

E-MATERI



YAYASAN
PENDIDIKAN
INTERNAL AUDIT



BUILDING RESILIENCE IN **TUNA** WORLD:

**“Control Your Future
or Someone Else Will”**

HOTEL TENTREM YOGYAKARTA

5-6 JULI 2023

KONFERENSI & WISUDA YPIA



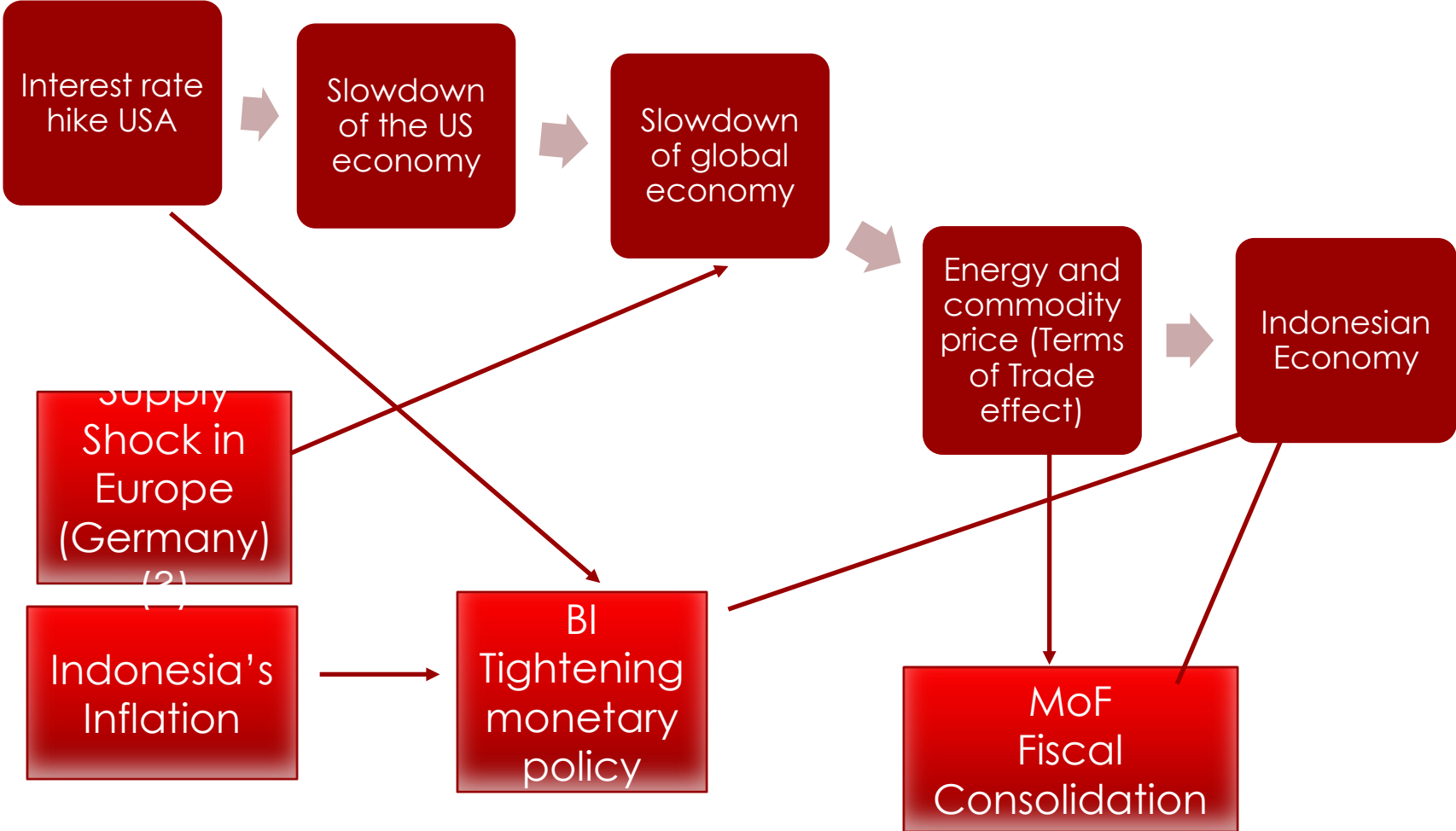
Managing the macroeconomy in a time of global uncertainty: the case of Indonesia

M. Chatib Basri

**University of Indonesia
Creco Research**

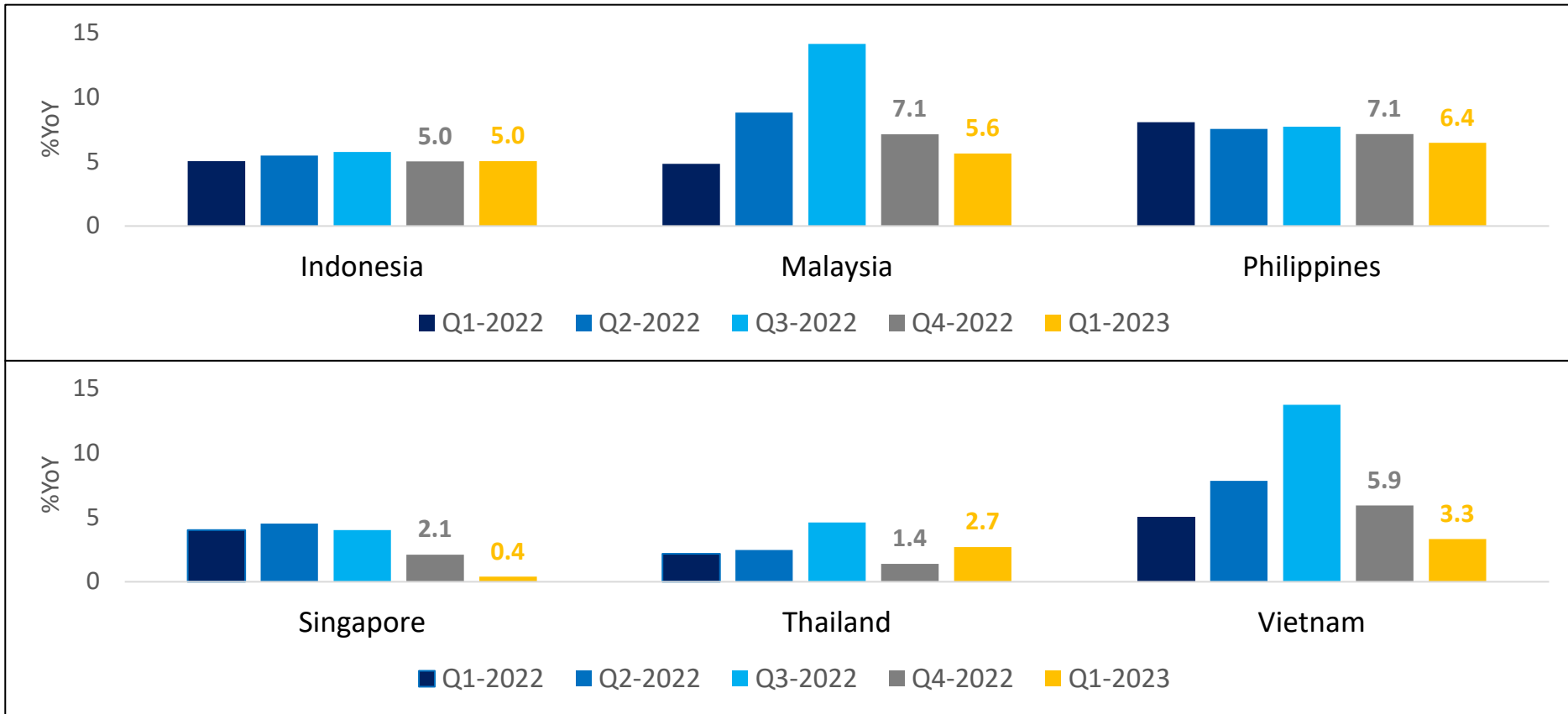
KAI Conference, July 5, 2023

Global recession and its impact to Indonesian economy



ASEAN: GDP GROWTH

Indonesia's economic growth in Q1-2023 is also moderate: higher than Singapore and Thailand, but lower than Malaysia & the Philippines



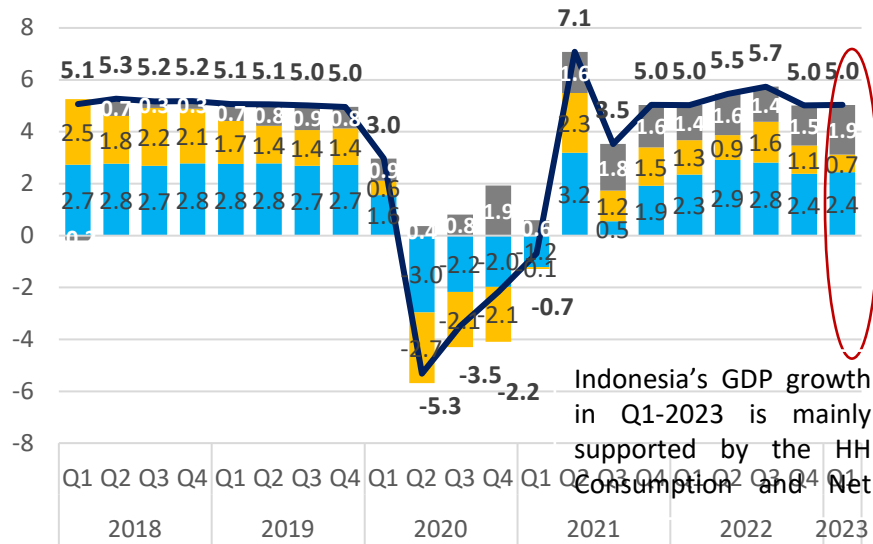
Source: CEIC Database (2023)

Indonesian economy

GDP BY EXPENDITURE: GROWTH CONTRIBUTION

Gross Domestic Product

(contribution to real growth yoy, percent)

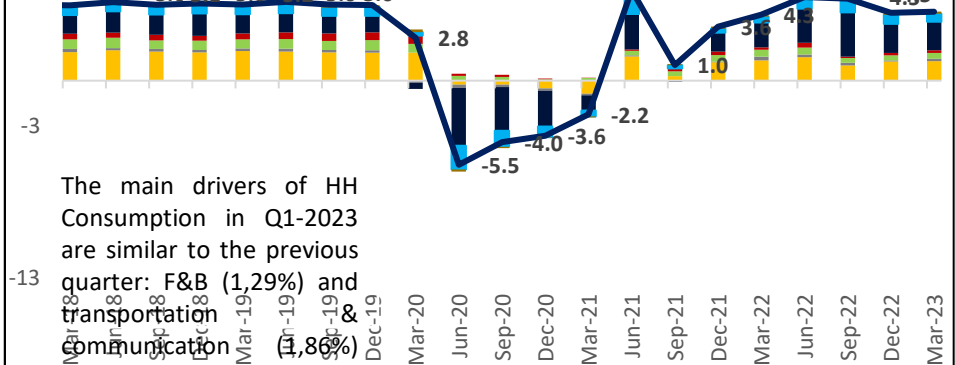


Indonesia's GDP growth in Q1-2023 is mainly supported by the HH Consumption and Net

- Other Component (incl. Net Export)
- GFCF
- HH Consumption
- GDP

Household Consumption

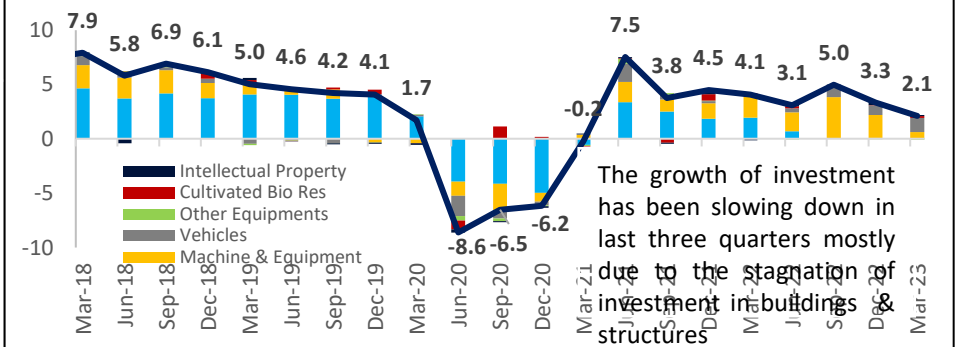
(contribution to real growth yoy, percent)



The main drivers of HH Consumption in Q1-2023 are similar to the previous quarter: F&B (1,29%) and transportation communication (1,86%)

Gross Fixed Capital Formation

(contribution to real growth yoy, percent)



The growth of investment has been slowing down in last three quarters mostly due to the stagnation of investment in buildings & structures

Some challenges

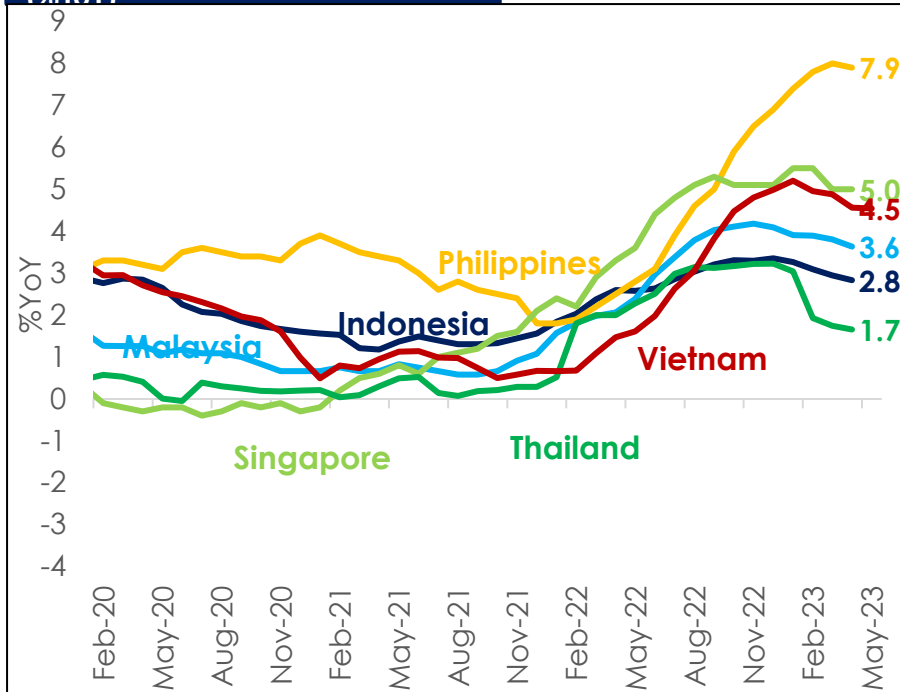
- Dissaving began to occur in almost all expenditure groups.
- Exports are slowing down, the trade surplus is declining
- Investment growth is slowing down
- Fiscal surplus indicates a contractionary fiscal policy

Monetary Policy and exchange rate

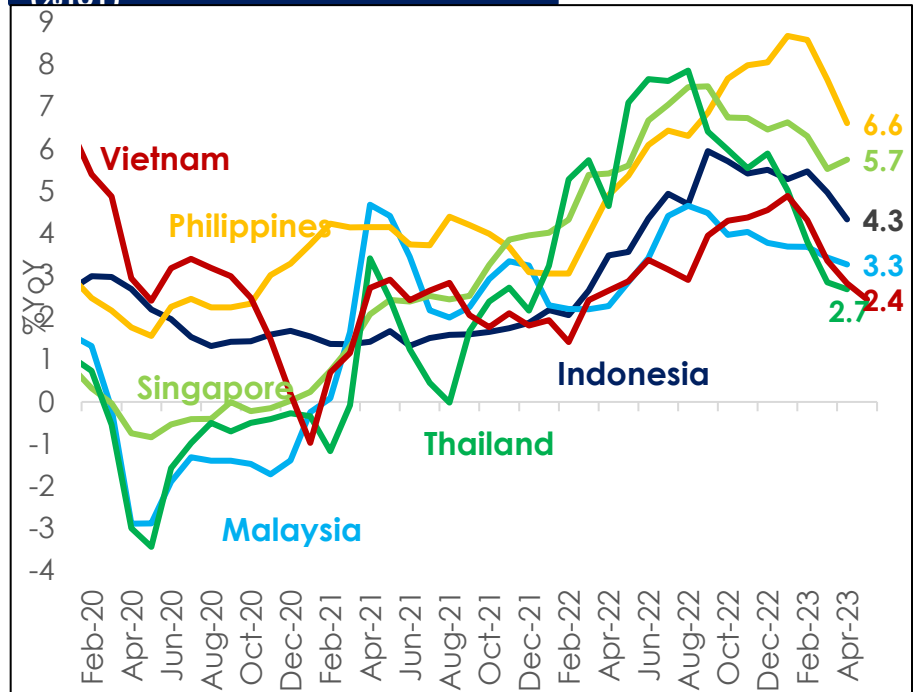
ASEAN: INFLATION

The inflation rate in Indonesia is considered to be moderate relative to other ASEAN countries

Core Consumer Price Index (%YoY)



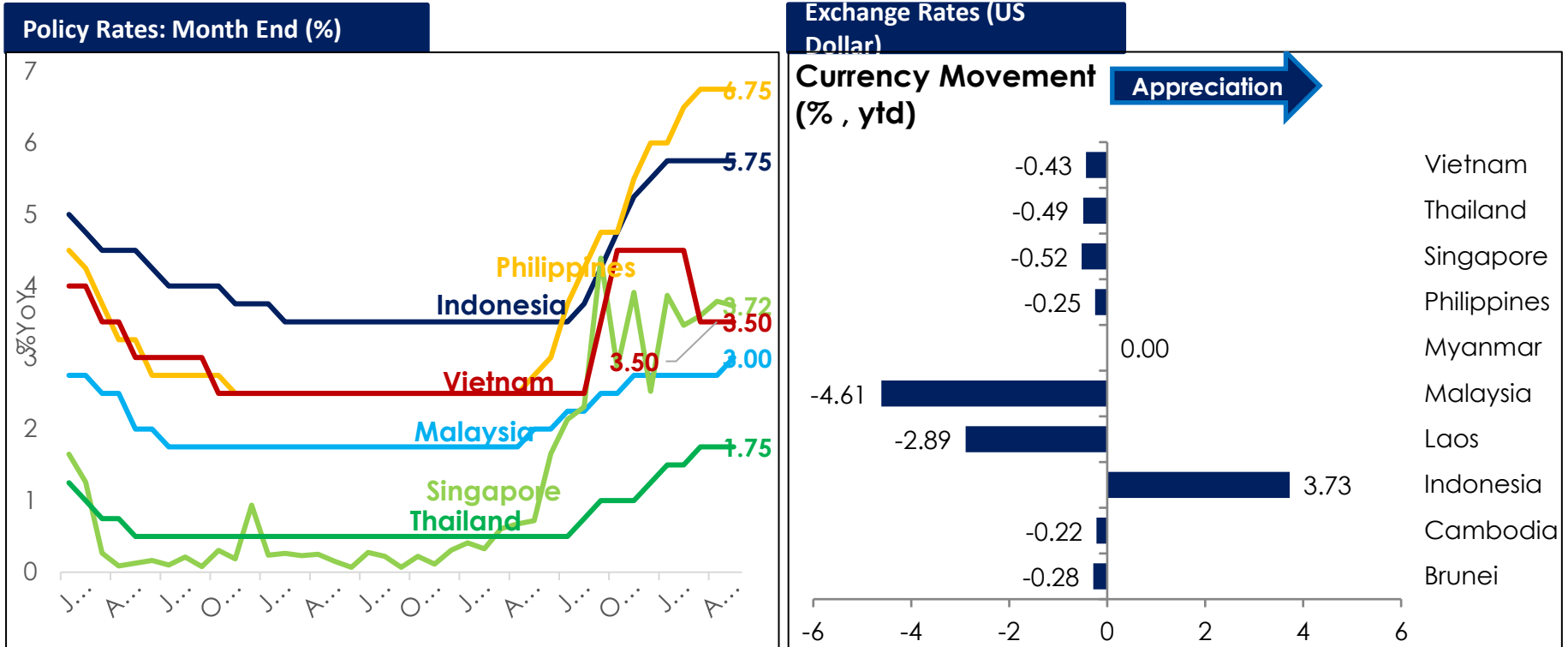
Headline Consumer Price Index (%YoY)



Source: CEIC Database (2023)

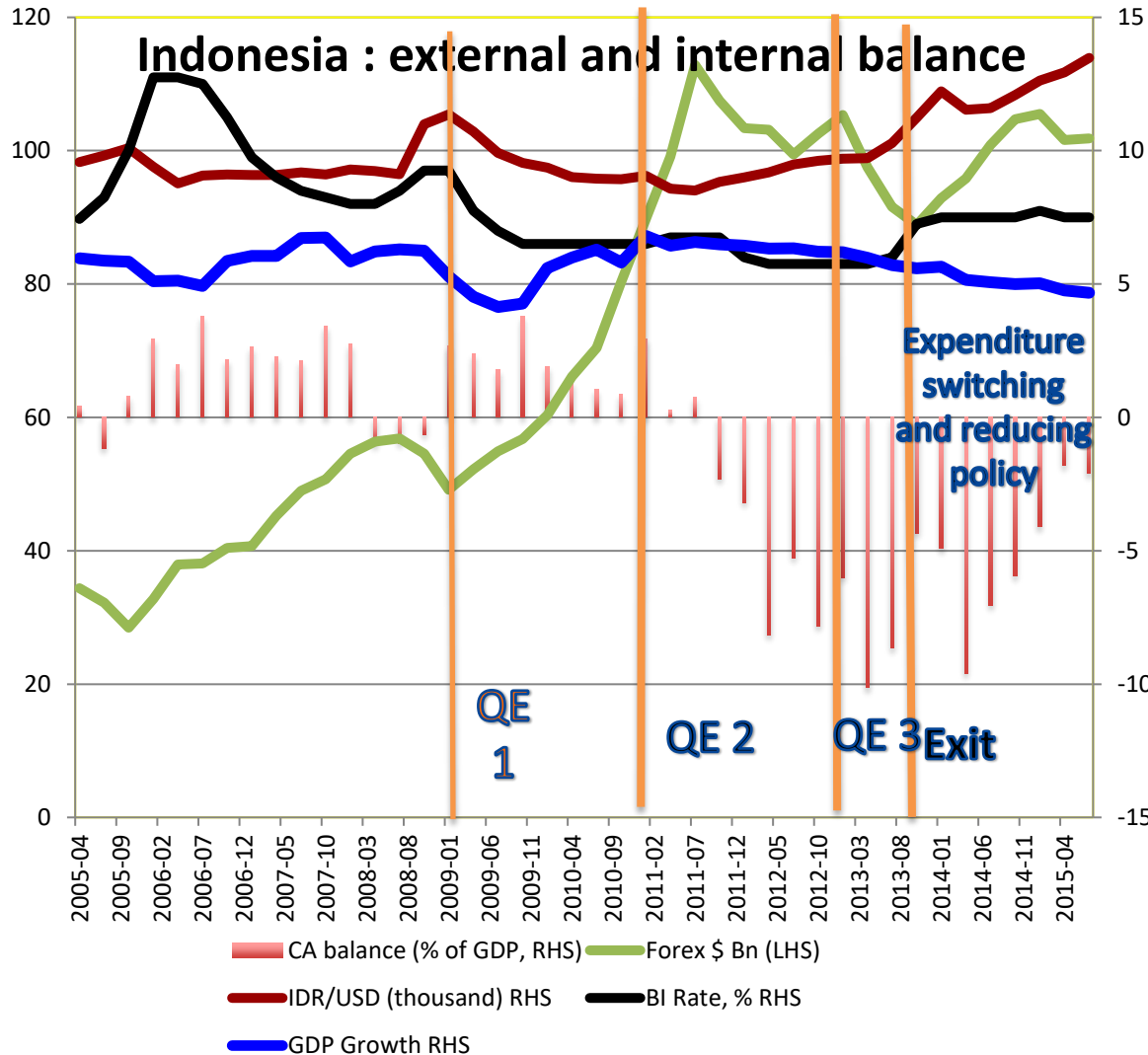
ASEAN: POLICY RATES & EXCHANGE RATES

The gap between Indonesia's policy rate and Malaysia's & Thailand's is widening compared to last year. Meanwhile, IDR shows the biggest ytd appreciation to USD relative to other ASEAN countries



Source: CEIC Database (2023)

Why is it so difficult for Indonesia to implement a completely free-floating exchange rate?



- Differing monetary policy objectives
 - Volatile floating exchange rate
 - Balance sheet effects
 - Commodity super cycle and pro cyclical fiscal policy
 - During TT IDR depreciated by 15-20% during TT, but did not create panic
 - Policy credibility and communication played critical roles.
- Source: Basri and Sumartono (forthcoming)

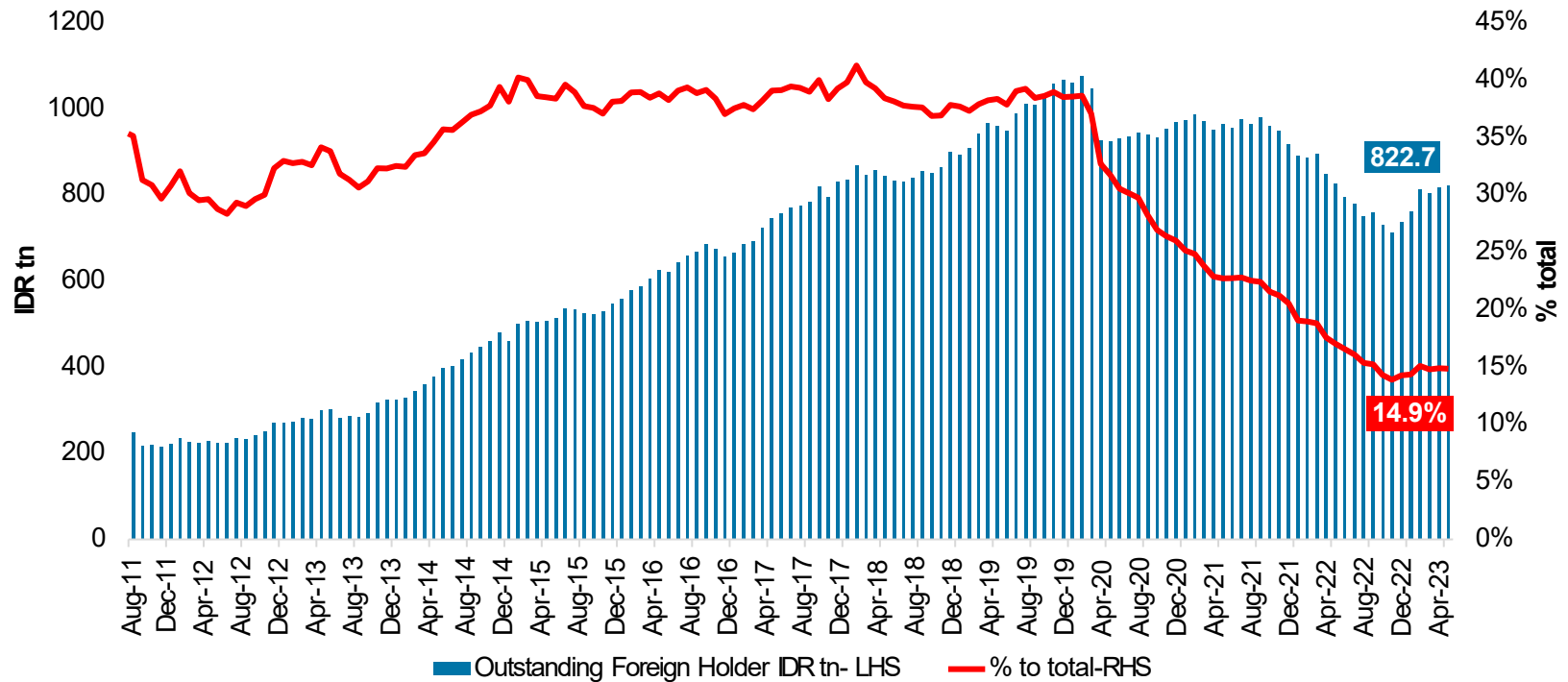
Relative strong IDR/USD

- USD : differential growth; commodity prices; end of tightening cycle?
- Balance sheet effects: firms, profit repatriation; interest rate hike
- Terms of trade and exchange rate
- Savings-investment gap (current account deficit)

Foreign Investor Activity in Government Bond



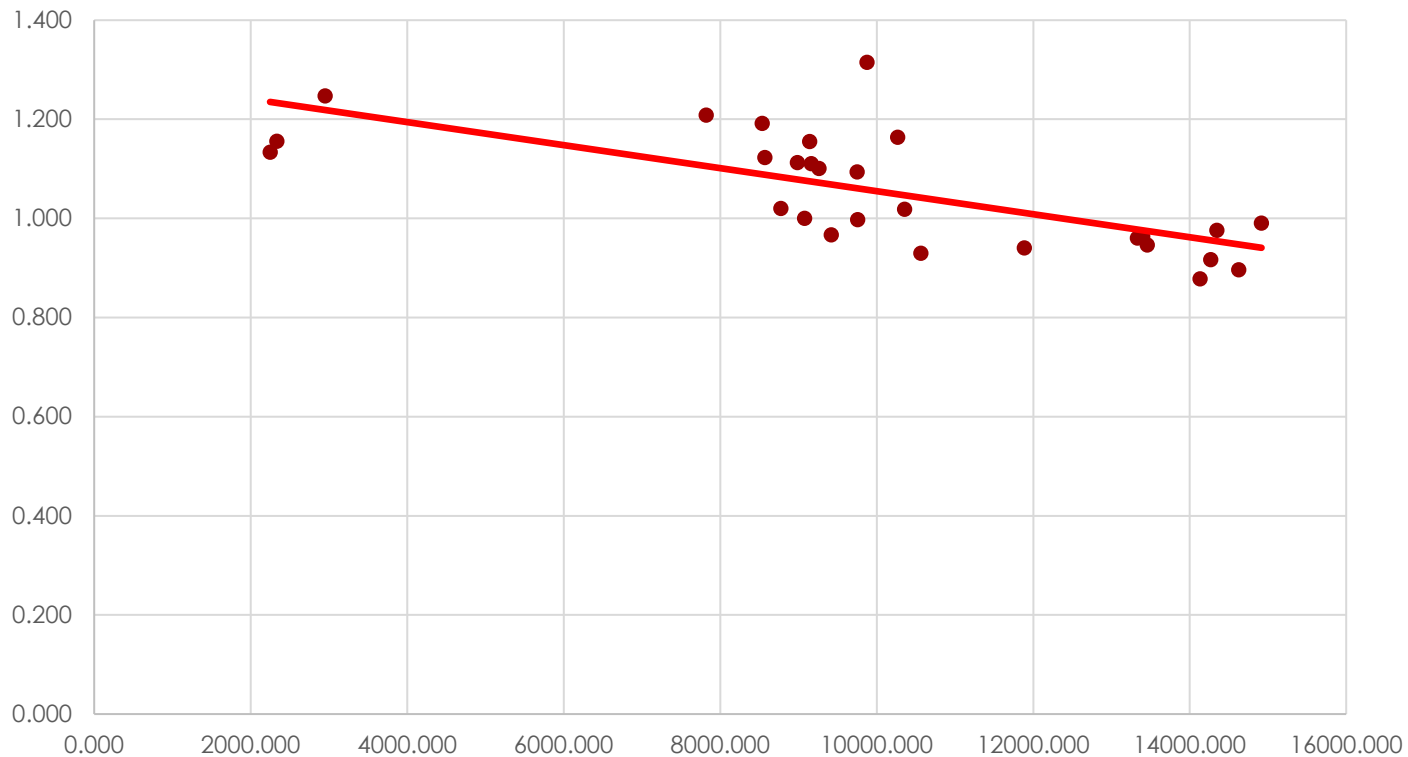
Foreign ownership in the government bond as of 28-Apr-23 was IDR822.7 tn (14.9% of total)



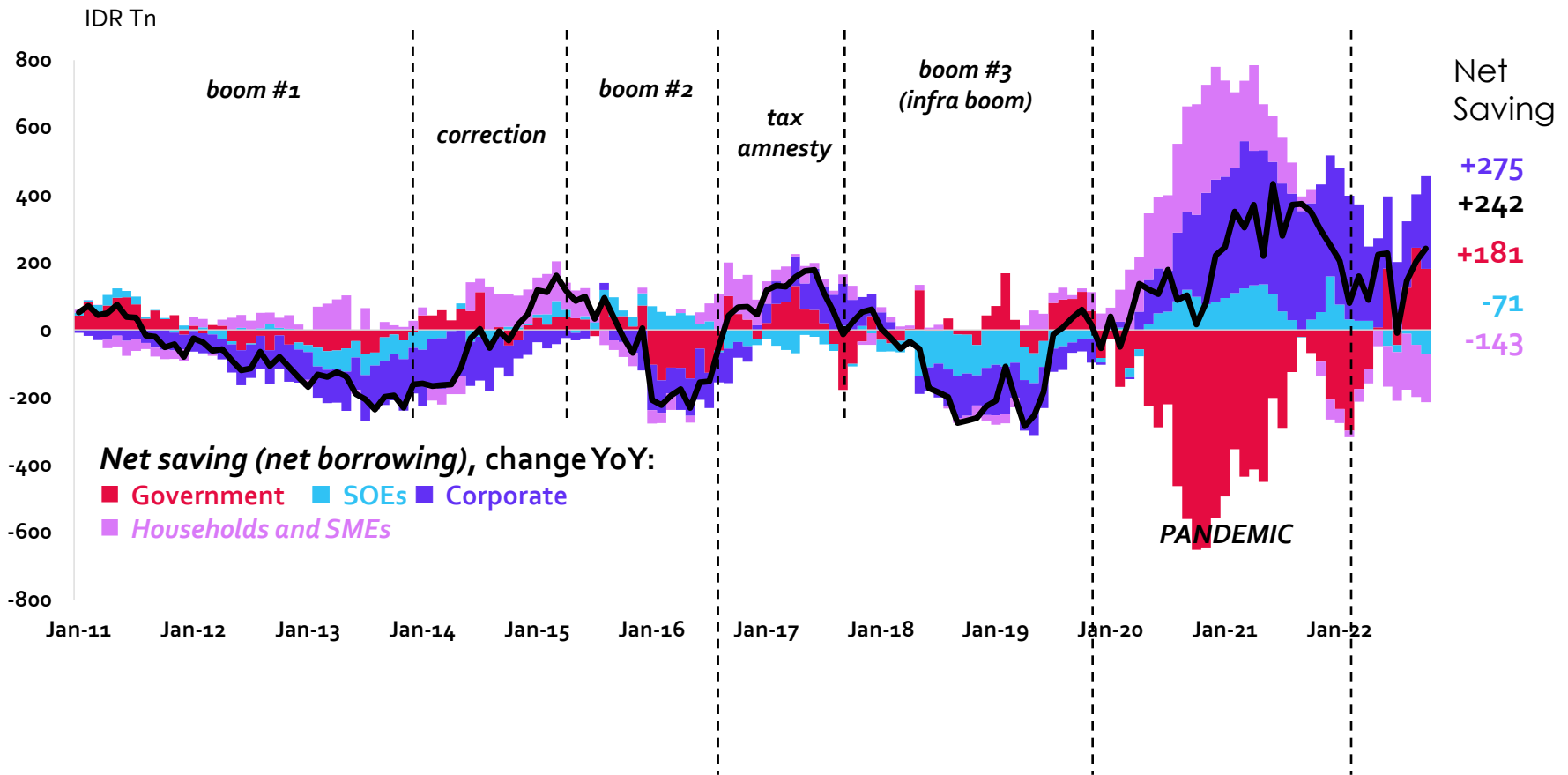
Source: Ministry of Finance, as of 28-Apr-23

Terms of trade and exchange rate (IDR/USD)

Term of Trade: Goods and Services



Savings and Investment

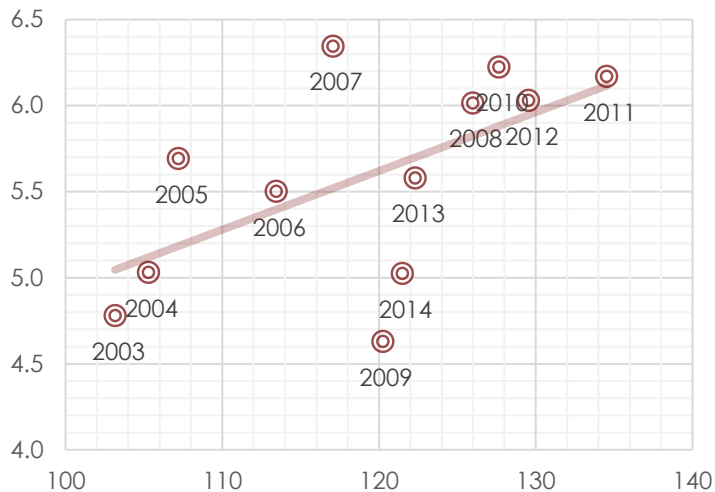


Fiscal Policy

Terms of Trade effect

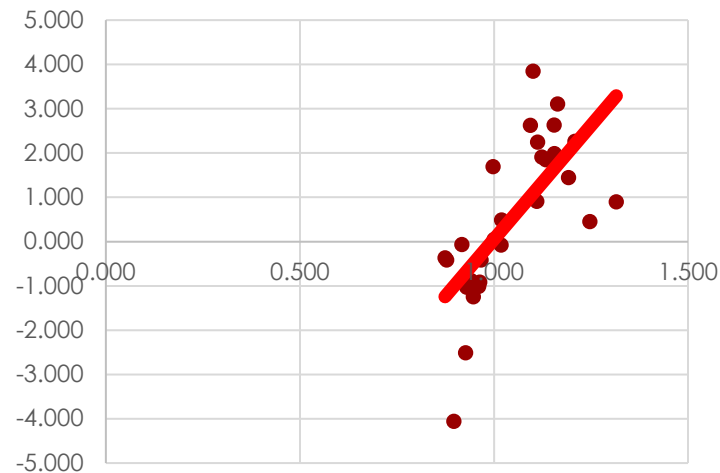
Indonesia : GDP growth and Terms of Trade

GDP Growth (% Y) and Terms of Trade (Index 2000=100, X): Indonesia



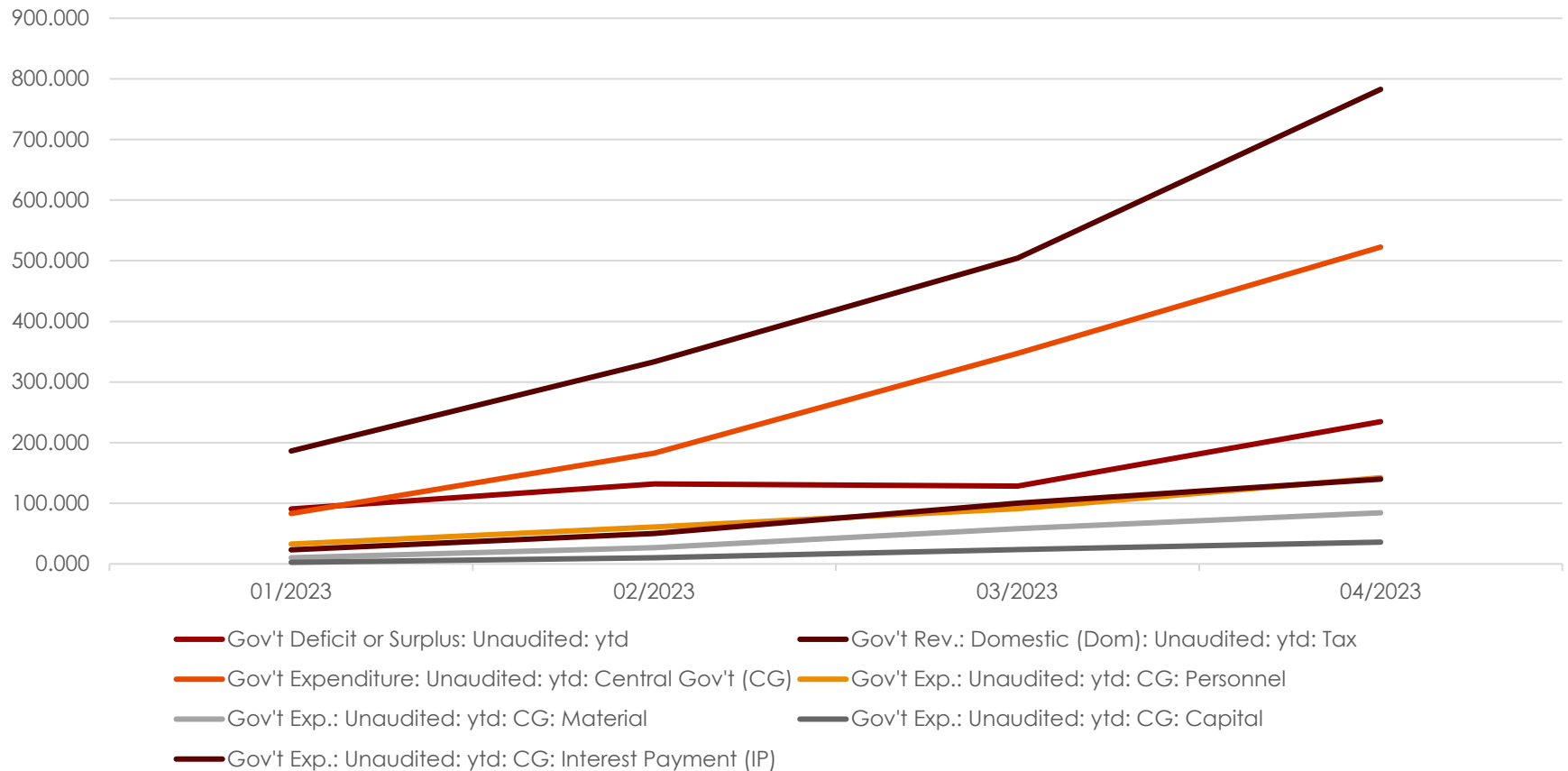
Indonesia: Terms of Trade and Primary Fiscal Balance to GDP

Indonesia: Terms of Trade and Primary Fiscal Balance to GDP



Indonesia: Government Budget

Indonesian Government Budget
Jan-April 2023
Trn IDR

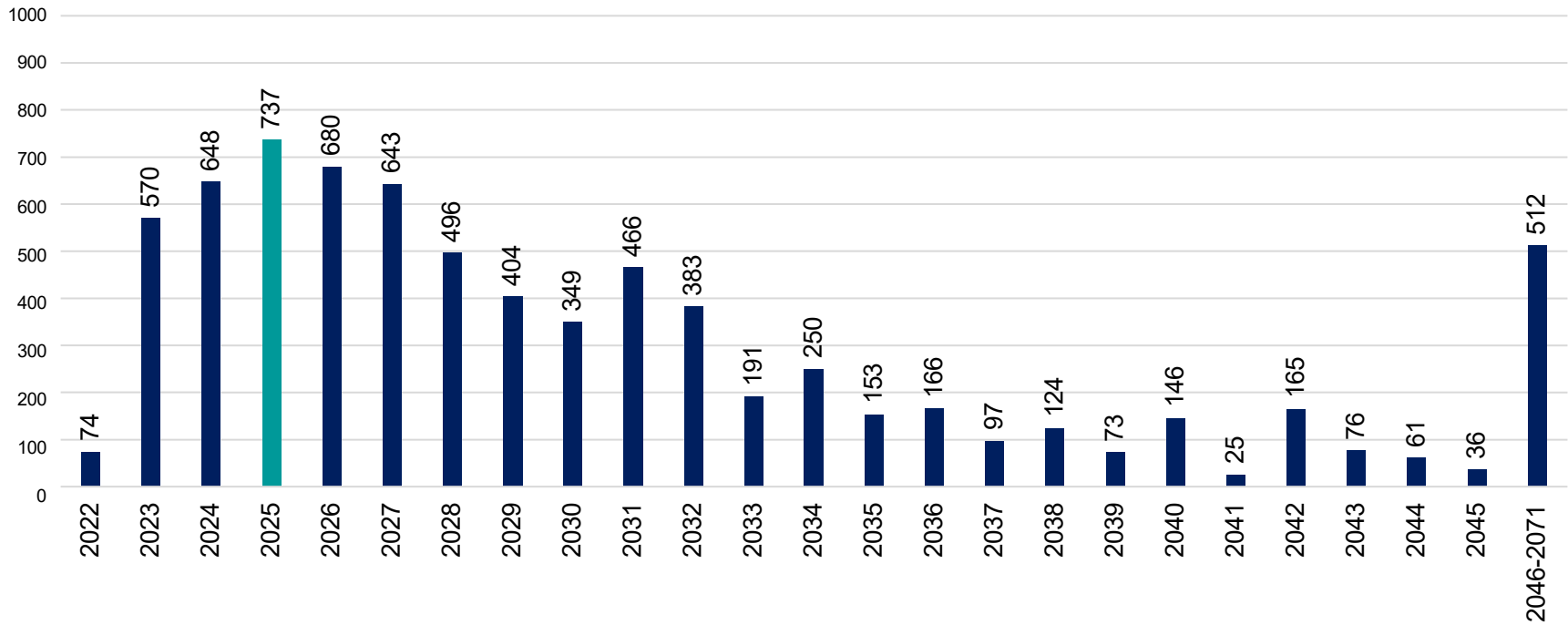


Indonesia's Government Debt Maturity



The highest level will be in 2025

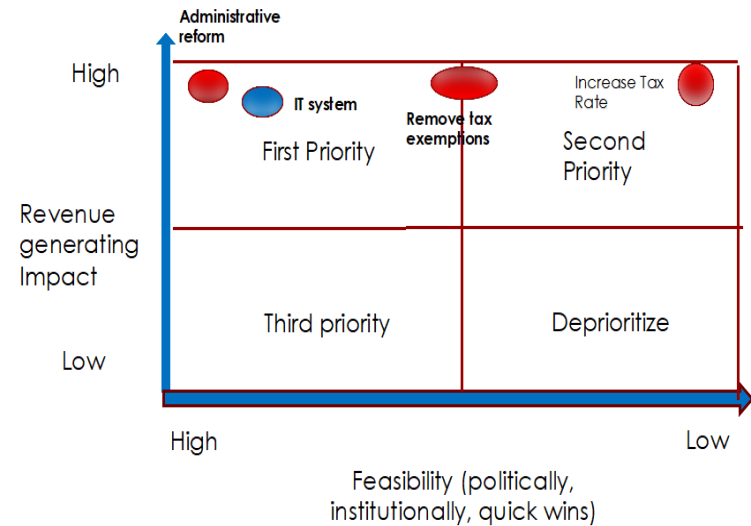
Government's Debt Maturity by Year (IDR tn)



Revenue Strategies: mobilize sufficient resources for Investments

- Increase Tax Rates
- Administrative reform
- Reduce Tax exemption
- Review Tax Expenditure: post audit
- Case study Indonesia: Basri, Felix, Hanna and Olken (2021) shows that developing country governments can increase tax revenue through both enhanced administration and increases in tax rates. But they also imply, at least in the case of medium-sized firms, that **improving administration** can have a particularly dramatic effect in increasing revenues.

Revenue Strategies



Note: feasibility includes administrative capability, time frame, political economy

Allocate: Align Investment Choices with Country Needs

Current Expenditure

- Recurrent Expenditure Policy and Priorities: Emphasize on outcomes
- Implementing reform to improve the effectiveness and efficiency of public spending.
- Review effectiveness of subsidies: case of fossil fuel subsidy; the richest 20% of households receive six times more benefits in fuel subsidies than the poorest 20%. Reduce fuel subsidies and use the savings to fund social assistance programs (Basri, Hanna, Olken, 2020)
- Focus on quality of spending
- The capacity to perform: every dollar spent is expected to produce the desired benefits or outcomes.

Capital Expenditure: Cost effectiveness

- Investment on health; Education (short term vs long term); political cycle
- Investment Infrastructure (impact; political economy perspective)
- Digital technology to boost job (youth unemployment); Re-skilling and up-skilling
- Ear marking: use of natural resource revenues for longer-term benefits, such as human development. The results are mixed (OECD, 2017); concerns including :
 - limits budgetary flexibility
- Case studies: cost effectiveness of spending on health, education, infrastructure

Medium and long-term challenges: industrialization as a game changer

Indonesia in 2050

Emerging markets will dominate the world's top 10 economies in 2050 (GDP at PPPs)

	2016	2050	
<i>China</i>	1	1	<i>China</i>
<i>US</i>	2	2	<i>India</i>
<i>India</i>	3	3	<i>US</i>
<i>Japan</i>	4	4	<i>Indonesia</i>
<i>Germany</i>	5	5	<i>Brazil</i>
<i>Russia</i>	6	6	<i>Russia</i>
<i>Brazil</i>	7	7	<i>Mexico</i>
<i>Indonesia</i>	8	8	<i>Japan</i>
<i>UK</i>	9	9	<i>Germany</i>
<i>France</i>	10	10	<i>UK</i>

E7 economies
 G7 economies

Sources: IMF for 2016 estimates, PwC analysis for projections to 2050

Demographic dividend 2025, but aging population begin in 2050



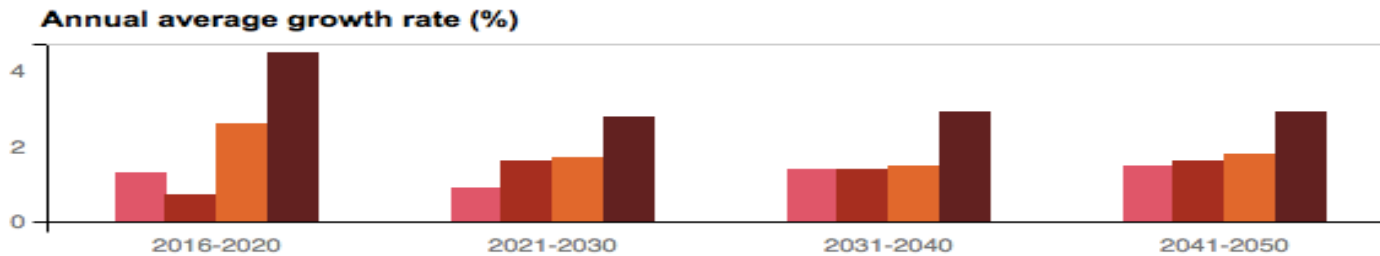
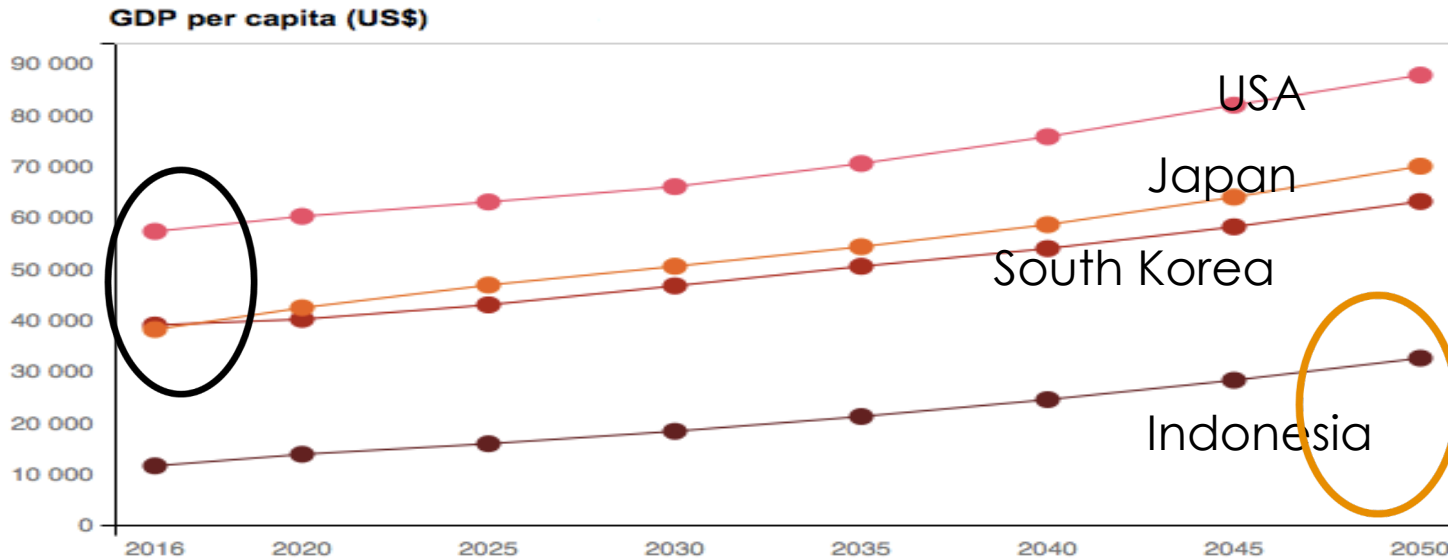
TABLE 1

SUMMARY OF DEPENDENCY AND ECONOMIC SUPPORT RATIOS,
ASIA AND NEAR EAST COUNTRIES, 2000, 2025, AND 2050

	Total dependency ratio			Child dependency ratio			Old age dependency ratio			Economic support ratio		
	2000	2025	2050	2000	2025	2050	2000	2025	2050	2000	2025	2050
East Asia	0.462	0.474	0.649	0.349	0.265	0.266	0.113	0.210	0.383	0.761	0.675	0.575
South East Asia	0.568	0.460	0.570	0.494	0.336	0.308	0.074	0.124	0.262	0.709	0.705	0.661
South Asia	0.649	0.472	0.522	0.573	0.360	0.306	0.076	0.112	0.216	0.658	0.660	0.623
Japan	0.468	0.673	0.838	0.217	0.226	0.254	0.250	0.447	0.583	0.637	0.582	0.545
South Korea	0.393	0.477	0.678	0.299	0.252	0.270	0.094	0.226	0.417	0.647	0.622	0.564
Philippines	0.676	0.458	0.521	0.615	0.353	0.305	0.061	0.105	0.216	0.677	0.672	0.649
Thailand	0.450	0.453	0.660	0.366	0.274	0.278	0.084	0.178	0.382	0.787	0.728	0.653
Indonesia	0.546	0.456	0.573	0.473	0.333	0.313	0.073	0.123	0.260	0.683	0.695	0.652
Bangladesh	0.622	0.428	0.523	0.569	0.344	0.309	0.052	0.084	0.213	0.753	0.761	0.728
India	0.620	0.459	0.531	0.540	0.336	0.300	0.081	0.123	0.232	0.641	0.638	0.601

Source: Mason, Lee, Russo (2000)

Growing old before becoming rich?



Average annual growth rate, 2016-2050

Can we grow faster than 6%??

- ICOR=6.4 (investment/GDP ratio)
- Every additional 1% GDP growth will necessitate a 6.4% increase in investment/GDP.
- S=Indonesia's Gross Domestic Savings/GDP ratio is 34.8% (World Bank).
- Thus, GDP growth will be around 5-5.5%.
- If Indonesia wishes to grow its GDP by 6%, the I/GDP ratio should be $6\% \times 6.4\% = 38.4\%$.
- S/GDP is 35%, while S-I is 3.4% (current account deficit). To achieve higher growth, we should either increase S or decrease ICOR (better productivity and efficiency).

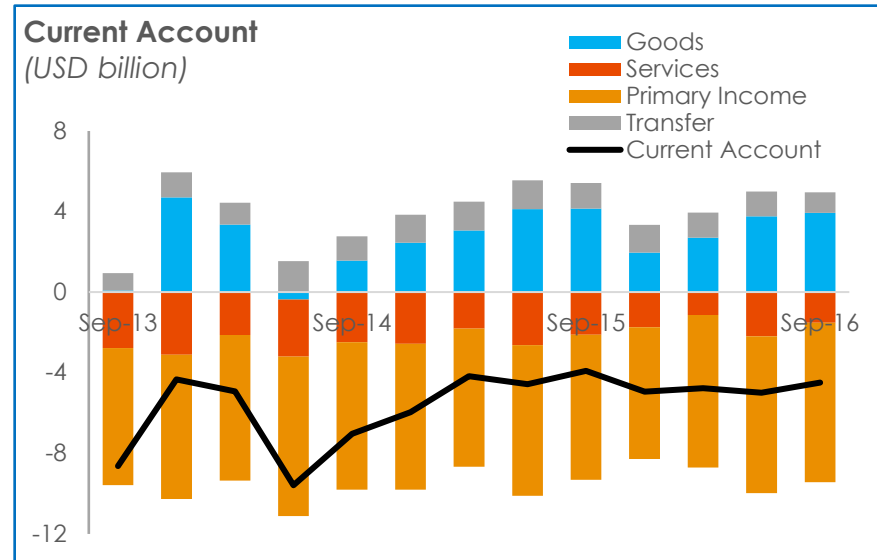


Chart 3a: Incremental capital output ratio

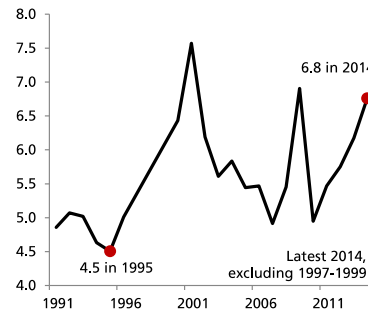
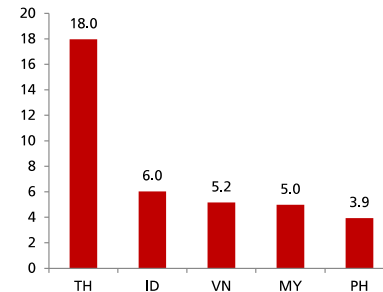


Chart 3b: ICOR relative to the region average 2011-14



Then should Indonesia dump export led growth strategy?

Comovements between Innovations in Private Consumption with Innovations of GDP Components ^a

Lags	Components of GDP		
	Government consumption	Gross fixed capital formation	Exports
0	0.12	0.06	0.24
-1	-0.16	-0.04	-0.27
-2	-0.22	-0.01	-0.41
-3	0.26	-0.07	0.29
-4	0.20	-0.13	0.49

Source: Estimated from BPS National Account

^a Comovements between innovations of each component derived from original data that spans from 2000-I to 2008-IV. Here growth is expressed as annual (year-to-year) growth

Indonesia made slow progress in export diversification; appreciation of exchange rate could be one of the reasons

Figure 11 Relatively Slow Progress in Diversifying Export Products

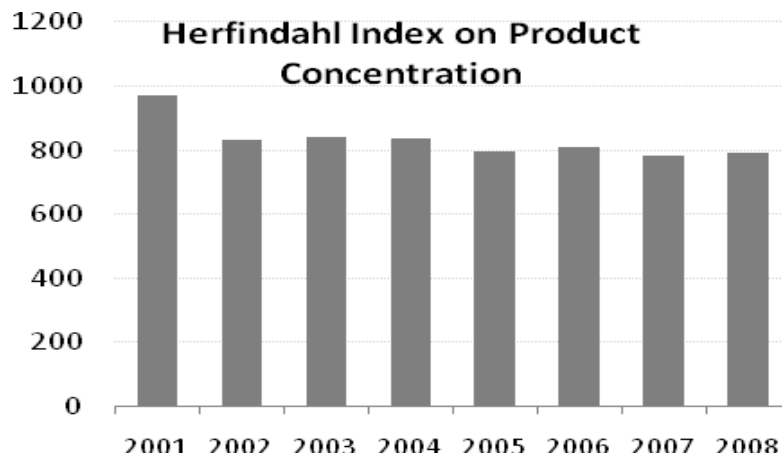
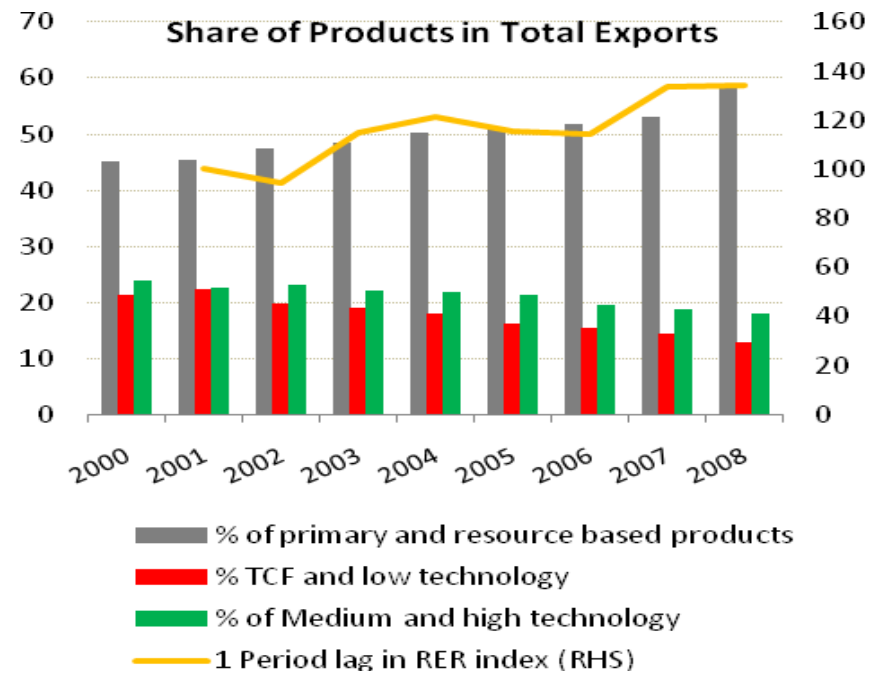


Figure 12 Increasing Share of Primary and Resource Based Products



Source: Bank Indonesia and authors' calculation using UN-Comtrade data. Classification is based on Lall (2000)

Export volatility and concentration

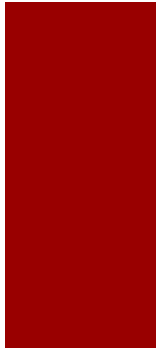
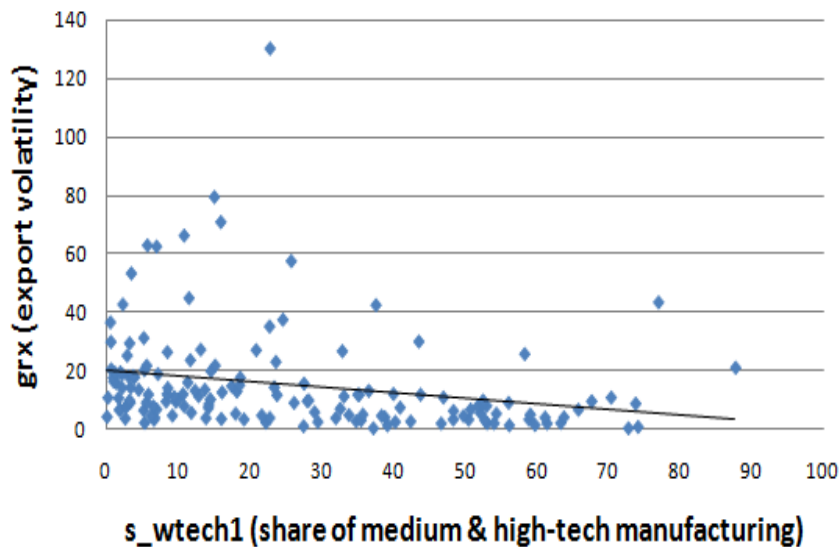


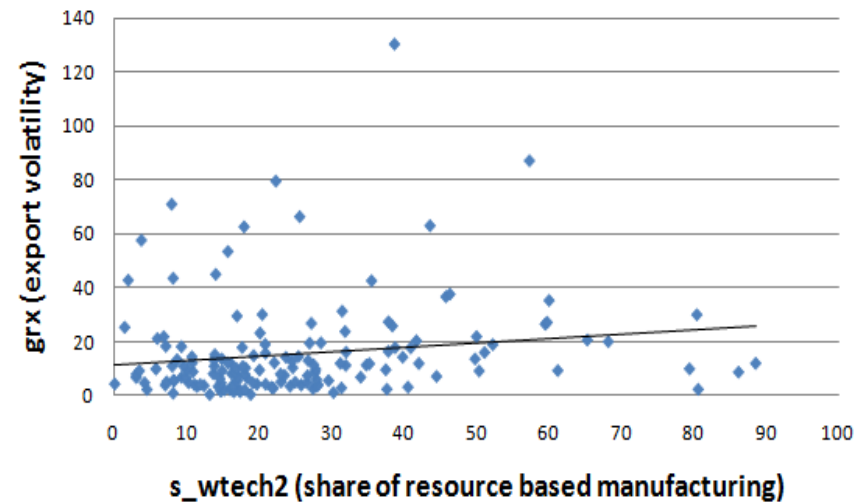
Figure 8: Export volatility and concentration in medium & high tech manufacturing

Figure 9: Export Volatility and concentration in resource based manufacturing

World Technology 1



World Technology 2



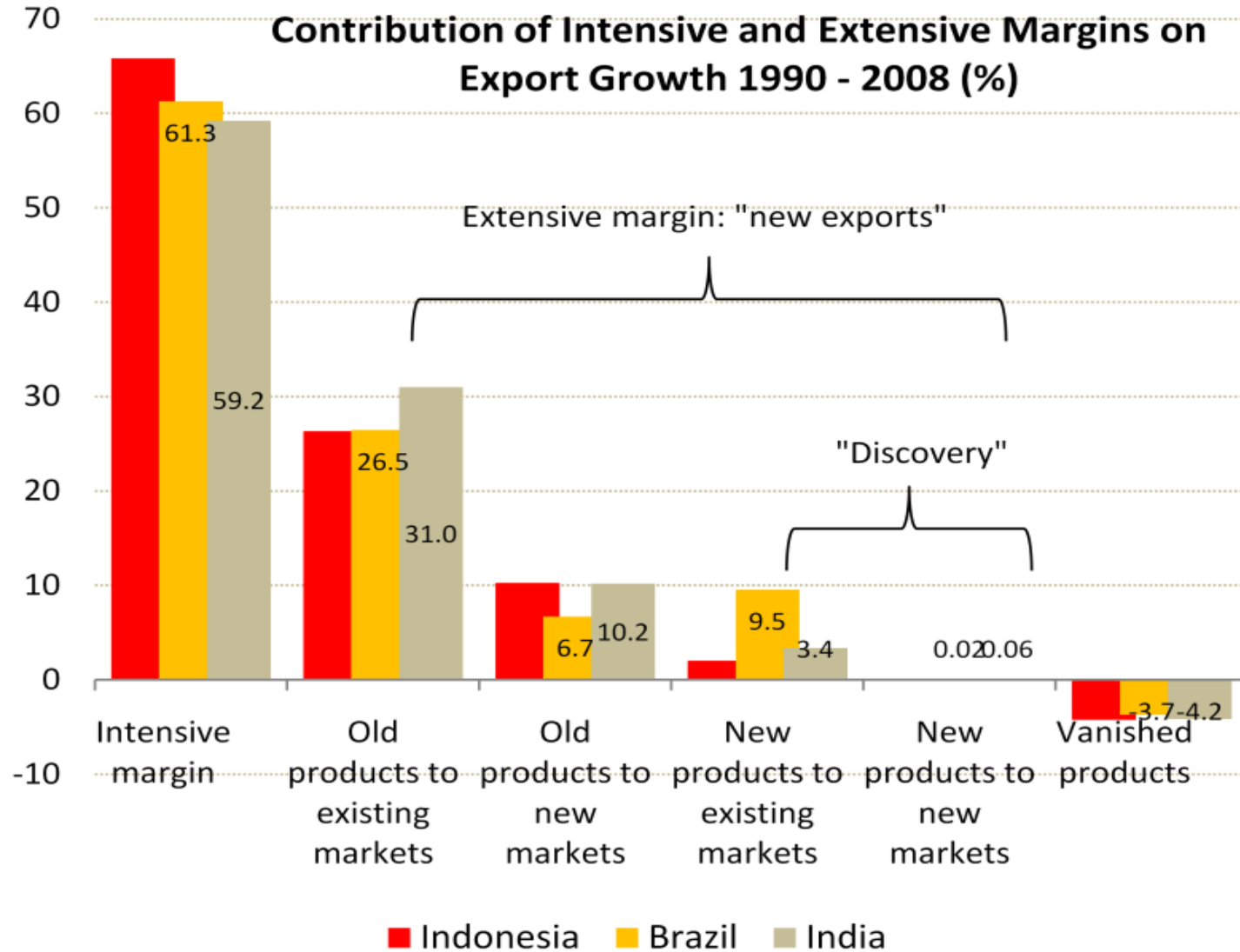
Development challenges are beyond macro-stability

	Brazil	China	India	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Characteristics (2013)								
Population (person mn)	200.4	1,357.4	1,252.1	249.9	29.7	98.4	67.0	89.7
GDP Per Capita (in PPP, USD)	5,823	3,583	1,165	1,810	6,998	1,581	3,438	1,029
Density (person/sq km)	24.0	144.6	421.1	137.9	90.4	330.0	131.2	289.3
Real Exchange Rate Movement (%)								
2003-2013 (average)	68.3	31.4	-0.3	6.4	2.5	39.2	25.0	50.9
PISA Test Score (2012)								
Math	391	613	351*	375	421		427	511
Science	406	580	348*	382	420		438	528
Broadband Penetration								
Fixed (wired)-broadband subscriptions per 100 inhabitants (2013)	10.08	13.36	1.16	1.3	8.22	9.12	7.36	5.62
Logistics Performance Index (2014)								
Percentage of shipment met quality	82	76	67	70	97	71	83	76
Government effectiveness score	-0.08	-0.03	-0.19	-0.24	1.10	0.06	0.21	-0.30

* Tamil Nadu dan Himachal Pradesh

Sources: World Bank, ITU, BUIS and others

Indonesia could do more in promoting new export



Thank you