



Towards a Secure and Fast Recovery

Indonesia Economic Prospects, December 2020

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Health COVID-19 Targeted support
Contact tracing Firms
Vaccine Households
Fiscal reforms
Secure Fast Recovery
Sustainable Long-term growth
Equitable Jobs
Incomes



Indonesia and the global economy went through difficult times this year

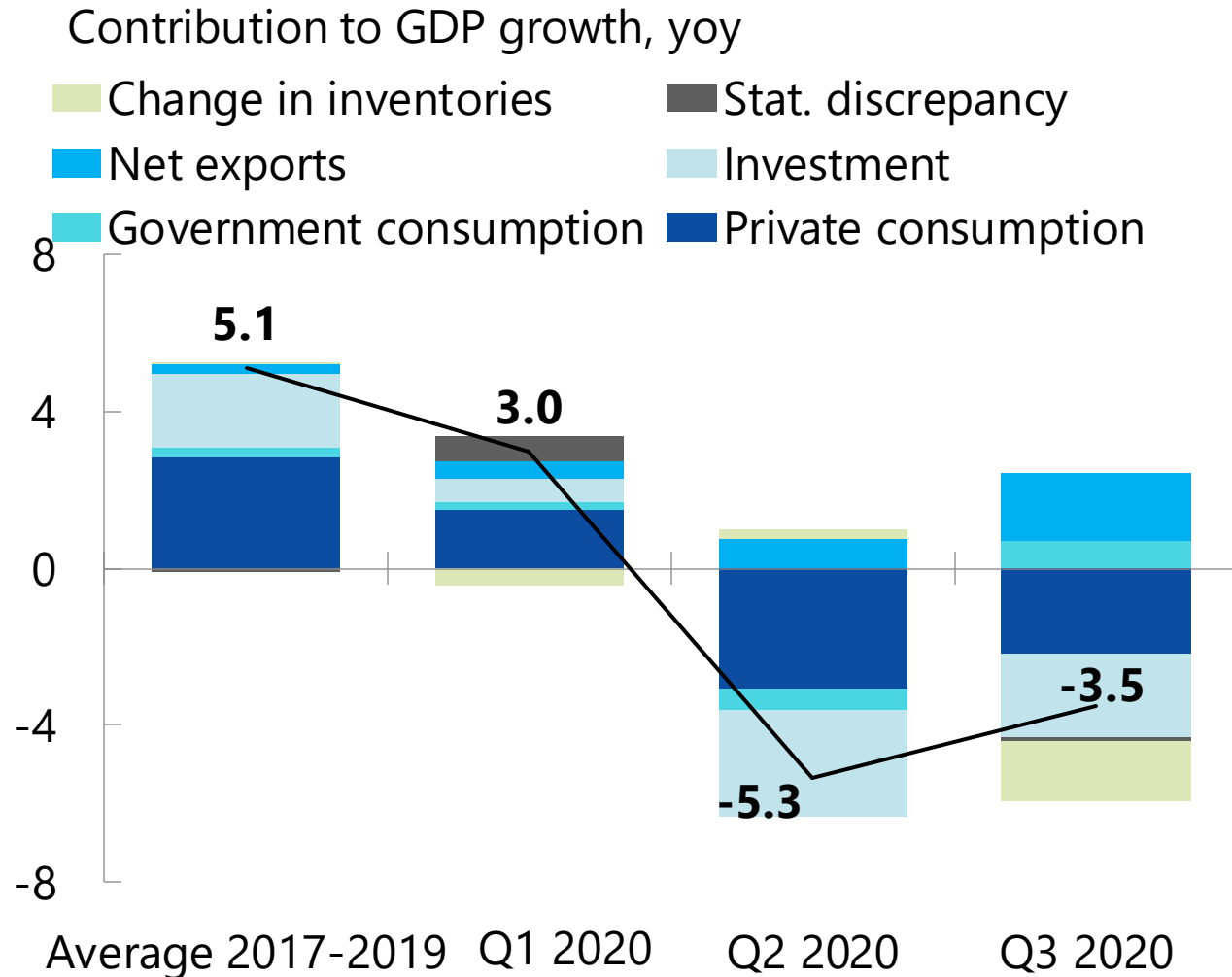
How well is Indonesia recovering?



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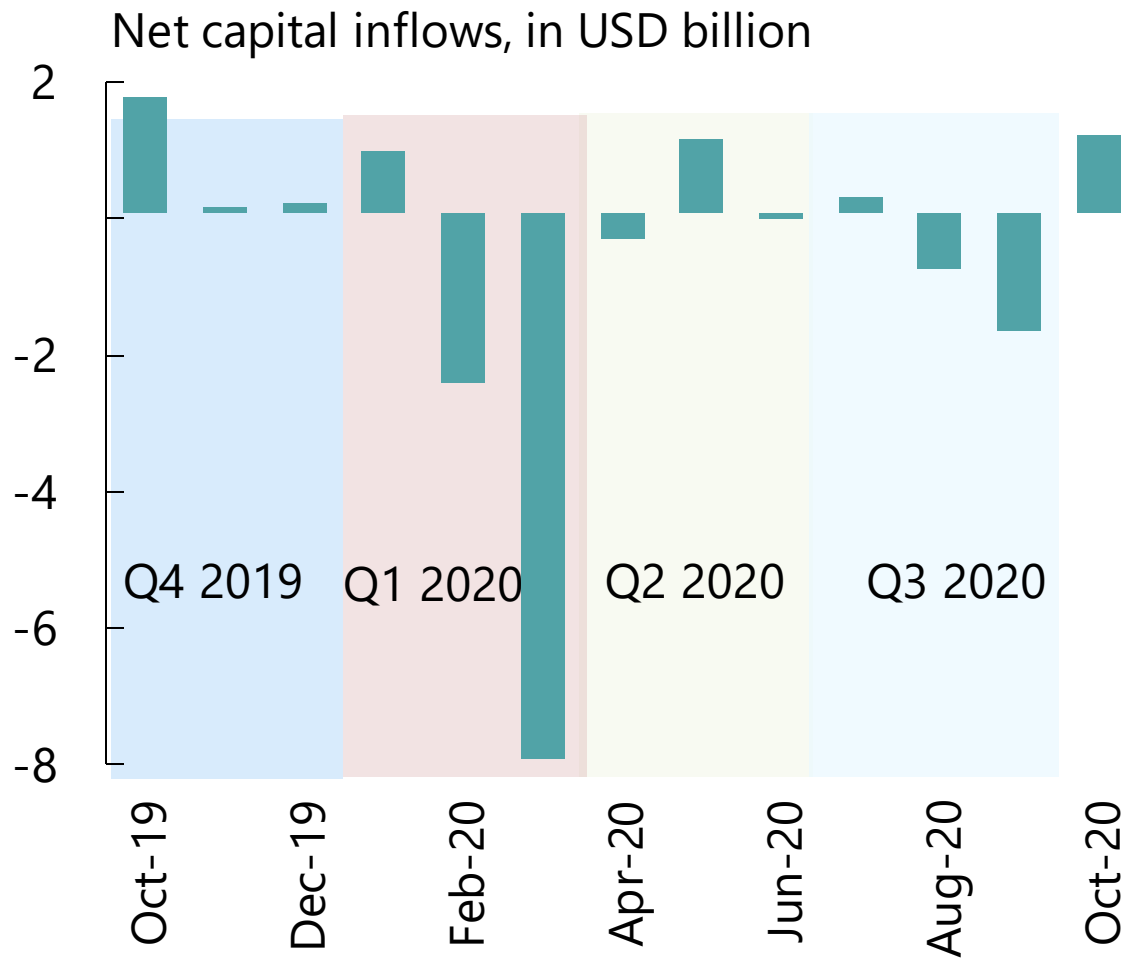
After a sharp contraction in Q2, the economy appears to be slowly turning around



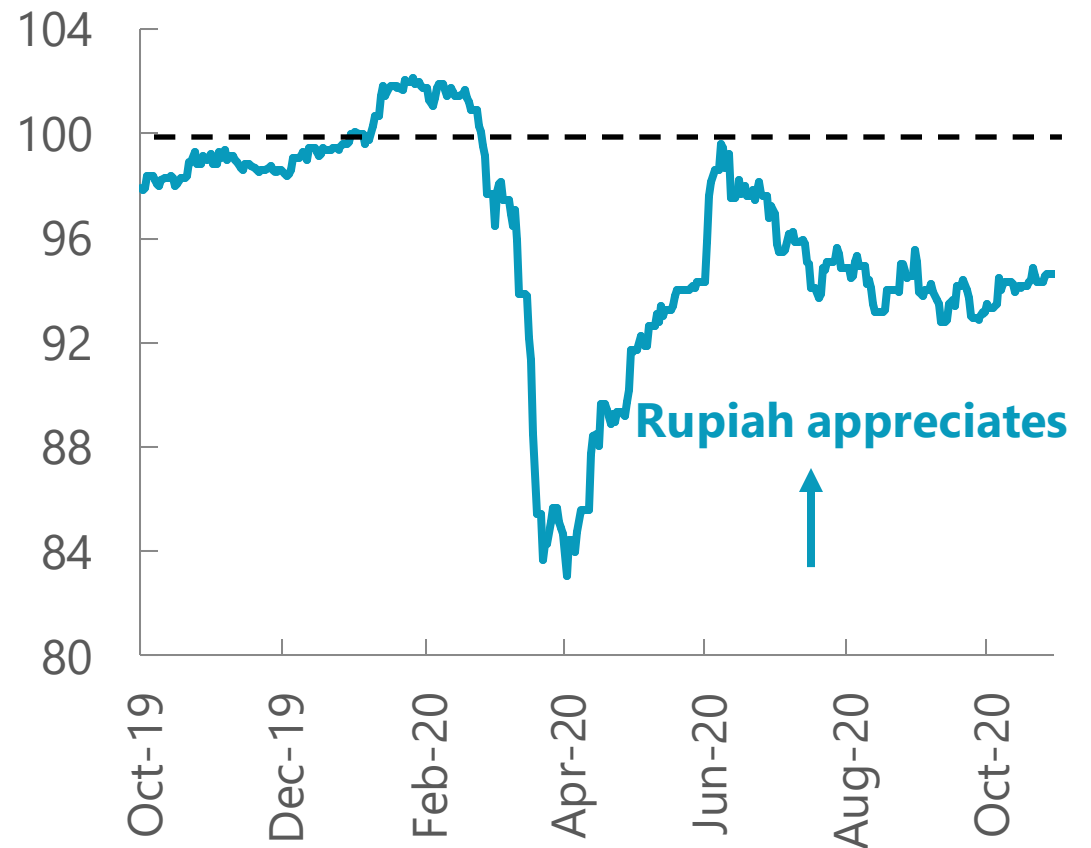
- Mobility restrictions were gradually lifted during Q3
- Unprecedented macroeconomic and fiscal policy support helped mitigate the impact of the crisis



Portfolio capital flows and the rupiah have also recovered from their weakest levels this year

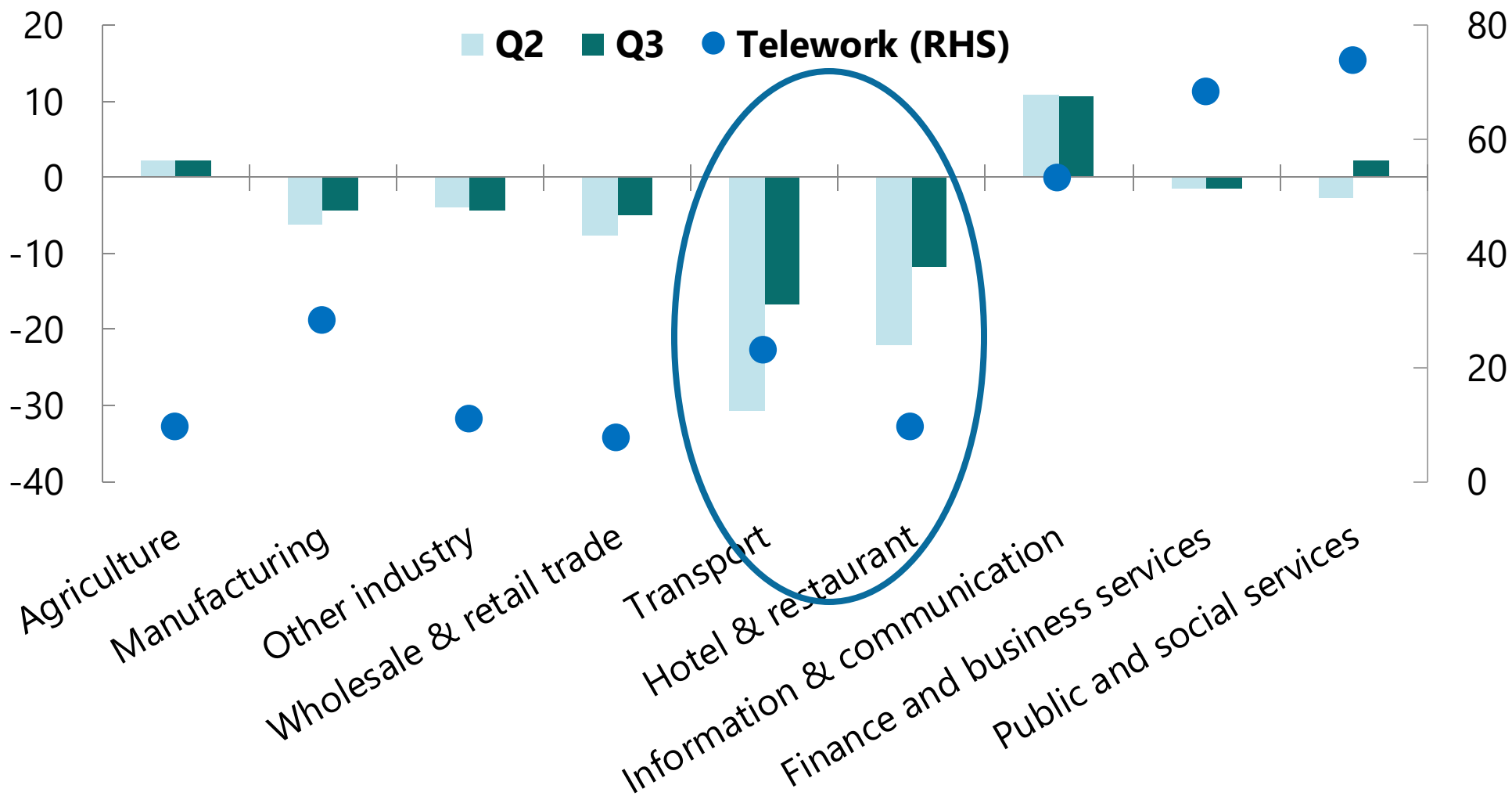


Nominal exchange rate, USD per IDR
(index, Jan 1, 2020 = 100)



But several sectors that employ many Indonesians are still in deep contraction, though bottoming out

GDP growth in Q2 and Q3 2020, in percent yoy - LHS
 The share of jobs that can be done remotely, percent - RHS

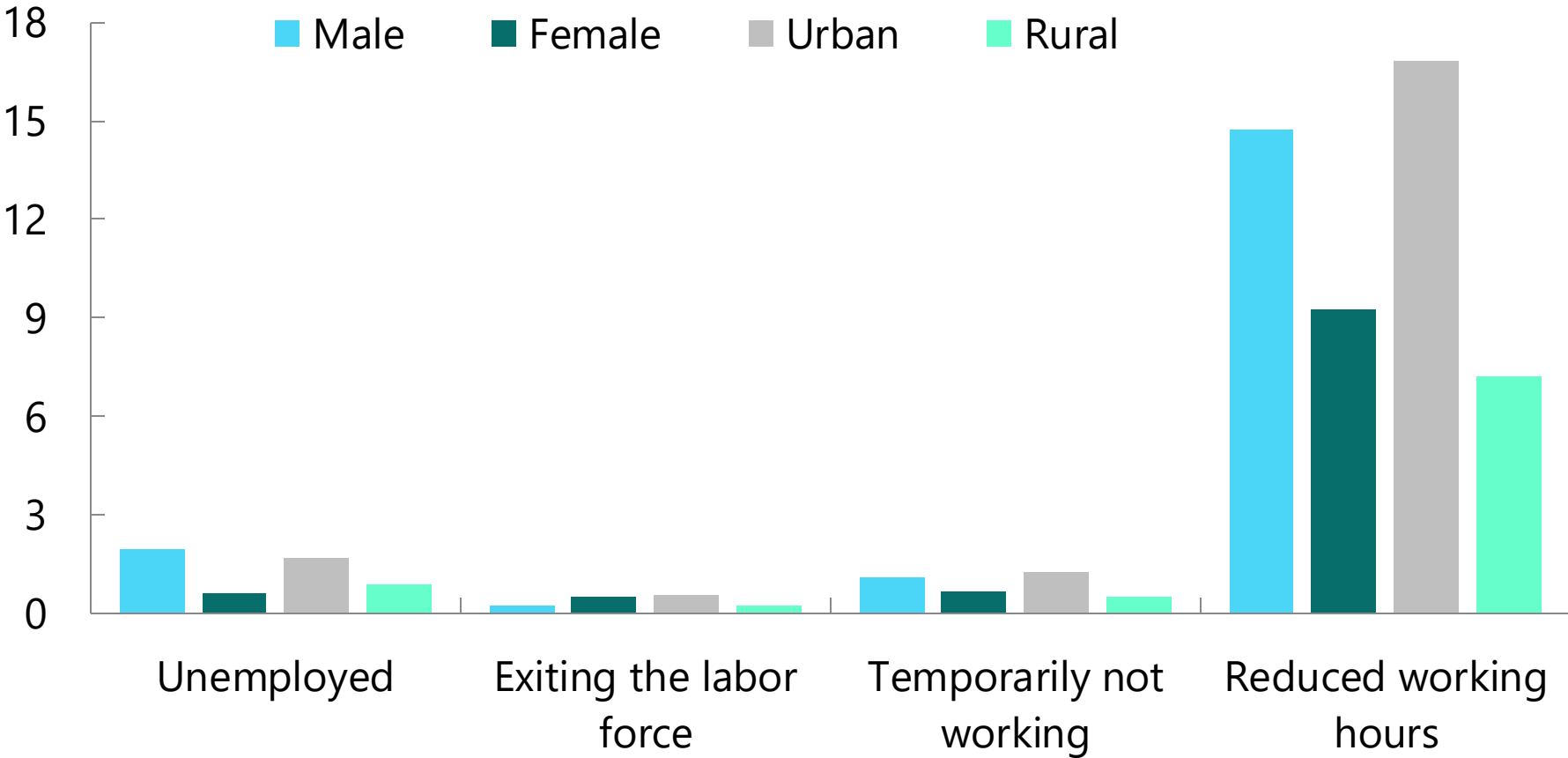


Source: BPS, Sakernas, World Bank staff calculation



Unemployment and underemployment have increased due to the crisis

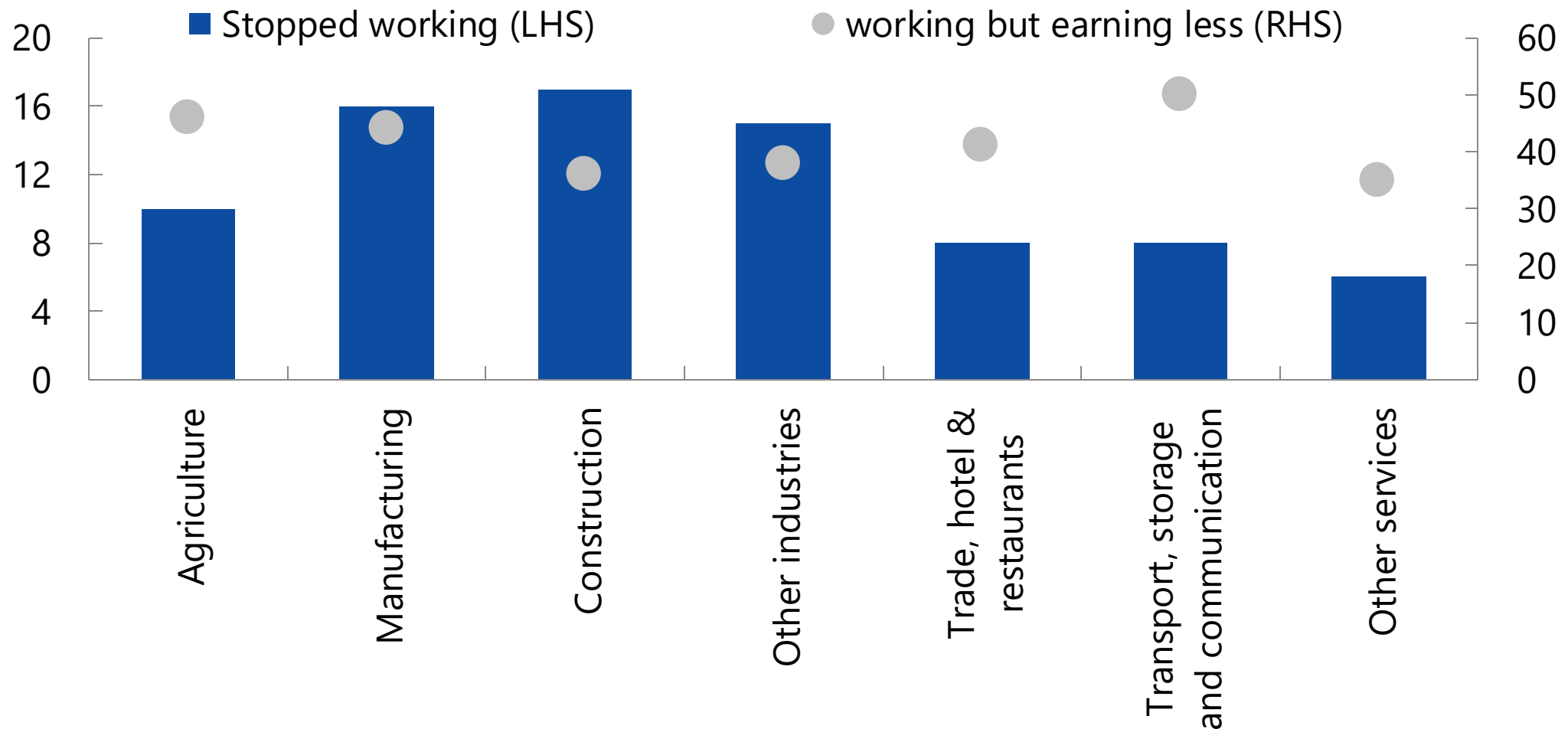
People of working-age affected by the COVID-19 crisis, in millions
Data as of August 2020



Source: SAKERNAS round August 2020, and World Bank staff calculation

People have been able to return to work, but many are earning less

Percent of household breadwinners, as of July-August 2020

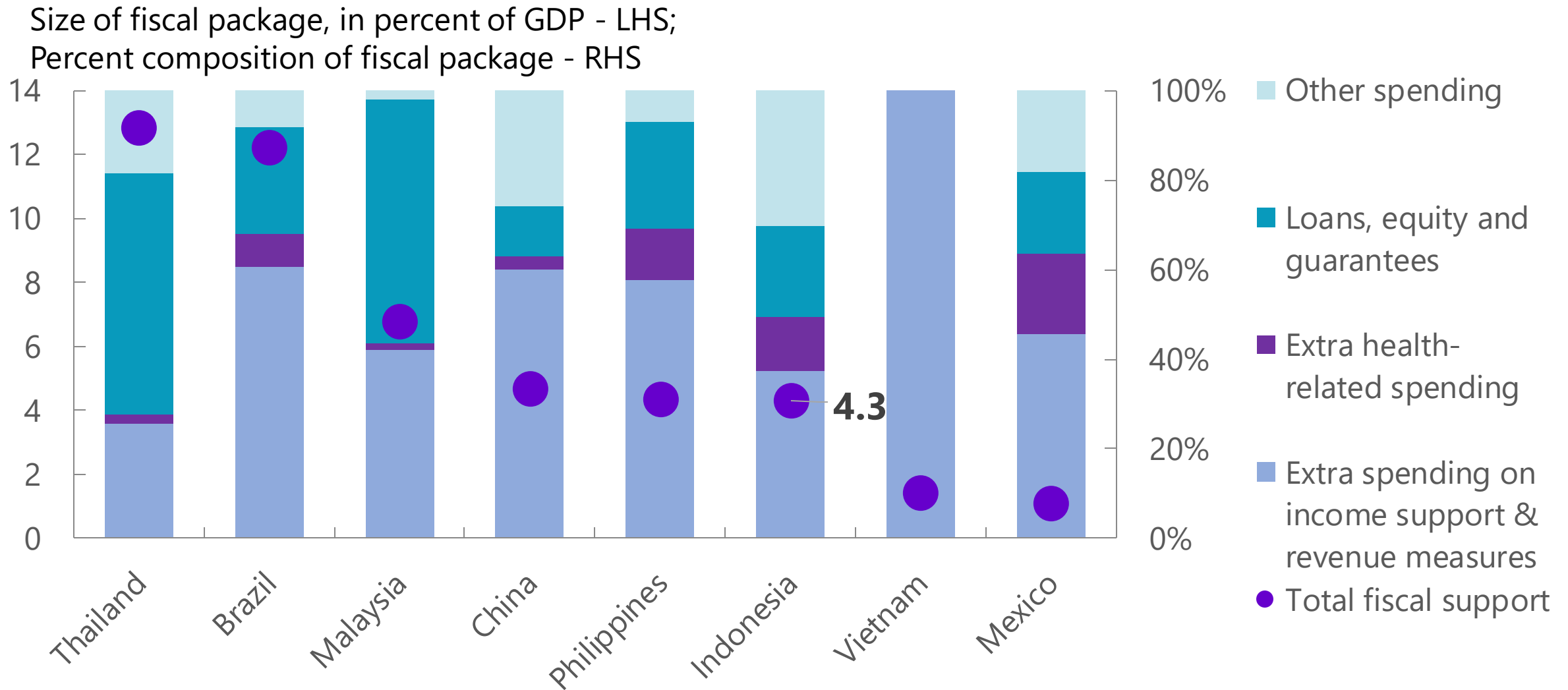


Source: World Bank Indonesia High-frequency monitoring of COVID-19 Impacts Survey (2020), Round 3 conducted between July and August 2020

Note: the bars show the share of household breadwinners' sector of employment, work status and evolution of earnings in July-August 2020



The government's fiscal package is mostly spent on income support and revenue measures

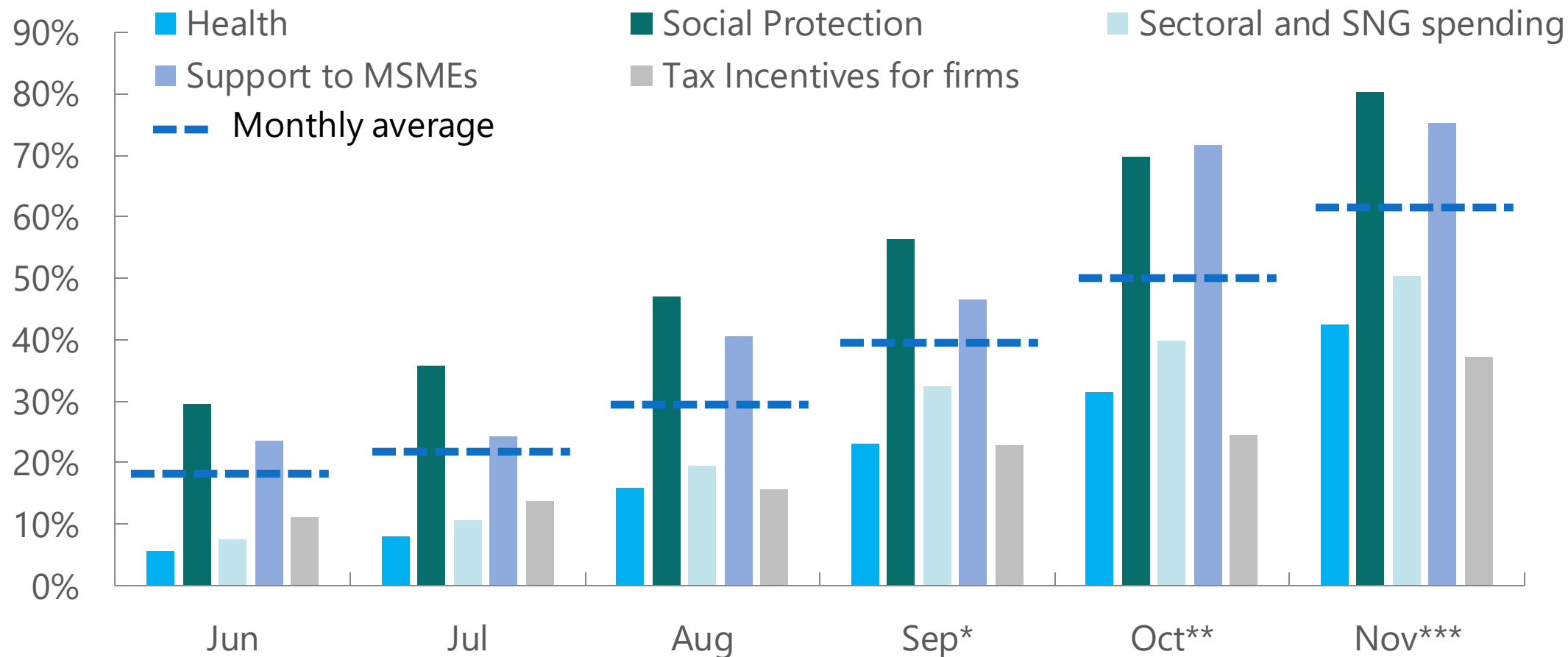


Source: International Monetary Fund (June 2020), World Bank staff estimates. Note: The “other spending” category includes the foregone revenues and tax incentives. Data for Indonesia’s fiscal package is based on the restructured scheme of the package, published in the October 2020 monthly budget report (APBN Kita).



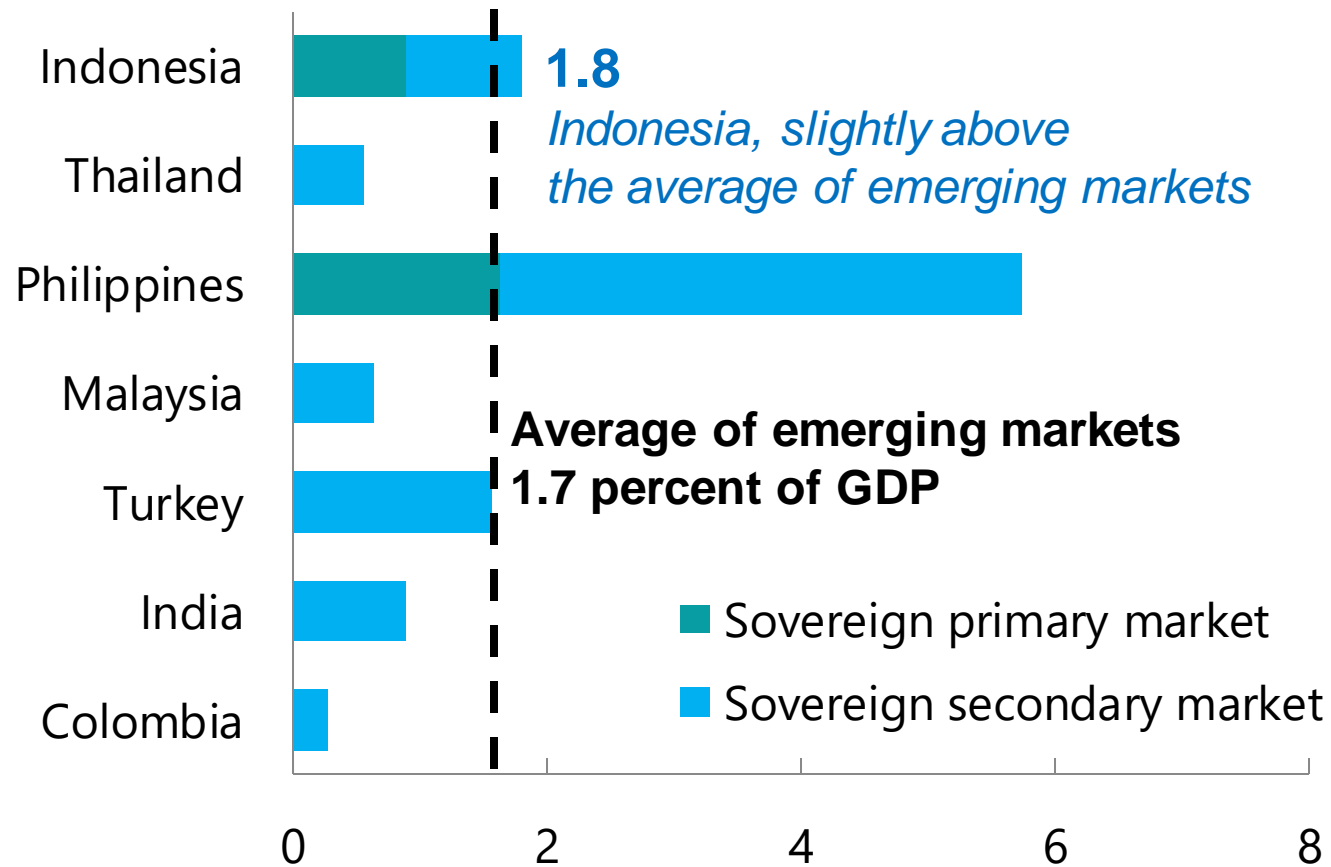
... but with varying degrees of execution rates

Percent of approved budget

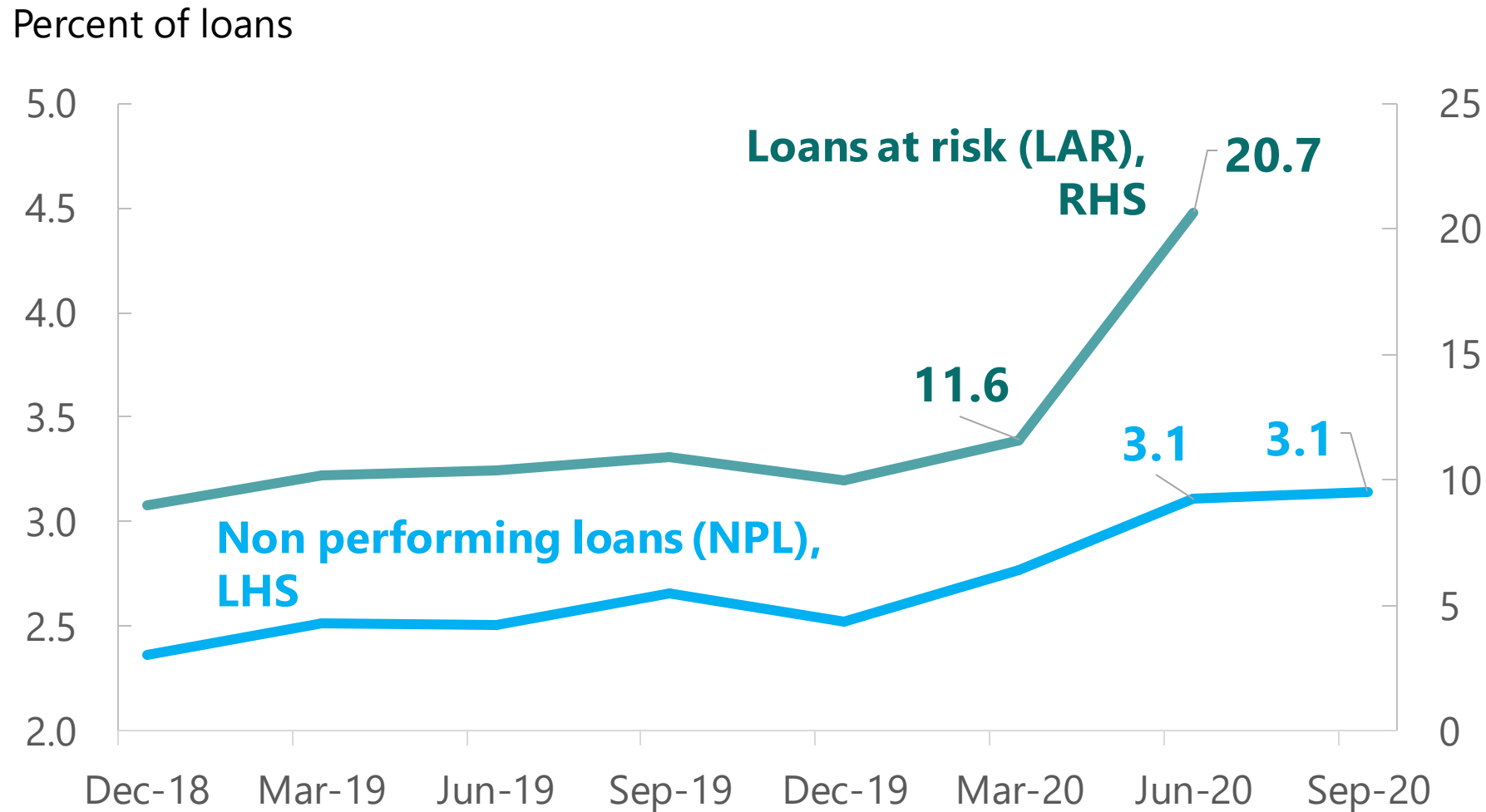


The government has relied on Bank Indonesia to finance the deficit this year

Central bank purchases of local currency government bonds, in percent of GDP as of August 2020



Non-performing loans are low, but loans at risk have reached above 20 percent in June



Source: Financial Services Authority (OJK), and World Bank staff estimates from Bank Indonesia's Financial Stability Review (Sep 2020)

Note: Loans at risk (LAR) ratio is defined as the sum of NPLs, restructured loans and special mention loans



What is the economic outlook for Indonesia?



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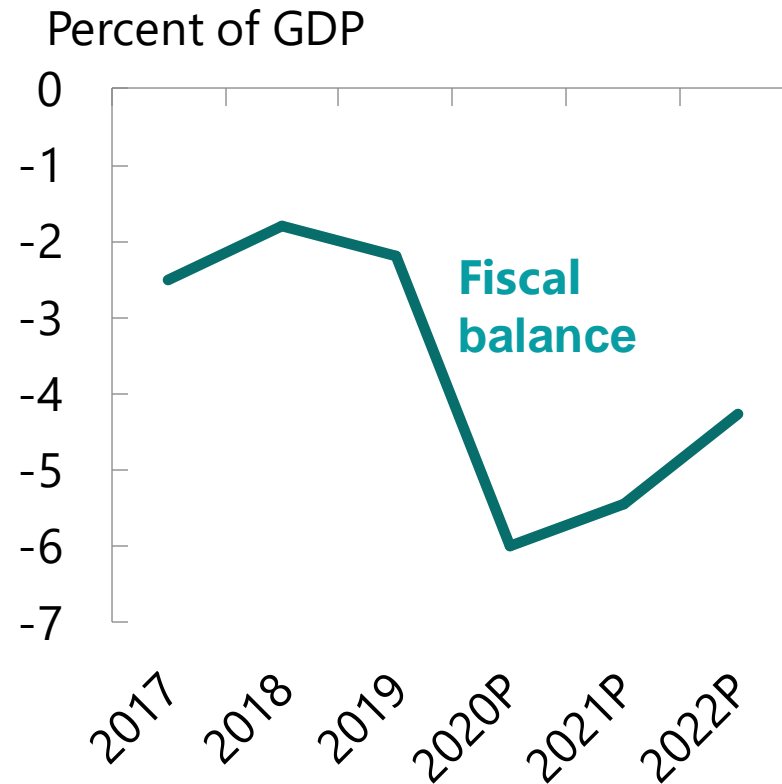
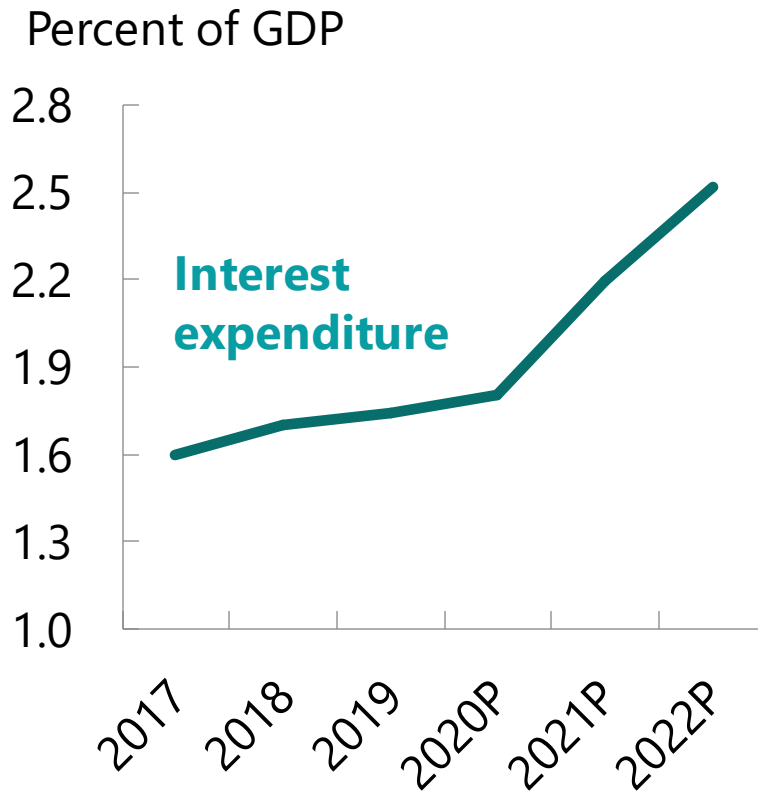
The Indonesia's economy is projected to be in recession in 2020 and start rebounding in 2021

| Baseline Scenario | | Actual | Projection | | |
|---------------------------|--------------------------------|--------|------------|------|------|
| | | 2019 | 2020 | 2021 | 2022 |
| Real GDP | <i>(Annual percent change)</i> | 5.0 | -2.2 | 4.4 | 4.8 |
| Consumer price index | <i>(Annual percent change)</i> | 2.8 | 2.0 | 2.3 | 2.8 |
| Government budget balance | <i>(Percent of GDP)</i> | -2.2 | -6.0 | -5.5 | -4.3 |
| Central government debt | <i>(Percent of GDP)</i> | 30.2 | 37.5 | 40.9 | 43.0 |
| Current account balance | <i>(Percent of GDP)</i> | -2.7 | -0.7 | -1.4 | -2.0 |

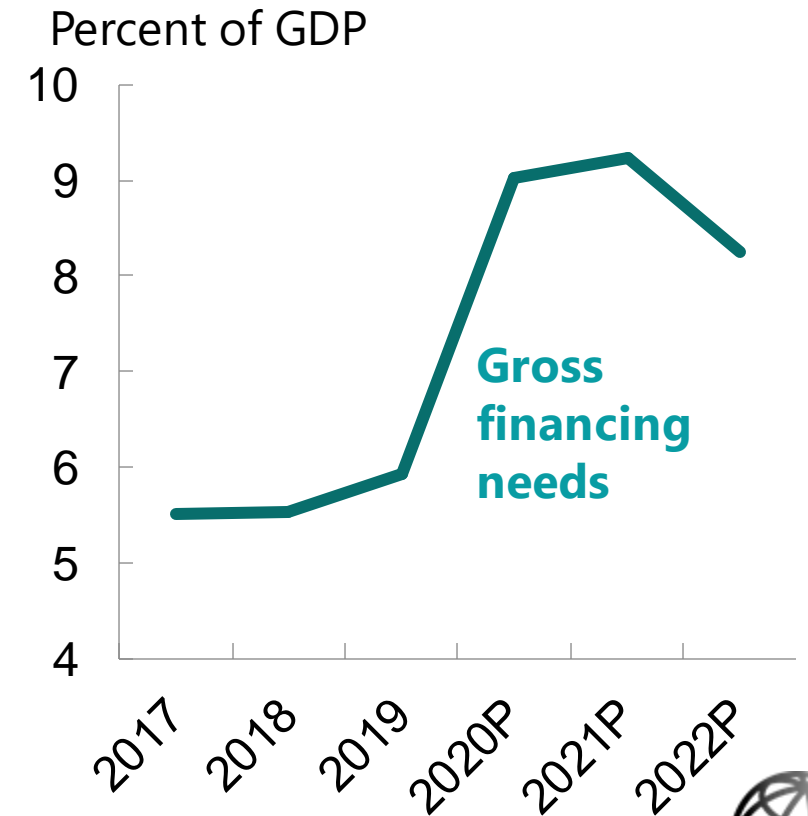


And Indonesia will face budget and financing constraints

Post-pandemic, fiscal space will be tight ...



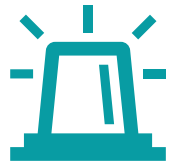
... financing the fiscal deficit will be more challenging



... and risks are severely skewed to the downside



A surge of new COVID cases, both in domestic and abroad, that could trigger a tightening of mobility restrictions



Deeper scars from the pandemic shock, where potential and actual output could take longer to recover



Slower global recovery that could weaken trade and commodity prices

Under these assumptions, Indonesia's GDP growth could drop to -2.5 percent in 2020; 3.1% in 2021; and 3.8% in 2022



How to secure and accelerate the recovery?



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Recommended policy priorities to secure and accelerate the recovery

1

Prioritize public health to improve testing and contact tracing, and to widely administer an effective and safe vaccine once approved

2

Monitor and continuously improve the adequacy, targeting and implementation of the support to affected households and firms

3

Develop a well prioritized fiscal reform plan to help finance the crisis response and improve fiscal space

4

Advance structural reforms to help lift potential growth



Thank You

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Portfolio outflows, the Rupiah and bond yields have also recovered from their weakest levels this year

Exchange rate and bond yield, index – LHS; Capital flows, USD billion – RHS

