

Economic Update 2013

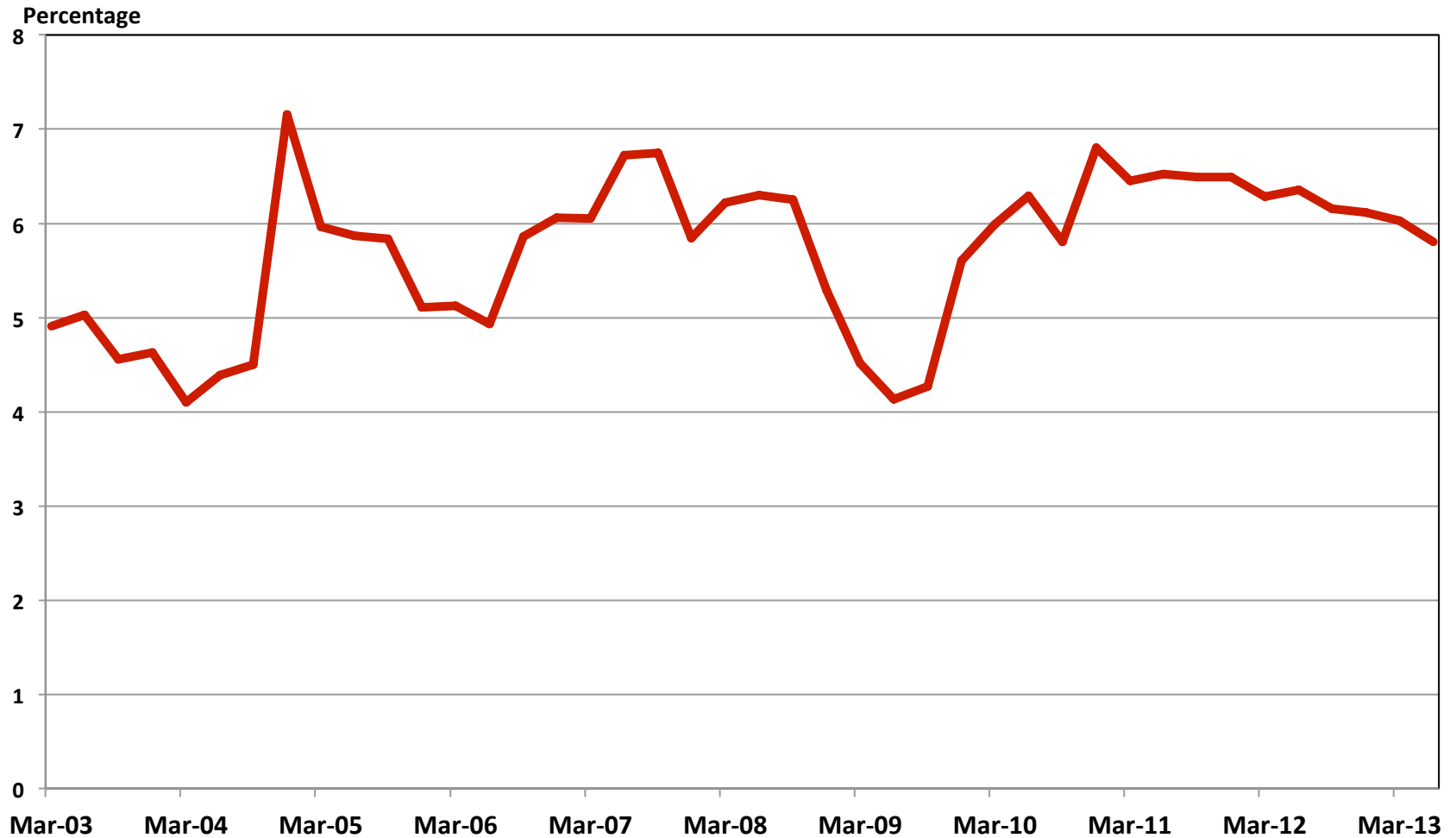
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Overview

- ▶ Indonesian economy looking solid in 2013
- ▶ Pressures:
 - ▶ Withdrawal of quantitative easing
 - ▶ Worsening balance of payments
 - ▶ Higher inflation (& fuel subsidy reduction)
- ▶ Response: economic policy package (23 Aug)
- ▶ But not enough focus on long-term reform to boost flexibility and growth potential

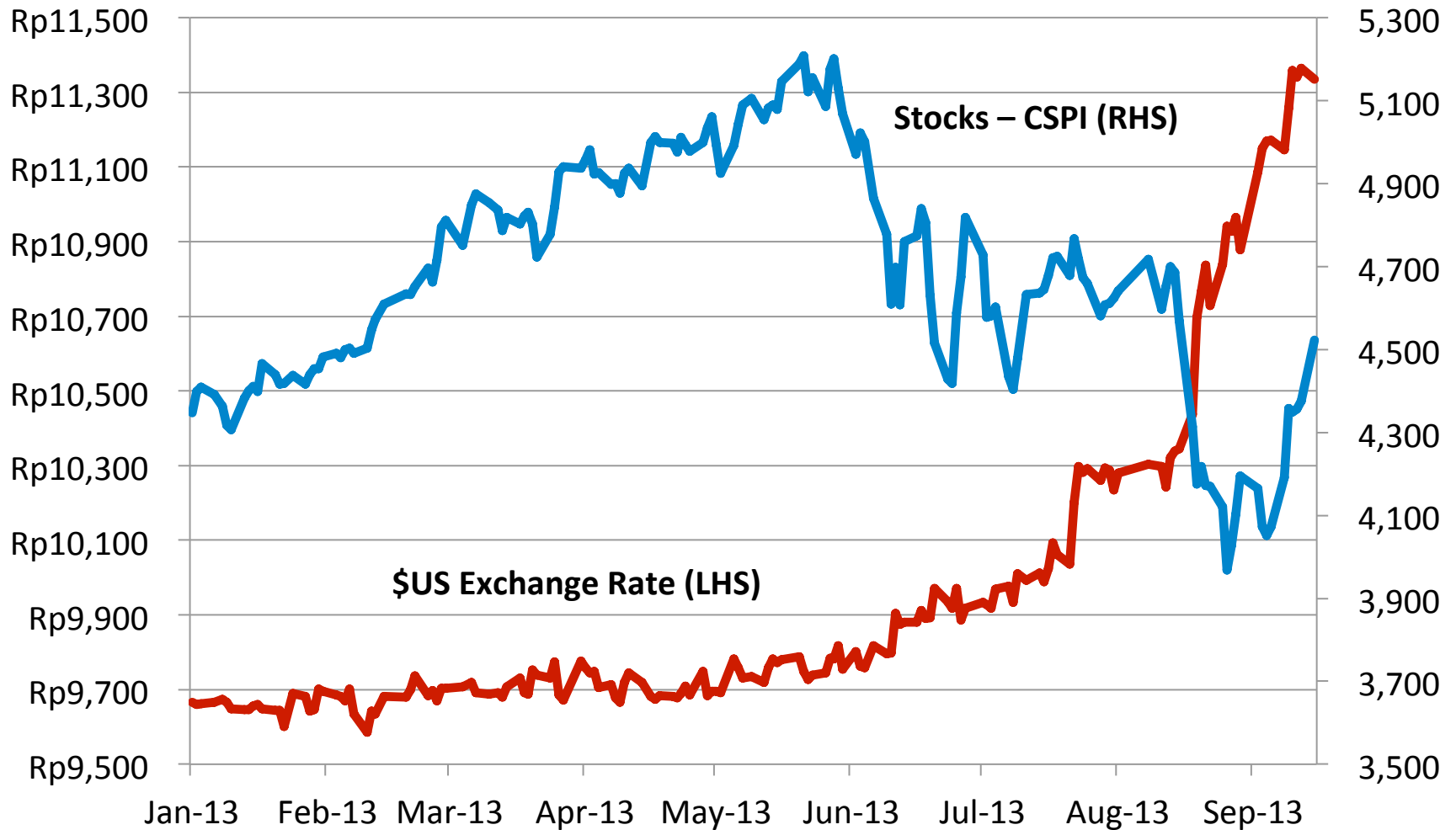
Annual GDP Growth



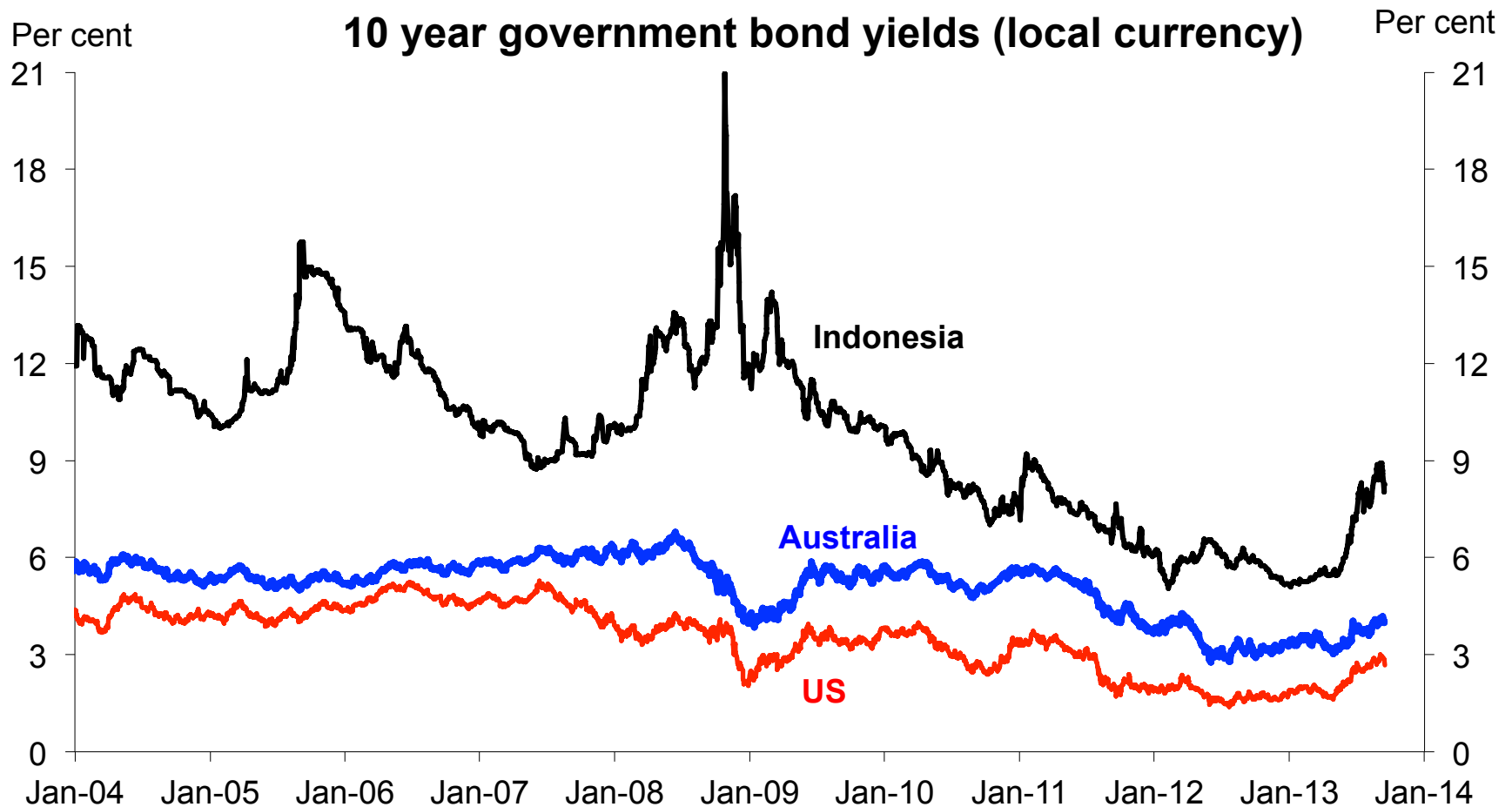
Pressure (1): quantitative easing

- ▶ Global interest rates have been very low
 - Indonesia attractive to investors
 - provides support for growth
- ▶ Risk of disruption as rates return to normal
- ▶ First taste of this in August

Pressure (1): quantitative easing

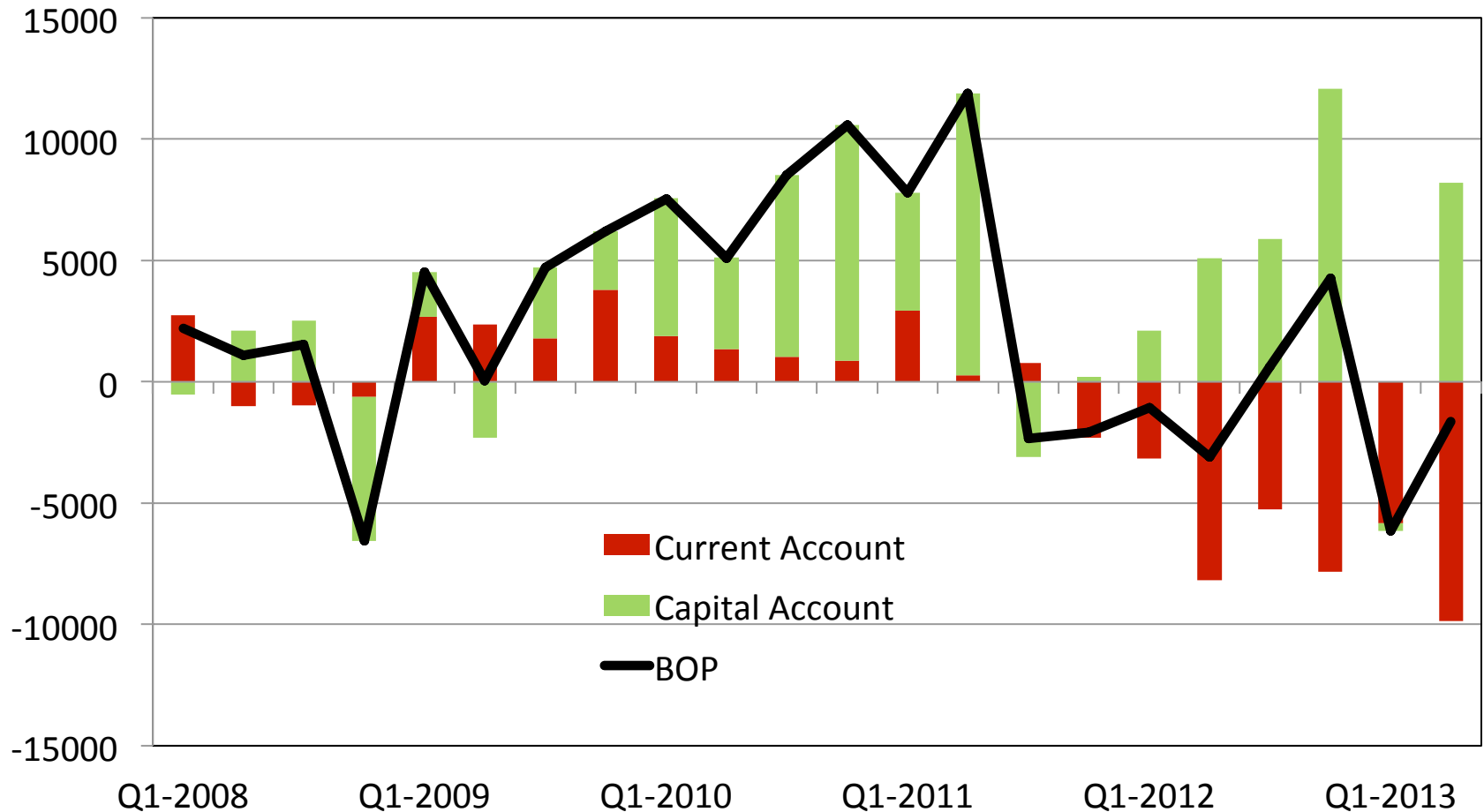


Pressure (1): quantitative easing



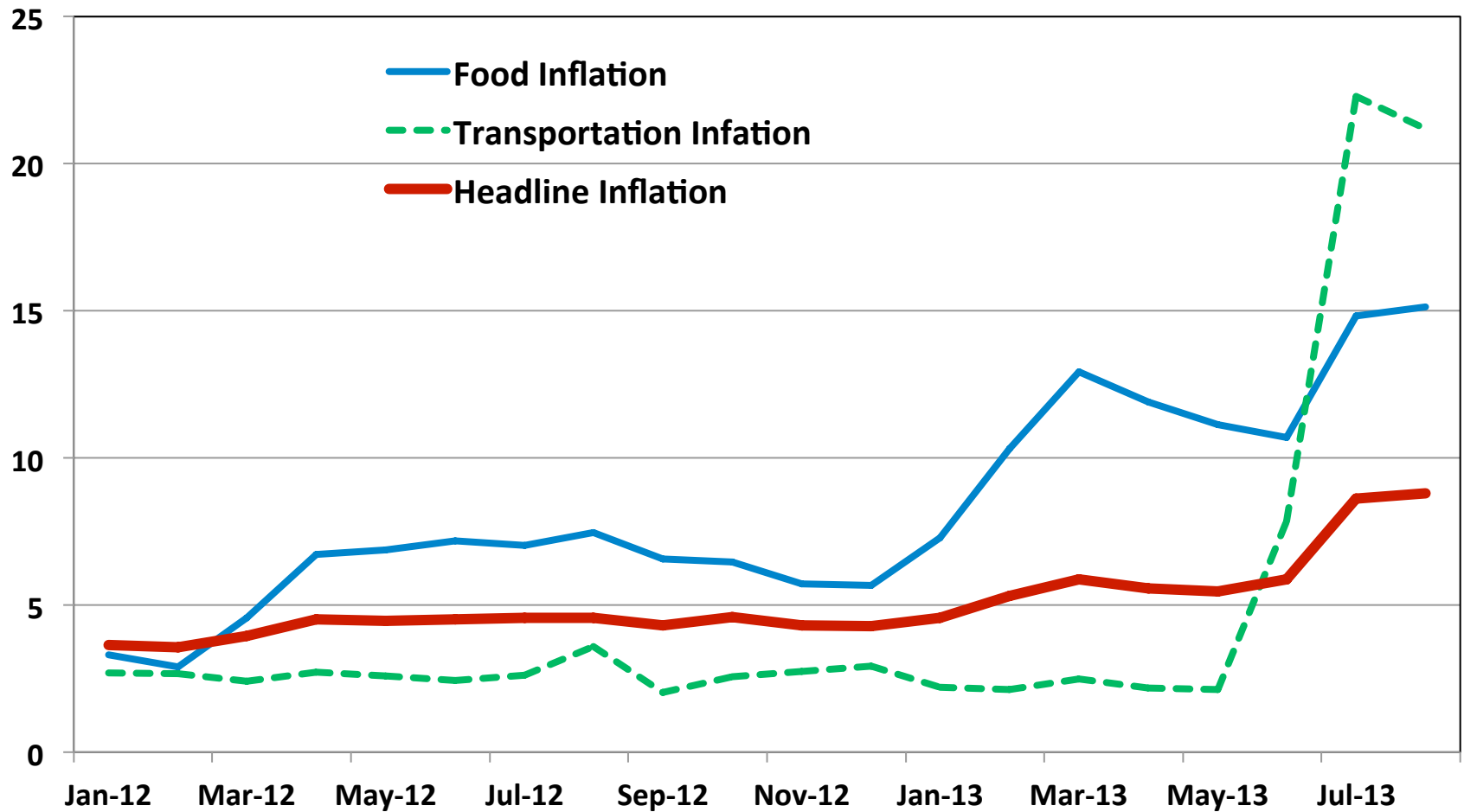
Pressure (2): balance of payments

\$US million



Pressure (3): inflation

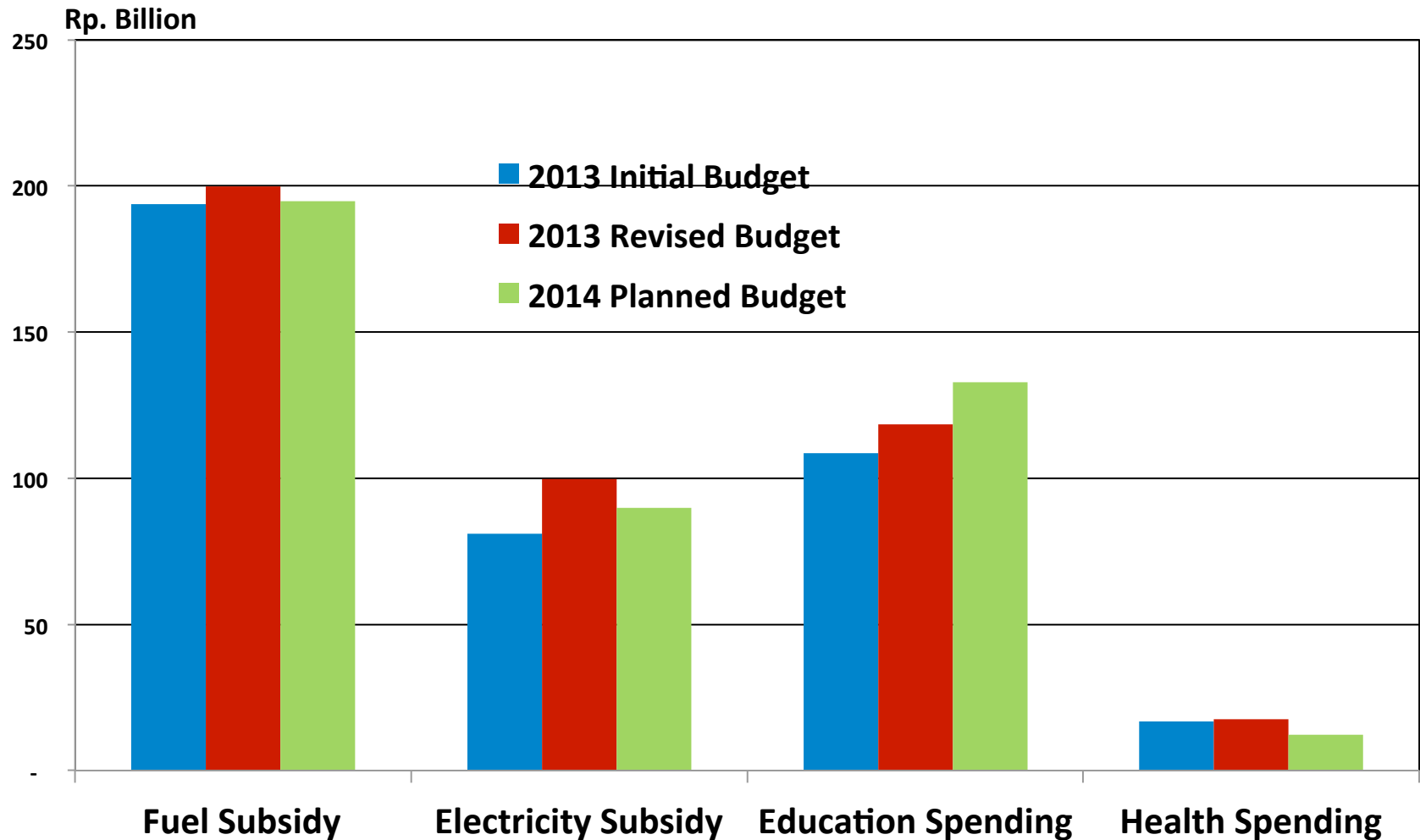
Percentage (y-o-y)



Impact of fuel subsidy reduction

- ▶ Fuel subsidy reduced:
 - ▶ Premium up from Rp 4500 to 6500 / litre
 - ▶ Diesel up from Rp 4500 to 5500 / litre
- ▶ A good move that was accepted by the public
- ▶ Government has prepared social protection to the poor
- ▶ Fuel subsidies still costly for the budget

Costly fuel subsidies



Economic Policy Package

- ▶ Announced 23 August
- ▶ Financial Times: “Indonesia unveils emergency fiscal package to revive confidence”
- ▶ Measures to:
 - ▶ reduce imports and boost exports
 - ▶ maintain growth and purchasing power
 - ▶ combat inflation
 - ▶ increase investment

Policy package measures

- ▶ On the balance of payments:
 - ▶ Measures small or will not work quickly
 - ▶ Problems with biodiesel
 - ▶ Welcome delay of raw mineral export quotas
- ▶ On growth and purchasing power
 - ▶ Import restrictions relaxed in places, but not completely open (eg soybeans)

Assessment of policy package

- ▶ Policy package is reactive, many measures are not new
- ▶ Unlikely to make a big difference to the economy
- ▶ Delay of raw mineral export quota is welcome
- ▶ But it's only a delay – there is still uncertainty
- ▶ Maybe the best that can be done in the political climate

Hopes for 2014

- ▶ Reactive policies should not be the priority
- ▶ Need to boost flexibility and growth potential through economic reform
- ▶ A condition for achieving better outcomes in health, education, environment, etc.
- ▶ There are some examples of progress, such as financial regulation
- ▶ A new president to champion reform?