

Kopi Time E097: Chatib Basri on Indonesia

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Welcome to Kopi Time, a podcast series on Markets and Economies from DBS Group Research. I'm Taimur Baig, Chief economist, welcoming you to our 97th episode.

Today's episode is not your typical Kopi Time. On March 15th, I was in Jakarta where I sat down with former Finance Minister of Indonesia, Chatib Basri at the DBS Indonesia Asian Insights Forum 2023. What is about to follow is a recording of our conversation.

In it first, Mr. Basri provides a brief presentation about the outlook for Indonesia in the context of global macroeconomic developments. He explains the Indonesian economy's middle path which is neither high nor low single digit growth. And he does that by taking into account resilient domestic demand and still positive commodity sectors exports outlook. Consequently, when there are global headwinds, Indonesia tends to outperform due to its low beta nature. The flip side is during a global upswing, Indonesia tends to underperform.

On climate change and green financing, Mr. Basri underscores the daunting challenges ahead along with the massive domestic, external, as well as private public multilateral financing mix needed. Removing fossil fuel subsidy is key despite the obviously political impediments in place. He then expands on the possible opportunities for regional trade and manufacturing in the context of China-US tension. ASEAN has got to be united in setting rules for trade and commerce while dealing with this dynamic according to Mr. Basri. We then have a very nice back and forth on the investment environment, need for a balance between industrial policy and private sector incentives, the importance of the services sector, e-commerce, techno nationalism, 2024 elections and the economic impact of capital finance, strength of Indonesia's financial system in light of global market sell off and the role of regulatory policy to deal with that.

Well, here you go with the conversation.

Taimur Baig

Good afternoon, everybody. Lots to talk about. But first, Pak Basri will spend about 10 minutes talking about the ASEAN outlook. And from that, we will take cues on some of the current issues that are near and dear to our hearts. Please keep sending your questions. I have a lot of questions for him too. But first, let's hear from him about 10 minutes on the ASEAN outlook.

Chatib Basri

Thank you very much Taimur. A very good afternoon to all of you. It is a great pleasure to be here. I won't use my Power Point presentation because when I saw Pak Luhut give all the numbers, then perhaps let me try to speak in the human language in the next 10 minutes. I'll give a sort of background about the ASEAN economic situation in general. But I'll be focusing on Indonesia after that. So let me start by putting Indonesian's position. When I saw the result of this survey, it was very interesting. I believe that more than 70% of people are optimistic.

So, if you ask me, how do I describe Indonesia? Let me share my view. I call Indonesia is a disappointing country. It disappoints the optimists who expect that Indonesia will grow by 10% economic growth but will also disappoint the pessimists who keep talking that this country will collapse every day. So, the reality is we are not doing extremely well in the sense that the economy grew by 9-10% or double-digit growth like some East Asian countries in Asia. I will explain to you later on the reasons behind it. But despite the global situation, Indonesia will do relatively well. So that is why I call this is a disappointing country, disappoint optimists, and also disappoint the pessimists. Now, let me explain to you about our position in ASEAN. If you look at the experience for many ASEAN countries compared to the other part of the world. If you look at the projection of the global growth for 2023, IMF projected that the global growth will

be around 2.9% whereas the advanced economy may grow around maybe 1.3%. So, the source of growth may come from the emerging developing countries and ASEAN countries will continue to grow by more than 4%. It is quite strong. And if you look at Indonesia, the projection made by the IMF, Indonesia will grow around 4.8%, much better than many countries in the region. And if you ask me, why is that? I said that for two reasons. The first one is good policy response as explained by the Pak Luhut and the second one is good luck. Why is that? Because the share of Indonesian export to GDP is only 25%. So, when there is a negative global spill over and it hit many ASEAN countries, I can imagine Taimur that Singapore because the share of export to GDP is about 180%, Singapore will be hit severely compared to Indonesia. In our case, the export to GDP is only 25%. We are less integrated to the global economy. If you ask me whether this is something by design, my answer is no. We would like to be as competitive as Singapore because there are many mistakes that we made, we are not as competitive as Singapore but blessing in disguise because we are less integrated, then the impact of the negative global spill over will be relatively limited for us. So, I can imagine a country like Singapore. You may grow around zero point something to 1% for 2023, Indonesia will grow much higher than that. Thailand will be affected. Vietnam will be affected by this tightening of monetary policy, the decline of the volume of trade. The impact to Indonesia will be relatively less compared to many countries in ASEAN. For that reason, from the investor perspective, I would call Indonesia is one of the least unattractive countries in the world, not because we are doing great but because the other part of the world is in trouble. So, if you are an investor, from the relative perspective, you will continue to invest in Indonesia because we have economic growth. Pak Luhut mentioned about this huge potential related to the rising middle class. We have the market size; we have the resources. So, from that perspective, I won't be surprised that if the economy for 2023 i.e. this year,

Indonesia will perform better than many countries in ASEAN. But the other side of the coin, when the global economy starts to recover, then Singapore probably will recover faster than us because they are more integrated compared to Indonesian economy. Now many people started to worry about the Silicon Valley Bank. The question is whether there will be a sort of systemic global risk. Again, when I look at the data, the exposure to the Indonesian economy in terms of this banking is also relatively less. So that is why if you look at the financial sector until today, the impact is relatively limited compared to many countries like in Europe. So, talking from this, comparison of Indonesia to many ASEAN countries, I would say that Indonesia will perform better than many ASEAN countries. If you're talking about the 2023. The only thing that we need to worry about, we can have a discussion about it. The last time I was in Davos at the World Economic Forum, Larry Summers mentioned about the possibility of the Fed Fund rate may go to 6% if the US economy remains strong. So, the implication is I do believe that the Central bank, the Bank Indonesia need to maintain the parity with the Fed. If that's the case, then the implication, we will see that there will be a sort of like a tightening cycle also in Indonesia. But because the share of investment to GDP is relatively small compared to the consumption, because our share of consumption to GDP is about 55%, then the economy will remain to grow by about 4.8% for that reason. The share of export to GDP is 25%. A couple of things that we need to anticipate is the decline in energy commodity prices. This definitely will hit the Indonesian export. And if you look at the data on the fourth quarter, we have seen the export is slowing down. And if you look at the import, the reason why we are running a current account surplus because the import dropped more significantly than our export. Yeah, 90% of our import is made up of capital goods and raw materials. So, if the imports start to slow down, then we will see six months from now, the investment will also slow down. Yeah, under this kind of situation, it is inevitable, the

economy will slow down. But I do believe that the impact will be relatively limited again because that's the huge percentage of the consumption. Now let me talk to the other issue that Pak Luhut mentioned about the climate and mostly you know, the climate change issue related to the ASEAN countries. I think the biggest challenge for a country like Indonesia and many countries in ASEAN as well is about climate finance. Yeah, it's about climate finance. Pak Luhut mentioned about USD20bn money available. I'm sure that any ASEAN country will commit to achieve this net zero emissions. In our case, we already put our target more ambitious than before. I was involved in the independent level expert group for the COP27. But one thing that I have to say that climate financing for the energy transition, this is not an easy thing because we need to mobilize fund probably about 2% or 3% of the global GDP. We are talking about USD100bn. The question is how do ASEAN countries including Indonesia mobilize fund related to this. My answers to it is there will be a combination between domestic resource management, external and the fiscal framework to attract the philanthropy and the private sector because there is no way that this financing for climate could be entirely financed simply by the government spending. So, like in the case of Indonesia, if you look at the composition, Indonesia probably needs about USD28bn for the issue of the climate finance. If you look at the allocation of budget in our total government budget, in terms of this, climate is still relatively limited, it's only about 1%. So, it's still relatively limited. But there are a couple of things that the government can do. The first one is the budget allocation. I think the government did a good job last September when they adjusted the fuel price by about 30% at that time. Because without adjusting the fuel price, then the relative price between fossil fuel and renewable energy will not attract the investment into renewable energy. So, the first thing that the government needs to do is to adjust the fuel price, reduce the fossil fuel subsidy. But it's easier to be said than done

because nine months from now, it's election, 12 months from now it is an election. So, we probably have to wait. The other possibility is to mobilize one through the carbon tax, the Pigouvian Tax, this is from the domestic resources. The second one is probably this has been discussed in the World Bank and IMF as well about how to expand the concessional loan. The SDR from the IMF has been sort of like extended to the Regional Development Bank to support the climate finance and all this money can be used to invite the philanthropy and private sector to support the climate finance for the energy transition. Before I conclude, then we can have a discussion about it. The other important thing that I would like to touch related to Indonesia and ASEAN issue is about US-China tension and RCEP. I think this is my personal opinion, of course, since I'm no longer in the government, I can talk based on my own opinion. Seems to me that ASEAN countries, we don't have the luxury to choose between US and China, it is very difficult. But I can see in the case of the tension between US and China, this is the only issue that both Republican and Democrats are bipartisan. So, looking at this, maybe this tension will continue for quite some time. This issue will stay with us. So, the question is what can we do, how the Indonesian and ASEAN countries can respond to it. Here, the idea of the RCEP is very important. I recall back in 2011, when Indonesia was the chair of the ASEAN at the time. We realized that it's not possible for any individual ASEAN country to deal bilaterally with China. It is very difficult. So, one way to do it is we have to take ASEAN as a single entity. So, ASEAN plus China, ASEAN plus Japan, ASEAN plus Korea, etc. So that is why this RCEP becomes very important, not only from the economic perspective, but also from the geopolitical perspective. And somehow this will reflect the ASEAN position related to the US - China tension. The good news is with the US - China tension, we will see some reallocation from China into some Southeast Asian economy to enter the US market from the back door. And I think countries like Vietnam are already taking the advantage. And if the government could

pass the bill, the emergency state law regarding the Omnibus Law, then we do hope that the investment will also come to Indonesia. So, I leave it up here Taimur and certainly be happy for the conversation. Thank you very much.

Taimur Baig

Thank you very much Pak Basri. I want to stay with RCEP. And you pointed out a very important issue that is close to our heart. DBS, sitting in Singapore with operations in China and ASEAN is trying to understand that under RCEP and the context of the China - US conflict, would ASEAN economies be able to attract Chinese capital because under RCEP, you can have 40% value added in your home country and then produce the rest in a partner RCEP country and export it under that country's manufacturer name. So, a Chinese company can come to Indonesia with 40% value added, build here, assemble, complete here and export. You were there during the G20. Is your sense that Chinese capital will play a large role in Indonesia's development going forward?

Chatib Basri

This is a very good question. We will see some of it but not as much as to Vietnam because the country who really takes the benefit of it, I think so far is Vietnam. And the other country that also takes the benefit, it is outside the ASEAN is Bangladesh because if you look at the RMG, the readymade garment, most of the companies in China actually moved to Bangladesh. But I do believe one of the reasons behind it is because the investors are waiting for the Omnibus law and hopefully you know this emergency state law about this, Omnibus will be approved by the parliament soon. And after that, we will see that more capital come into Indonesia.

Taimur Baig

You saw in Pak Luhut's presentation, the dynamics around the EV and the battery ecosystem. And again, just going back to China and Chinese investment, the Chinese are very keen on finding areas where they can get the

backward linkage. And you may have even noticed in Pak Luhut's presentation, the two companies he had, one was a Korean company, one was a Chinese company. So, on this area around backward linkage of metals, mining, EV, what's your sense of western MNC as well as Chinese investment?

Chatib Basri

I was at MoF, I was the one who implemented the idea about this disincentivize for the export, at that time back in 2014. So, we introduced a policy that if companies export the raw materials, they need to pay a prohibitive tax. So that's the first move. So, with this kind of policy, Pak Luhut's would call it down streaming policy. You will see the impact on the increase in the value of export etc., the investment coming in Indonesia, even the Economist magazine, praised us related to that. But I think we need also to be very careful as an economist if the relative price is very high because of this export ban, then the implication is there will be an innovation in another country to come up with a new product. So, we can learn the experience from rubber. Indonesia produced rubber and rubber price was very high. And as a result, there was a synthetic rubber at the time. If you recall, when the Middle East began to embargo oil back in the seventies, then Shale gas started to kick in, renewable energies started to kick in. So, my response to it, this is really the opportunity for us but needs to be combined with the competitive policy as well. Indonesia should be part of this global supply chain. So, I don't know, I'm not an expert about battery, but I won't be surprised if in the future, one of the elements of battery is no longer only about lithium, but something else because once the relative price is too high, then there will be an incentive to do an innovation. That's basically how the market works. So, for Indonesia, while people are still preparing for the new innovation, we need to do something to improve the quality and also the competitiveness.

Taimur Baig

It's very fashionable these days for governments to talk about manufacturing and jobs around manufacturing. You see in the US, the Build Back Better bill, even the Inflation Reduction Act has a lot of buy American component. The idea is to bring jobs back to America. You see in India, the whole Make in India initiative that has been pursued over the last half a decade, it's again about manufacturing. And as we have heard from Pak Luhut and we have heard from others in the government of Indonesia, there is a desire to do that. But, what about the service sector? This country is increasingly service friendly. We see tremendous penetration of social media and outsourcing capabilities. So why are we always fixated on manufacturing jobs and not services jobs?

Chatib Basri

This is a very good question. Let me respond to the manufacturing first as well. I think we are talking about the returning of the industrial policy now. Yeah, somehow this is good, but we need to be very careful on this as well because in Indonesia, let me be frank and honest with you, we had an experience in the past that government is very bad in picking winner, but losers are very good in picking government. So, you start with the industrial policy, there will be an implication that probably some companies that are politically very well connected with the government will take the advantage of it. So, this industrial policy can be justified as long as you ensure about the transparency, about the governance etc. Now talking about the services sector. If you're talking about services basically in Indonesia, in terms of the services we really lack behind because of the limited quality of the human capital. I just came back from India last week for the G-20. And I can see like if you're talking about Bangalore, correct me if I'm wrong, I'm not an expert about India, but Bangalore will not exist without Silicon Valley because so many Indian diaspora in Silicon Valley, they have the network. Indonesia, we

are still not on that stage. So that is why in terms of the services sector, I think to be part of this global supply chain of production network is rather different. So, this will take some time. But one thing that is also important, but I know this is very, very sensitive and controversial is about e-commerce. This is something that we probably have to look at in the future. Because if every country in the world try to sort of like do restrict the data flows, etc., then maybe the growth on the digital technology will be relatively limited. This is not unique to Indonesia or other countries doing the same thing as well. So, there are a couple of issues that we have to look at it. Especially on the digital technology. One thing that I'm concerned are related to the recent development is also the possibility of the two internet of things. Probably in the future, there will be a China system and the US system. So, we are entering the era of what I call the techno nationalism. And this one is perhaps more difficult than the trade war because it is justified by the economic security. Let me give an example about supply chain in terms of this inventory method. We understand about what we call just in time. I won't be surprised that a couple of years from now, most of the country will no longer adopt the just in time, but just in case because they need to anticipate if there is a disruption, global change, disruption, geopolitical tension, etc. this will make the production costs much more expensive than what we had before.

Taimur Baig

I want to stay with the digital economy for a little longer. And although the questions that I'm getting are all about SVB and interest rates. So, wait, we we'll come to that. But on the digital economy side, the entrepreneurs in Indonesia increasingly also want to join the global zeitgeist in producing apps for Indonesian consumers. They want to create payments, distribution solutions that may look like a payment distribution solution in China or somewhere but with an Indonesian flavor. So, what's your assessment of Indonesia's digital

journey if you will both at the private sector level, as well as the public sector level.

Chatib Basri

I would say Pak Luhut is very proud about Indonesia and so am I, especially related to if you're talking about digital technology. If you mention about how many Unicorns or even the Decacorn that we have here in Asia, in terms of this technology capability, we are doing very well. And this is related to the issue of the e-commerce, a lot of ideas. So, in terms of this capability, the market size, the potential, I would say that Indonesia is perhaps one of the most potential countries in ASEAN. I understand country like Singapore, they cannot afford not to have Indonesia as the market. So, if you're talking about many peer-to-peer lending fintech company, if you're talking about e-commerce like it or not, you have to look at the market for Indonesia. The potential is there. My concern now and this is related to the issue that I respond before I raised before. 2008 to 2022, we were living in the false normal world when the interest rate was very low. I'm not sure Taimur that from 2022 onwards, the Fed Fund rate will return back to 0.25%. So perhaps the normal rate will be around, I don't know, 3%, 3.5%. Under this kind of situation, the cost of fund will become much more expensive than before. So, the VC, they cannot afford to continue with their strategy only focusing on growth like GM fee, GT fee, loan to disbursement, etc. unless the startup companies including in Indonesia change their business model into path to profitability. Otherwise, they will be in a difficult situation. And this is not unique for Indonesia. Also, for other digital company. That's the first one. The second one about the digital issue. I'm not too worried so much about the so called the industrial 4.0. I am concerned about government 4.0. The reason behind it is the product cycle because the disruption is getting shorter and shorter. If you were in the position of the policy makers, can you imagine you make a regulation which will only last for six months

and after that, there will be a new disruption. It will be very difficult for the government anywhere in the world. So, under this kind of situation, ideally what we need is an agile bureaucracy, but agile bureaucracy is an oxymoron, there is no way bureaucracy can be agile. Under this kind of situation, what we need is to change the mindset, especially from the regulator perspective, from agree on rules to agree on principle. Without that, some innovations in many countries including Indonesia will be difficult to develop.

Taimur Baig

These are exceptionally astute insights. I hope we're absorbing it and we should consider ourselves lucky that Pak Basri is weighing in. I'm going to postpone the interest rate discussion for another couple of minutes. I want to talk about election for a second. You have watched over two decades of Presidential election in Indonesia, give us a sense of the political business cycle. Does the economy's direction change regardless of the outcome of the election?

Chatib Basri

Very good question. Let me talk about the downside and the upside risk. Let me talk about the downside risk. The first one is, I think the political parties in Indonesia will nominate their candidates in September. So, you can imagine from September until February 2024 because the election will be held on 14 February during the Valentine's Day. Then you would expect that everyone will focus on the election. After that, then people will wait. I don't know whether it is only one round or two rounds. After that, people have to wait who will be Ministers on the cabinet. So, I don't think a major decision will be made. After that, the echelon one on its line ministries will wait after their Minister is being appointed, whether they will stay in their position or not. So, the downside risk is the major decision perhaps from September 2023 until December 2024 probably, we won't see the major or significant

reform. And that's not only unique for this year and also happened back in 2014. Similar things also happened in 2004. So, for the investors, probably they have to wait. So that is why many investors take the position of wait and see because of this kind of situation. But let me talk now about the upside. If you look at the data, six months before the election, consumption in Indonesia jumps significantly. Why is that? Because all the politicians spend money for election. Let me give an example. This is just some illustration. I don't know whether this figure is still valid or not. Back in 2014, there were about 750,000 ballots. For each political party, they need to nominate someone as a witness, to stay in the ballot from the morning until evening. So, of course you need to feed them with meal. So, let's start with the Nasi Padang, 30,000 per meal. So, three times you are talking about, 100,000 multiply by 750,000 ballots. You are talking about IDR75bn money per day per one witness. At least political party should come with three people. If you multiply by 10 people, you are talking about two point something trillion already. So as a lot of money will be spent on T shirt, on banner, travelling. One thing that I cannot answer is where does the money come from? It will be very sensitive to hear response to that question. The other thing is so that is why if you look at the data consumption boom. So, six months from now, you will see there's a lot of demand, strong demand come from the society. So that is why I'm not too worried about the economic growth for this year. The other thing is let me put this way, usually two years after the election, every President will become a normal President. What I mean by normal President is during campaign, you can promise everything. But once you are in power, then you will see your budget is limited, your tax ratio is limited, then you become realistic. Most of the Presidential candidates before they become a President, they criticize the decision to adjust the fuel price. But all of them once they are in power, the first policy that they did adjust to the fuel price. So, my point is whoever becomes a President by 2024, they will be very realistic

because the fiscal space is limited, the budget is limited. 2nd point because there are many customers of the DBS and DBS Bank is a foreign bank. Let me talk with the number. Bear with me a little bit. The Indonesian incremental capital output ratio is about 6.5 now. So, 1% economic growth will require investment over GDP 6.5. So, if Indonesia like Pak Jokowi said, want to achieve the income per capita about 10,000 by 2030, we need to grow by 6% per annum. So, if you want to grow by 6%. It means that you need investment over GDP six multiply by 6.5. You are talking about 39% investment over GDP. Our domestic savings now is 35%. So, there is a saving investment gap which is reflected in the current-account deficit about 4%. Market will not accept this unless you finance this current account deficit by the FDI, or you mobilize saving by boosting economic growth or you do economic deregulation to lower the incremental capital output ratio. So, my point is whoever becomes a President by 2024, he or she needs to provide jobs, then he or she will be open to the foreign investor, will be open to the streamlining regulation, economic deregulation, etc. to improve productivity and need to boost economic growth. So, I'm not worried so much about the result of the election. The difference for me is the leadership style and gimmick because if you're talking about Ibu Megawati administration, SBY administration, by Jokowi administration, if you're talking about the big idea, more or less the same, talking about job creation, poverty, infrastructure. The difference is about the leadership and deliverables, but I don't think there will be a radical change in terms of this economic policy.

Taimur Baig

Right. No secret sauce, improve productivity, become more business friendly. Absolutely. So, we have less than 10 minutes left. And given what has happened in the world over the last one week, I think we need to go a little deeper on the issue of bank stress in the US and its implication for finance and by extension, regional economic outlook. So, as you pointed

out, you don't think inflation or interest rates are going to be as low in the coming decade than it has been in the past decade, which also means that investors will be more discriminatory. Borrowers will have a little harder time. In the very near term, do you think the actions taken by the Fed and the FDIC are sufficient to stop a systemic risk from spreading worldwide?

Chatib Basri

This is a very tough question because we don't really know the real situation about the complexity and also the size. But I think the action that was taken by the FDIC and also the Fed at least by guaranteeing that the depositors will get the money back somehow will calm the market. But the issue is we probably need to look at about the possibility of the risk of some other banks as well. If I'm not mistaken, there is research done by JP Morgan. It shows about the loan to deposit ratio and the characteristic, the diversification. So, we probably need to look at some of other banks as well about the quality. But so far Taimur, I would say that I think the Fed and also the FDIC, I read Secretary Yellen's statement in Financial Times a couple of days ago that she would not guarantee, put the blanket guarantee, at least at this moment, can help to sort of like to calm the market. Of course, there will be a sort of like a turbulence but hopefully not. But again, I have to say that it's too early to judge at this moment.

Taimur Baig

Beyond banks, what about the risk on the balance sheet of non-bank finance companies, corporations, and countries?

Chatib Basri

You're talking about Southeast Asian countries?

Taimur Baig

Yeah.

Chatib Basri

I think the exposure for ASEAN countries, especially Southeast Asia related to the US is relatively small. I don't know about Singapore because Singapore is quite advanced but looking about what happened a couple of years ago, unless the subprime mortgage, the impact was also relatively less, the impact to most Southeast Asian economies came into trade channel rather than financial channel. So, looking at this, of course, the risk is there. But I would say that let me talk about because my knowledge is mostly Indonesia. I think the exposure of the Indonesian banks or the insurance, the non-bank financial institution related to what happened in the US is relatively small. So, I'm not too worried about it.

Taimur Baig

But at the sovereign level, if rates were to remain high and the dollar liquidity were to tighten, would the government of Indonesia be able to fund itself, the external part at sub 6% or would be prepared to pay much higher than that?

Chatib Basri

To?

Taimur Baig

The government of Indonesia debt, would it stay at sub 6% in the next issuance, or would it be much higher than 6%?

Chatib Basri

This is a very good question because the way I look at this situation, Taimur, the first one is I won't be surprised if the Fed Fund rate may go to 5.75% or even 6%. So, under this kind of situation, if you look at the 10 years standards of the government bond, it probably may go to run between 7.5%-8%, the implication. So, it is very important for the government to do a sort of like a front loading before this happened. Otherwise, the cost of fund will become very

expensive. And from the Bank Indonesia side, the inflation in Indonesia after September may come down to less than 4% because the base effect of the last year fuel price hike. But maybe Bank Indonesia doesn't have much room to lower the interest rate now. So, under this kind of situation, the cost of fund will be relatively high, and this may have an implication. I think the big banks in Indonesia are relatively ok. I'm not too worried about them. My concern is related to the small banks because there will be a flight to quality. Then this will trigger a sort of like a price war from the small banks which is raising the interest rate. But back to your question again, I think related to that, the government, it's better to do like a front loading. The good news is the fiscal deficit for 2023 is projected maximum 2.8%. So, the need for the sort of like a financing perhaps will be relatively limited.

Taimur Baig

If Fed funds go to 5.75%, where does the Rupiah go?

Chatib Basri

Very good question. I don't think anyone can make a prediction about Rupiah. If I knew the answer, I would be sitting in the dealing room rather than talking to all of you. But let me put this way, there are a couple of reasons that I don't see the Rupiah will overshoot. The first one is because of the pandemic, private saving increased. So that explains why we are running a current-account surplus. The second one is even though the energy and commodity price declined but still remains high compared to 2021. If you're talking to people who are in the coal business, their profit increased by quadruple because the price of coal increased four times maybe. So, in terms of the effect, Indonesia will be benefited from that. And then the downstream industry like Pak Luhut explained in his presentation. So, I'm not too worried with this current account deficit, especially when the economy will slow down. Under this kind of situation, the pressure to

Rupiah will be relatively limited. I cannot make a prediction, but I don't think it will go to around 17,000. I don't think so. Maybe, it will be between 5500 to about 6000. If you look at the non-delivery forward 12 months from now around this level, maybe the situation will not be as bad as during the taper tantrum when I was at the MoF at the time.

Taimur Baig

OK, final question. I want to bring it back to geopolitics. How will Indonesia strategize around this China - US conflict?

Chatib Basri

This is a very tough question. I don't think any ASEAN country can respond to this question. But my response to it is there is no single ASEAN country that has the luxury to choose between US and China definitely. I was mentioning about the two internet of things. If this happen, ASEAN countries will be very pragmatic because most of the products that are being here may be Huawei. I don't know because their presence has been here for many years, but at the same time, we need US as well. We definitely need support from the US to balance the position in Southeast Asia, especially related to the South China Sea. So, on the geopolitical tension, still a lot of uncertainty. But let me put the bright spot that possible may come. I recall back in 2012 when I was the Chairman of the investment board, there was a natural disaster, a flood in Thailand if you recall at that time, and Toyota, their production base for Southeast Asia at that time was only in Thailand. So, I went to Japan to meet the CEO of Toyota. I convinced him to invest in Indonesia, not because Indonesia is doing great, but you need to diversify your risks. And for that reason, Toyota expanded USD3.7bn in Indonesia back in 2012. The similar analogy, I do believe that many investors now, they learn from the pandemic, they learn from the geopolitical tension. They need to diversify their source of this supply chain as well. This will push some of the companies to reallocate the investment to many countries in Southeast Asia. And I don't think Vietnam is big enough to

absorb all of them. So, some of the investment will go to Malaysia, will go to Singapore, to Indonesia. So, I would see a lot of potentials related to that. The second one with the US - China geopolitical tension, they need somehow the back door to enter the US market. So, I believe that some Asian countries including Indonesia can be a potential, can be like an opportunity for them, provided we improve the investment climate. And let me be honest and frank with you. When I was at the investment board, I told my colleague in the cabinet, one of the reasons of why many Indonesians become religious is because they have to deal with the government. You know, because if you apply something, then you never know whether your permit will be approved by the government. The only thing that you could do is only pray to God. So that is why I do really expect by this Omnibus law, we can streamline the regulation etc. Last but not least I know as Pak Luhut said, Indonesia is not perfect, so many problems. But as a former Chairman of the Investment board, let me give a sort of like a disclaimer. Investing in Indonesia is very dangerous because it is addictive.

Taimur Baig

On that optimistic and spiritual note, Pak Basri, thank you very much for your insights. Thank you.

So, investing in Indonesia is very dangerous because it is very addictive. How great was that!

Thanks to Chatib Basri for his time and insights and thank you dear listeners.

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