

Fiscal Policy after 2008 Financial Crisis

——what can we learn from Indonesia

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Contents



1. Macroeconomic Overview

2. Fiscal Policy after 2008 Financial Crisis

3. Challenges

4. Reflections



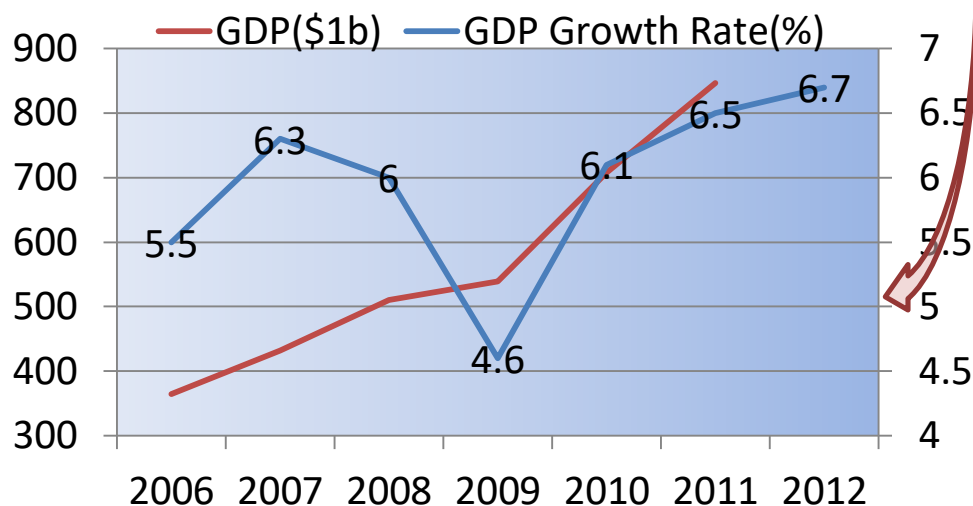
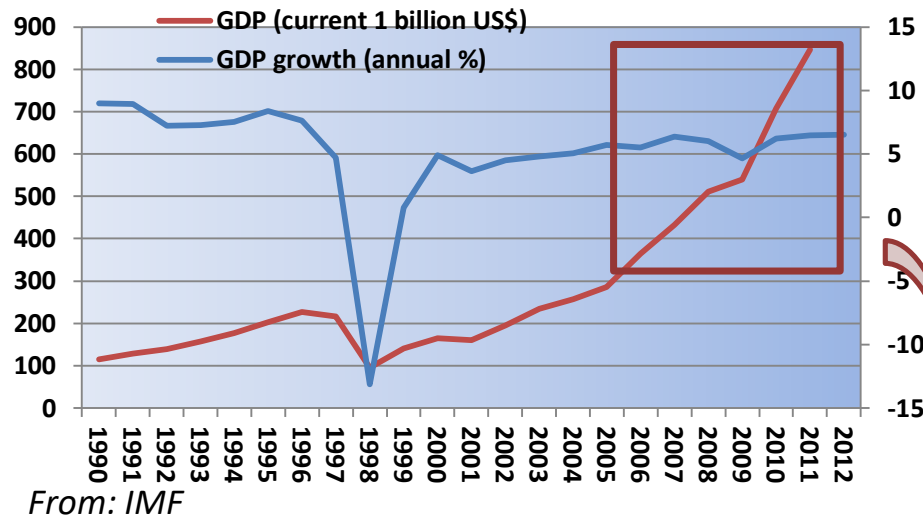
Macroeconomic Overview

Though heavily hit by 1998 Asian Crisis, Indonesian economy has recovered around 2000. In the past few years, Indonesia has made several achievements:

- In 2008, GDP per capita reached \$2271, increasing 23% year on year;
- In 2009, Indonesia became the 18th biggest economy, with its growth rate just behind China and India;
- In 2010, Indonesia became the 16th biggest economy;
- In 2011, GDP grew 6.5%, the highest among south-east Asian countries, and Indonesia was upgraded by many international rating institutions.
- The estimated growth rate in 2012 is between 6.2- 6.7%.

Despite its steady fundamentals, Indonesia has been influenced by 2008 financial crisis.

- In 2009, GDP growth rate decreased to 4.6%. Indonesian government launched stimulative fiscal policy, which impacted the fiscal situation.



Contents

1. Macroeconomic Overview



2. Fiscal Policy after 2008 Financial Crisis

3. Challenges

4. Reflections



BUDGET SUMMARY, 2006-2012(in billions rupiah)

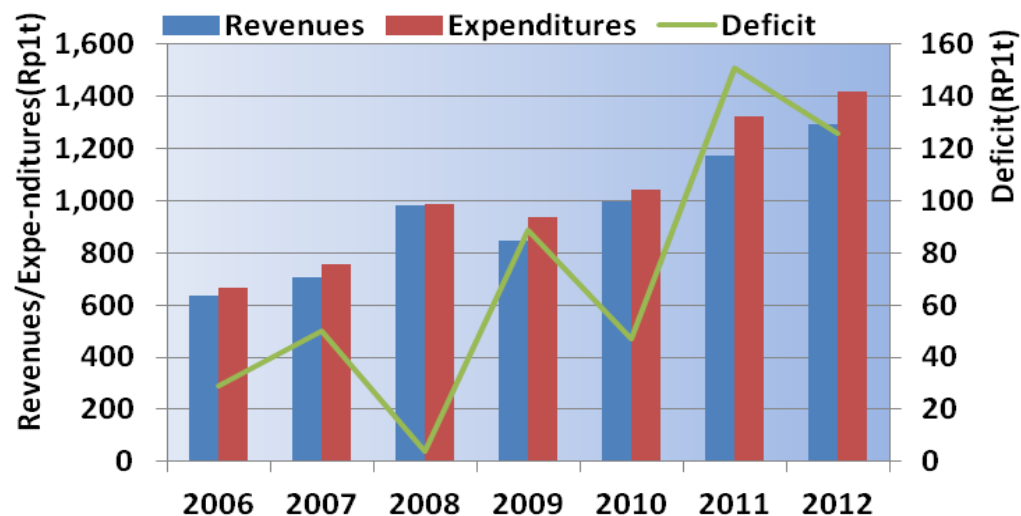
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------------------|-----------|-----------|-----------|-----------|-----------|----------------|-----------------|
| | Audited | Audited | Audited | Audited | Audited | Revised Budget | Proposed Budget |
| A. Revenues and Grants | 637987.2 | 707806.2 | 981609.4 | 848763.2 | 995271.5 | 1169914.6 | 1292877.7 |
| B. Expenditures | 667128.7 | 757649.9 | 985730.7 | 937382.1 | 1042117.2 | 1320751.3 | 1418497.7 |
| C. Surplus/Deficit (A-B) | (29141.5) | (49843.7) | (4121.3) | (88618.8) | (46845.7) | (150836.7) | (125620.0) |
| D. Financing | 29415.6 | 42456.5 | 84071.7 | 112583.2 | 91552.0 | 150836.7 | 125620.0 |
| I. Domestic Financing | 55982.1 | 69032.3 | 102477.6 | 128133.0 | 96118.5 | 153613.3 | 125912.3 |
| II. Foreign Financing | (26566.5) | (26575.8) | (18405.9) | (15549.8) | (4566.5) | (2776.6) | (292.3) |

Source: Budget Statistics 2006-2012, Ministry of Finance, Indonesia

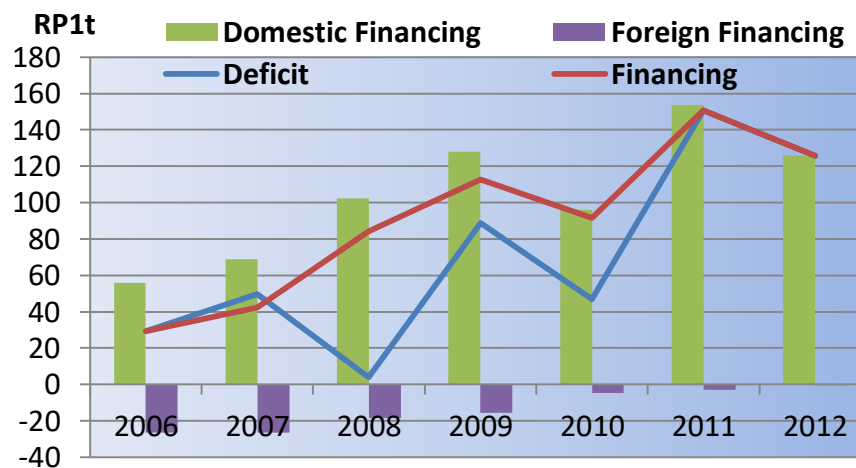


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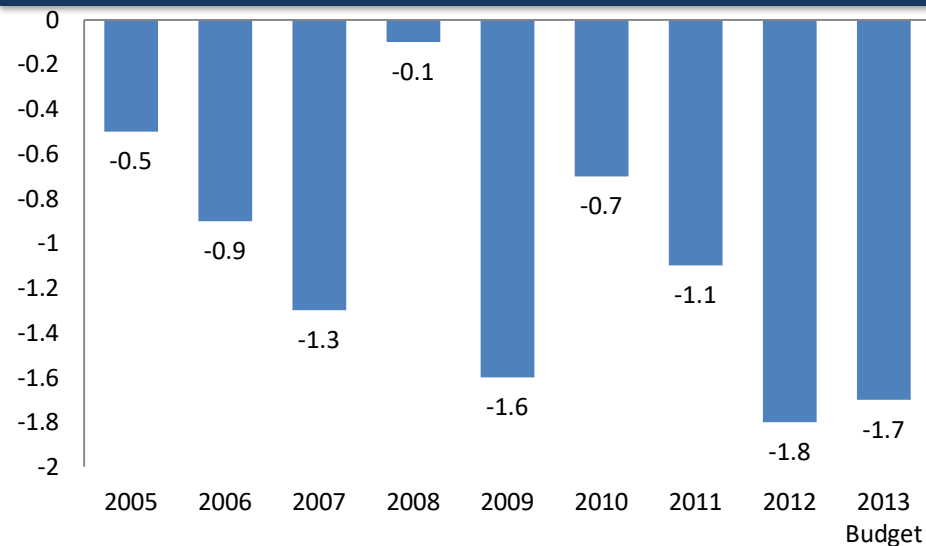
From: Indonesia MoF



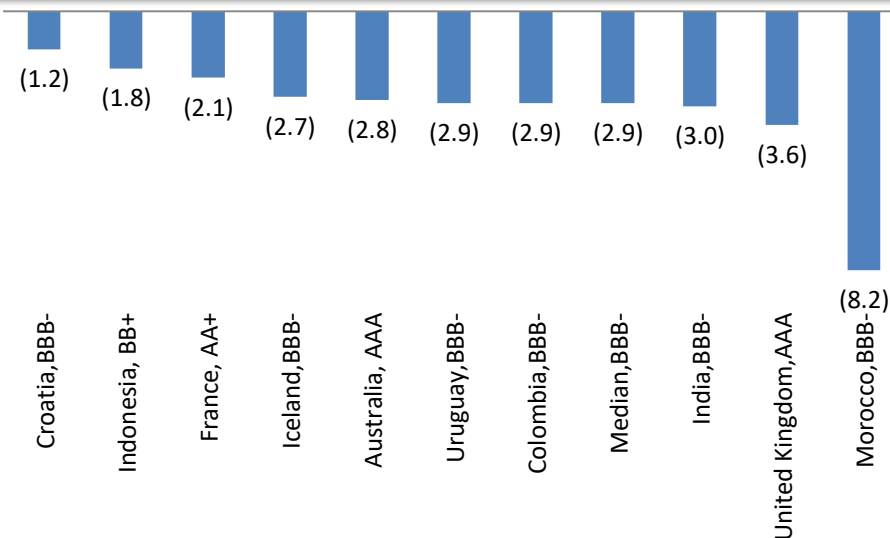
From: Indonesia MoF



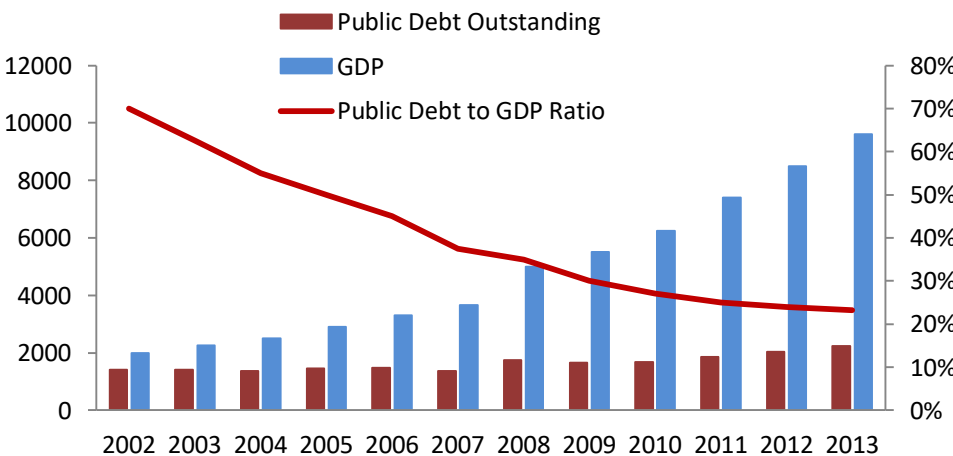
Indonesia Fiscal Deficit (%)



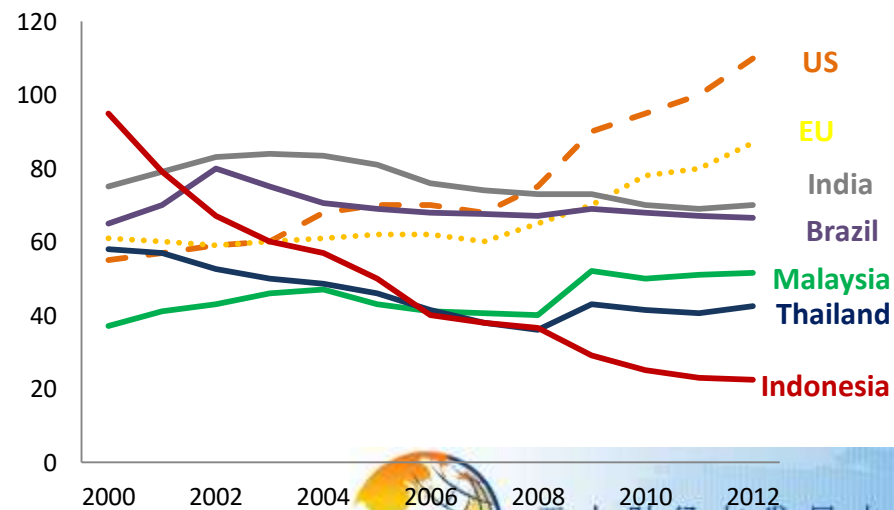
2013E deficit comparison (%GDP)



Indonesia Debt to GDP ratio



Debt to GDP ratio comparison (%)



1 President's Ten Guidelines

- Issued in 2008, on concerns over 2008 financial crisis;
- Ensure economic growth, create more export and investment opportunities;
- Optimize the 2009 state budget and improve efficiency of social security work;
- Require special policy from Bank of Indonesia to assure sufficient loan to real sector.

2 National Medium- and Long- Term Development Plan

- Attract investment and raise funds for the Plan. Investment volume from 2011 to 2014 is expected to reach 4000 trillion IDR.
- Speed up the construction of the six economic corridors;
- Focus on the development of agriculture and accelerate the development of 18 major industries in 8 fields.
- Fasten infrastructure construction in areas like transportation, communications, logistics ,etc, and expand connectivity with international market;
- Improve human resource quality and knowledge sharing;
- Keep average annual economic growth rate at 7-8% in the next 15 years, become one of the top ten economies by 2025, and at least become the world's sixth largest economy by 2050.

3 Speed up infrastructure construction

- Invite neighboring countries(China, Japan, the United States, South Korea, Australia, the EU and ASEAN) to invest in Indonesia and participate in Indonesia's infrastructure construction;
- In 2005-2011, the average annual growth rate of infrastructure investment was 25.5%;
- Infrastructure construction is the focus of the 15-Year Plan of National Economy;
- In 2011, the Congress passed the Land Acquisition Bill, which was conducive to strengthen infrastructure construction.

4 Increase fiscal spending

- In the fiscal budget of 2009, the deficit increased from 1% of GDP to 2.6%, which provided more policy space for the government. In 2009, government spending contributed 1.3% to the economic growth rate of 4.6%;
- In 2008 and 2009, the government consumption expenditure increased substantially (10.4% and 15.7% respectively);
- In 2009, the government spending in roads and other investment projects increased 1/3 to 9.1 billion dollars.

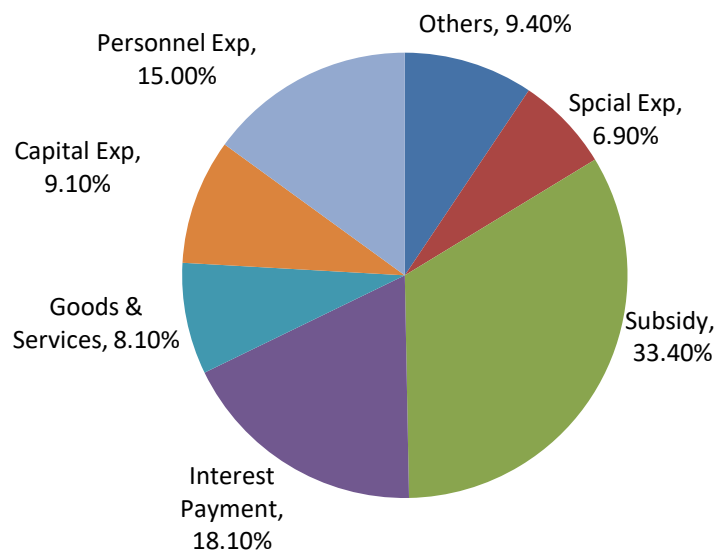
5 Package of tax cuts

- In 2008, revoked 2121 local bars on tax and service charges;
- In 2009, reduced corporate income tax from 30% to 28%, and to 25% in 2010;
- In 2009, offered tax allowance in 10 industries;
- In 2009, reduced personal income tax from 35% to 30% to stimulate consumption.

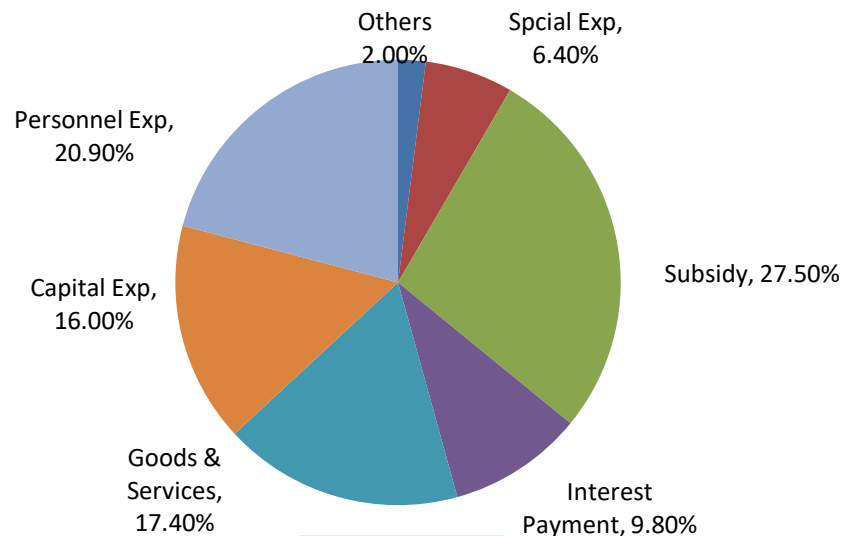
6 Financial support measures

- Provide social self-governing loans, school management assistance payments and health insurance assistance fund, and increase salaries of civil servants;
- Support real sector with 5 financial supporting measures.

Increased allocation of central government expenditure towards more productive uses



2005

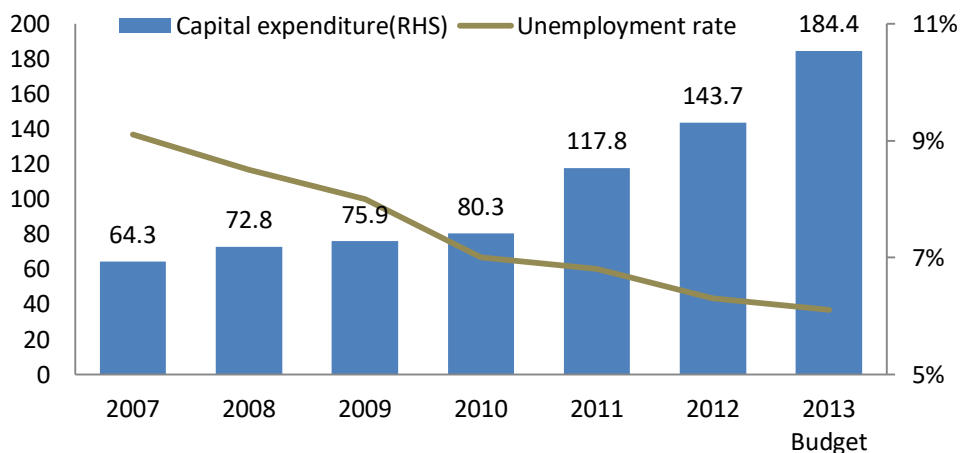


2013
Budget

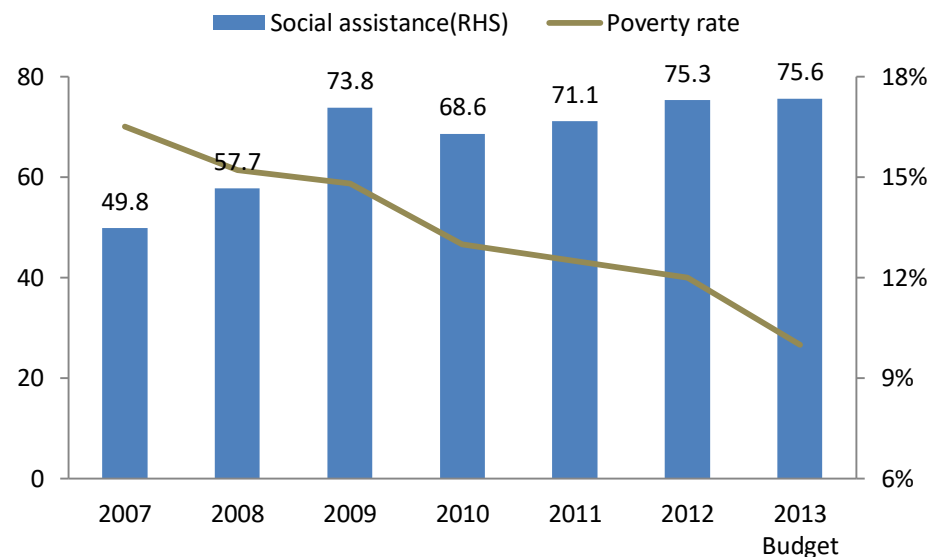
Source: Ministry of Finance ,Indonisia

Economic impact of fiscal policy

Capital expenditure helps lower unemployment rate



State budget directed to reduce poverty level



Contents

1. Macroeconomic Overview

2. Fiscal Policy after 2008 Financial Crisis



3. Challenges

4. Reflections



Challenges

Global

- Global and major trading partners economic slowdown;
- Potential Risks due to 'Fiscal Cliff' in the United States ;
- Liquidity flood driven by loose monetary policy in several developed countries;
- Global commodity prices volatility, especially crude oil and food commodities.

Domestic

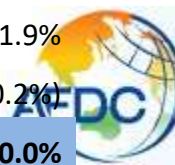
- Need for more inclusive growth;
- Need for infrastructure and investment climate improvement
- Trade balance – growing current account deficits
- State budget deficit pressure and budget absorption performance
- Financial system stability



2012 and 2013 state budget

| | | Realized 2012 | | | 2013 Budget | | |
|-----------|------------------------------------|----------------|---------------|----------------|----------------|---------------|---------------|
| Items | | IDR tn | US\$ bn | % of GDP | IDR tn | US\$ bn | % of GDP |
| A. | State revenue and grants | 1338.3 | 142.6 | 16.2% | 1529.7 | 163.0 | 16.5% |
| I. | Domestic revenue | 1332.6 | 142.0 | 16.2% | 1525.2 | 162.5 | 16.5% |
| 1. | Tax revenue | 980.2 | 104.5 | 11.9% | 1193.0 | 127.1 | 12.9% |
| 2. | Non tax revenue | 352.4 | 37.6 | 4.3% | 322.2 | 35.4 | 3.6% |
| II. | Grants | 5.7 | 0.6 | 0.0% | 4.5 | 0.5 | 0.0% |
| B. | State expenditure | 1489.7 | 158.7 | 18.0% | 1683.0 | 179.3 | 18.2% |
| I. | Central gov. expenditure | 1009.2 | 107.5 | 12.2% | 1154.4 | 123.0 | 12.5% |
| 1. | Personnel and material | 348.8 | 37.2 | 4.1% | 442.3 | 43.5 | 4.8% |
| 2. | Capital | 143.7 | 15.3 | 1.7% | 184.4 | 23.0 | 2.0% |
| 3. | Interest payments | 100.5 | 10.7 | 1.2% | 113.2 | 12.1 | 1.2% |
| 4. | Subsidies | 346.4 | 36.9 | 4.2% | 317.2 | 33.8 | 3.4% |
| 5. | Grants | 0.1 | 0.0 | 0.0% | 3.6 | 0.4 | 0.0% |
| 6. | Social expenditure | 75.6 | 8.1 | 0.9% | 73.6 | 6.8 | 0.8% |
| 7. | Other expenditure | 4.1 | 0.4 | 0.0% | 20.0 | 2.1 | 0.2% |
| II. | Transfer to region | 480.6 | 51.2 | 5.8% | 528.6 | 56.3 | 5.7% |
| C. | Overall balance (A-B) | (151.4) | (16.1) | (1.84%) | (153.3) | (16.3) | (1.7%) |
| D. | Financing | 173.3 | 18.5 | 2.2% | 153.3 | 16.3 | 1.7% |
| I. | Domestic financing | 198.4 | 21.1 | 2.4% | 172.8 | 18.4 | 1.9% |
| II. | Foreign financing | (25.1) | (2.7) | (0.2%) | (19.5) | (2.1) | (0.2%) |
| | Surplus/(deficit) financing | 21.9 | 2.3 | 0.4% | 0.0 | 0.0 | 0.0% |

Source: Ministry of Finance, Indonesia
 Note: IDR/US exchange rate of 9,384
 Average exchange rate between
 January 1- December 31, 2012. USD
 values are for convenience only



2013 macroeconomic assumptions & outlook

| Indicators | 2012 | | APBN 2013 |
|-----------------------------------|--------|-------|--------------|
| | APBN-P | Real. | |
| Economic growth (%) | 6.5 | 6.2 | 6.8 |
| Exchange rate (Rp/US\$) | 9000 | 9384 | 9300 |
| Inflation (%) | 6.8 | 4.3 | 4.9 |
| 3 months T-bills (%) | 5.0 | 3.2 | 5.0 |
| ICP (US\$/ barrel) | 105 | 112.7 | 100 |
| Oil lifting (thousand barrel/day) | 930 | 860.6 | 900 |
| Gas lifting (thousand barrel/day) | - | - | 1360 |

2013 GDP growth forecast by expenditure

Private consumption: 4.9%

Investments: 11.9%

Sectoral growth targets for 2013

Manufacturing : 6.5%

Agriculture, livestock, forestry and fisheries:
3.7%

Trade, hotels and restaurants: 8.9%

Mining and quarrying: 2.8%

Development targets for 2013

Unemployment rate: 5.8%–6.1%

Poverty: 9.5%–10.5%



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2. Fiscal Policy after 2008 Financial Crisis

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4. Reflections



Reflections

1

Indonesia's economic growth is influenced by government expenditure variables.

2

Keynes law(s) of economic development applied in Indonesia and fiscal policies determine the economic growth to some extent.

3

Fiscal policy plays an essential role when economy slows down. It can be done through activating the fiscal expenditures as the influential fiscal policy variable, besides related tax relief policies.

4

China and Indonesia have some experiences in common and share common lessons that economic development may benefit from discretionary fiscal policy.



Thank you!



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