Boosting the Recovery

Indonesia Economic Prospects, June 2021

Download the Report at www.worldbank.org/iep

Slido and Twitter #IEPBankDunia
Impact
Policy response
Economic outlook
Policy priorities
Economy getting back on its feet after several COVID punches

Real GDP growth in 2020, in percent

Source: World Economic Outlook, IMF.

Real GDP relative to pre-crisis trend, in percent

The poorest and most vulnerable have been the hardest hit.

Impacts on firms, workers, and households (%):

- All firms
- Micro
- SMEs
- Large
- All labor - 2019
- All labor - 2020
- Male - 2019
- Male - 2020
- Female - 2019
- Female - 2020
- Youth - 2019
- Youth - 2020
- 2019
- 2020

Poverty rate (%, 2019-2020):

- Sep-19
- Mar-20
- Sep-20
- Sep-19
- Mar-20
- Sep-20
- Sep-19
- Mar-20
- Sep-20

Urban: 6.6, 7.4, 7.9
Rural: 12.6, 12.8, 13.2
National: 9.2, 9.8, 10.2

Fiscal support cushions the economy from a larger bruise

Impact
Policy response
Economic outlook
Policy priorities

Increase in primary deficit 2019-2020 (% points of GDP)

Spending level vs. spending growth 2019-2020


Source: Haver Analytics, IMF WEO, World Bank staff calculations.
 Assisted by a dose of monetary policy

### Inflation-inflation target vs. real policy rate (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>Real policy rate</th>
<th>Inflation - inflation target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>-4%</td>
<td>-1%</td>
</tr>
<tr>
<td>Chile</td>
<td>-3%</td>
<td>0%</td>
</tr>
<tr>
<td>Colombia</td>
<td>-2%</td>
<td>2%</td>
</tr>
<tr>
<td>Colombia</td>
<td>-1%</td>
<td>4%</td>
</tr>
<tr>
<td>Croatia</td>
<td>0%</td>
<td>6%</td>
</tr>
<tr>
<td>Hungary</td>
<td>1%</td>
<td>8%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2%</td>
<td>10%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3%</td>
<td>12%</td>
</tr>
<tr>
<td>South Africa</td>
<td>0%</td>
<td>14%</td>
</tr>
<tr>
<td>Thailand</td>
<td>-2%</td>
<td>16%</td>
</tr>
<tr>
<td>South Korea</td>
<td>0%</td>
<td>18%</td>
</tr>
<tr>
<td>China</td>
<td>1%</td>
<td>20%</td>
</tr>
<tr>
<td>Georgia</td>
<td>2%</td>
<td>22%</td>
</tr>
<tr>
<td>Mexico</td>
<td>3%</td>
<td>24%</td>
</tr>
<tr>
<td>Russia</td>
<td>4%</td>
<td>26%</td>
</tr>
<tr>
<td>Turkey</td>
<td>5%</td>
<td>28%</td>
</tr>
</tbody>
</table>

Source: Haver Analytics, World Bank staff calculations.

### Central Bank local-currency sovereign bond purchases (2020, % of GDP)

- Indonesia: 4%
- ECA: 3%
- LAC: 2%
- EAP: 1%
- SSA: 1%
- SAR: 0%

Private credit has fallen with moderate increase in corporate health concerns.

Credit growth (% year-on-year)

Source: OJK.

Corporate Vulnerability Index (1=most vulnerable)

Source: Bloomberg, WB staff calculations.
The fight against COVID enters another round

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Actual</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real GDP</td>
<td>5</td>
<td>-2.1</td>
<td>4.4</td>
<td>5</td>
<td>5.1</td>
<td>5.1</td>
</tr>
<tr>
<td>CPI (year-average)</td>
<td>2.8</td>
<td>2</td>
<td>2.3</td>
<td>2.8</td>
<td>3.2</td>
<td>3.4</td>
</tr>
<tr>
<td>Fiscal Balance</td>
<td>-2.2</td>
<td>-6.2</td>
<td>-5.4</td>
<td>-4.1</td>
<td>-3</td>
<td>-3</td>
</tr>
<tr>
<td>Central Government Debt</td>
<td>30.2</td>
<td>39.4</td>
<td>41.2</td>
<td>42.6</td>
<td>43</td>
<td>43.5</td>
</tr>
<tr>
<td>Current account balance</td>
<td>-2.7</td>
<td>-0.4</td>
<td>-1.5</td>
<td>-1.8</td>
<td>-2</td>
<td>-2.3</td>
</tr>
<tr>
<td><strong>Projection</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Upside risks
- Boost in consumer confidence
- Successful vaccination campaign

Downside risks
- Tight external finance
- Weaker global growth
- New COVID wave
Winning the race against infections

- Recent acceleration in daily cases is cause for health, social and economic concerns

- Authorities have established sound vaccination strategy. Supply constraints are starting to ease. Prioritize geographic locations where transmission rates are the highest

- Successfully containing the pandemic will also rest on adequate testing-tracing-isolation, along with non-pharmaceutical interventions
Maintaining accommodative monetary policy

- Domestic economic conditions: output gap, inflation
- External vulnerabilities: US monetary policy, external financing pressures
- Coordination with fiscal policy: recovery in domestic demand, financing needs
Balancing fiscal support with fiscal sustainability

General government revenue (% of GDP)

Central government deficit (% of GDP)

Source: WB staff calculations.
FOUR PATHWAYS TO BOOST JOBS AND WOMEN ECONOMIC PARTICIPATION

- Boost productivity
- Build a middle-class workforce
- Bring more women into the labor force
- Mitigate COVID job losses
Boost productive jobs through competition, trade, and investment

- 15 percent of labor income earners hold middle-class jobs
- 7 percent of workers earn middle-class wages, receive full social benefits and hold a permanent contract

Relationship between productivity and wages, 2018

Source: World Bank staff calculations.
Build a middle-class workforce

- 57 percent of the labor force has less than 8 years of school

- A child born today is expected to complete 12.4 years of schooling but only 7.9 years of effective learning

- A child born today would only reach 54 percent of its productive potential
Bring more women into the labor force

Labor force participation by gender and marital status, in percent

Source: World Bank staff calculations.
Mitigate COVID job losses

Impact of COVID on employment by gender and age group

Source: World Bank staff calculations.
Thank You

Indonesia Economic Prospects, June 2021

Download the Report at www.worldbank.org/iep

Ask your questions at Slido.com #IEPBankDunia