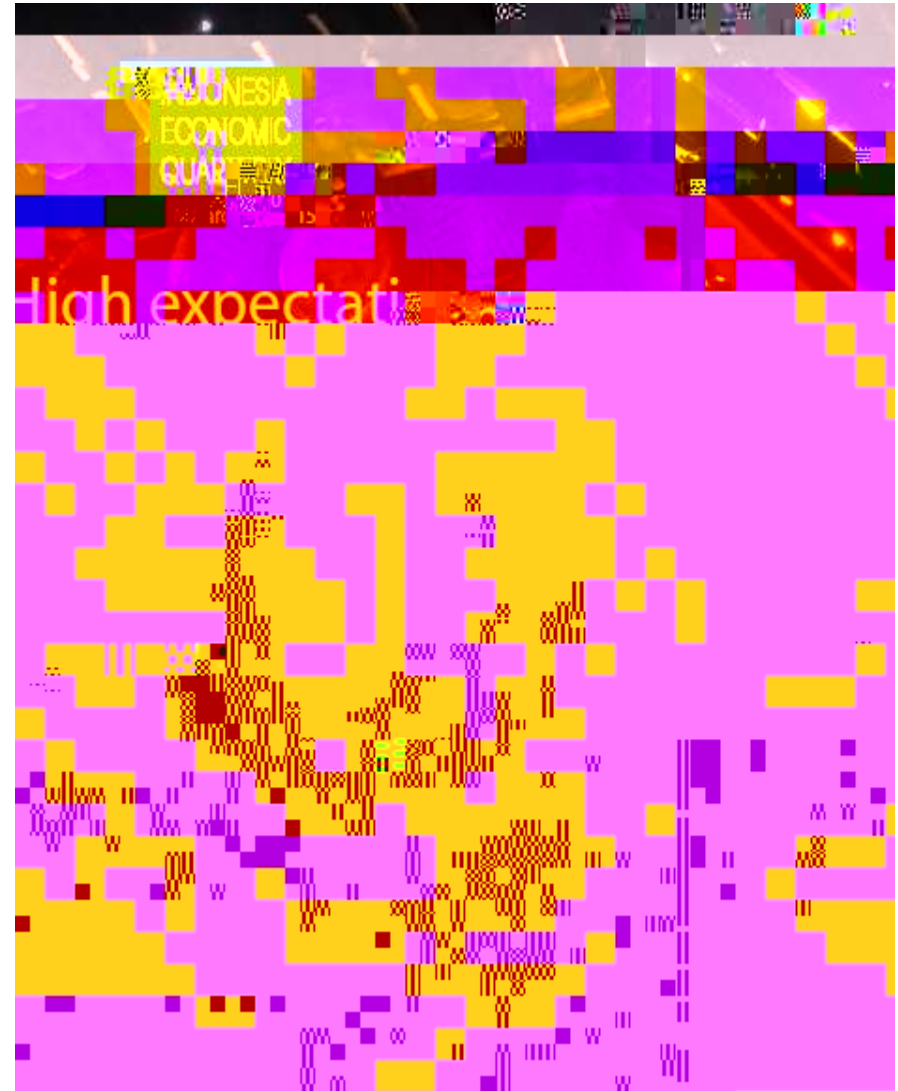
- Fuel subsidies
- Infrastructure spending
- Business licensing

But road from vision to reality is long:

- Policy and admin. reforms needed to sustainably **mobilize revenues**
- **Overcoming execution constraints** to absorb more and better capex
- **Implementation** of complex reforms, and consistent follow-through

Reforms are vital, especially with the economy facing headwinds:

- Global growth is rising but commodity demand is not
- US Dollars: globally, becoming scarcer
- Possible revenue shortfall this year

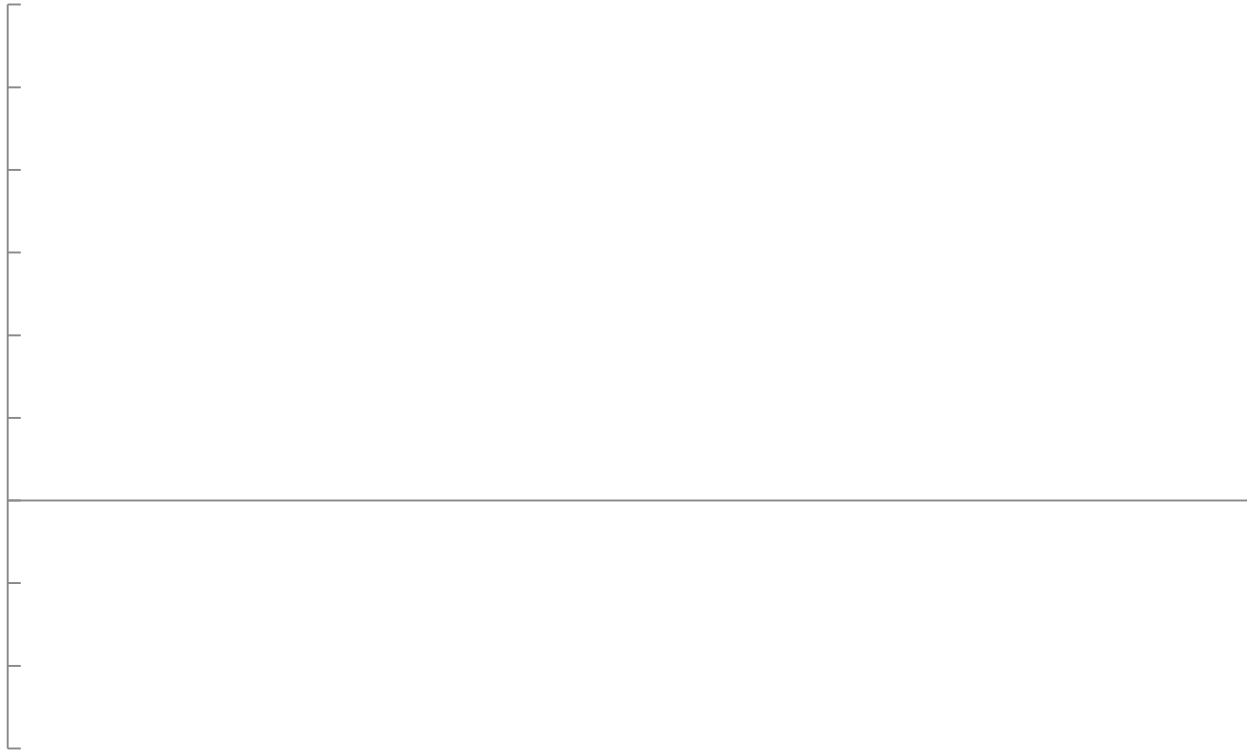


Major recent developments

Near-term economic outlook: relatively subdued

Uncertainties

Recent developments: 1. China is not what it once was for Indonesia...

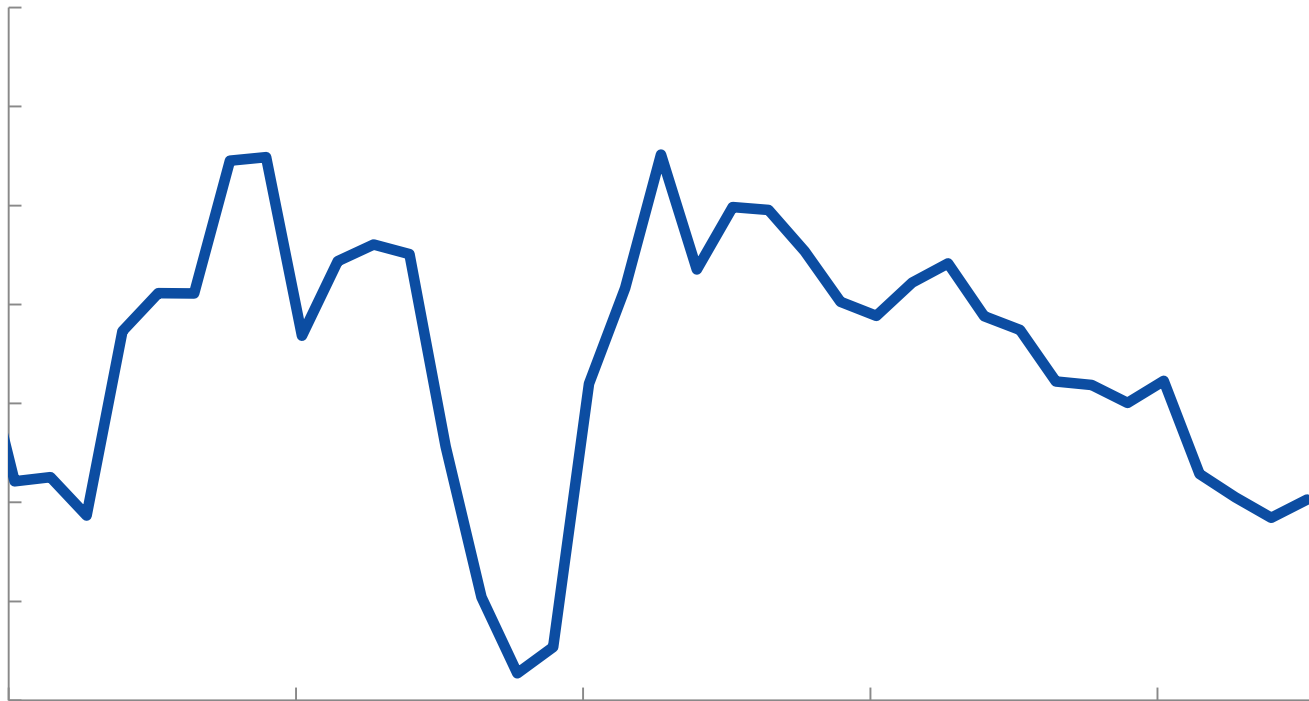


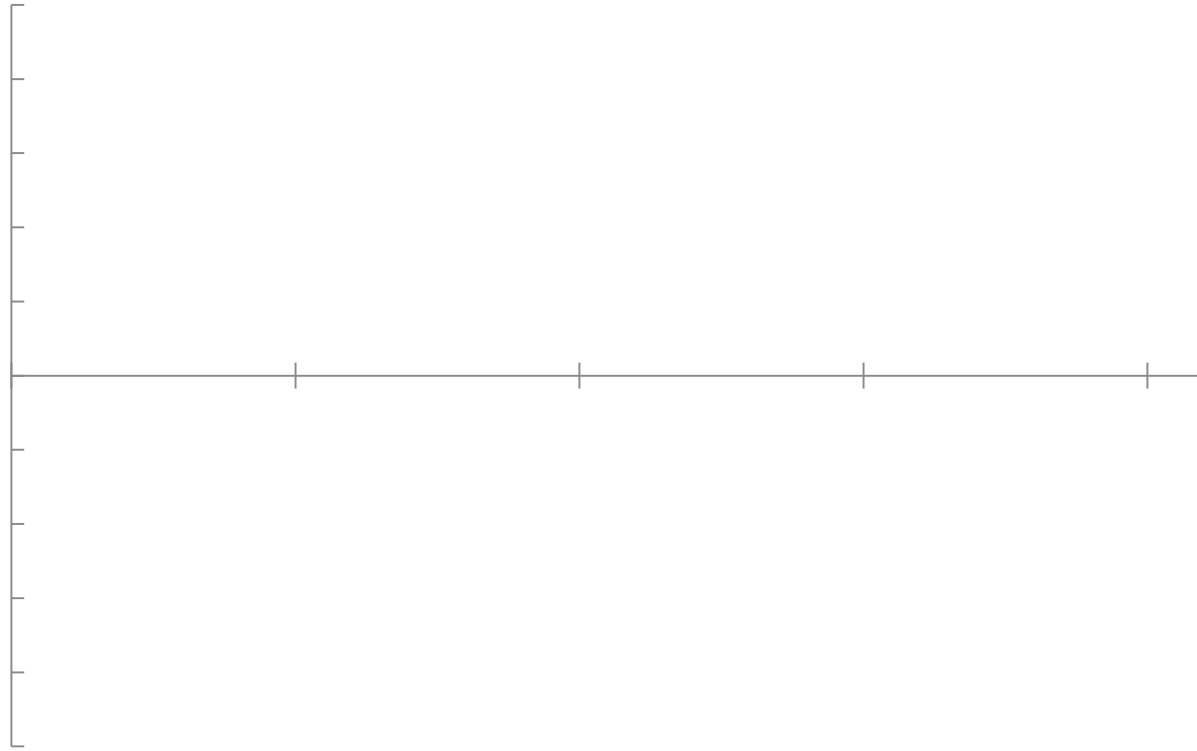
...and the commodity boom is over...

Exports, USD billion



Source: World Bank





...with more US Dollar strength potentially to come

US Dollar against all currencies

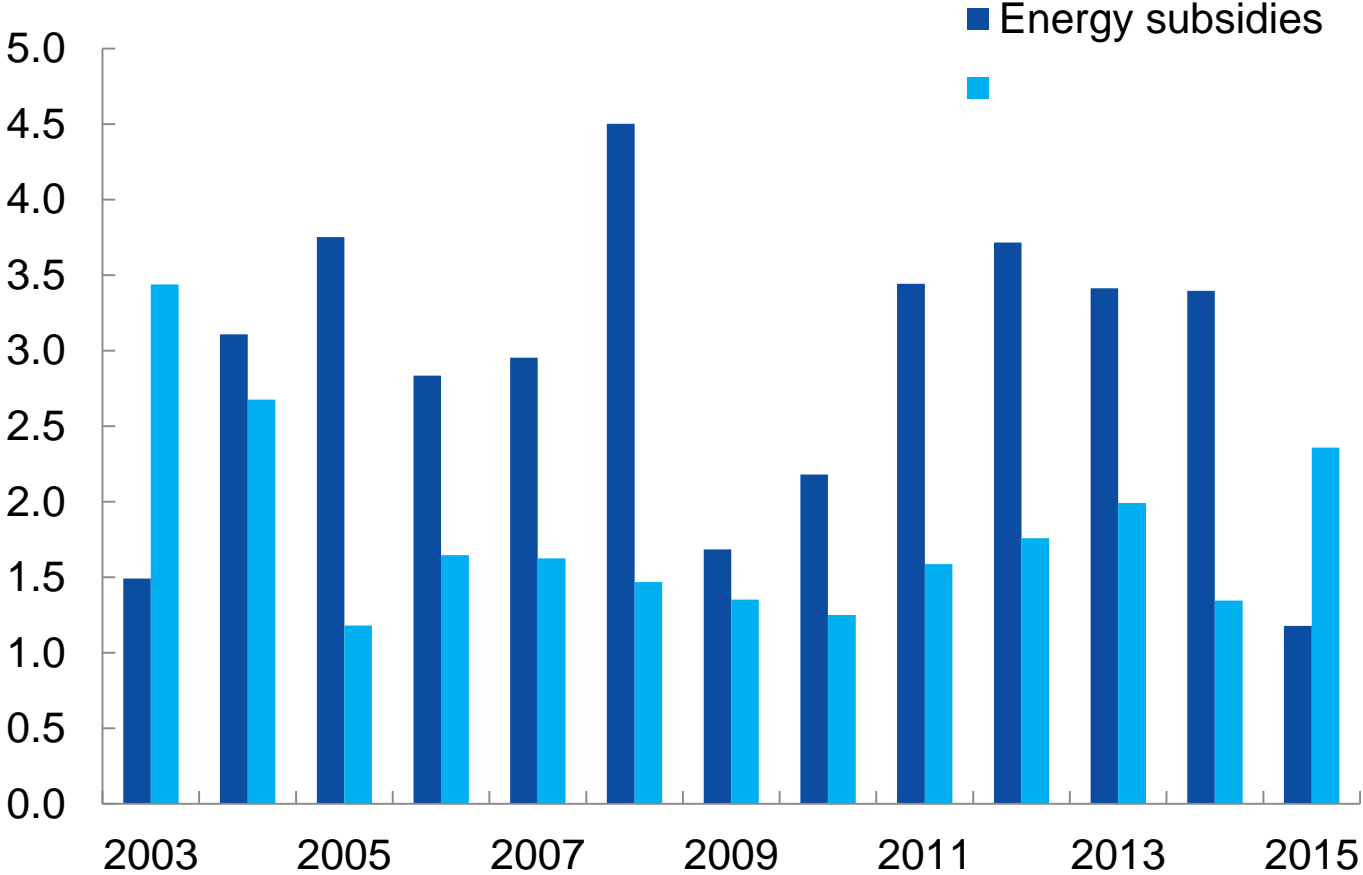


Source: BIS

Implications: possible shocks; working harder for scarcer dollars

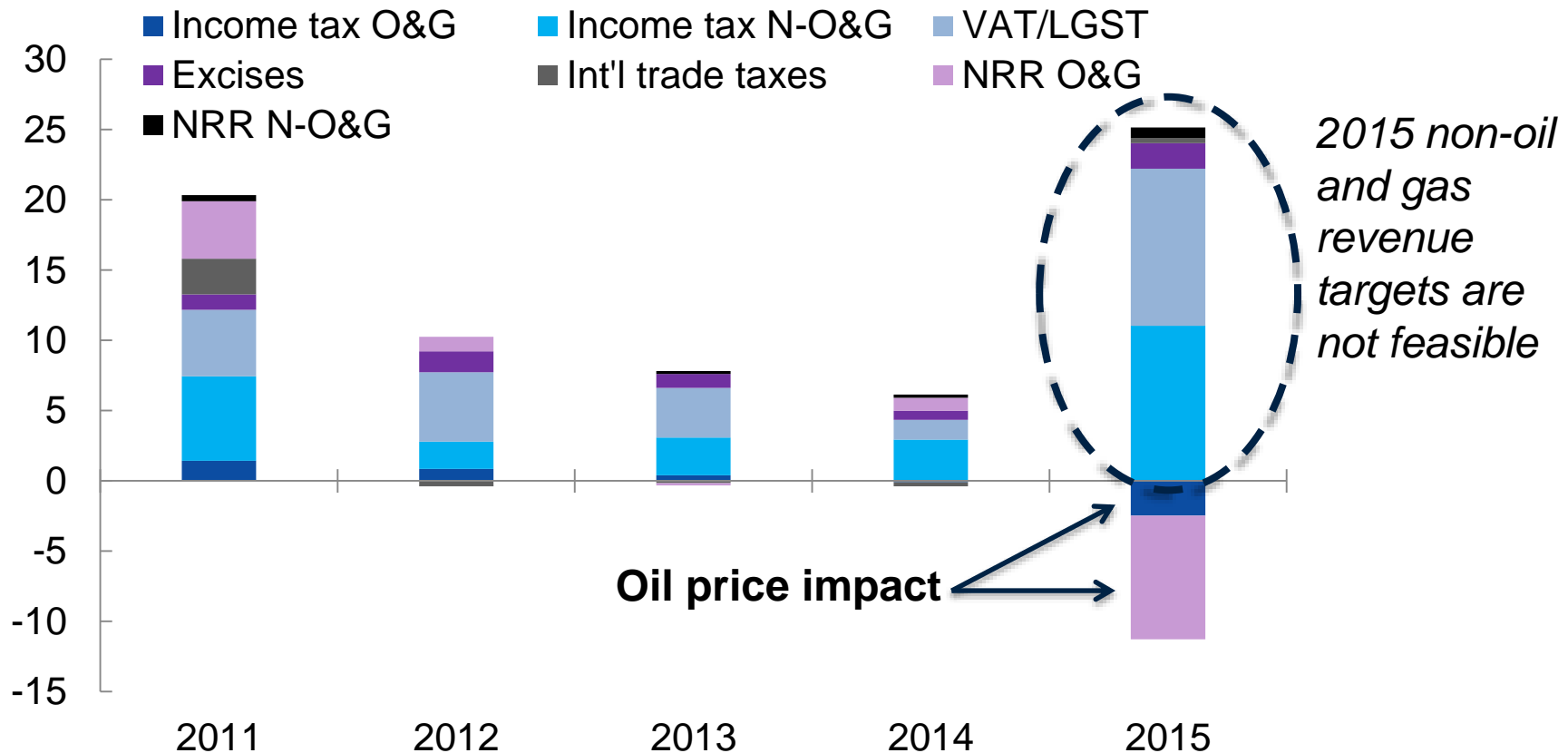
Relatively speaking, the Rupiah has done fine

Recent developments: 3. Revised 2015 Budget – dramatic spending reallocation...



...but revenue targets are over-ambitious; spending may have to be adjusted

Contributions to nominal revenue growth, percentage points



Note: 2011-2014 – outturns; 2015: Revised Budget (compared with 2014 outturn).

O&G denotes oil and gas, N-O&G denotes non-oil and gas; LGST denotes luxury goods sales tax; NRR denotes natural resource revenues.

Source: Ministry of Finance; World Bank staff calculations

Implications: A long way to go to implement vision of the Budget

New fuel pricing system is a banner reform:

Sharply reduces wasteful, regressive spending

Secures fiscal sustainability

Cuts fiscal risks

Capex surge - uncertain:

Disbursement challenges – quality; timing

Limited fiscal space: achieving even half of the budgeted 100% increase in capex from the 2014 outturn will be difficult

Revenues:

Receding commodity tide has exposed weaknesses

Major recent developments

Near-term economic outlook: relatively subdued

Uncertainties

Base case: no sharp upturn in growth

	March 2015 IEQ				Revisions	
<i>(percentage change, unless otherwise indicated)</i>	2013	2014	2015p	2016p	2015	2016
Real GDP	5.6	5.0	5.2	5.5	0.0	0.0
Consumer prices	6.4	6.4	6.5	5.1	-1.0	-0.1
Current account balance (% of GDP)	-3.2	-3.0	-3.0	-3.2	-0.2	-0.4
Fiscal balance (% of GDP)	-2.2	-2.2	-2.5	-	-0.5	-

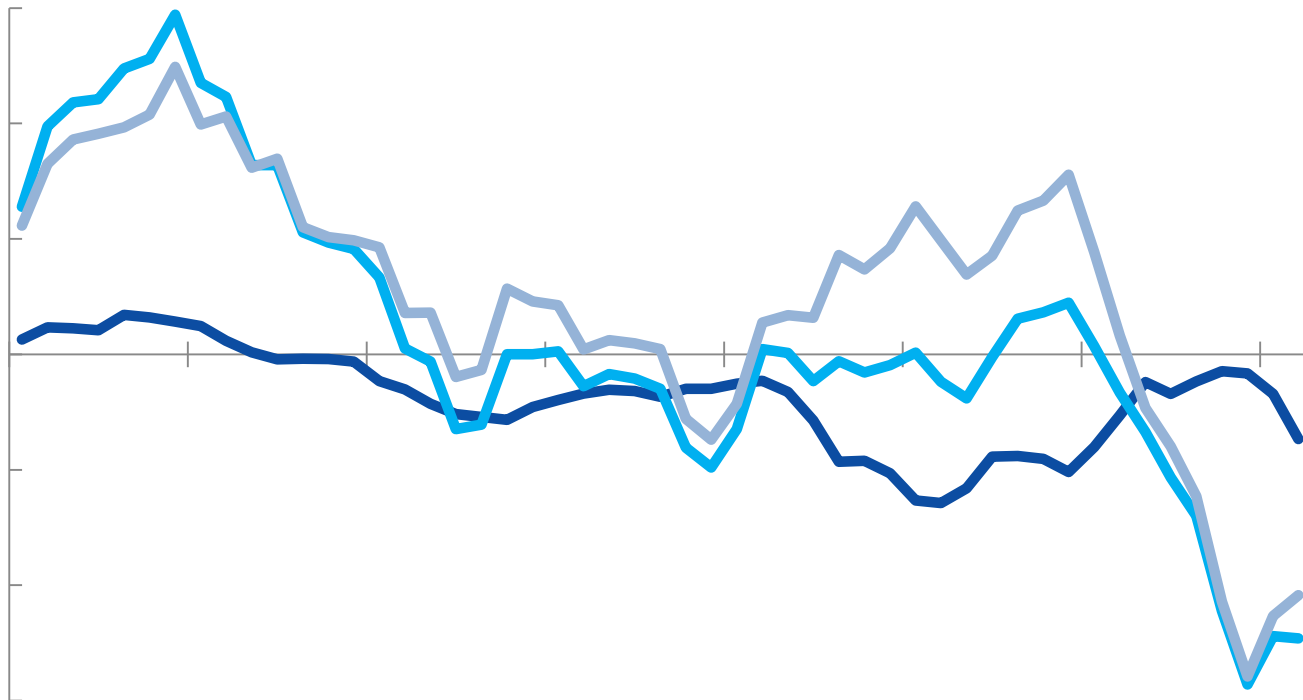
Note: Revisions are relative to December 2014 IEQ.
Source: MoF; BPS; BI; World Bank projections

Major recent developments

Near-term economic outlook: relatively subdued

Uncertainties

Fiscal outlook: uncertain Rupiah-denominated fuel prices



Macro outlook: uncertain timing and scale of investment rebound

Fixed investment has approximately halved since 2012

Weaker commodity sector investment, reduced retained earnings growth, tighter credit

Base case: some rebound, helped by infrastructure spending, but timing and size is key source of forecast risk

SOEs:

IDR 70.4 trillion capital injection

Quality and quantity of increased infrastructure spending?

Private sector – ready to come to the party?

Business licensing reform push –

Conclusion

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Regular

