A Green Horizon:
Toward A High Growth and Low Carbon Economy

Indonesia Economic Prospects
December 2021

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Delta Wave Slows Growth, but External Conditions and Policy Responses Help to Cushion the Shock
Economic Resilience from Shifting Drivers of Growth

PMI, Consumer Confidence, and Retail Sales
(Jan 2019 = 100)

Output Gap
(percent of potential output)

Source: BI, Nikkei Markit, World Bank staff calculations.

Source: WB Macro Poverty Outlook Database, World Bank staff calculations.
Vaccine Rollout Has Accelerated and is Working

Inoculation Rate by Number of Days during the Delta Wave (first dose, percent of population)

- Brazil
- Indonesia
- Philippines
- Malaysia
- Thailand
- IDN top 25%
- IDN bottom 25%

Change in Cases and Deaths by Tertile of Province Vaccination Rate (percent)

- Cases
- Deaths

Source: Our World in Data, Ministry of Health, World Bank staff calculations.

Source: Ministry of Health, World Bank staff calculations.
Flexible Fiscal Response Helped Contain Health and Poverty Impacts

Actual and Simulated Poverty Rates in 2021
(poverty headcount, percent)

<table>
<thead>
<tr>
<th>Year</th>
<th>2019 March</th>
<th>2020 March</th>
<th>2021 March</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>9.4</td>
<td>9.8</td>
<td>10.14</td>
</tr>
<tr>
<td>Simulated 2021*</td>
<td>10.6</td>
<td></td>
<td>9.7</td>
</tr>
<tr>
<td>(with April 2021 SA package)</td>
<td>(with August 2021 SA package)</td>
<td>(with 2020 SA package)</td>
<td></td>
</tr>
</tbody>
</table>

Debt-to-GDP Ratio and the Changes in 2019-2021
(percent of GDP)

Source: SUSENAS, World Bank staff simulations.

Monetary Policy Remained Supportive but Credit Lags Growth

**Real Policy Rate (percent)**

Source: CEIC, IMF WEO October 2021, World Bank staff calculations.

**Loans Growth (percent yoy)**

Source: BI, World Bank staff calculations.
Positive Outlook but with Great Uncertainty and Some Risks of Scarring
## Rebalancing Sources of Growth

### The Economy Outlook

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
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</thead>
<tbody>
<tr>
<td><strong>Actual</strong></td>
<td></td>
<td></td>
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<tr>
<td>Real GDP</td>
<td>5</td>
<td>-2.1</td>
<td>3.7</td>
<td>5.2</td>
<td>5.1</td>
<td>5.1</td>
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<tr>
<td>CPI (year-average)</td>
<td>2.8</td>
<td>2</td>
<td>1.6</td>
<td>2.2</td>
<td>2.5</td>
<td>3.4</td>
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<tr>
<td>Fiscal Balance*</td>
<td>-2.2</td>
<td>-6.1</td>
<td>-5.0</td>
<td>-3.9</td>
<td>-3.0</td>
<td>-3.0</td>
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<tr>
<td>Central Government Debt*</td>
<td>30.2</td>
<td>39.4</td>
<td>41.8</td>
<td>43.7</td>
<td>44.3</td>
<td>44.4</td>
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<tr>
<td>Current Account Balance*</td>
<td>-2.7</td>
<td>-0.4</td>
<td>0.2</td>
<td>-1.2</td>
<td>-1.6</td>
<td>-1.9</td>
</tr>
</tbody>
</table>

### Projection

### Consumer Price Inflation

**Periods before and after PPI acceleration**

- Q3 2013 episode
- Q3 2016 episode
- Q2 2018 episode
- Q4 2020 episode

Source: CEIC, World Bank staff calculations.

Source: BI, BPS, MoF, World Bank staff calculations.
Preventing a Temporary Shock Turning Into a Permanent Drop in Output

Potential Growth (2010 = 100)

Change in Youth Occupation during AFC and COVID-19

(percentage points)

- NEET-Others
- NEET-Housekeeping
- Student
- Unemployed
- Employed

Source: SAKERNAS, World Bank staff simulations. Note: NEET is not in employment, education or training

Impact | Policy response | Economic outlook | Policy priorities

Source: WB Macro Poverty Outlook Database, World Bank staff calculations.
Shifting the Drivers of Growth from Macroeconomic to Structural policies
Collect More and Focus Fiscal Effort on Health and Poor Households

**Tax Efficiency Score based on Level of Development**

- **log of GDP per capita**

**Source:** ICTD, WDI, ILO, World Bank staff calculations.

**Share of Firms that Receive Support**

- **(percent)**

**Source:** WB Business Pulse Survey, World Bank staff calculations.

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Impact | Policy response | Economic outlook | Policy priorities
---|---|---|---

**Indonesia**
Enabling the Financial System to Support Growth

Real Interest Rate Differential with the US (3-month moving average, percent)

Indonesia
Philippines
Thailand
India
Brazil
Malaysia

External Financing Needs and Stock of Assets by Non-Residents (percent share to FX Reserves)

Impact
Policy response
Economic outlook
Policy priorities

Source: CEIC, IMF WEO October 2021, WB staff calculations.
Structural Reforms Can Accelerate Growth and Allow Macroeconomic Support to Adjust

Source: Global Competitiveness Indicators, 2019.

**Competitiveness Z-Score**

*efficiency-based competitiveness indicators*

*Source: IMF Structural Reform Database developed by Papageorgiou et al. (2019).*

**Reform Index**

*difference between Indonesia and Large MICs*

*Source: IMF Structural Reform Database developed by Papageorgiou et al. (2019).*
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