



Indonesia Economic Prospects December 2022

Part A: Economic Outlook And Policy Priorities

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**RECOVER TOGETHER
RECOVER STRONGER**

OUTLINE

Outlook: Strong growth amid stable macroeconomic conditions, but global conditions pose risks for inflation

Economic challenge: How inflation is managed will be an important determinant of the economic outlook

Policy challenge: Shifting from price controls to targeted transfers to deal with inflation could further enhance policy effectiveness

Policy priority: Investment liberalization reforms show early results. Trade reforms would be a natural extension.



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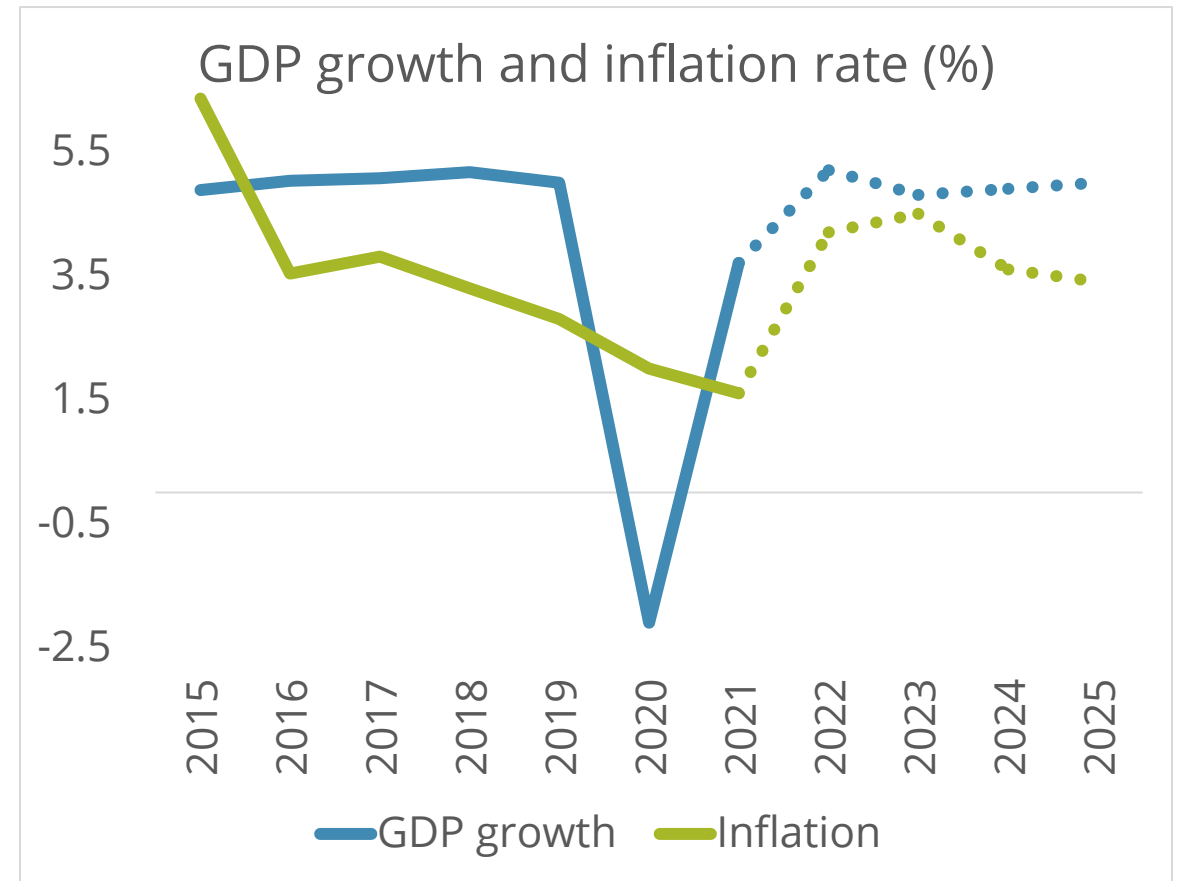
Strong Growth And Stable Macroeconomic Conditions Amid Global Headwinds

Growth projected to average 4.9 percent over medium-term

	2019	2020	2021	2022	2023	2024	2025
	Actual			WB projection			
Real GDP (% change)	5.0	-2.1	3.7	5.2	4.8	4.9	5.0
Consumer Price Inflation (CPI) (avg, %)	2.8	2.0	1.6	4.2	4.5	3.6	3.4
Fiscal Balance (% of GDP)	-2.2	-6.1	-4.7	-2.7	-2.5	-2.5	-2.4
Central Government Debt (% of GDP)	30.2	39.3	40.7	38.8	38.1	37.8	37.7
Current Account Balance (% of GDP)	-2.7	-0.4	0.3	0.9	-0.1	-0.5	-1.2

Source: BI, BPS, MoF, World Bank staff estimates.

Average inflation projected to peak in 2023



Source: BPS, World Bank staff estimates.

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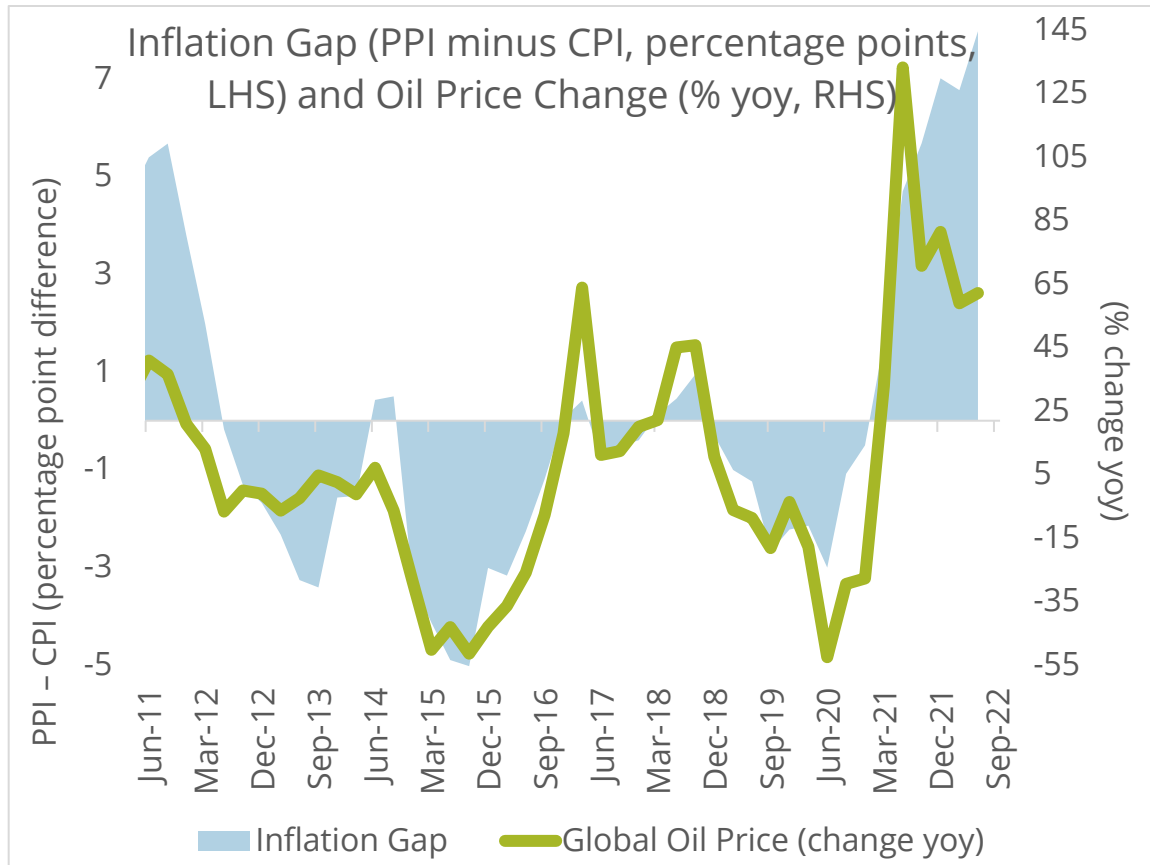
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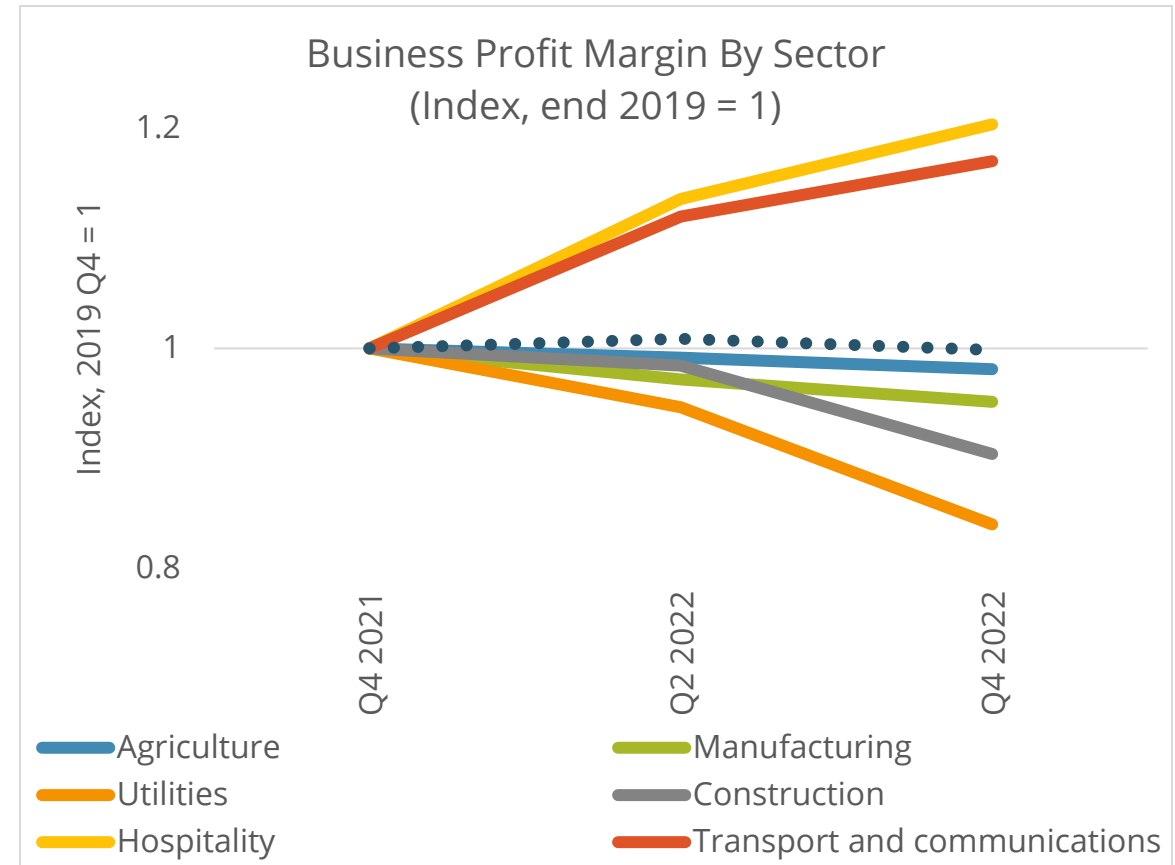


Producers Are Impacted More Negatively By High Energy Prices Than Consumers

High oil prices are absorbed by producers



That have lowered margins particularly in sectors with price controls

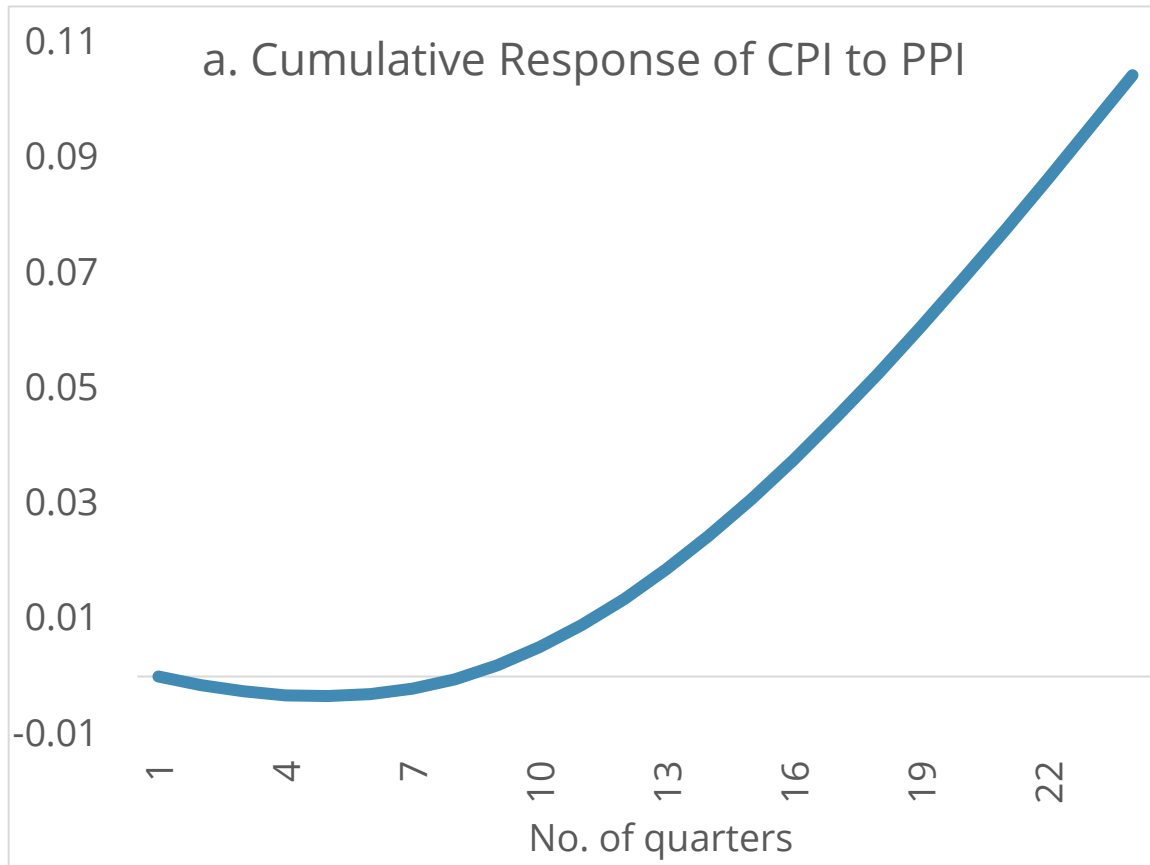


Source: BPS, WB pink sheet, WB staff calculations.

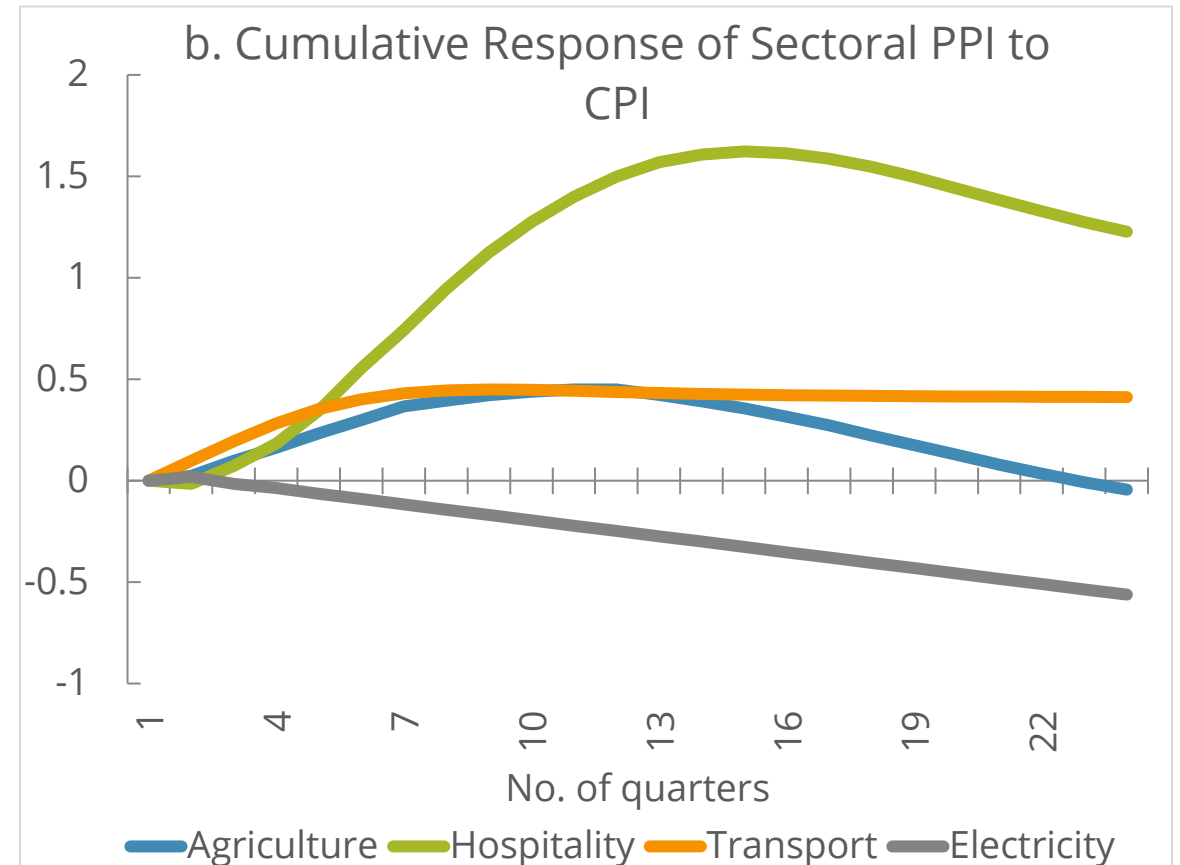
Source: Bank Indonesia, Business Activity Sector Survey, WB staff calculations.

Particularly As Consumer Price Controls May Limit Passthrough of Producer Prices

Passthrough rate from producer prices to consumer prices is limited

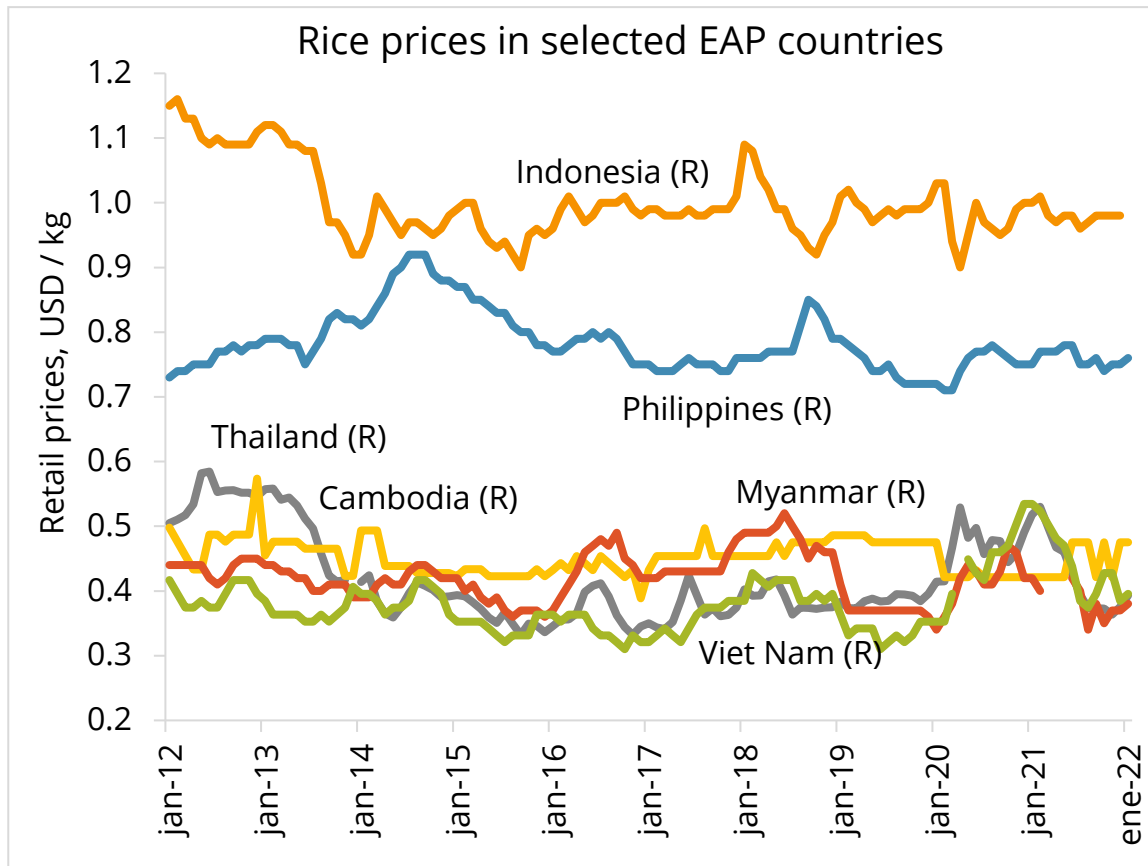


Passthrough rate most muted in sectors that have price controls



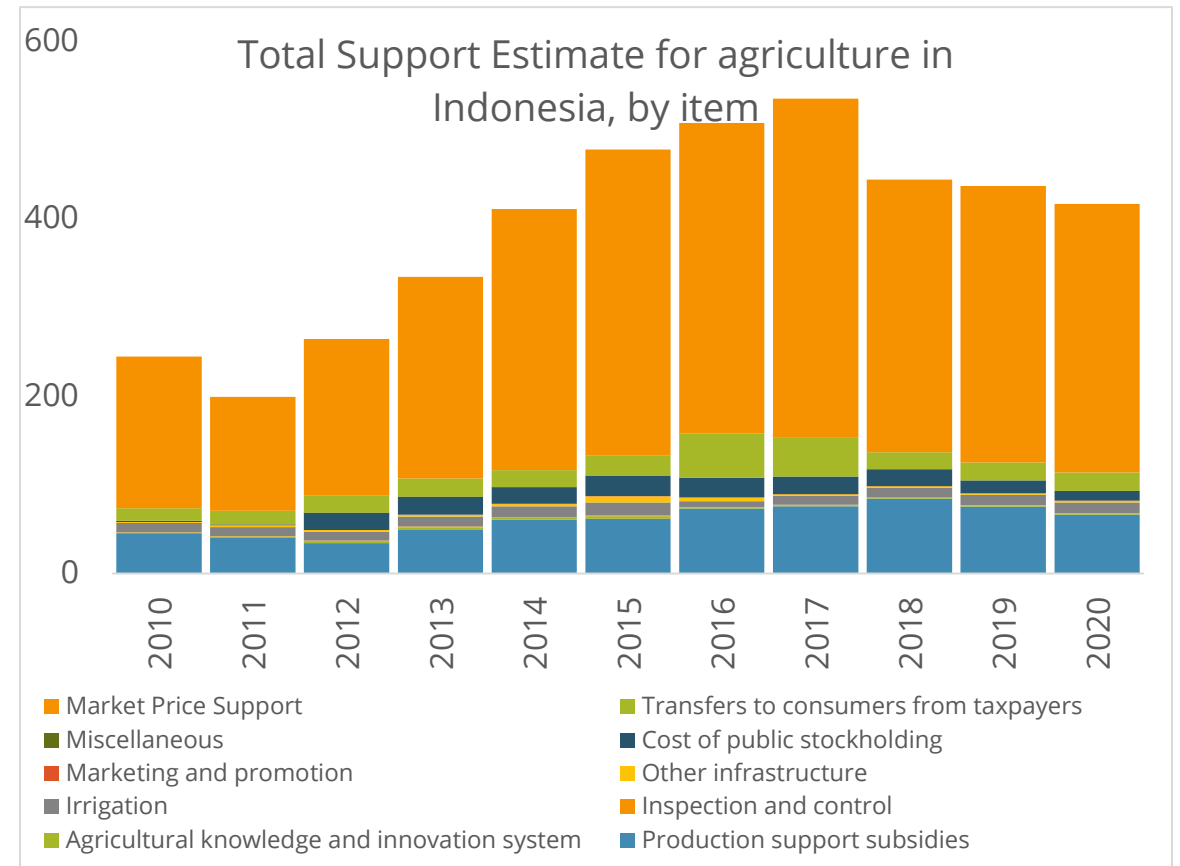
Agriculture Producer Support Programs However Inflate Food Prices

Food prices are high in Indonesia



Source: FAO GIEWS, WB Staff estimates

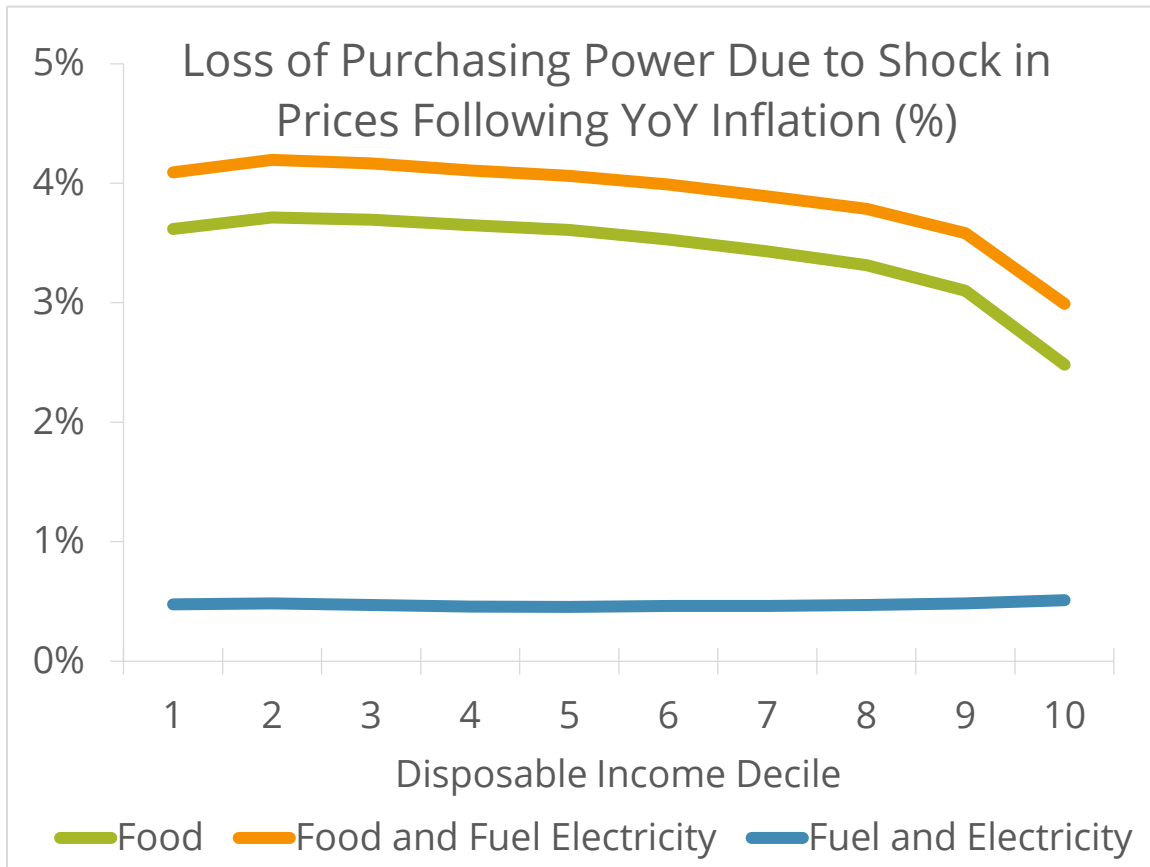
In big part due to producer support measures



Source: WB staff estimates using data from OECD.

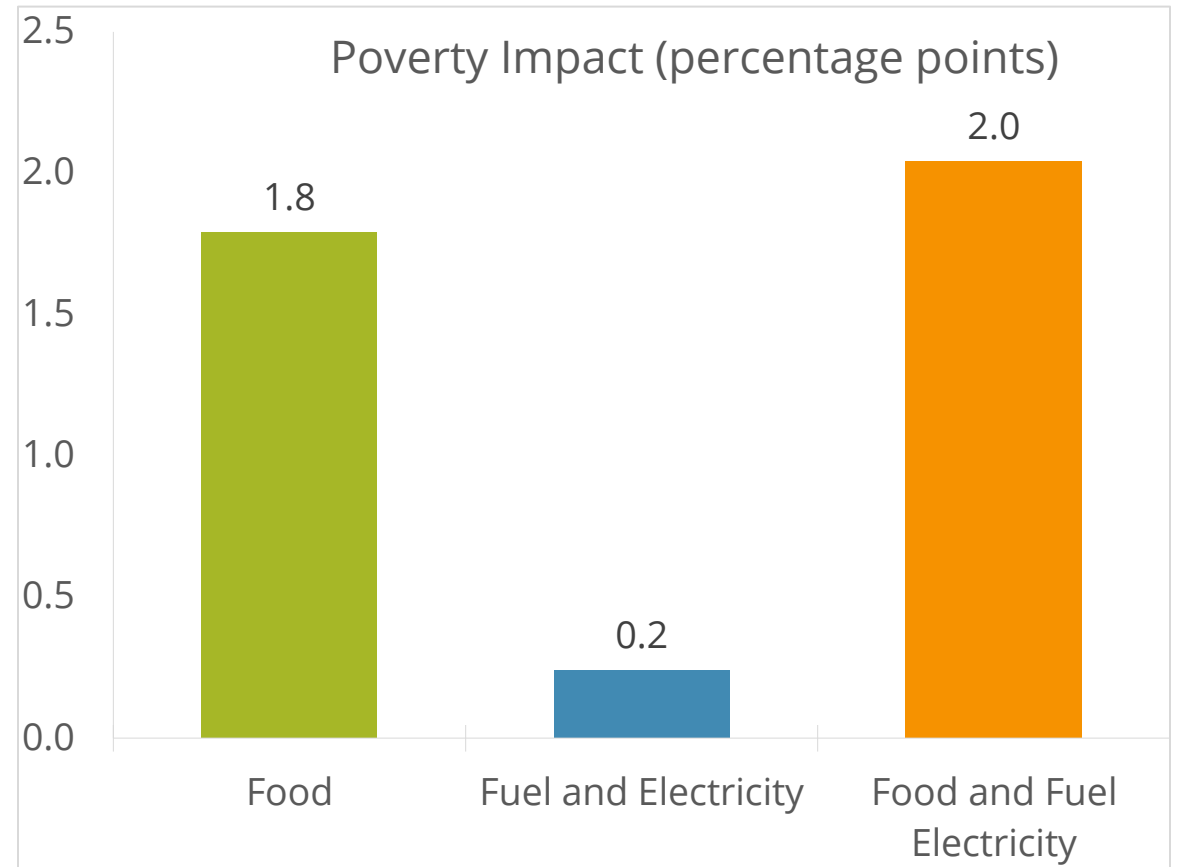
Which Exacerbates The Impact Of Food Price Shocks On The Poor

Food price increases are impacting consumption of the poor



Source: WB staff calculations using Susenas March 2021.

With larger poverty effects than from energy price shocks



Source: WB staff calculations using Susenas March 2021.

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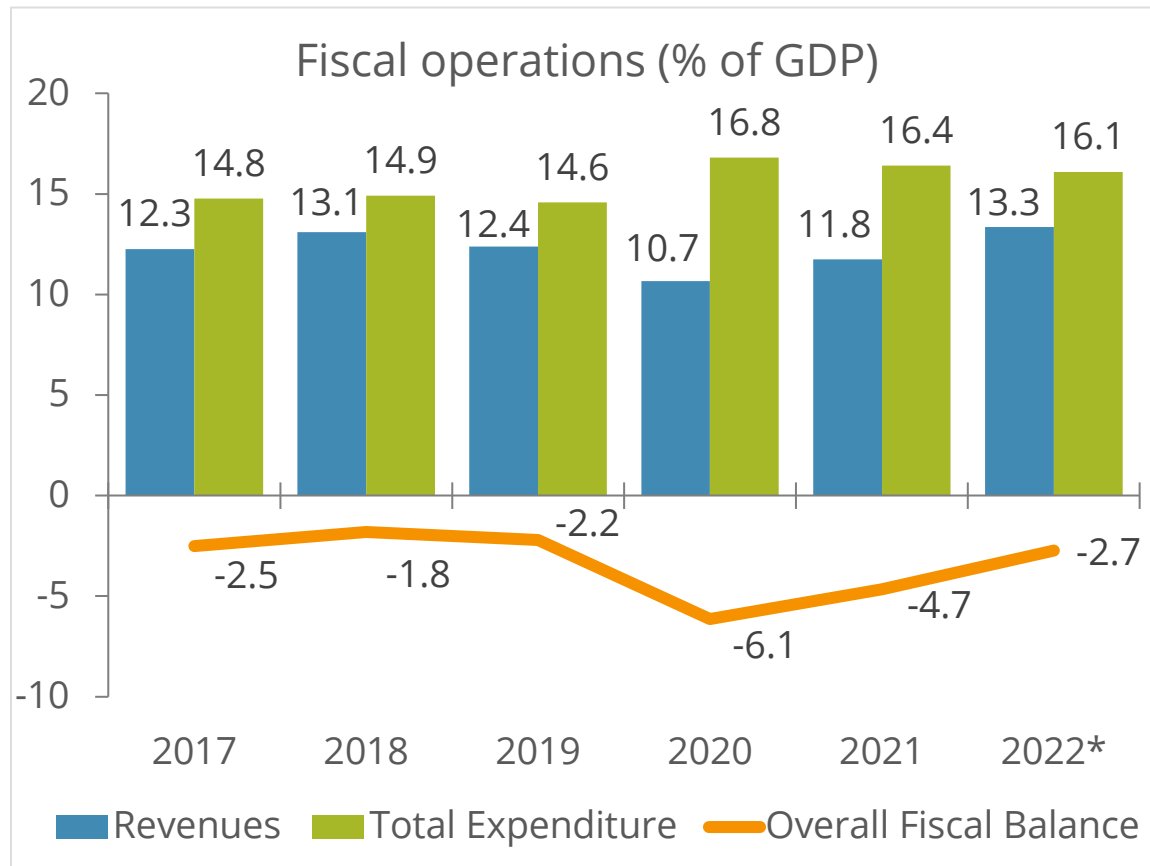
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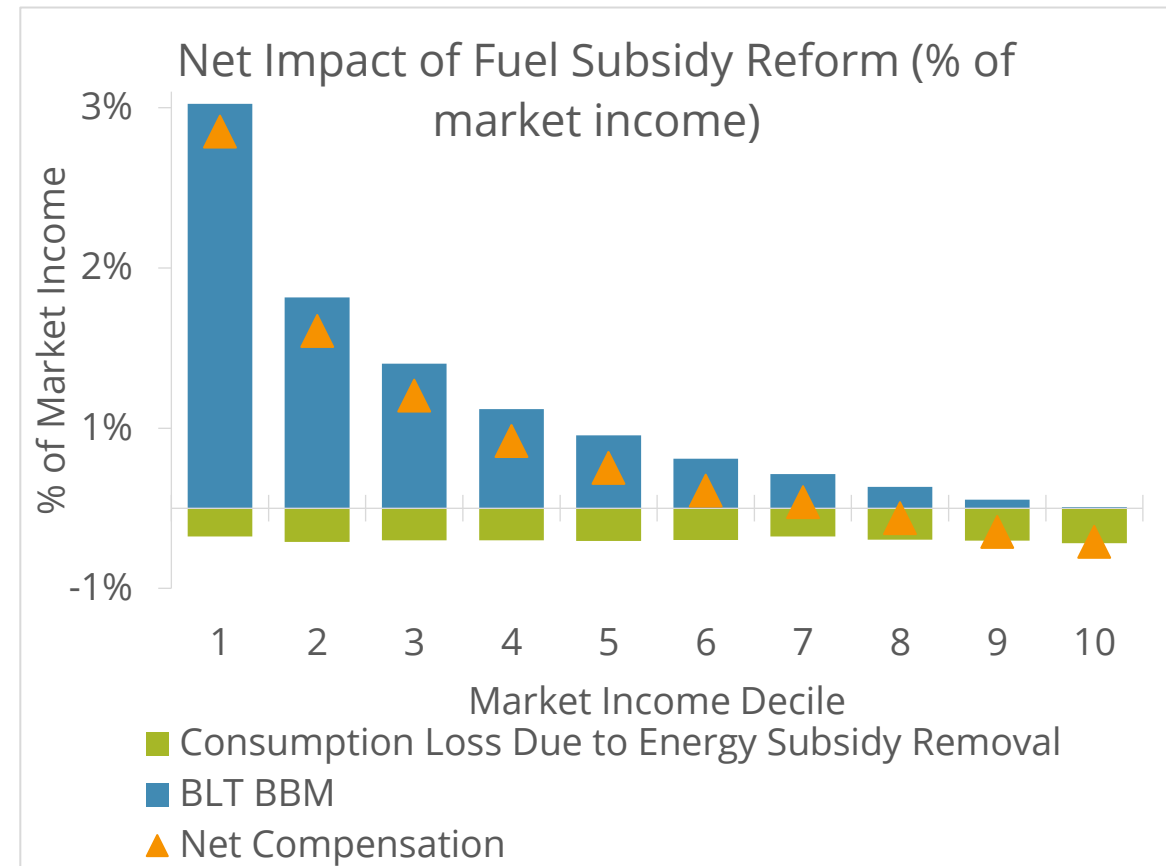


Recent Fuel Price And Social Transfer Increases Will Enhance Fiscal Policy Effectiveness

Strong fiscal performance has helped create space to respond to price shock



Cash transfers expected to compensate the bottom 40 and reverse poverty impacts of higher prices

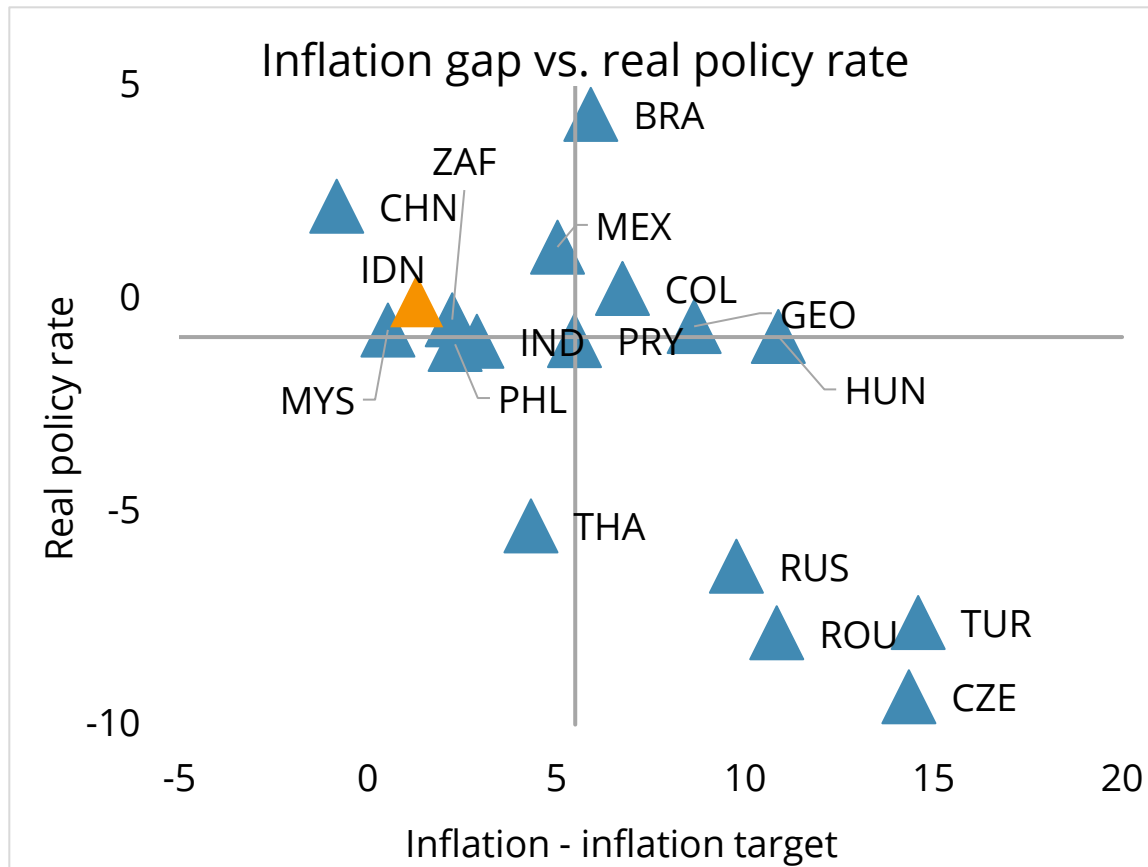


Source: Ministry of Finance, WB staff calculations.

Source: WB staff calculations using CEQ methodology based on 2019 data.

Gradually Addressing Other Price Controls Could Also Help Enhance Monetary Policy Transmission

Monetary policy in Indonesia is prudent



Whilst current external conditions help limit vulnerabilities

	Indonesia		Peers	
	2013	3Q-22	2013	3Q-22
Currency depreciation (%)	26.0	6.9	14.0	39.5
Basic balance (% GDP)	-1.9	1.9	1.9	-2.5
Share of foreign holdings (% gov. LCY debt)	32.0	14.3	23.8	12.6
Private credit (% GDP)	36.1	38.7	98.9	115.5

Source: Haver, WB staff calculations.

Source: CEIC, Asian Bonds Online, WDI data, WB staff calculations.



And Help Balance Supply And Demand Side Pressures

Objective: Reduce inflation pressures without sacrificing growth

Policy response: Tighten monetary policy and use fiscal as a shock absorber

Challenges: (i) mix of rising rates and price controls could suppress supply relative to demand; (ii) agriculture support programs exacerbate food price shocks, disproportionately impacting the poor.

Solution: Gradually addressing price controls could create fiscal and monetary policy space.

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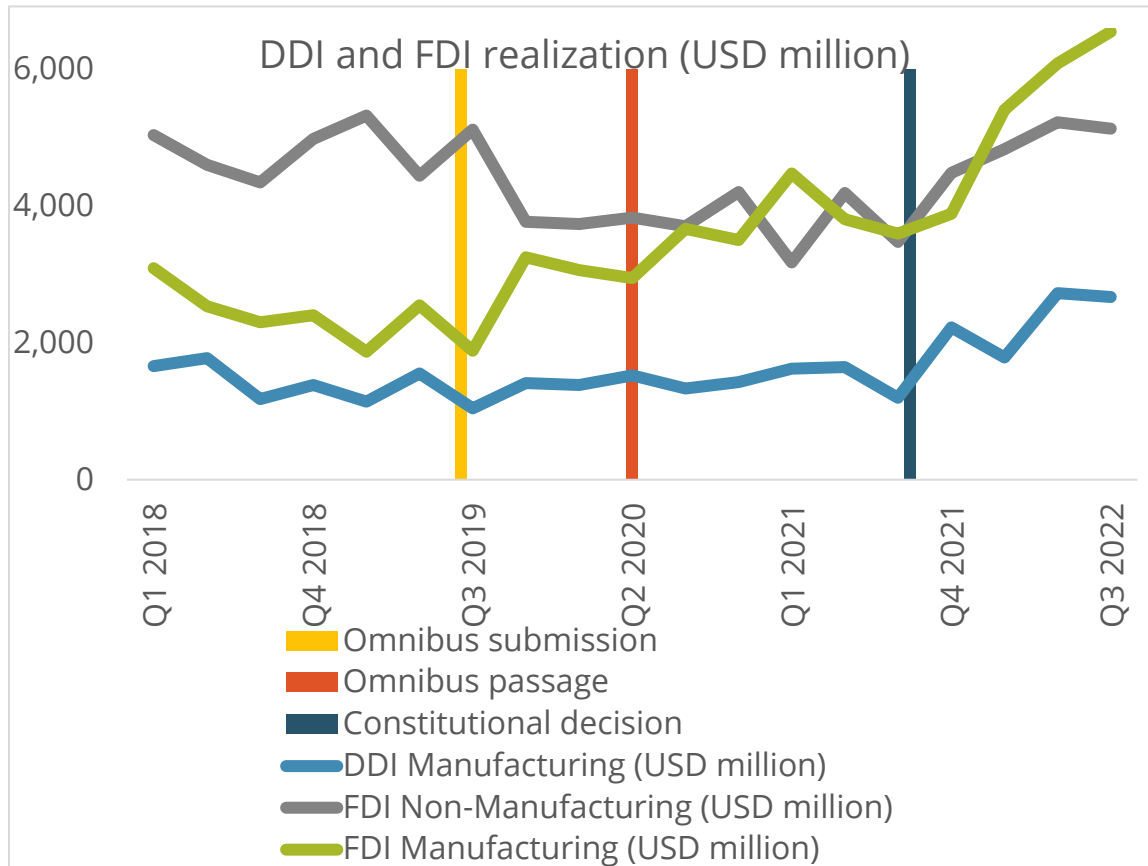
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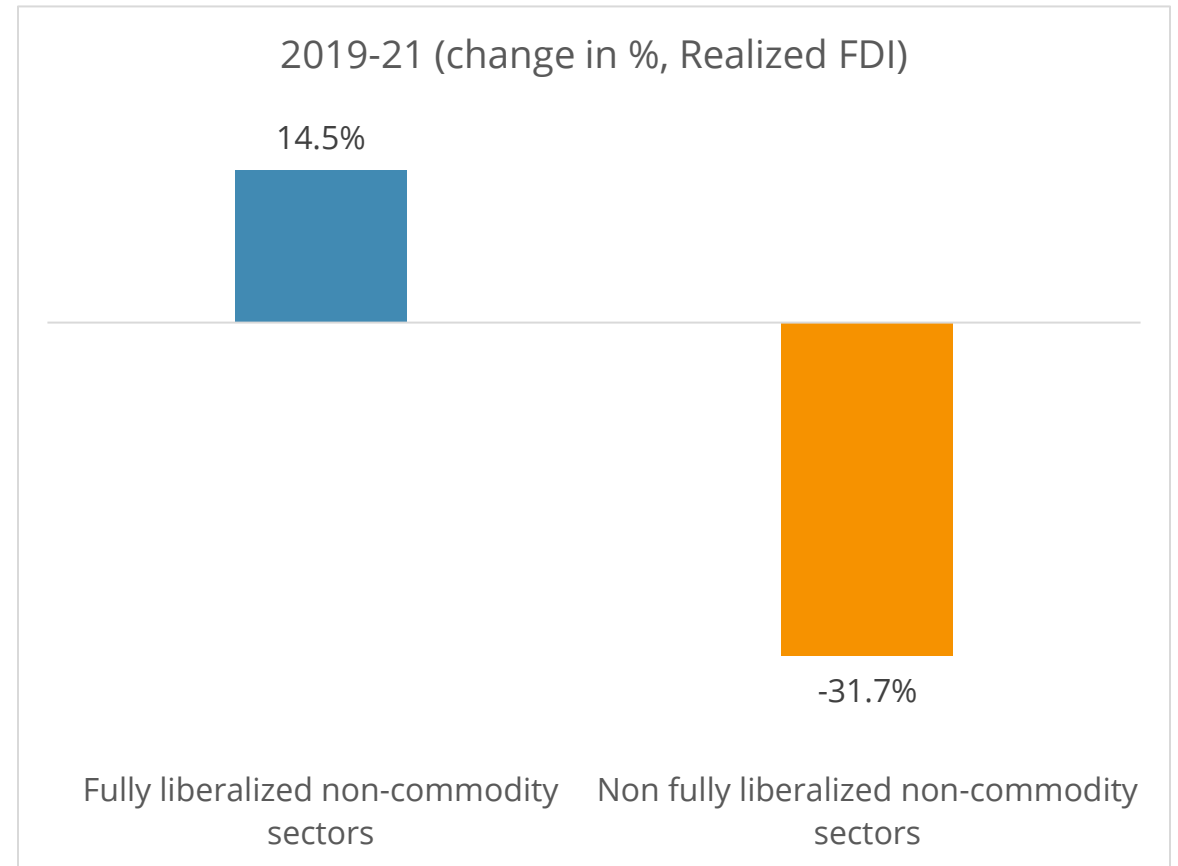


Structural Reforms Could Support Growth Amid Tightening Macro Policies

Liberalization reforms associated with a pick up in investment



Liberalized sectors benefit from rising investment and vice versa



Source: WB staff estimates using BKPM data.

Source: WB staff estimates.

Thank You

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