What’s new in the August Survey?

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Indonesia Study Group, ANU
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Sri Mulyani goes to Washington

• Blow to economic reform effort
  – But her position had become untenable
  – Agus may have more success with less confrontational approach

• Three major challenges:
  – Managing the budget (parliament)
  – Reforming MoF (officials)
  – Guiding economic policy (experience)
Macro story: more of the same

• Growth continues to recover (5.7%)
  – With mild fiscal stimulus, and some pick up in investment and exports
• Inflation moderate but rising (4.2%)
• Large trade surplus and portfolio capital inflows
  – Accumulating reserves ($79 billion)
  – But some reversal in recent weeks
But also some risks

• Departure of Sri Mulyani
• Debt problems in Europe
  – Volatile capital markets
  – Impact on trade and commodity prices
• Policy risks:
  – Monetary policy too loose?
  – Fiscal policy too tight?
Monetary Policy and Inflation
(% p.a.)

- CPI Inflation
- Real SBI Rate
- SBI Rate 30 days
- Policy rate
- Currency in Circ.
Fiscal story

• Government can afford to run larger deficit
  – Low debt levels
  – Access to bond markets at low spreads
  – Official financing and stand-by credits

• But constraints on spending side:
  – To realize planned spending
  – To spend well

• As well as political and market risks
New Five-Year Plan

• Outlines SBY’s vision of a ‘prosperous, democratic and just’ Indonesia
• Growth to reach 7% by end of plan period
  – Poverty down to 8-10% and unemployment to 5-6%
• Conservative macro framework
• And no clear sense of priorities
## Medium Term Development Plan 2010–14

### Selected Macroeconomic Indicators

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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</thead>
<tbody>
<tr>
<td>GDP growth (%)</td>
<td>5.5–6.0</td>
<td>6.0–6.3</td>
<td>6.4–6.9</td>
<td>6.7–7.4</td>
<td>7.0–7.7</td>
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<tr>
<td>Inflation (CPI) (% p.a.)</td>
<td>4.0–6.0</td>
<td>4.0–6.0</td>
<td>4.0–6.0</td>
<td>3.5–5.5</td>
<td>3.5–5.5</td>
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<td>Tax revenues/GDP (%)</td>
<td>12.4</td>
<td>12.6</td>
<td>13.0</td>
<td>13.6</td>
<td>14.2</td>
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<tr>
<td>Budget deficit/GDP (%)</td>
<td>–1.6</td>
<td>–1.9</td>
<td>–1.6</td>
<td>–1.4</td>
<td>–1.2</td>
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<tr>
<td>Public debt/GDP (%)</td>
<td>29.0</td>
<td>28.0</td>
<td>27.0</td>
<td>25.0</td>
<td>24.0</td>
</tr>
</tbody>
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Connectivity

• SBY focuses on connecting islands
  – But also bottlenecks and poverty on Java
  – And connecting Indonesia to the world
• Major regulatory issues
  – Inter-island shipping, land acquisition, local borrowing, prices/subsidies
• And large funding requirements
  – New port for Jakarta, road/rail links between Jakarta and Surabaya
Poverty

- Poverty rate fell to 14.2% in 2009
- GFC had mild impact on Indonesia
  - Poor also protected by unconditional cash transfers and election campaign spending
- But bigger impact on younger workers
- And contract and migrant workers in commodity-based and manufacturing industries
Key Commodity Prices
(January 2007 = 100)
Employment

- Unemployment rate fell to 7.4% in February 2010
- But large informal sector (69%)
- Due to sluggish manufacturing sector
- And Manpower Law:
  - High minimum wage (political process)
  - Generous termination payment (complex process)
Decentralization

• New mining law shifts responsibility to regional governments
  – Brings in illegal and informal activities
  – But is there capacity for oversight?
• New law regulates regional taxes
  – Provides much-needed revenues
  – But will they be well used?
• Provincial governors
  – Who do they work for?