September 15, 2014 7:54 am

Indonesian finance minister urges Widodo to fast-track reform

By Ben Bland in Jakarta


©AFP
Chatib Basri says the incoming president should act while his political capital remains high

Indonesia's finance minister has urged incoming president Joko Widodo to implement much-needed reform as soon as possible or risk being assailed by a deeply divided legislature and hostile global market forces.

The election of Mr Widodo, governor of Jakarta, has rekindled investors' enthusiasm for southeast Asia's biggest economy, sending the stock market and foreign ownership of Indonesian government bonds to all-time highs.

But Chatib Basri, who will step down when Mr Widodo and his cabinet take office in October, told the Financial Times the new president should move quickly to reduce the $21bn fuel subsidy bill and push through other reforms to make the economy more competitive.

"If you want to do bold reforms like cutting the fuel subsidy, do it when your political capital is still high," he said.

The political parties backing Mr Widodo only control 37 per cent of the seats in Indonesia's powerful House of Representatives.

The remaining parties, which are currently aligned with losing presidential candidate Prabowo Subianto, have indicated that they intend to break with the tradition of consensus-based decision-making in Indonesia and pursue vigorous opposition to Mr Widodo's government.

"It's not going to be easy," said Mr Basri. "Unfortunately, in that kind of political situation, we're also facing the possibility of interest rate hikes in the US."

Portfolio investors rushed to sell Indonesian and other

More

ON THIS STORY

Indonesia bourse hits record high

Widodo win halts Indonesia market rally

Indonesia growth lowest in almost 5 years

Widodo to tackle fuel subsidy 'gradually'

Indonesia pushes Asian low-cost hub

ON THIS TOPIC

Indonesian lawmakers scrap local polls

Indonesia moves to abolish governor polls

Indonesia election challenge dismissed

Editorial End impunity in Indonesia

IN ASIA-PACIFIC ECONOMY

Australia export earnings set to fall

Australia's luck runs low as China cools

Nepal launches hydropower growth plan

MOST POPULAR Read Commented Videos

1. US poised to become world's leading liquid petroleum producer
2. China's biggest political challenge since Tiananmen in 1989
3. Merkel has a duty to stop Draghi's illegal fiscal meddling
4. End of the Iron Age
5. Hong Kong protesters turn to 'private internet' to communicate
6. US regulators monitor Pimco $223bn fund
7. Hong Kong pro-democracy protests swell as riot police back off
8. Chinese ambassador withdrawn from India before president's visit
9. Pimco upheaval rattles bond market
10. Surging US dollar threatens emerging markets' carry trades

'Bizarre' surge in Australia jobs numbers

emerging market assets last summer after Ben Bernanke, then chairman of the US Federal Reserve, said the central bank was planning to "taper" its programme of quantitative easing, which has flushed global markets with cash.

Foreign investors have come back strongly into Indonesia this year because of excitement about Mr Widodo's leadership and government moves to reduce the current account deficit by raising interest rates and cutting spending.

But Mr Basri warned that this market optimism now left Indonesia exposed to a second "taper tantrum", particularly if the Fed normalised its monetary policy and increased interest rates sooner than expected.

These tough conditions mean Mr Widodo will have little room for manoeuvre as he tries to deliver on his ambitious pledges to boost economic growth to 7 per cent per year and make Indonesia's corruption-ridden and infrastructure-starved economy more competitive.

Indonesia's annual GDP growth peaked at 6.5 per cent in 2011, when it was considered one of the world's hottest emerging markets, but fell to a five-year low of 5.1 per cent in the second quarter of this year, partly as the result of a planned slowdown designed to ease Indonesia's reliance on foreign funding.

Falling Chinese demand for Indonesia's energy and natural resources, which account for about two-thirds of exports, also hit the economy.

"The resource boom is over with the US producing shale gas and Chinese growth slowing down," said Mr Basri. "Countries like Indonesia will have to shift their economies to manufacturing and services, and that means we need better infrastructure and human capital."

Some political analysts have speculated that Mr Widodo might keep the services of Mr Basri, a 49-year-old economist who was unexpectedly propelled into the heart of government because of the ouster of several reform-minded ministers.

Mr Basri said he had not been in touch with Mr Widodo's transition team and was not sure if would he take a job if offered.

But he said that his 16 months as finance minister had proved to him the value of classical economics, at a time when it has come under attack from many quarters.

"Last year I was get happy when we had the taper tantrum problem because I could really prove that the policies that I'd been talking about for a couple of years – like fuel-price adjustment – could work," he said.

RELATED TOPICS Indonesia Politics