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# **Indonesia Economic Quarterly December 2015**

***Reforming amid uncertainty***

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# Introduction

Coming to the end of a challenging year,

- unfavorable external conditions persist...
- ... and man-made fires and haze have contributed to moderating growth.

In this difficult environment

- considerably higher public capex disbursement has supported growth...
- ... and seven policy packages are signaling strong reform intent.

Looking to next year, sustaining the reform momentum is the best strategy for Indonesia.



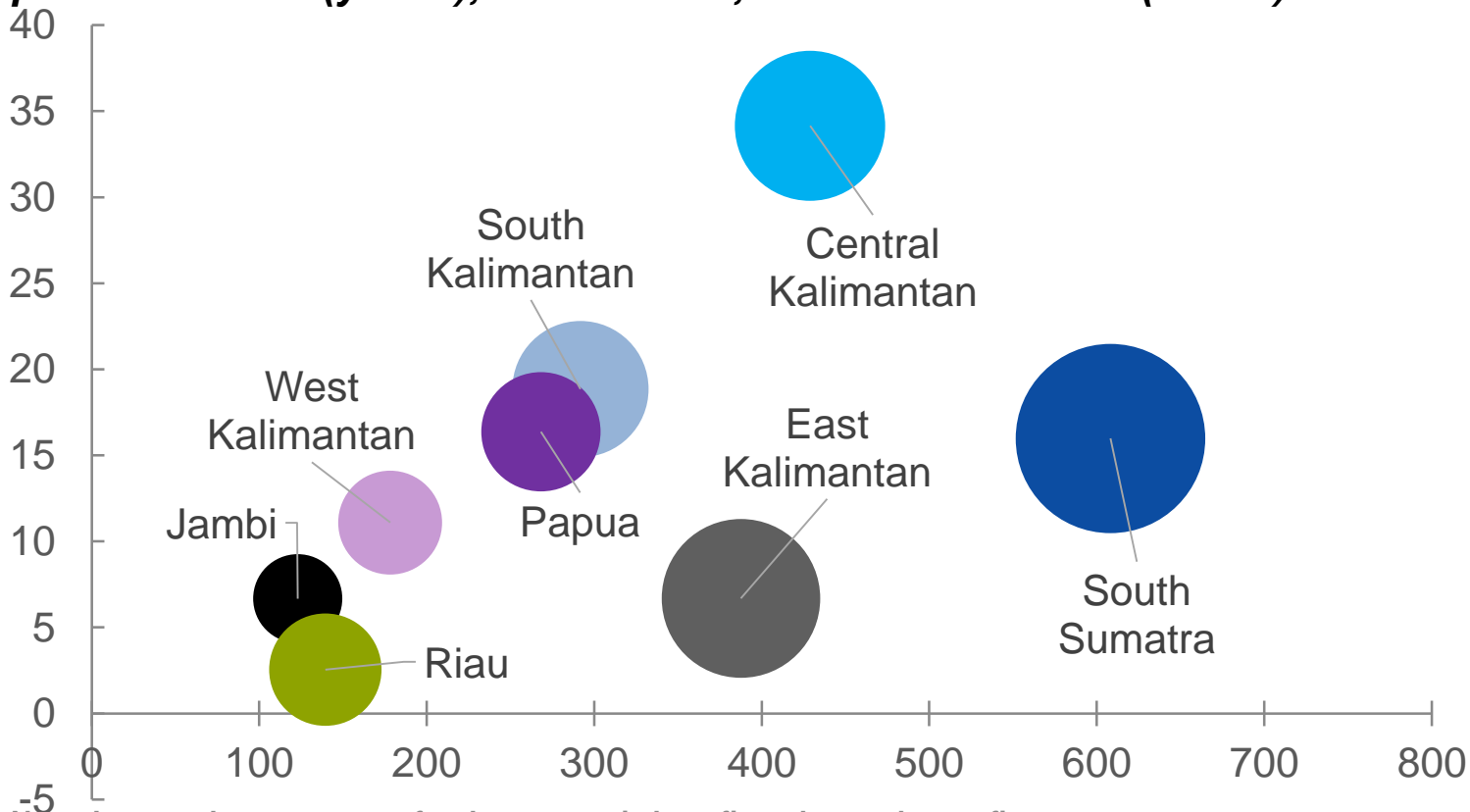
**Major recent economic developments**

**Recent policy response**

**Outlook and risks**

# Fires and haze cost IDR 221 trillion (1.9% of GDP) in just five months...

*Bubble size indicates total provincial disaster costs; cost in percent of provincial GDP (y-axis); area burned, thousand hectares (x-axis)*

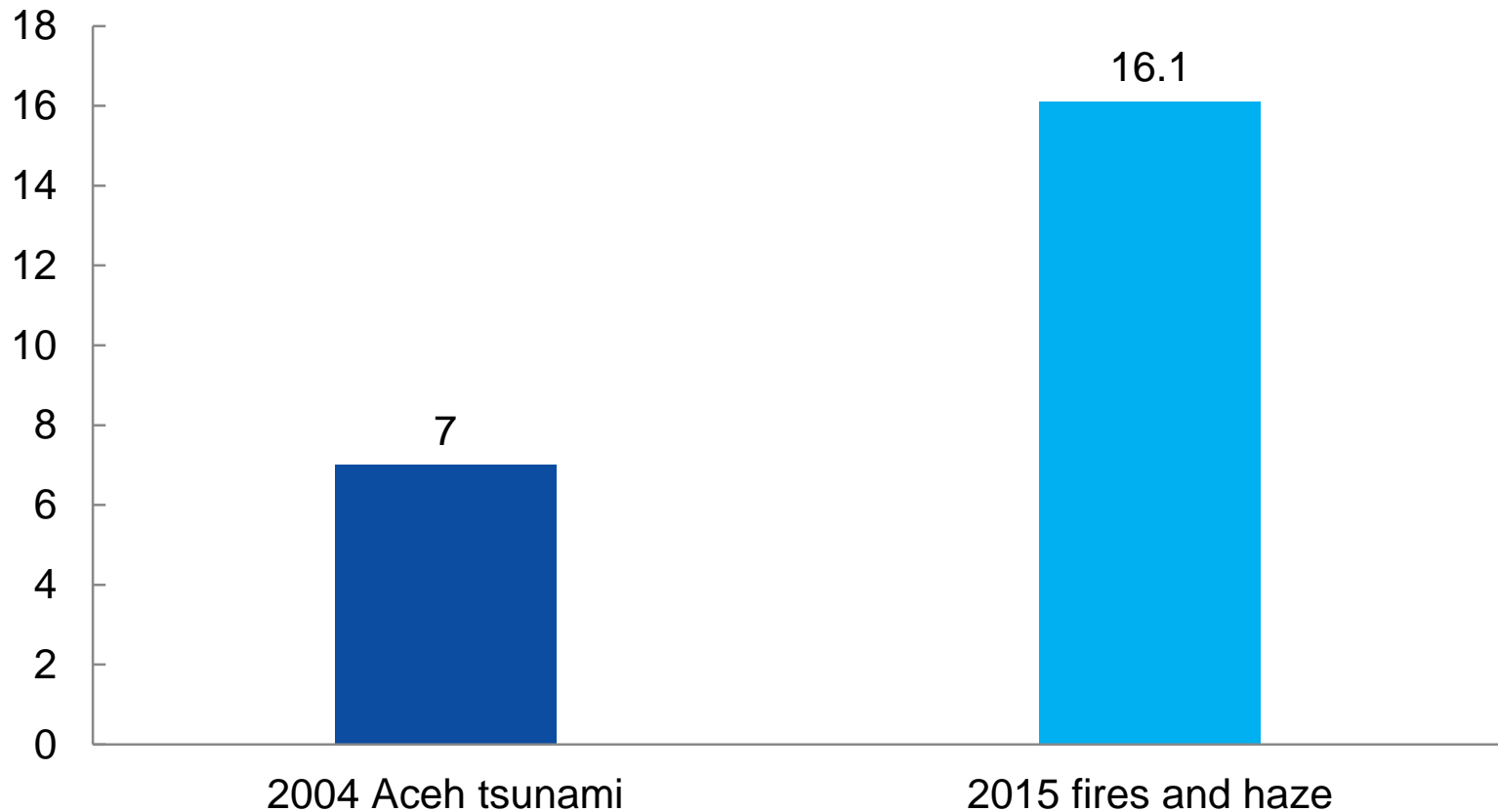


Note: Losses do not account for the economic benefit to those who set fires.

Source: Bogor Agricultural University; BPPT; BPS; CIFOR; media reports; Ministry of Health; regional governments; World Bank staff calculations

# ... which is more than twice the cost of rebuilding Aceh after the tsunami...

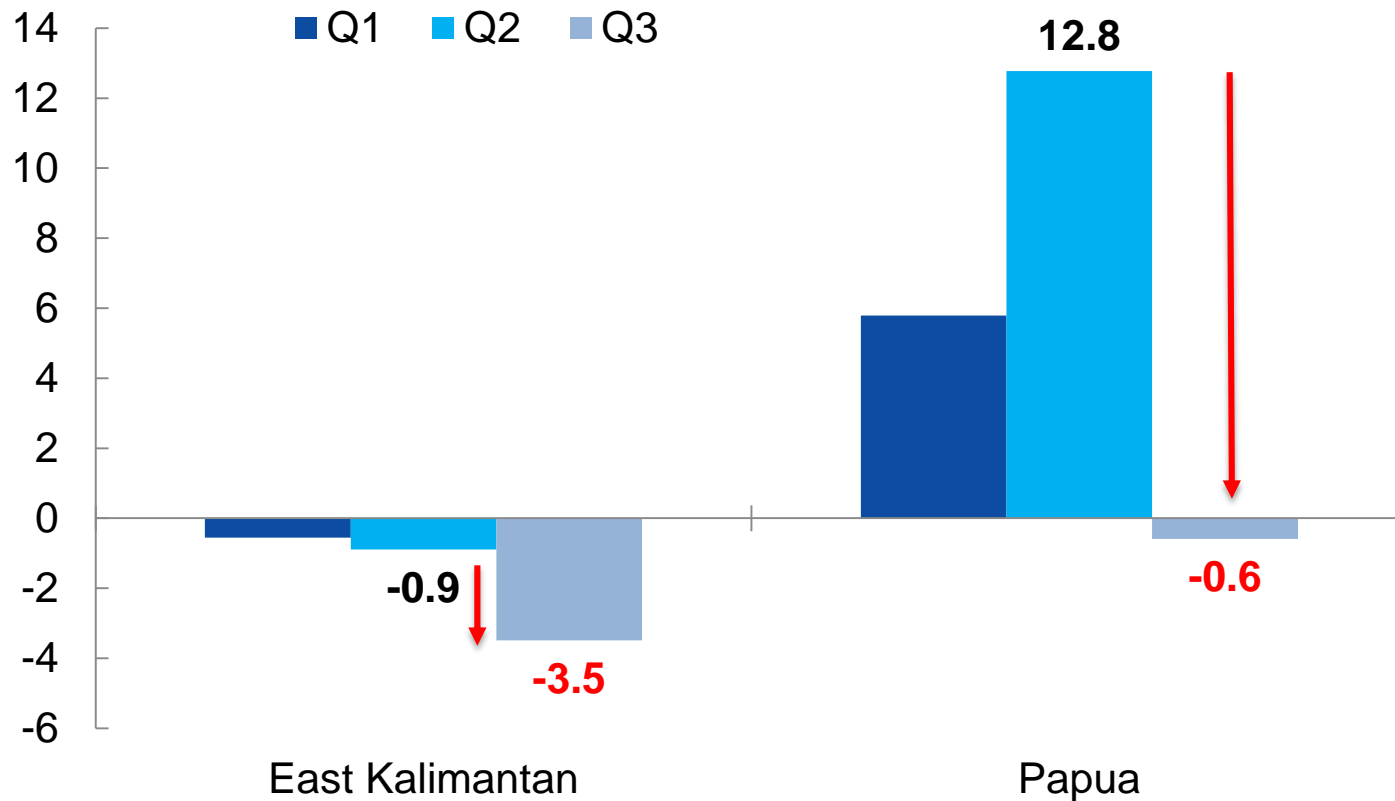
*USD billion*



Source: World Bank staff estimates

# ...reducing growth materially in affected provinces...

*Real GDP growth year on year in 2015, percent*



Source: BPS; World Bank staff calculations

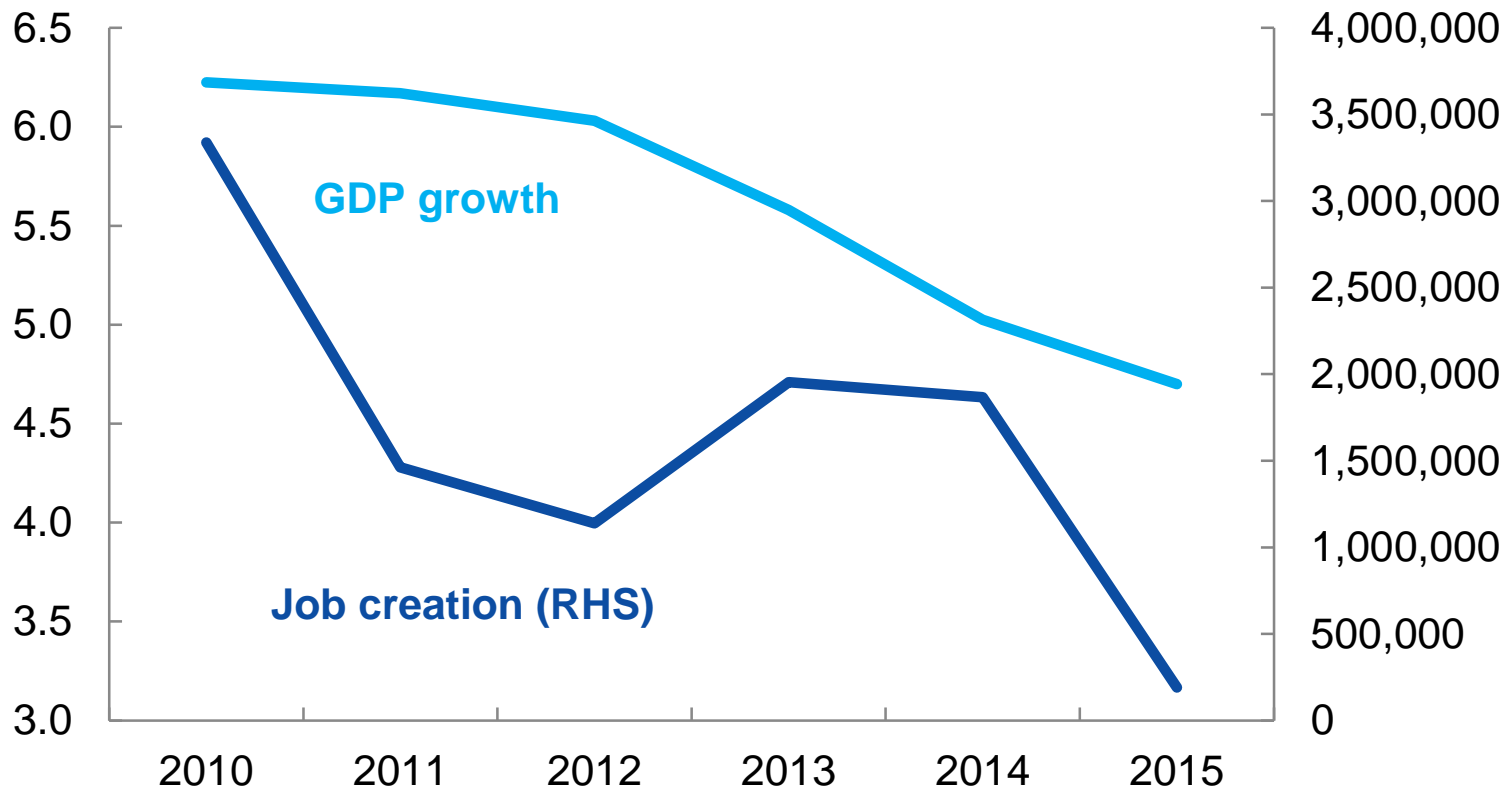
# ... having devastating social and environmental consequences...

- At least 19 deaths, 500,000 incidences of respiratory illness;
- IDR 2.1 trillion in immediate health costs; long-term cost likely much higher;
- ~4.7 million children stayed away from school (for up to 34 days in some regions)
- IDR 540 billion in costs due to school closures; difficult to quantify long-term impact of regular closures on graduation rates and productivity;
- IDR 59 trillion in biodiversity losses and loss of carbon storage



# ... and contributing to the growth moderation and rise in unemployment

*GDP growth, percent per year\*; Number of net new jobs created*



Note: Q1-Q3 data for 2015.

Source: BPS; World Bank calculations



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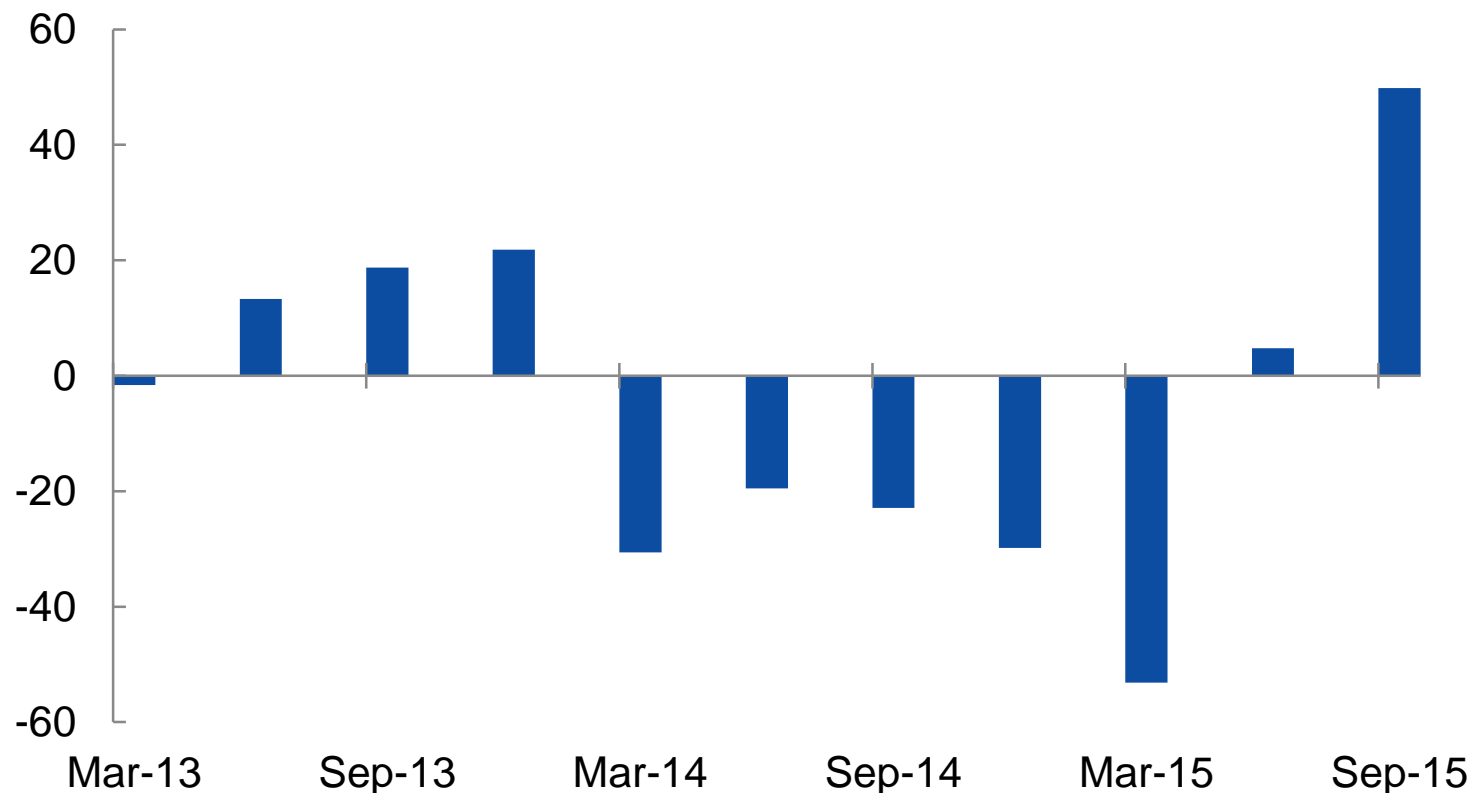
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# Higher public spending supported growth in Q3 2015

*Real capital expenditure growth yoy, percent\**

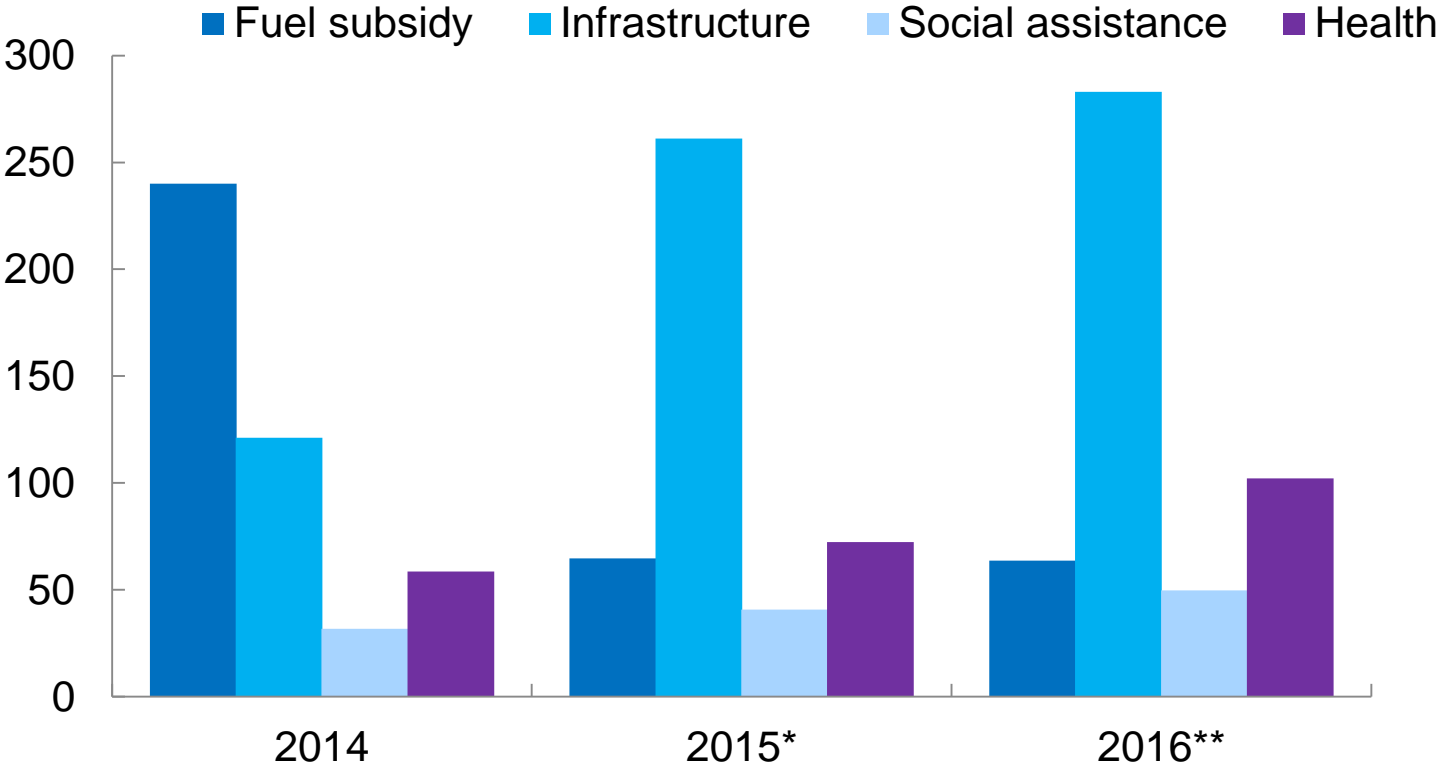


Note: \* Real capital expenditure is calculated using the implicit total fixed investment deflator with 2010 base from the national accounts

Source: Ministry of Finance; World Bank staff calculations

# Significant improvement of the composition of spending in the 2016 Budget

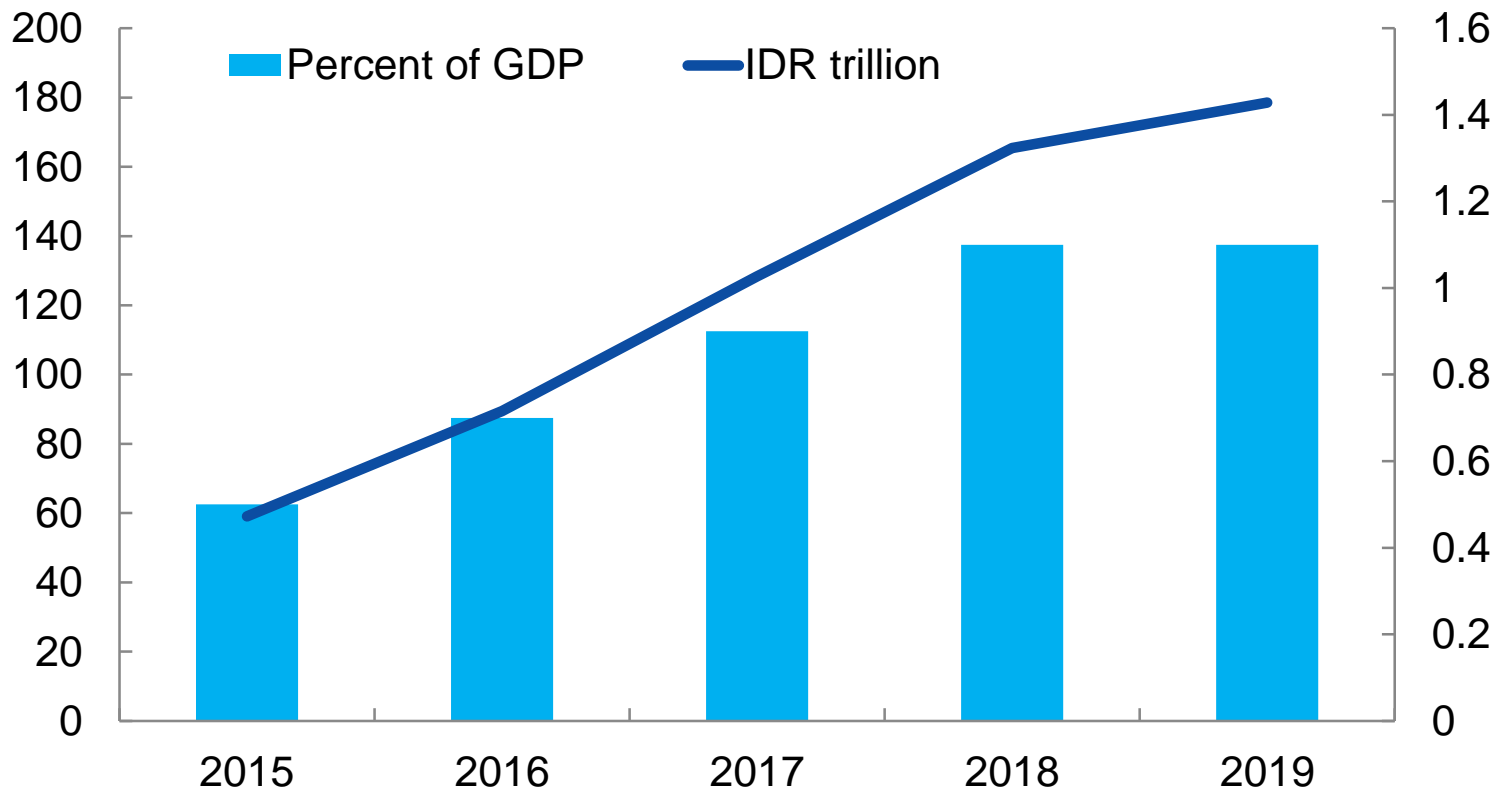
*IDR trillion*



Source: Ministry of Finance; World Bank staff calculations

# Direct transfers to villages will increase substantially over five years...

## *Total fiscal transfers to villages*



Source: Ministry of Finance; World Bank staff calculations

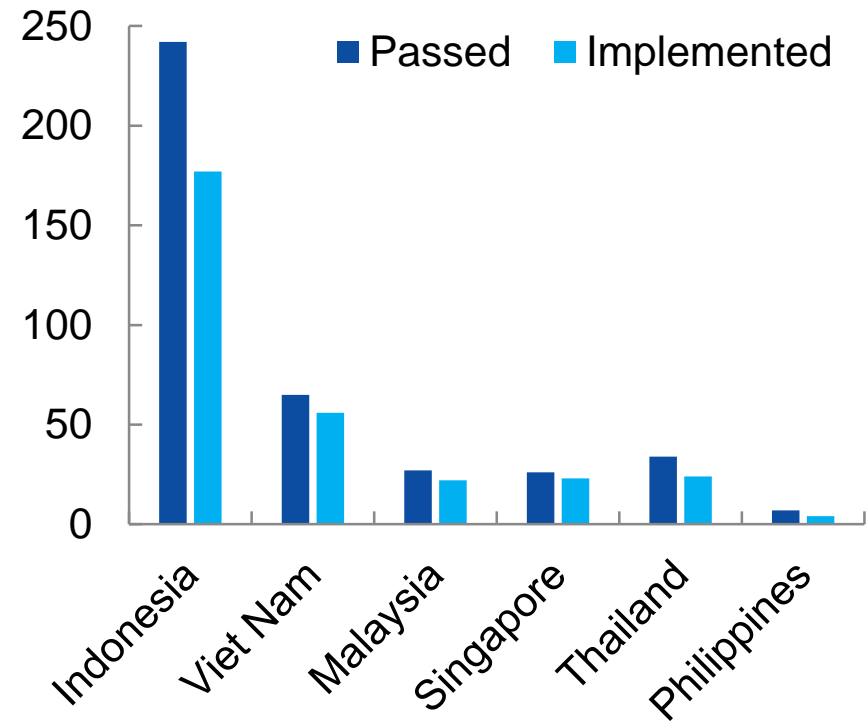
# Reduction of regulatory burden and promotion of investment

## Seven economic policy packages focusing on

- Regulatory simplification;
- Support to SMEs;
- Minimum wage determination;
- Special economic zones;
- Tax relief.

## Signal intention to join the Trans-Pacific Partnership (TPP)

*Number of restrictive measures on trade and investments, June 2009-to date*



Source: Global Trade Alert (accessed 13/11/2015);  
World Bank staff calculations

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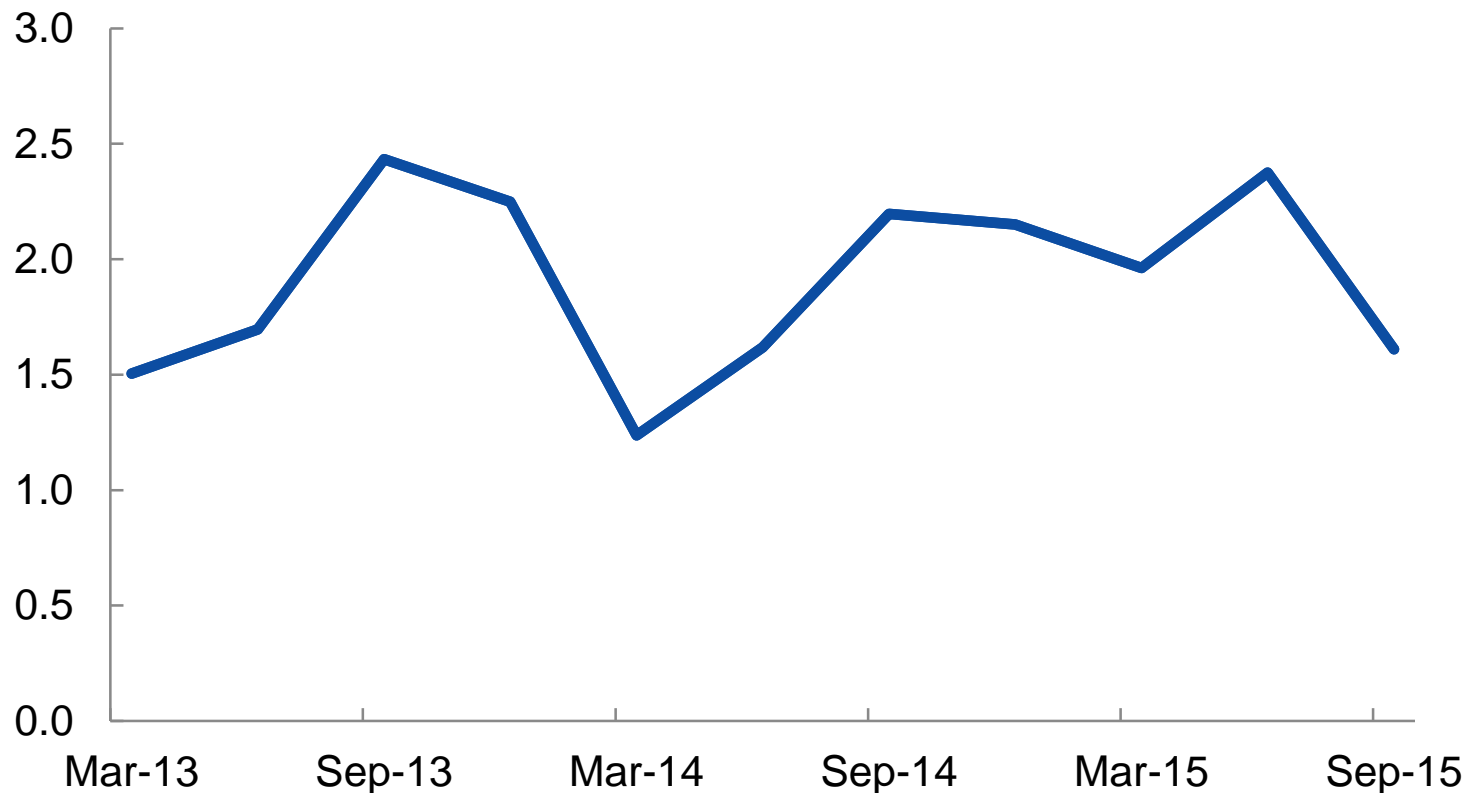
# Baseline outlook is unchanged, with risks to the downside

	December 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	0.0
Consumer prices	6.4	6.3	4.6	-0.2	-0.6
Current account balance (% of GDP)	-3.1	-2.0	-2.4	0.0	0.2

Note: Revisions are relative to October 2015 IEQ.  
Source: BI; BPS; World Bank staff projections

# Risk 1. Global growth may disappoint once again...

*Real GDP growth in OECD countries, percent qoq-saar*

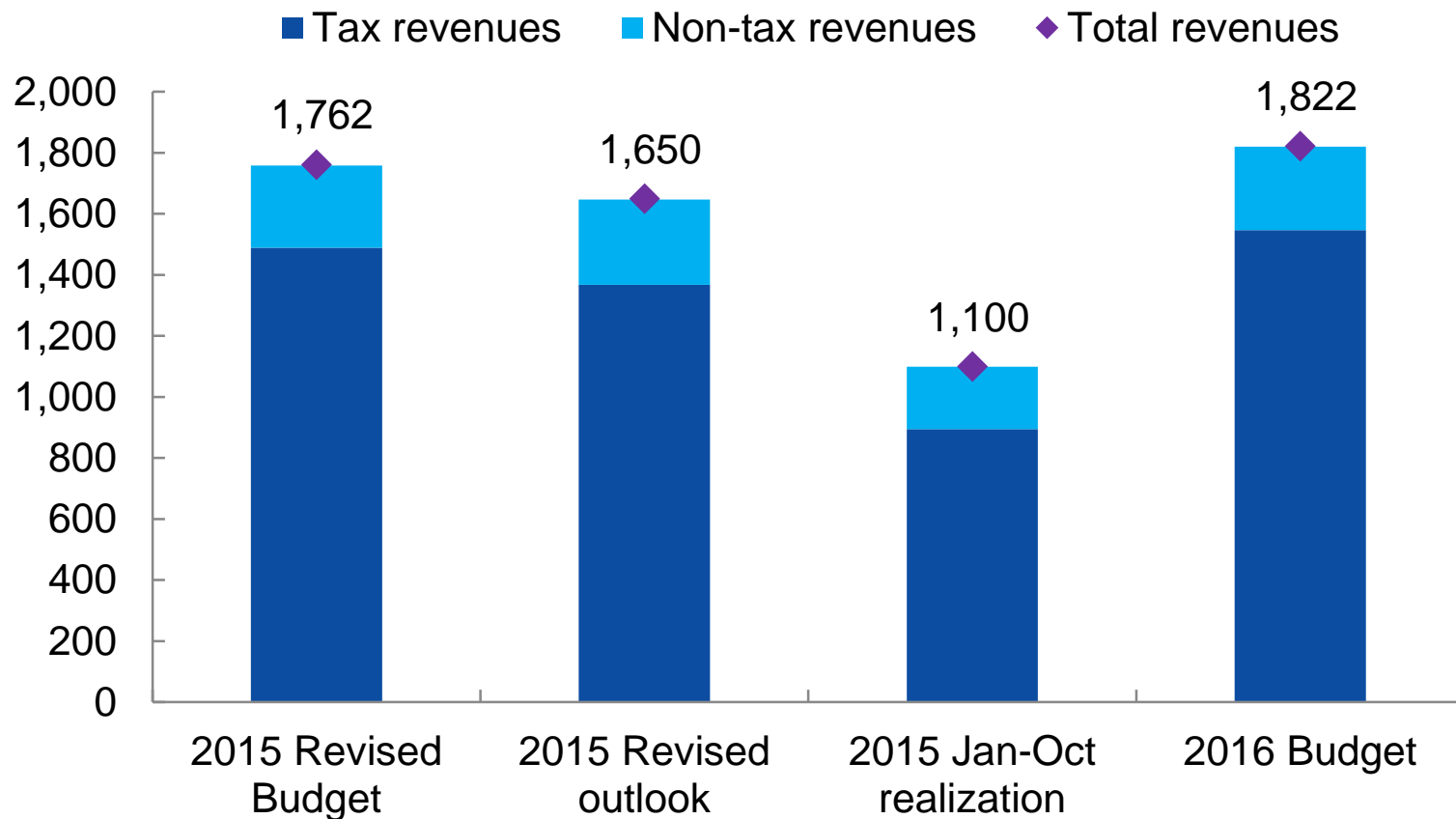


Source: OECD; World Bank staff calculations



# Risk 2. Weak revenues may constrain growth prospects

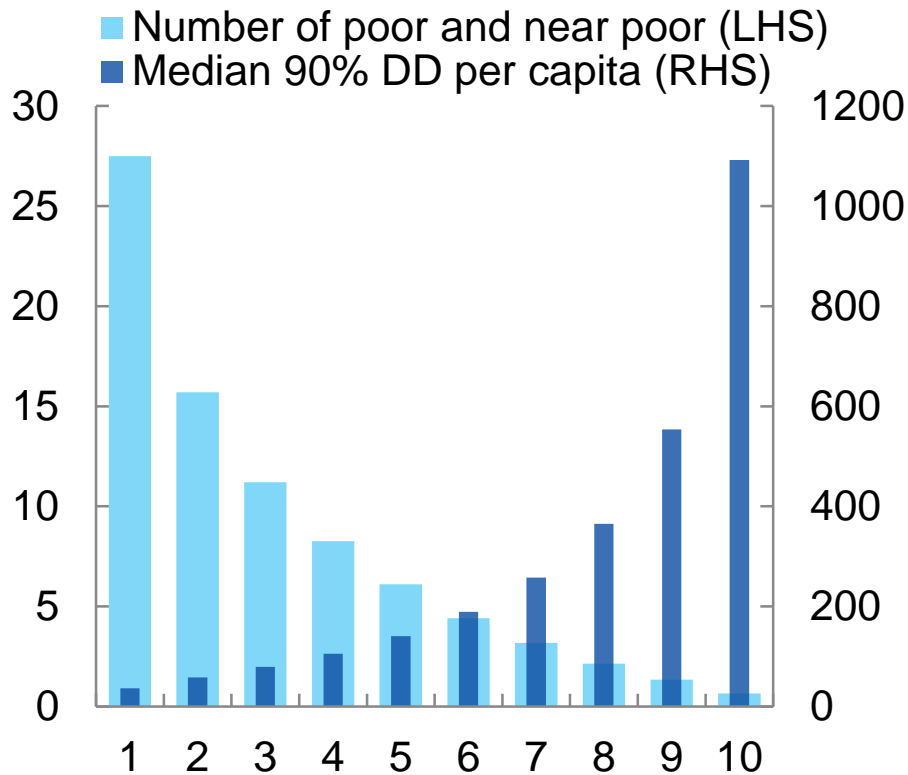
*IDR trillion*



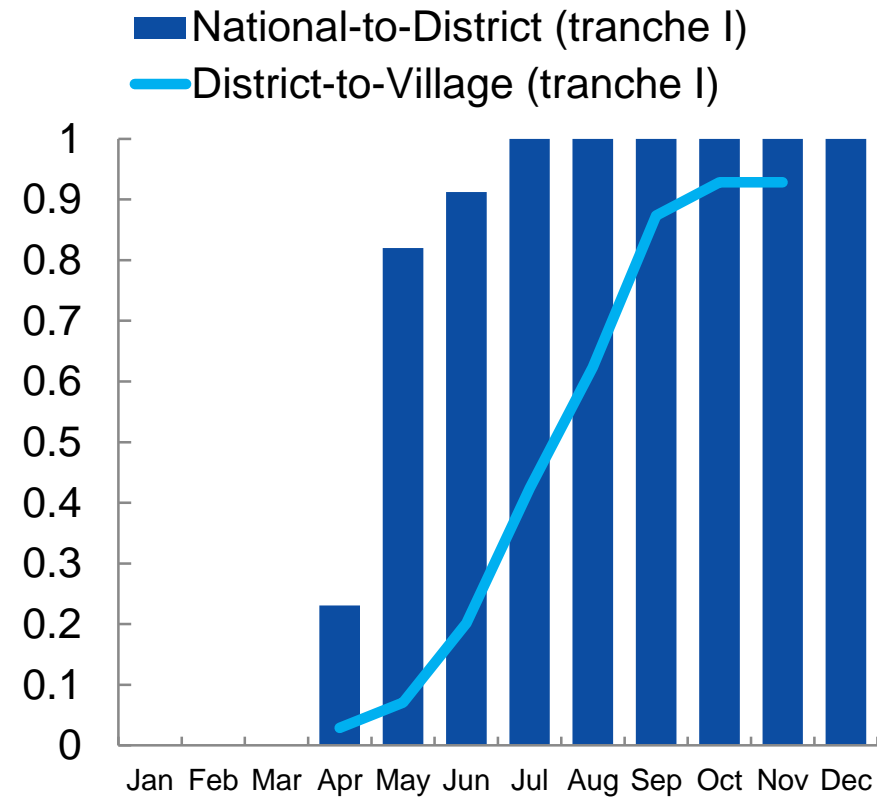
Source: Ministry of Finance; World Bank staff calculations

# Risk 3. Impact of the village transfers

Millions, LHS; IDR thousands, RHS



Dana Desa disbursement, percent



Source: Village Potential Statistics (PODES) 2011; National Social Economic Survey (SUSENAS) 2013; World Bank staff calculations

Note: Sample includes 314 districts and 55,469 villages. Source: Ministry of Finance; Coordinating Ministry of Human Development and Culture/World Bank Diagnostic Survey, November 2015; World Bank staff calculations