



Indonesia Economic Prospects June 2023

Part A: Economic Outlook And Policy Priorities

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Outlook & Risks: Sources of growth rebalancing as economy normalizes from recent shocks

Macro Foundations: Disinflation, deleveraging, and de-risking help enhance economic resilience and policy space

Structural Reforms: Further decluttering of markets can raise growth and economic potential



Outlook & Risks: Sources of growth rebalancing as economy normalizes from recent shocks

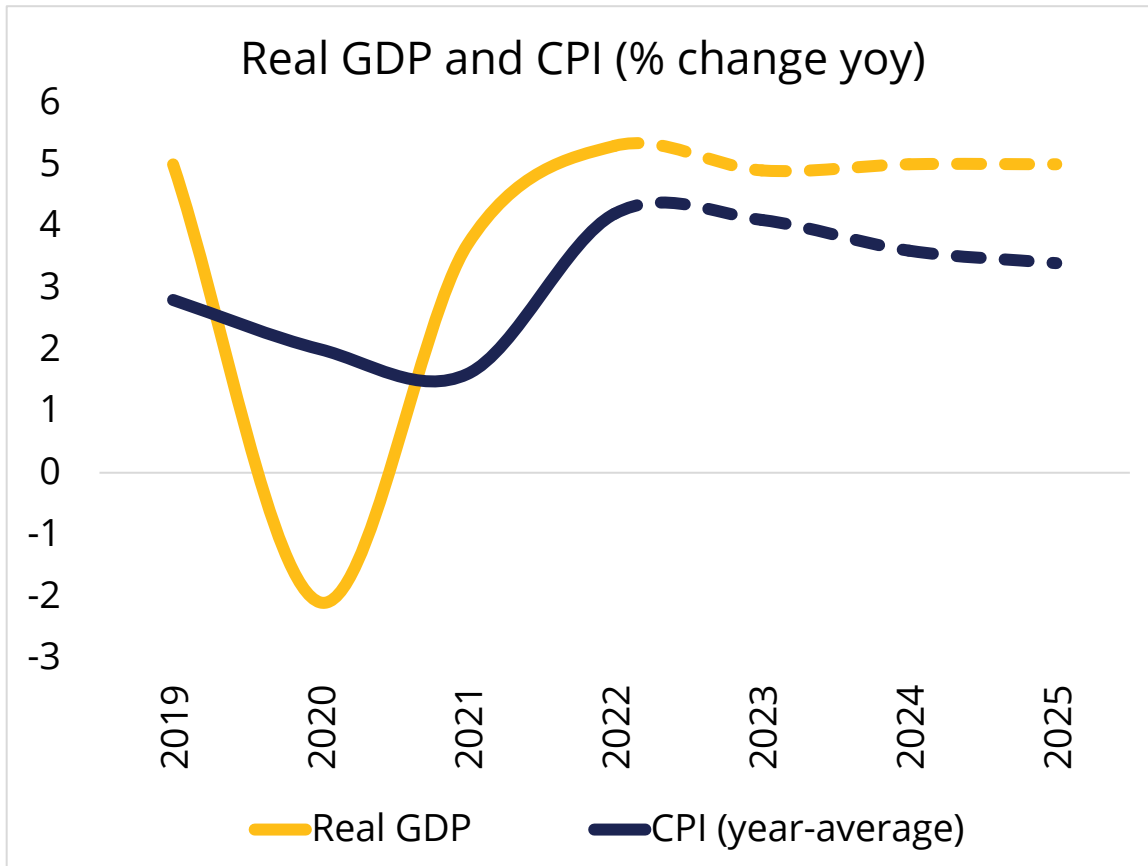
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Sources of growth rebalancing as economy normalizes from recent shocks

Growth and inflation projected to moderate in 2023



Source: BPS, WB staff calculations.

Amid stable macroeconomic conditions

	2019	2020	2021	2022	2023	2024	2025
	Actual				Projection		
Real GDP	5.0	-2.1	3.7	5.3	4.9	5.0	5.0
CPI (end of period)	2.6	1.7	1.9	5.5	3.6	3.4	3.3
Fiscal Balance	-2.2	-612	-4.6	-2.4	-2.5	-2.5	-2.5
Central Government Debt	30.2	39.3	40.7	39.5	39.2	38.8	38.6
Current account balance	-2.7	-0.4	0.3	1.0	0.0	-0.4	-1.0
Net Foreign Direct Investment	1.8	1.3	1.5	1.1	1.3	1.3	1.4

Source: BPS, Bank Indonesia, WB staff calculations.

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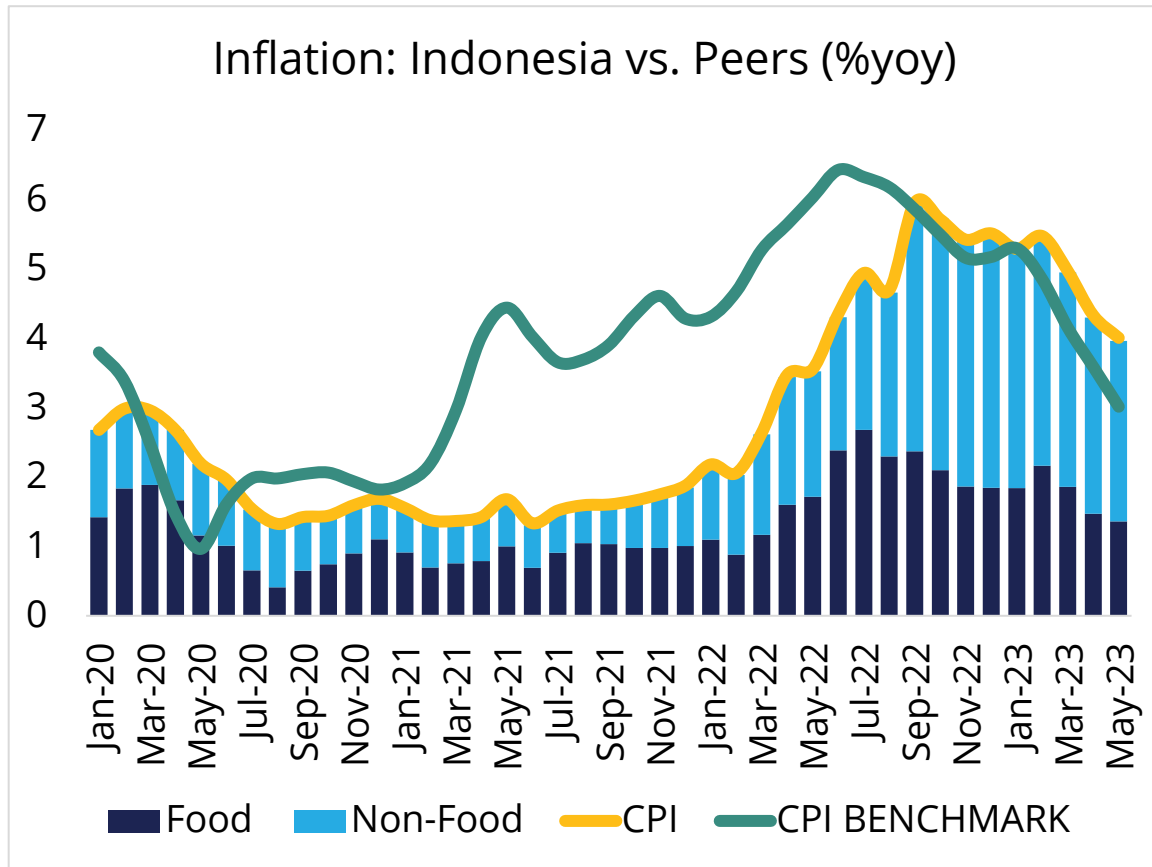
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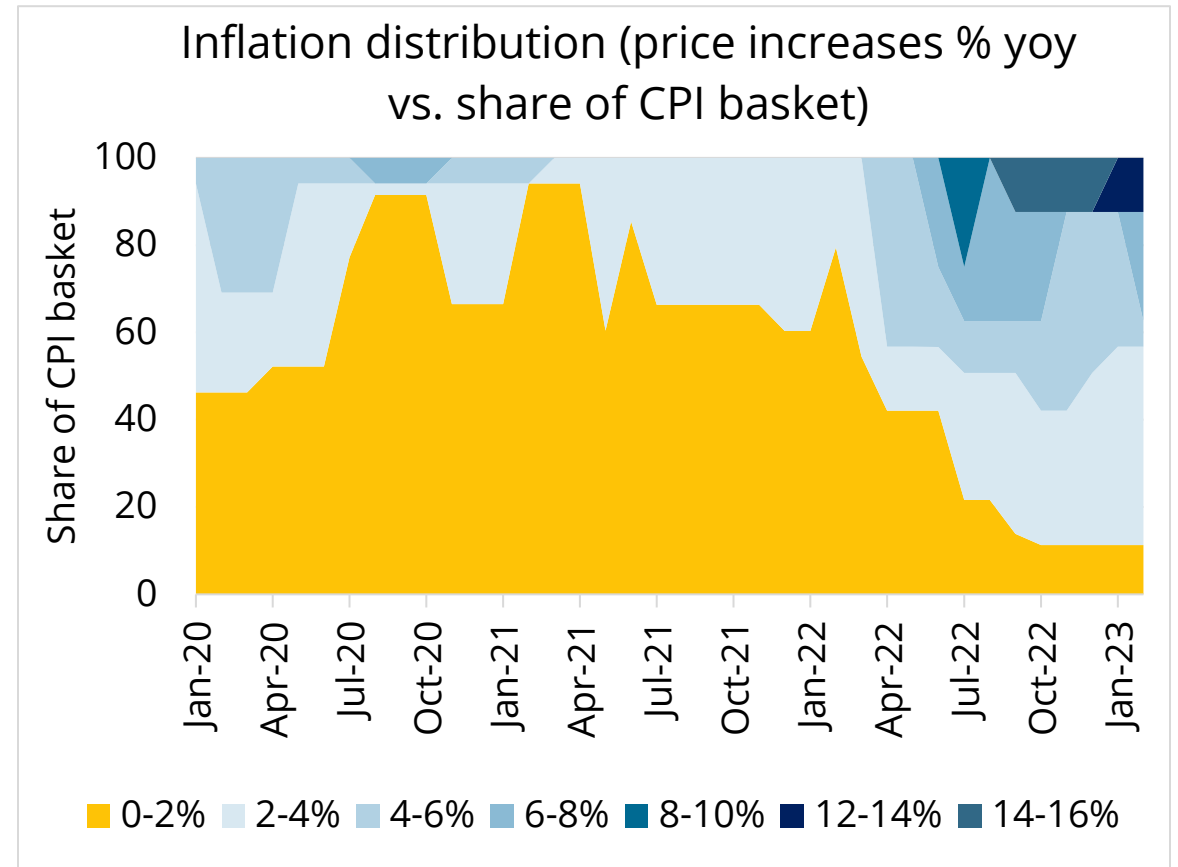
Disinflation: Inflation slowed more quickly than anticipated with easing supply pressures

Inflation back within Bank Indonesia target by May 2023



Source: BPS, WB staff calculations.

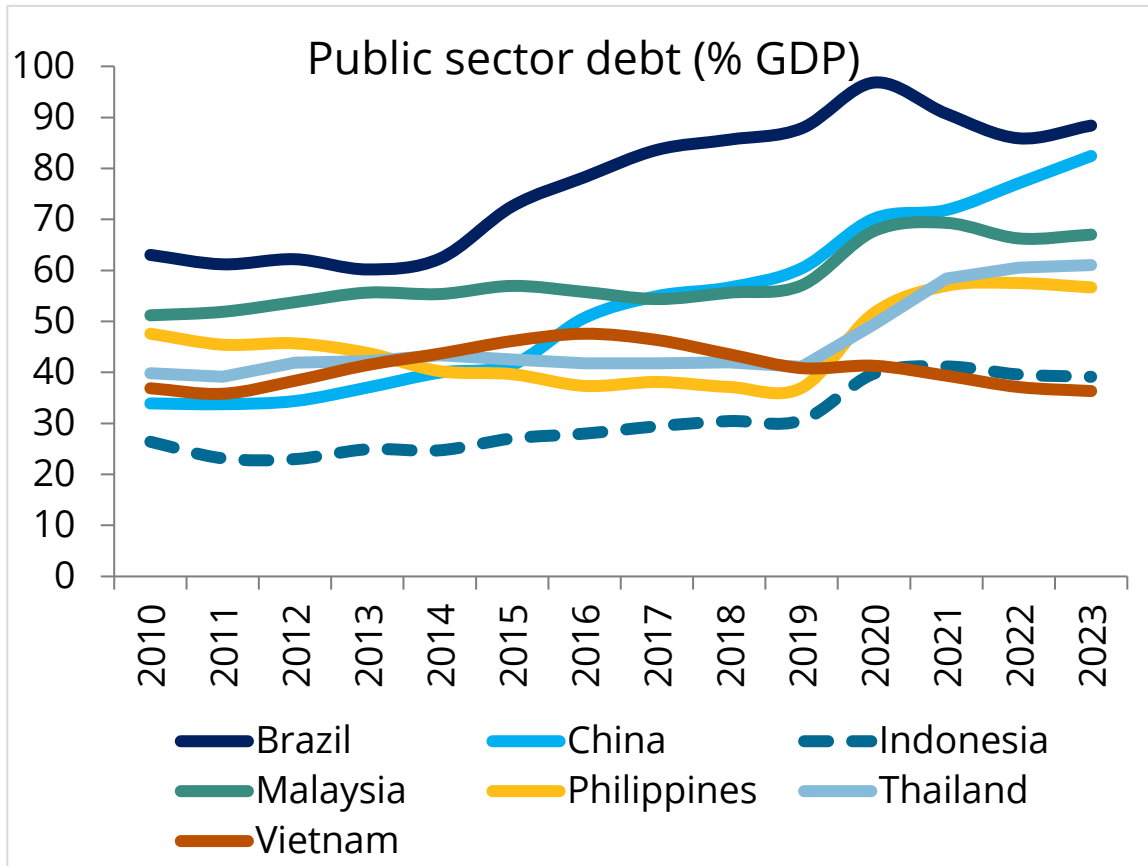
More broad-based price increase due to second round effects



Source: BPS, Bank Indonesia, WB staff calculations.

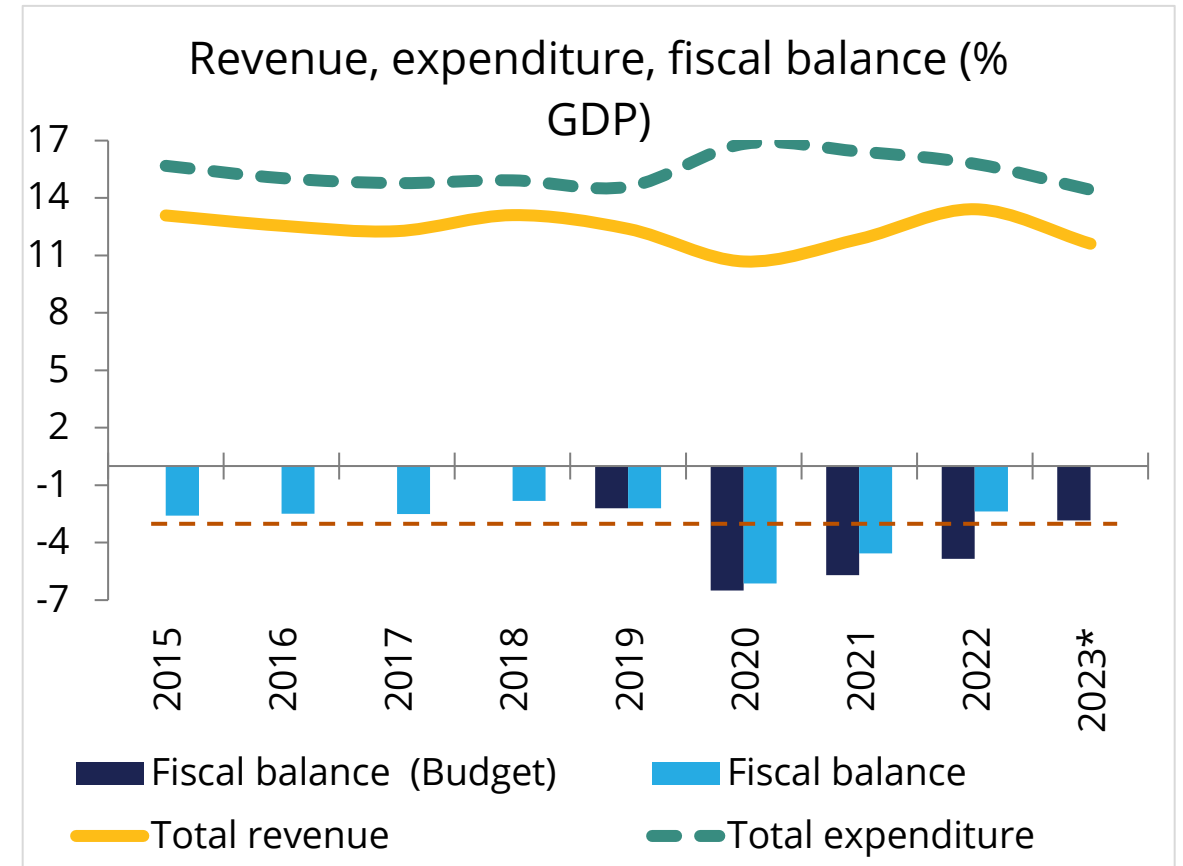
Deleveraging: Government debt has started to decline with growth and prudent fiscal

Government debt increased by less than peer countries during COVID



Source: IMF Fiscal Monitor April 2023.

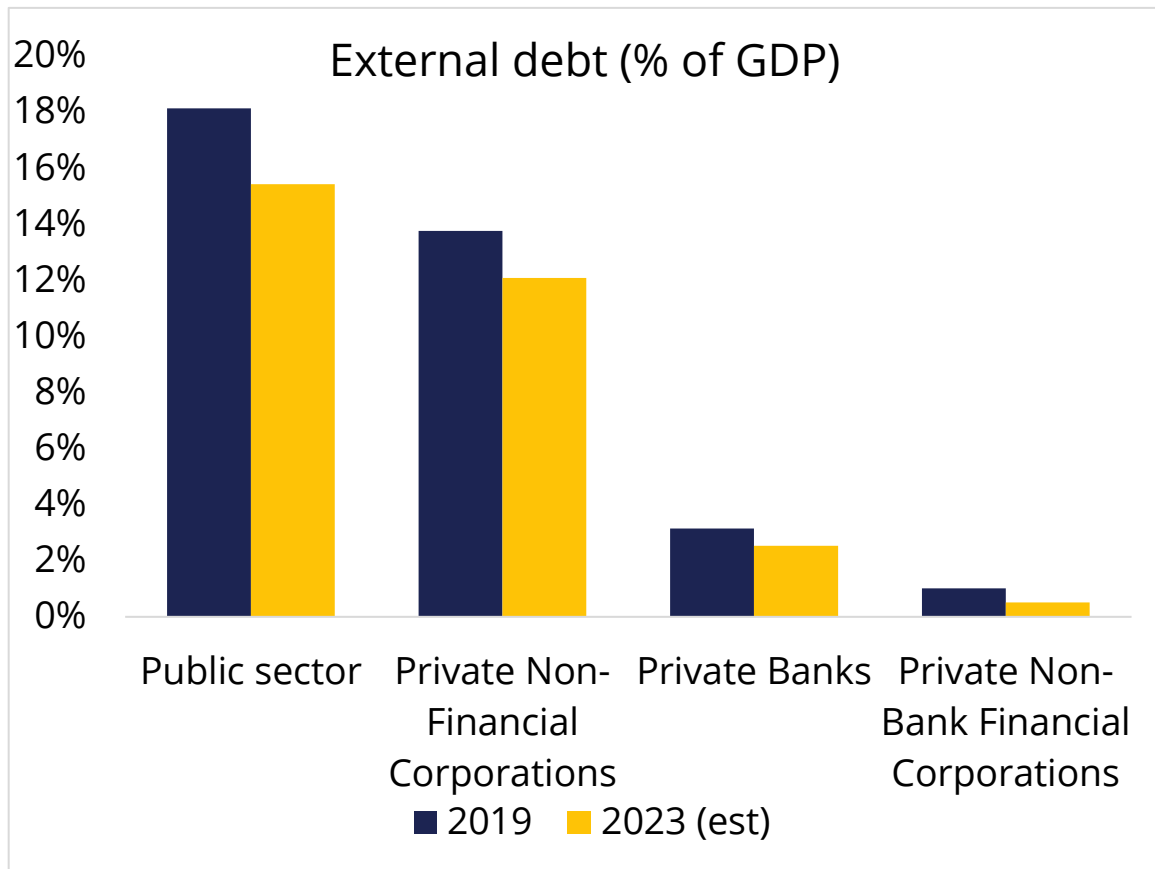
And has started to decline with prudent fiscal policies and growth



Source: Ministry of Finance, WB staff calculations.

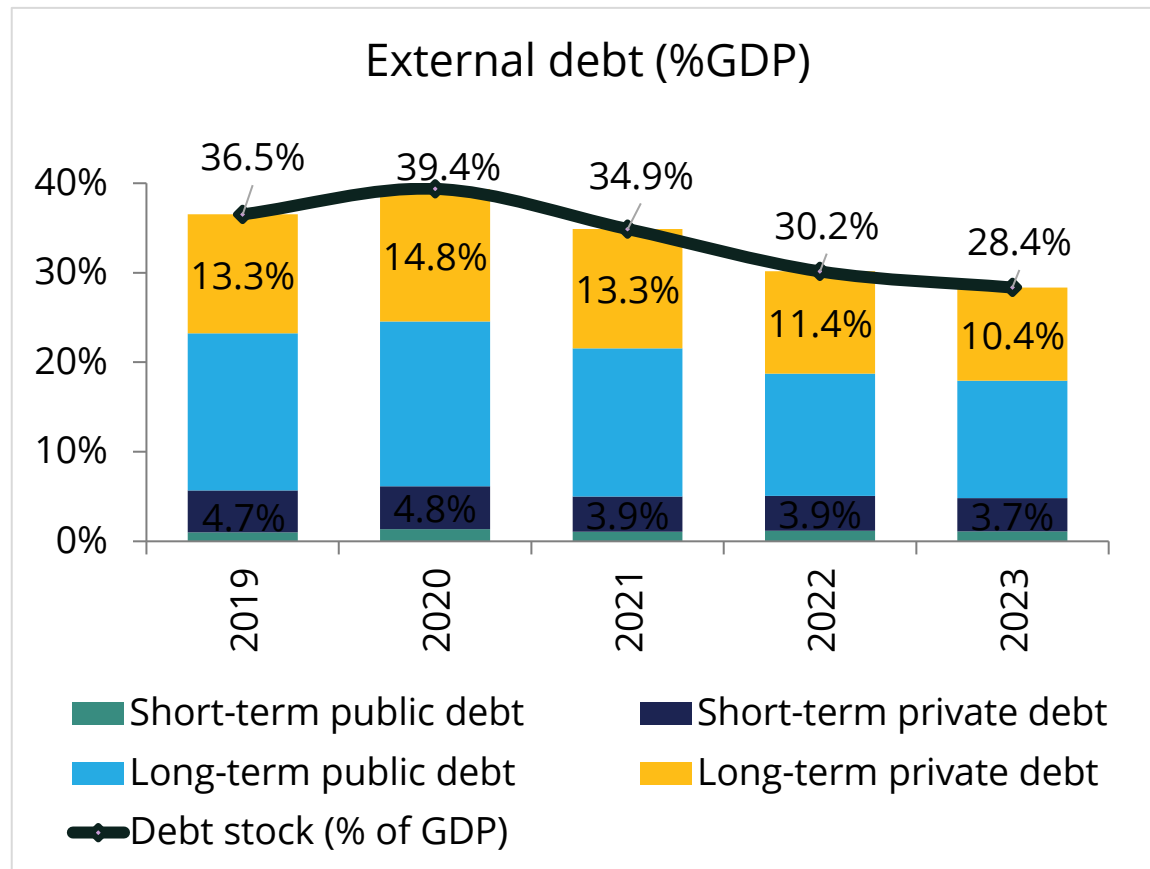
Deleveraging: Government and private exposure to external debt has also fallen

Public and private borrowers turning from external to domestic debt



Source:

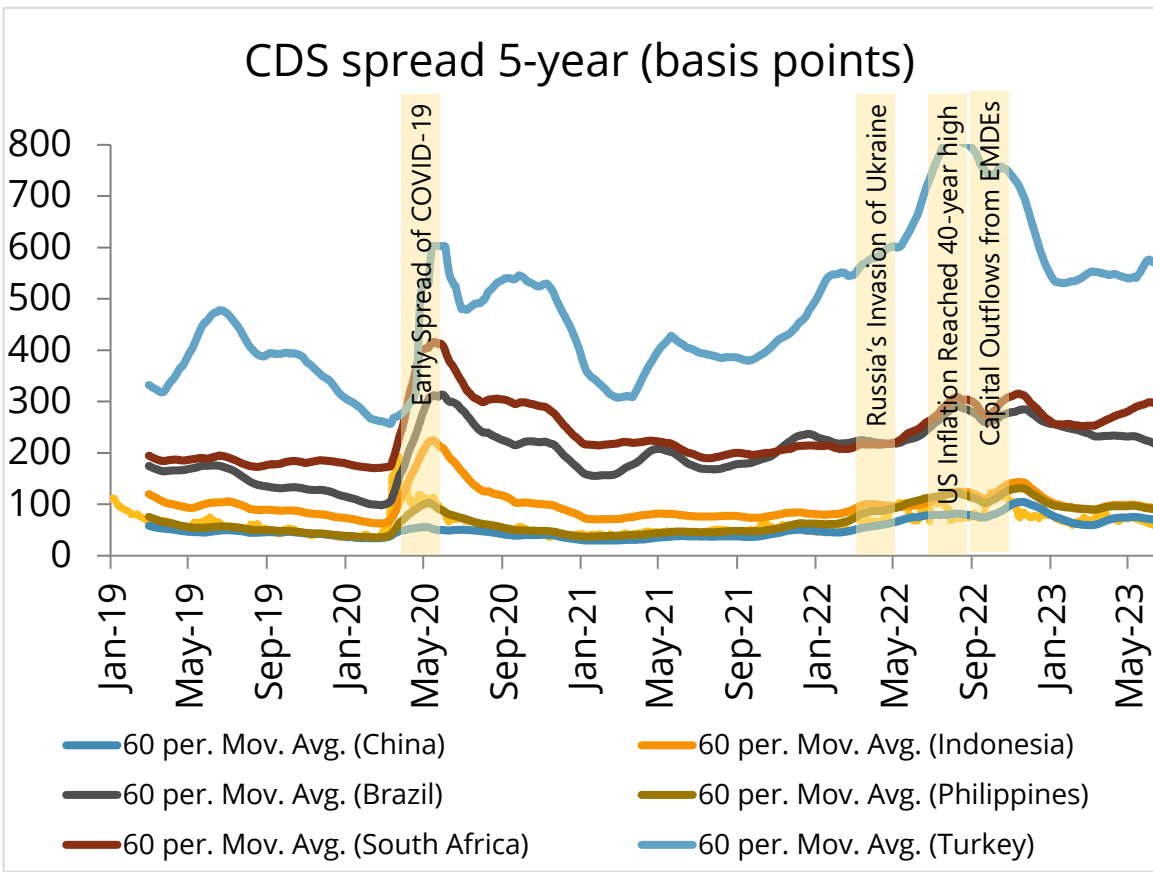
External borrowing maturities have been extended



Source: Bank Indonesia, WB staff calculations.

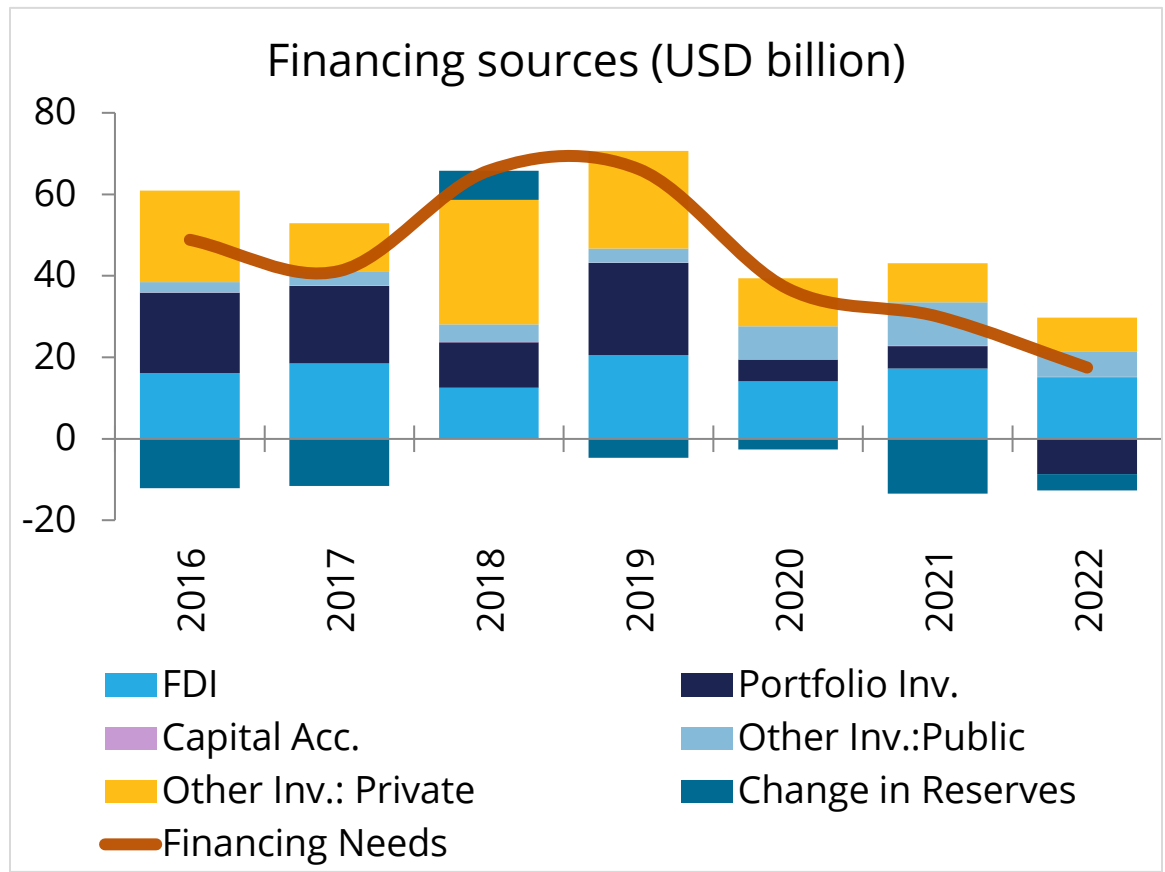
De-risking: Disinflation and deleveraging help de-risk by lowering vulnerabilities

Sovereign spreads have increased slightly but overall remain stable



Source: JP Morgan, WB staff calculations.

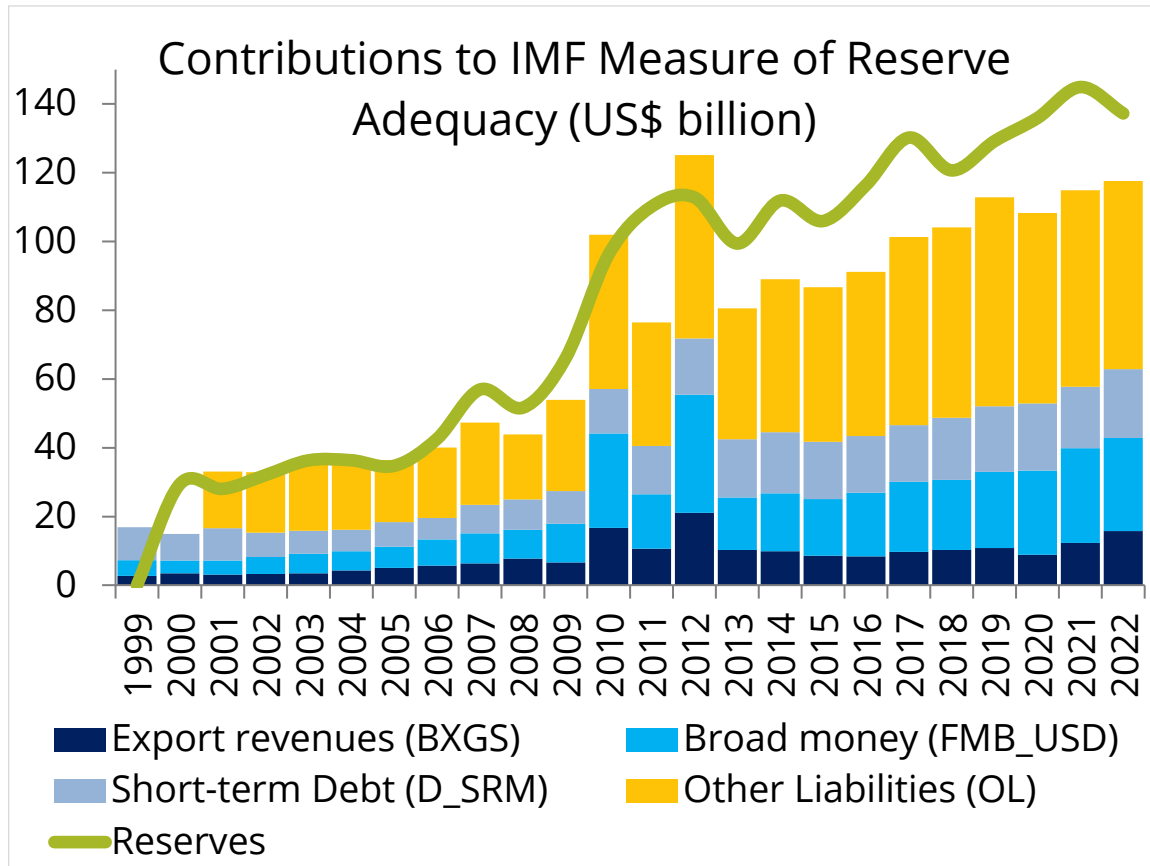
External surplus and deleveraging reduce external financing needs



Source: Bank Indonesia, WB staff calculations.

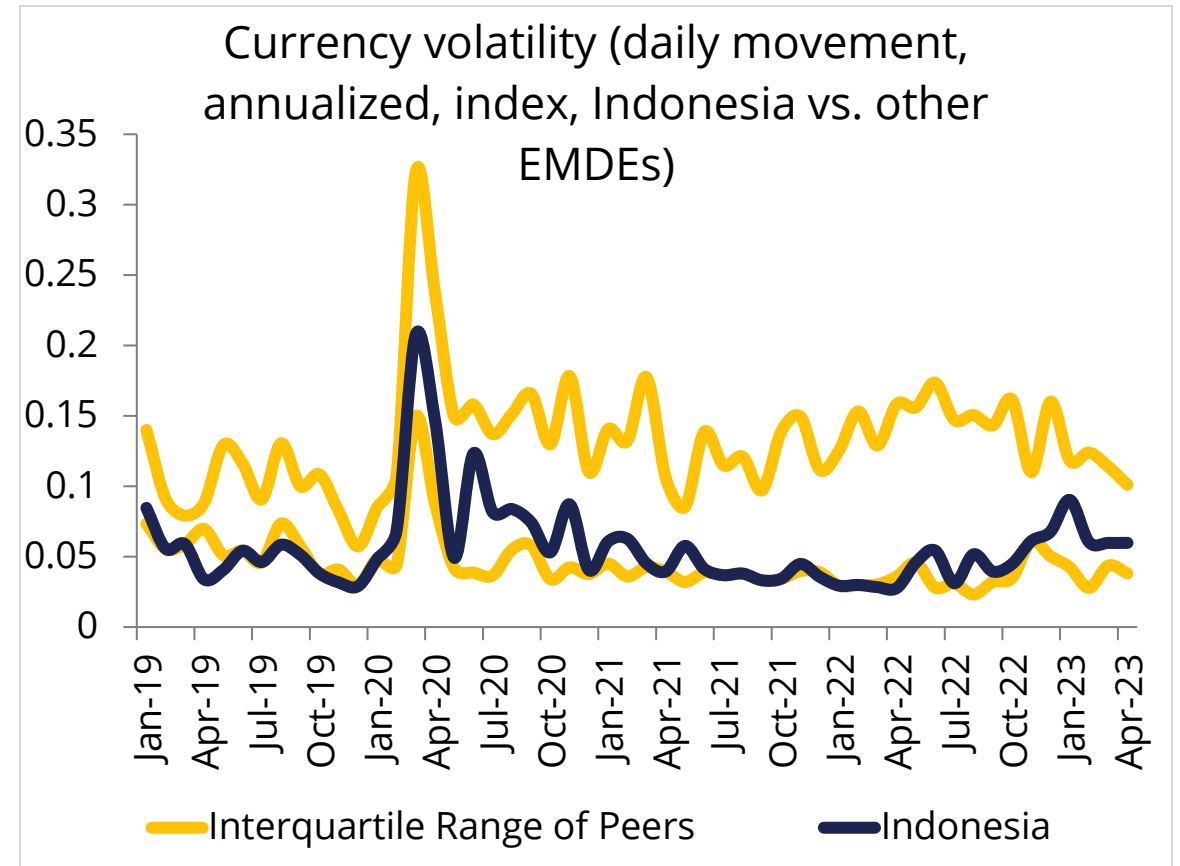
De-risking: At the same time, external buffers are adequate and currency stable

Forex reserves adequate according to IMF ARA metric



Source: IMF, Haver Analytics, WB staff calculations.

Which has helped stabilize the currency when needed



Source: Haver Analytics, WB staff calculations.

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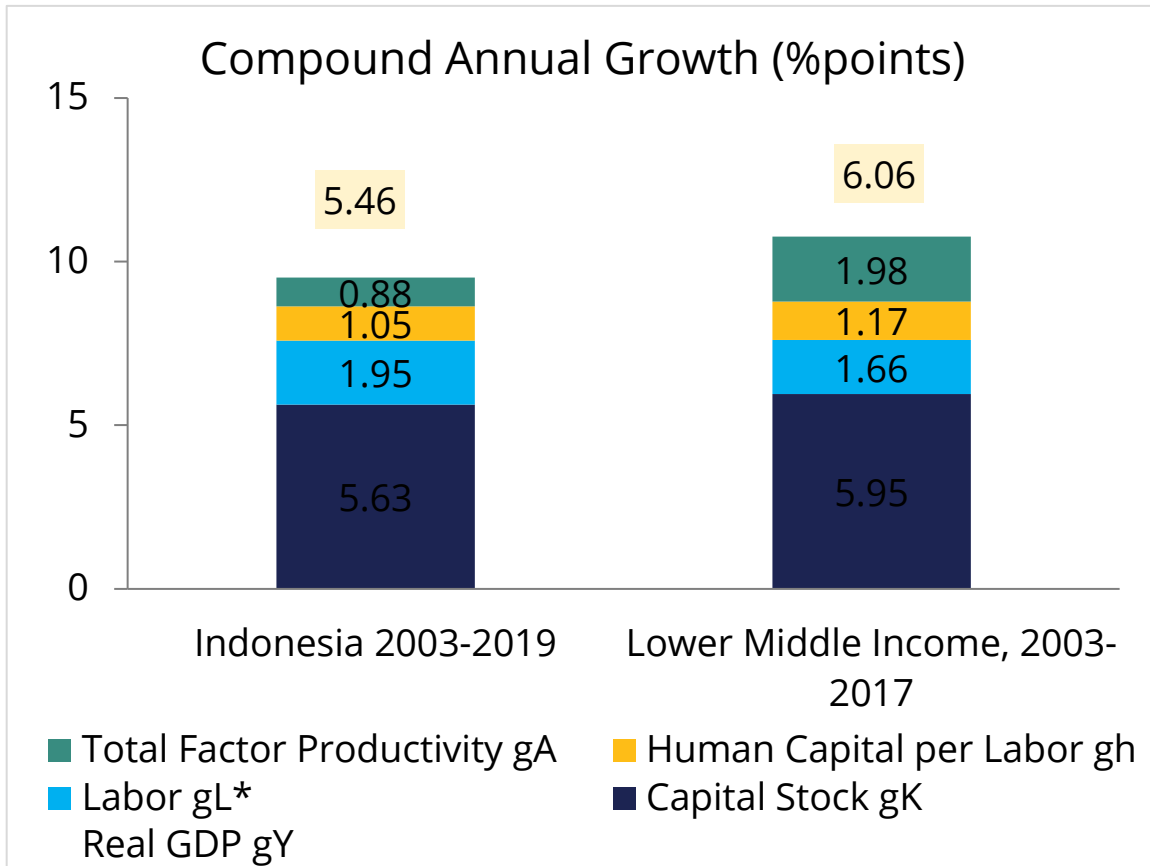
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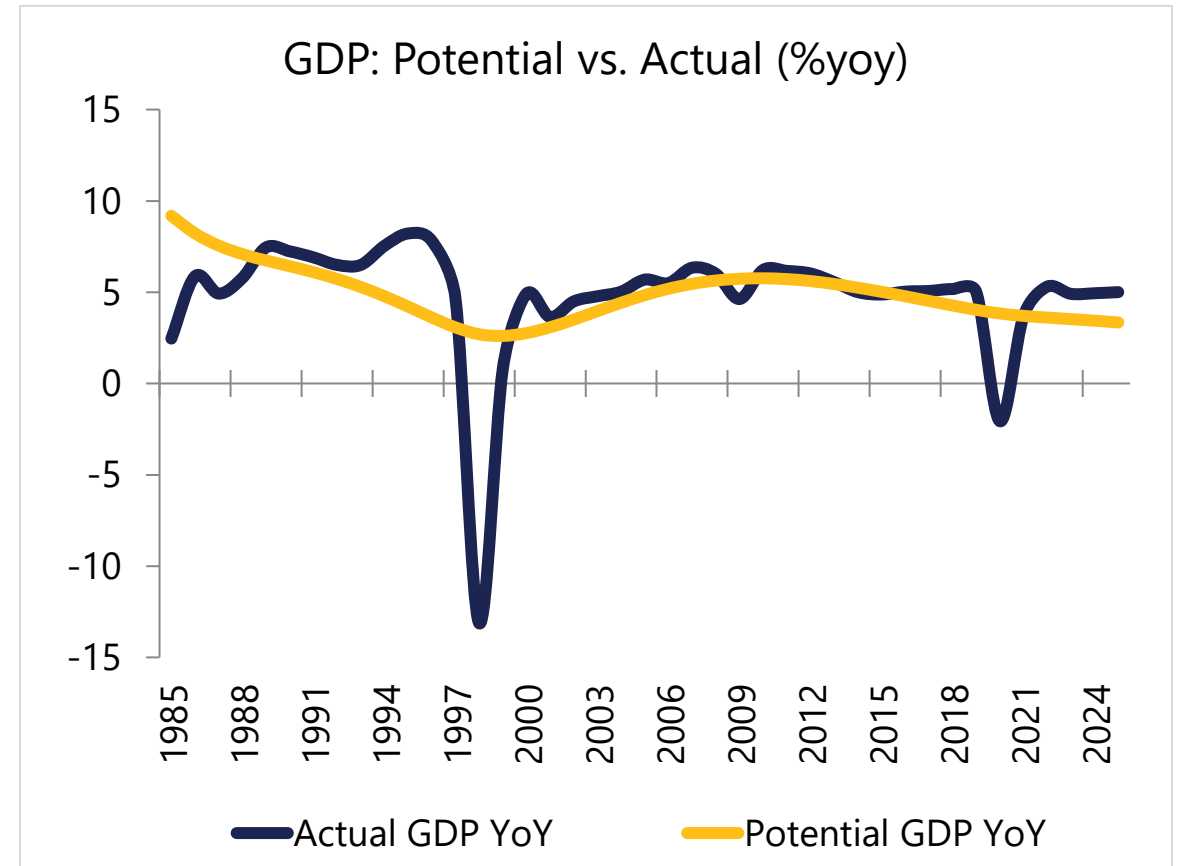
Declining productivity growth is weighing on economic potential

Scope to improve efficiency in how labor and capital are utilized



Source: World Development Indicators,, WB staff calculations using the Growth Decomposition Tool,.

This will be essential to reverse the trend of slowing potential growth

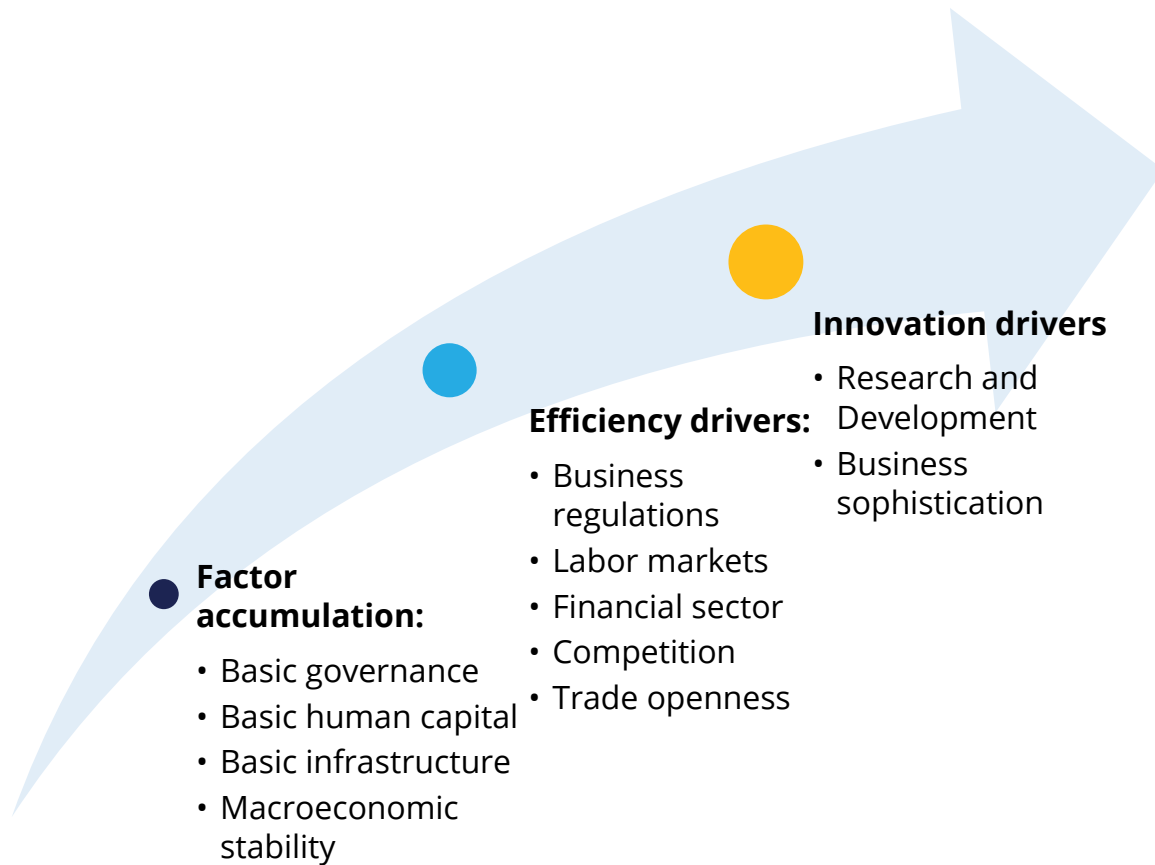


Source: CEIC, WB staff calculations.



Indonesia could accelerate potential growth through enhanced competition

Different competitiveness drivers at different stages of development



Sources: Adapted from Sala-i-Martin, X et al. (2004), Porter, M. (1990), and World Economic Forum's Global Competitiveness Index.

Next stage of reforms should focus on efficiency drivers



Source: Global Competitiveness Index, Economic Freedom Index, OECD Product Market Regulations, Bertelsmann Transformation Index, Economist Intelligence Unit.

Thank You

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