Indonesia Economic Prospects, December 2023

Part A: Economic Context, Policies, and Outlook

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ECONOMIC CONTEXT: STRONG DOMESTIC DEMAND AMIDST DIFFICULT EXTERNAL CONTEXT

POLICY RESPONSE: MONETARY BALANCING ACT AND FISCAL PRUDENCE TO BUILD BUFFERS

ECONOMIC OUTLOOK: SUSTAINED DOMESTIC DEMAND WITH SHORT-TERM CONSTRAINTS TO STRUCTURAL SHIFT IN SUPPLY
**Strong Cyclical Demand with Structural Constraints to Supply**

**GDP Relative to Pre-pandemic (percent)**

- China: -15%
- Vietnam: -10%
- Indonesia: -5%
- Cambodia: 0%
- Kiribati: 5%
- Malaysia: 10%
- Lao PDR: 15%
- Nauru: 20%
- Philippines: 25%
- Mongolia: 30%
- PNG: 35%
- Tuvalu: 40%
- Thailand: 45%
- Fiji: 50%
- Timor-Leste: 55%
- Vanuatu: 60%
- Tonga: 65%
- Marshall Isl.: 70%
- Micronesia: 75%
- Solomon Isl.: 80%
- Samoa: 85%
- Palau: 90%

**Source:** EAP Economic Update.

**Pre-pandemic GDP trend and Actual GDP (index, Q4:2019 = 100)**

- US$360
- 6.9%

**Source:** BPS; CEIC; World Bank staff calculations.
Inflation Has Moderated but Supply Risks Remain

**Inflation**
(Percent, yoy)

**Global and Domestic Food Prices**
(Percent, yoy)

Source: BPS; CEIC; World Bank staff calculations.

Source: BPS; World Bank Commodity Price Pink Sheet.
Strong External Position Helps Weather Turbulence

**Current Account Balance**

(percent of GDP)

**FX Reserves and Exchange Rate**

(US$ billion, LHS; IDR/US$ (Jan 2020=100), RHS)

Source: BPS; CEIC; World Bank staff calculations. Note: 2023 data is year-to-date.

Source: BI; CEIC; World Bank staff calculations.
Outline

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Policy Rate Adjustments and Impact on Credit

Response of Interbank Rate to BI7DRR

Response of Lending Rates to Interbank Rate

Response of Credit Volumes to Lending Rates

Bank Indonesia Implements Measures to Sustain Liquidity

- Reducing the RRR for bank lending to priority sectors
- Extending looser prudential requirements for mortgages and car loans
- Lowering macroprudential liquidity buffer on IDR-denominated assets for banks

Lower Required Reserve Ratio when Lending to Priority Sectors

(percentage points cuts of RRR by priority sector)

<table>
<thead>
<tr>
<th>Lending in Selected Sectors</th>
<th>Maximum Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priority sectors (downstreaming, housing, tourism)</td>
<td>2.0</td>
</tr>
<tr>
<td>Credit to MSMEs</td>
<td>1.0</td>
</tr>
<tr>
<td>Ultra-micro credit</td>
<td>0.5</td>
</tr>
<tr>
<td>Green property of vehicle credit</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Total of maximum incentives</strong></td>
<td><strong>4.0</strong></td>
</tr>
</tbody>
</table>

Source: Bank of Indonesia.
Fiscal Policy Remains Very Prudent

Fiscal Balance (percent of GDP)

Revenues (year-to-date, percentage points contribution)
- Grants
- Revenues from public services
- Other non-tax revenues
- Profits of SOEs
- Natural Resources Revenues
- Tax Revenues
- Total Revenues

Spending (year-to-date, percentage points contribution)
- Primary Expenditure
- Capital
- Interest Payment
- Subsidy
- Others
- Total Expenditure

Source: Ministry of Finance; CEIC; IMF Fiscal Monitor; World Bank staff calculations.
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### Sustained Demand and External Headwinds

<table>
<thead>
<tr>
<th></th>
<th>2022 Actual</th>
<th>2023 Est.</th>
<th>2024 Projection</th>
<th>2025 Projection</th>
<th>2026 Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real GDP (%)</strong></td>
<td>5.3</td>
<td>5.0</td>
<td>4.9</td>
<td>4.9</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Consumer price inflation (%)</strong></td>
<td>4.2</td>
<td>3.7</td>
<td>3.2</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>Fiscal balance (% of GDP)</strong></td>
<td>-2.4</td>
<td>-2.1</td>
<td>-2.3</td>
<td>-2.3</td>
<td>-2.3</td>
</tr>
<tr>
<td><strong>Central government debt (% of GDP)</strong></td>
<td>39.5</td>
<td>38.7</td>
<td>38.1</td>
<td>37.8</td>
<td>37.3</td>
</tr>
<tr>
<td><strong>Current account balance (% of GDP)</strong></td>
<td>1.0</td>
<td>-0.1</td>
<td>-0.7</td>
<td>-1.2</td>
<td>-1.4</td>
</tr>
</tbody>
</table>

Source: Indonesia Economic Prospects.

Source: EAP Economic Update

Note: Dotted lines are for Cambodia, China, Lao PDR, Malaysia, Philippines, Thailand, Vietnam