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
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Growth and inflation projected to moderate in 2023

Real GDP and CPI (% change yoy)

Source: BPS, WB staff calculations.

| Source: BPS, Bank Indonesia, WB staff calculations. |

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real GDP</strong></td>
<td>5.0</td>
<td>-2.1</td>
<td>3.7</td>
<td>5.3</td>
<td>4.9</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>CPI (end of period)</strong></td>
<td>2.6</td>
<td>1.7</td>
<td>1.9</td>
<td>5.5</td>
<td>3.6</td>
<td>3.4</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>Fiscal Balance</strong></td>
<td>-2.2</td>
<td>-612</td>
<td>-4.6</td>
<td>-2.4</td>
<td>-2.5</td>
<td>-2.5</td>
<td>-2.5</td>
</tr>
<tr>
<td><strong>Central Government Debt</strong></td>
<td>30.2</td>
<td>39.3</td>
<td>40.7</td>
<td>39.5</td>
<td>39.2</td>
<td>38.8</td>
<td>38.6</td>
</tr>
<tr>
<td><strong>Current account balance</strong></td>
<td>-2.7</td>
<td>-0.4</td>
<td>0.3</td>
<td>1.0</td>
<td>0.0</td>
<td>-0.4</td>
<td>-1.0</td>
</tr>
<tr>
<td><strong>Net Foreign Direct Investment</strong></td>
<td>1.8</td>
<td>1.3</td>
<td>1.5</td>
<td>1.1</td>
<td>1.3</td>
<td>1.3</td>
<td>1.4</td>
</tr>
</tbody>
</table>
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**Structural Reforms:** Further decluttering of markets can raise growth and economic potential
Inflation back within Bank Indonesia target by May 2023

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

More broad-based price increase due to second round effects

Inflation: Indonesia vs. Peers (%yoy)

Inflation distribution (price increases % yoy vs. share of CPI basket)

Source: BPS, WB staff calculations.

Source: BPS, Bank Indonesia, WB staff calculations.
Deleveraging: Government debt has started to decline with growth and prudent fiscal policies and growth.

Government debt increased by less than peer countries during COVID and has started to decline with prudent fiscal policies and growth.

Public sector debt (% GDP)

Revenue, expenditure, fiscal balance (% GDP)


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

External debt (% of GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Public sector</th>
<th>Private Non-Financial Corporations</th>
<th>Private Banks</th>
<th>Private Non-Bank Financial Corporations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>18.0%</td>
<td>14.0%</td>
<td>4.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>2023 (est)</td>
<td>10.0%</td>
<td>12.0%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

External borrowing maturities have been extended

External debt (%GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Short-term public debt</th>
<th>Short-term private debt</th>
<th>Long-term public debt</th>
<th>Long-term private debt</th>
<th>Debt stock (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>4.7%</td>
<td>13.3%</td>
<td>36.5%</td>
<td>34.9%</td>
<td>11.4%</td>
</tr>
<tr>
<td>2020</td>
<td>4.8%</td>
<td>14.8%</td>
<td>39.4%</td>
<td>34.9%</td>
<td>10.4%</td>
</tr>
<tr>
<td>2021</td>
<td>3.9%</td>
<td>13.3%</td>
<td>39.4%</td>
<td>34.9%</td>
<td>10.4%</td>
</tr>
<tr>
<td>2022</td>
<td>3.9%</td>
<td>11.4%</td>
<td>34.9%</td>
<td>30.2%</td>
<td>10.4%</td>
</tr>
<tr>
<td>2023</td>
<td>3.7%</td>
<td>10.4%</td>
<td>28.4%</td>
<td>28.4%</td>
<td>10.4%</td>
</tr>
</tbody>
</table>

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

CDS spread 5-year (basis points)

External surplus and deleveraging reduce external financing needs

Financing sources (USD billion)

Source: JP Morgan, WB staff calculations.

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

Contributions to IMF Measure of Reserve Adequacy (US$ billion)

Which has helped stabilize the currency when needed

Currency volatility (daily movement, annualized, index, Indonesia vs. other EMDEs)

Source: IMF, Haver Analytics, WB staff calculations.

Source: Haver Analytics, WB staff calculations.
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**Structural Reforms:** Further decluttering of markets can raise growth and economic potential
Declining productivity growth is weighing on economic potential

Scope to improve efficiency in how labor and capital are utilized

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

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

Source: CEIC, WB staff calculations.
Indonesia could accelerate potential growth through enhanced competition

Different competitiveness drivers at different stages of development

Efficiency drivers:
- Business regulations
- Labor markets
- Financial sector
- Competition
- Trade openness

Innovation drivers:
- Research and Development
- Business sophistication

Factor accumulation:
- Basic governance
- Basic human capital
- Basic infrastructure
- Macroeconomic stability

Next stage of reforms should focus on efficiency drivers

Indonesia performance in structural reform areas relative to peers (z scores based on multiple competitiveness indices)

- Macroeconomics
- Basic Governance
- Infrastructure
- Labor markets
- International trade
- Basic human capital
- Business regulations
- Financial sector
- Competition

Z score (higher score = stronger performance relative to peers; lower score = weaker performance relative to peers)

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

Indonesia Economic Prospects, June 2023

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