Indonesia: Fiscal stimulus to match central bank easing

President Jokowi has called for faster growth with Indonesia looking to jumpstart economic activity with fiscal and monetary stimulus

Indonesian President Joko 'Jokowi' Widodo

Indonesia looks to twin stimulus to weather headwinds

With the global outlook dimming, Indonesia will look to stimulus from both fiscal and monetary policy to help the economy weather the storm and kick growth into a higher gear. This week, Bank Indonesia rattled off the fourth of a series of policy rate cuts to whittle the 7-day reverse repurchase to 5.0% to revitalise lending growth. It looks as though Indonesia will complement monetary easing efforts with fiscal stimulus with the country now expecting the deficit to GDP target to rise to 2.0-2.2% according to Luky Alfirman, Director-General for Finance.

Alfirman confirms that the government will be unveiling counter-cyclical measures to support flagging growth momentum with the trade war weighing on global trade. These comments were echoed by Finance Minister Indrawati, who indicated that the budget deficit might increase with the country resorting to more borrowing while revenue collection remains challenged amidst the economic downturn.

All hands on deck

President Jokowi started his fresh new term with a cabinet revamp by reaching out across the political divide to get former rivals and technocrats on board his team. With Indrawati (Finance) and Governor Warjiyo (Bank Indonesia) staying put, we expect both ministers to continue delivering stimulus in the coming months as Jokowi calls for faster growth via an influx of investment flows. As such, the door remains open for further cuts by the central bank as inflation remains within target while fiscal stimulus can be wielded further as the cap for the deficit target (-3.0% of GDP) remains well above their current goal of 1.93%.

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