



WORLD BANK GROUP

Indonesia Economic Quarterly December 2014

Delivering change

Ndiamé Diop
Lead Economist (Indonesia)

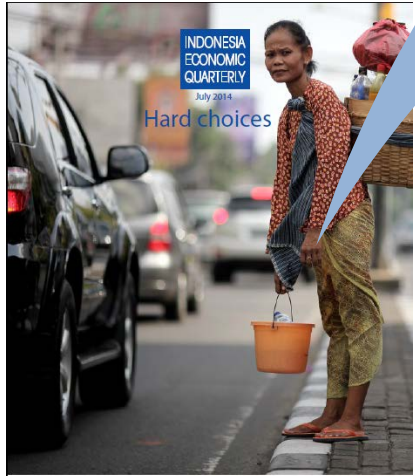
December 8, 2014

MOVING TOWARDS *DELIVERING CHANGE*...

Increased focus on governance, accountability and implementation

NOW (Dec 2014)
“Delivering change”

THEN (July 2014)
“Hard choices”



Safeguarding the fiscal position and freeing up funds for development spending

Ambitious plans for accelerating infrastructure development and social programs



...INCLUDING IN 3 KEY AREAS FOCUSED ON IN THIS *IEQ*

Collecting more

- *Low revenues have emerged as a critical constraint to the increased spending needed to achieve Indonesia's development goals*

Spending better

- *Making the dream of **universal health coverage** by 2019 a reality will require major investments in health care*

Facilitating business

- ***Supporting Indonesia's international competitiveness and growth**, including by pushing ahead with and positioning the economy to benefit from deeper regional economic integration as part of the ASEAN Economic Community (AEC)*

All against a challenging international and domestic economic backdrop

Introduction: delivering change

Recent economic developments: a challenging backdrop

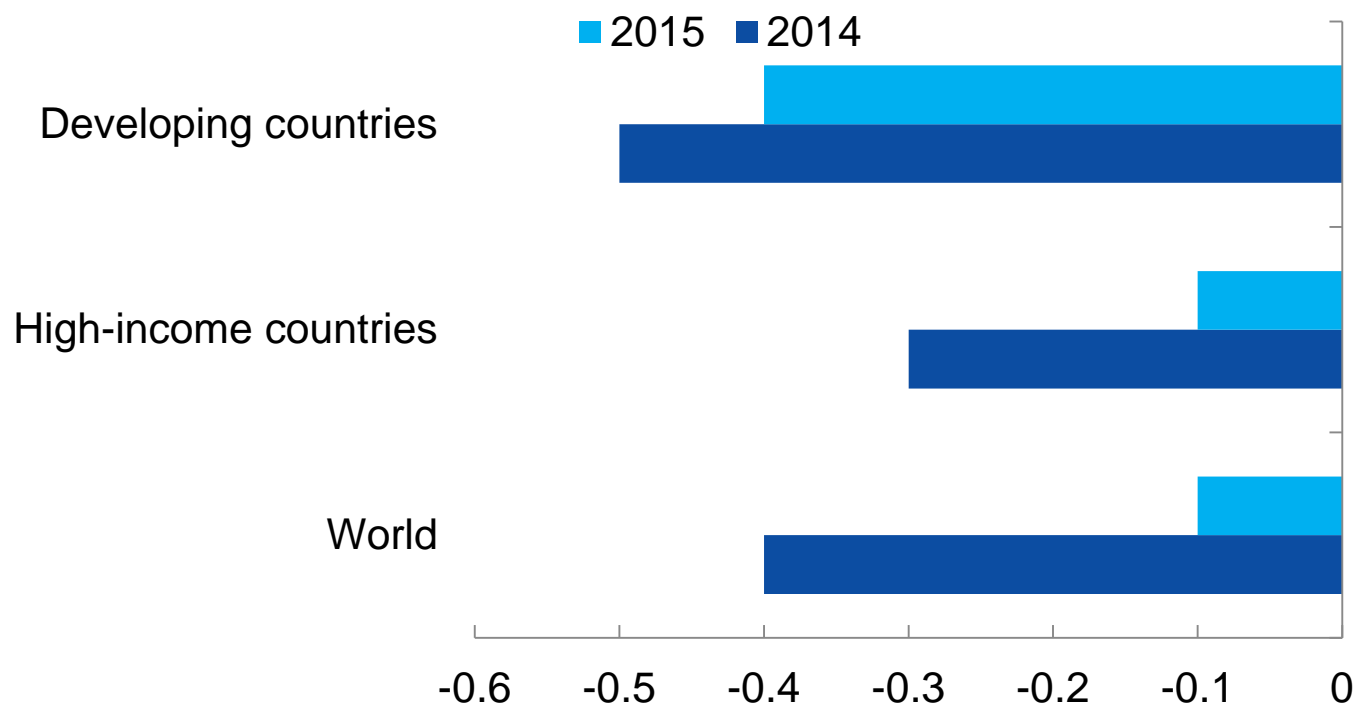
Near-term economic outlook: relatively subdued

Delivering change: 3 focus areas

Conclusions

Global economy still expected to pick-up, but at a slower pace than previously expected

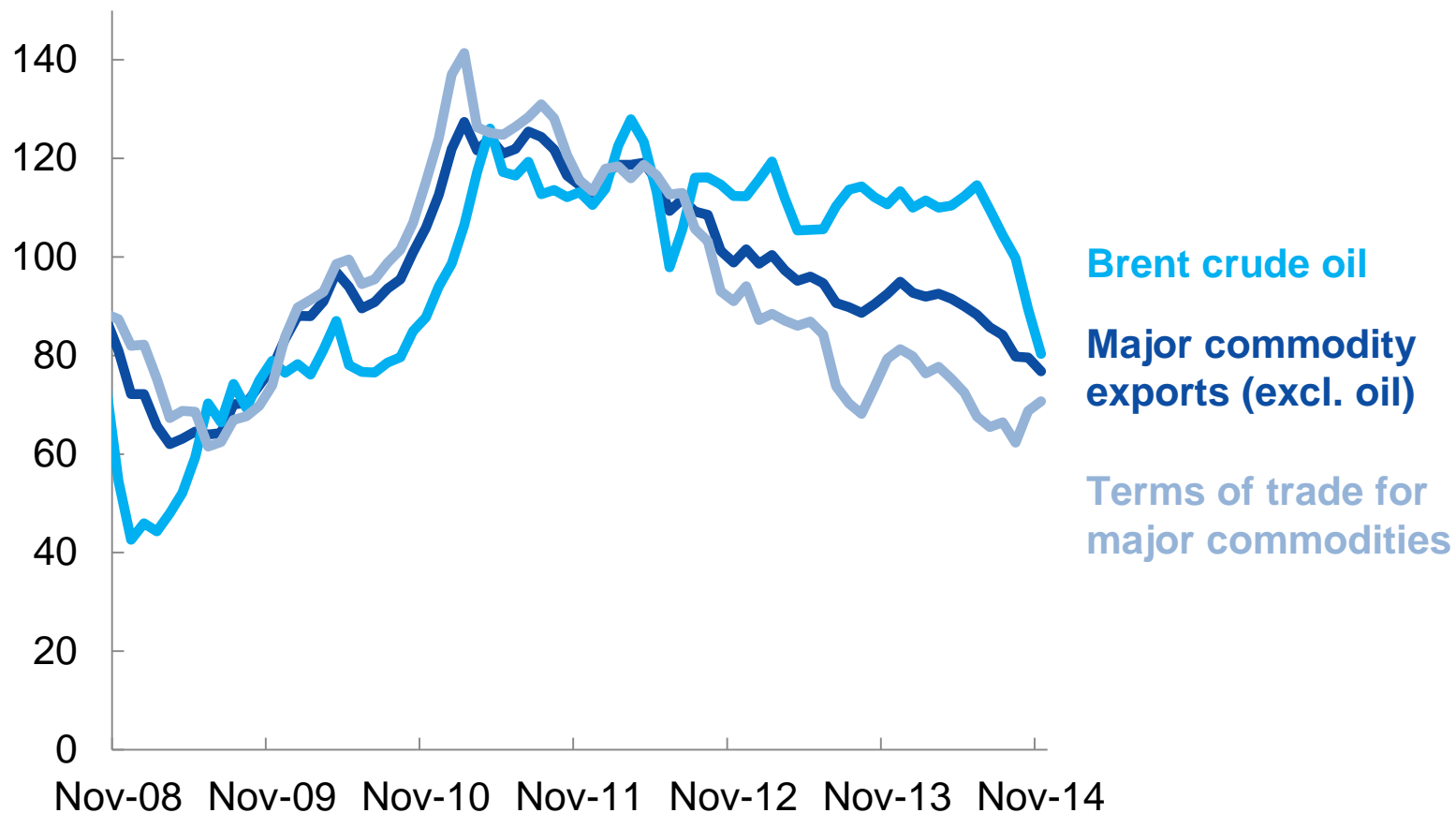
Difference between April 2014 and October 2014 World Bank growth projections, percentage points



Source: World bank EAP Update, October 2014; World Bank staff calculations

Too soon to tell if recent oil price decline will provide decisive support to trade balance

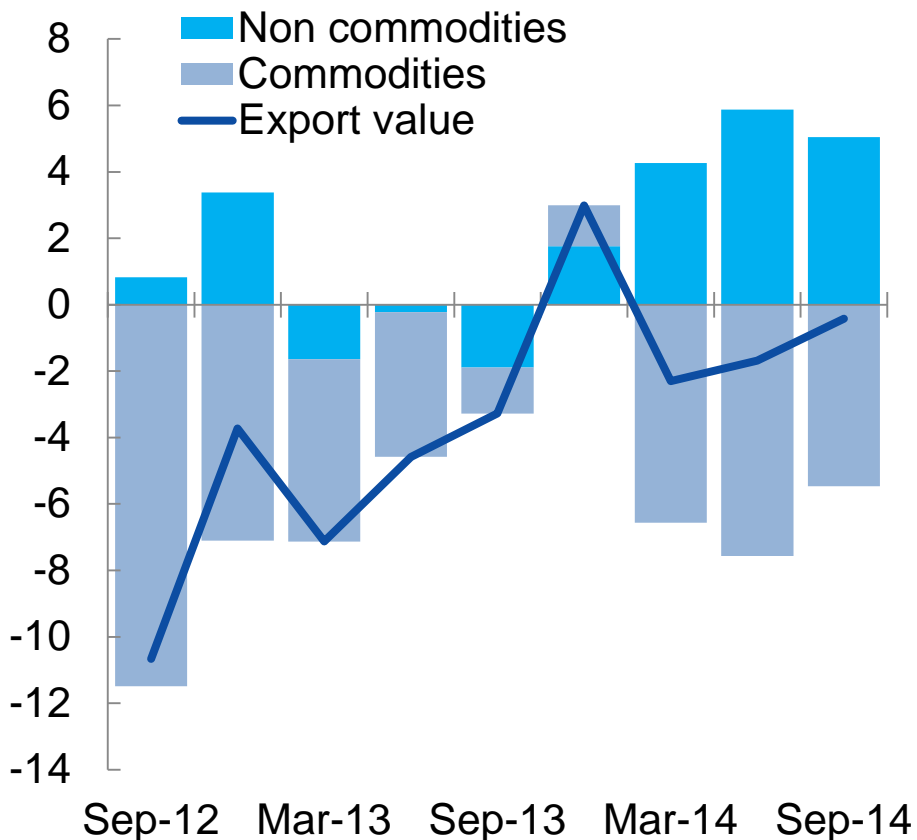
(US Dollar price indices, 2008=100)



Note: Major commodities are coal, copper, LNG, palm oil, petroleum products (including crude oil) and rubber
Source: World Bank Commodity Prices and staff calculations

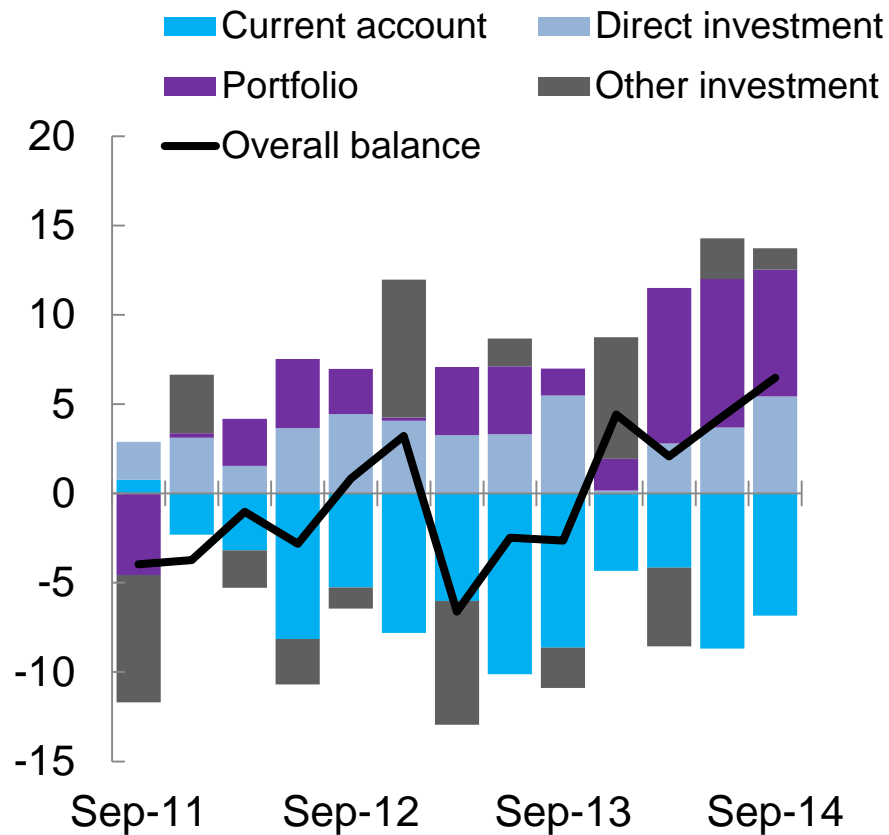
External balance still in focus

Contributions to export value growth yoy, percentage points)



Source: BI; World Bank staff calculations

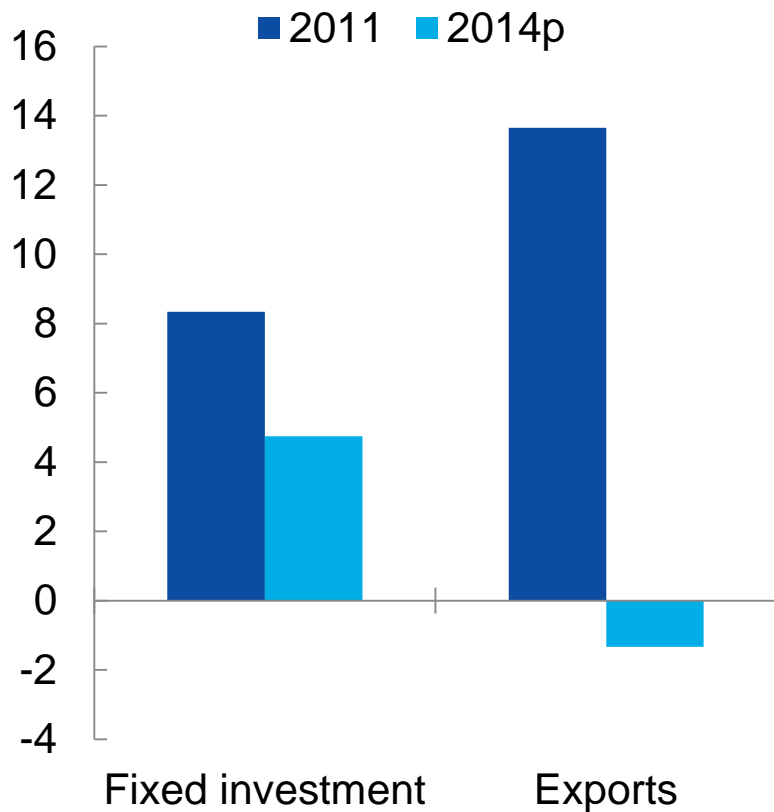
Balance of payments main account balances, USD billion



Source: BI; World Bank staff calculations

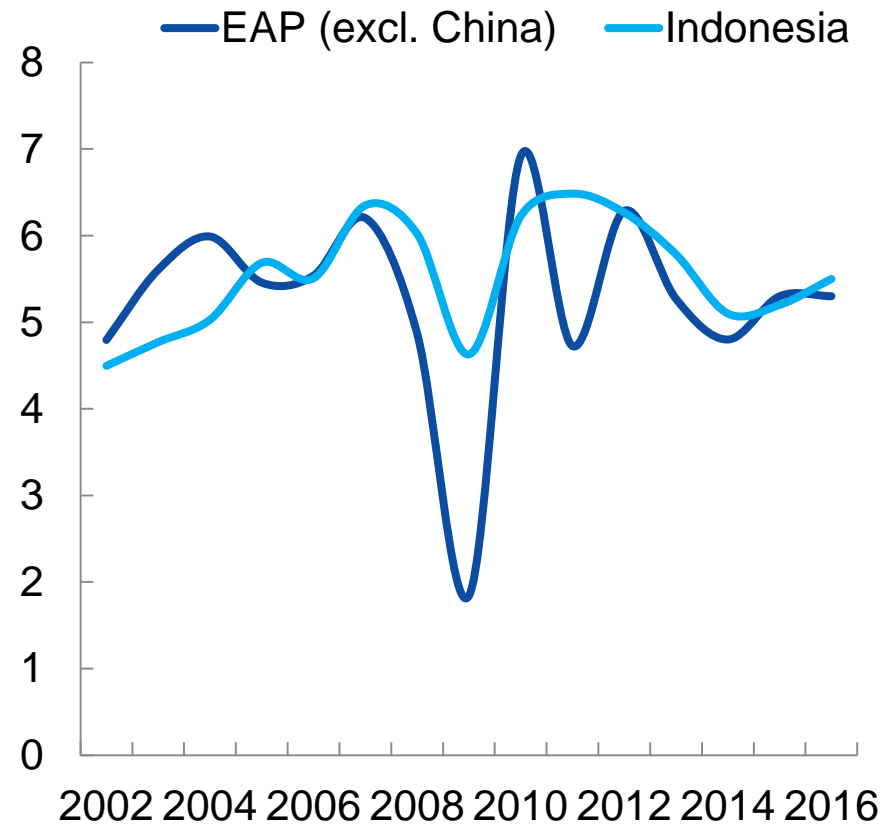
The economy has continued to slow, due mainly to weaker investment and exports

Real annual growth rate, percent



Source: BPS; World Bank staff calculations

Annual growth, percent



Source: World Bank

Introduction: delivering change

Recent economic developments: a challenging backdrop

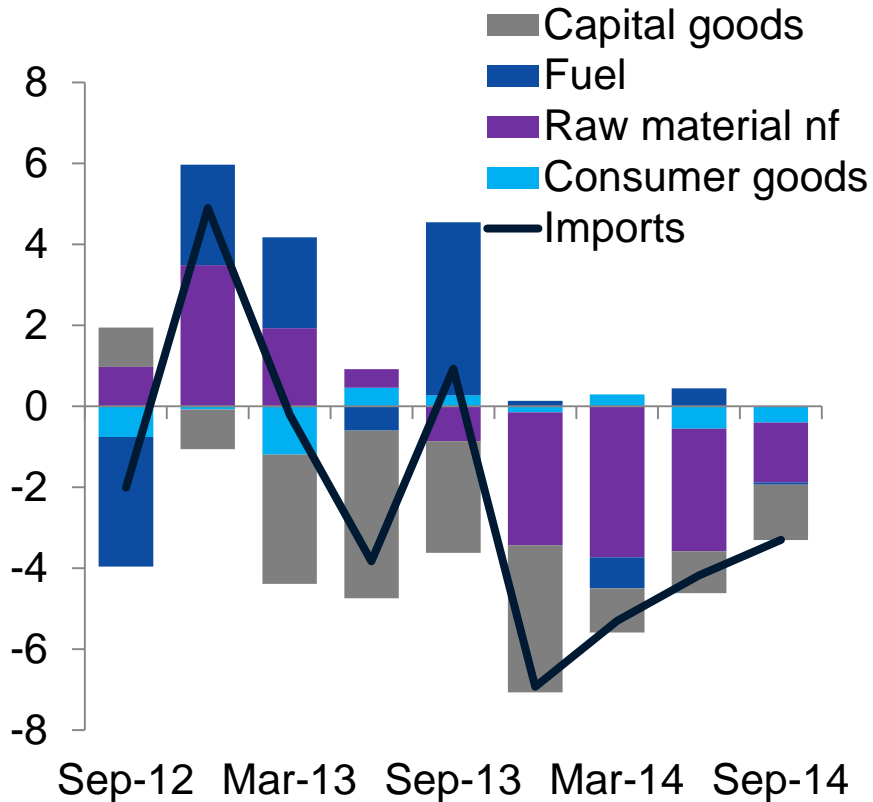
Near-term economic outlook: relatively subdued

Delivering change: 3 focus areas

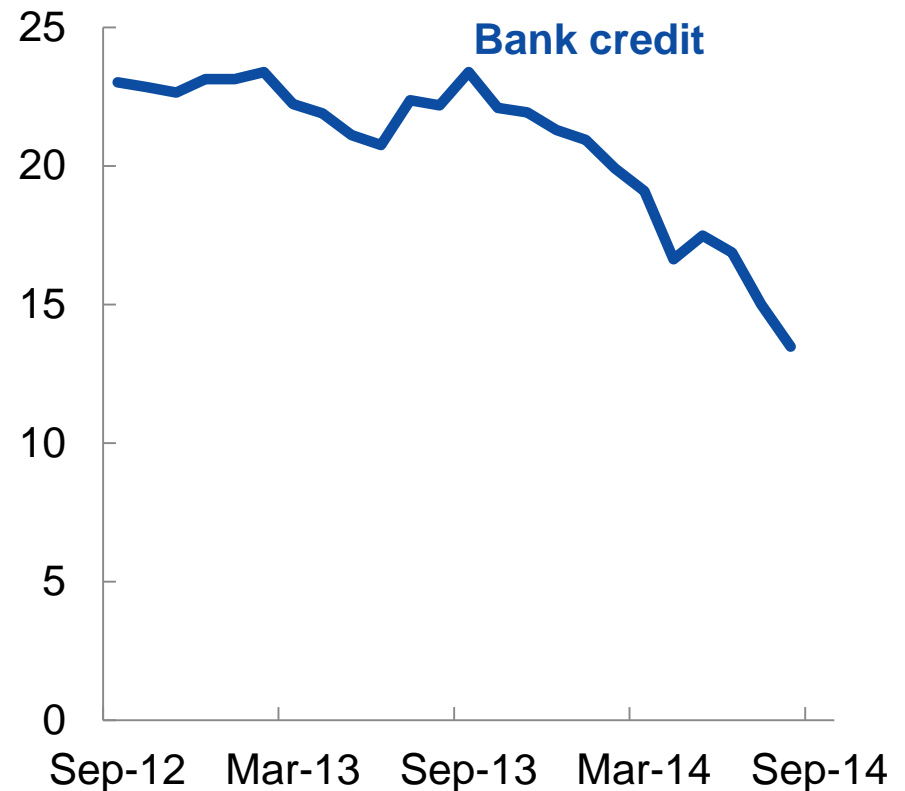
Conclusions

Few signs of imminent turn in the investment cycle

Contributions to import growth yoy, percent



Credit growth yoy, percent

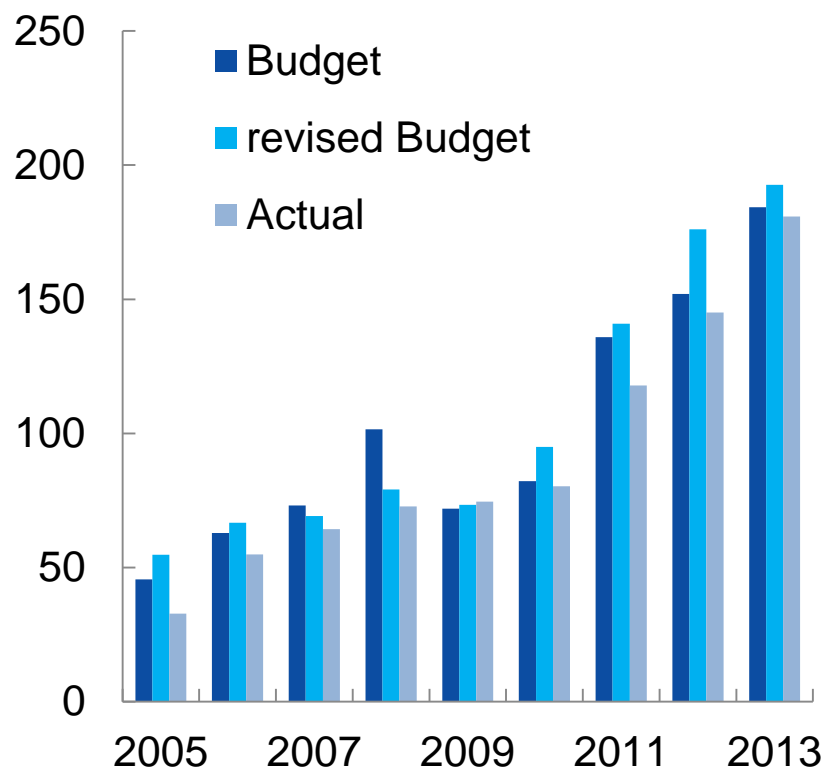


Source: BPS; World Bank staff calculations

Source: BI; World Bank staff calculations

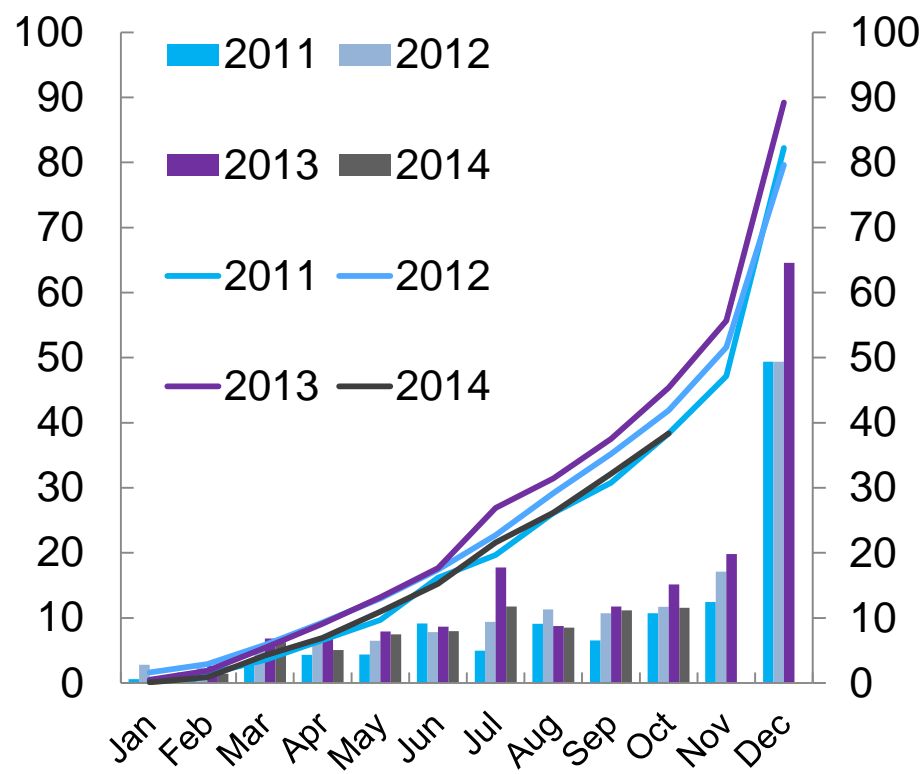
Ambitious infrastructure plans: crucial for long-term growth but implementation challenges

Budget, revised budget and actual central government capex, IDR trillion



Note: current IDR
Source: MoF

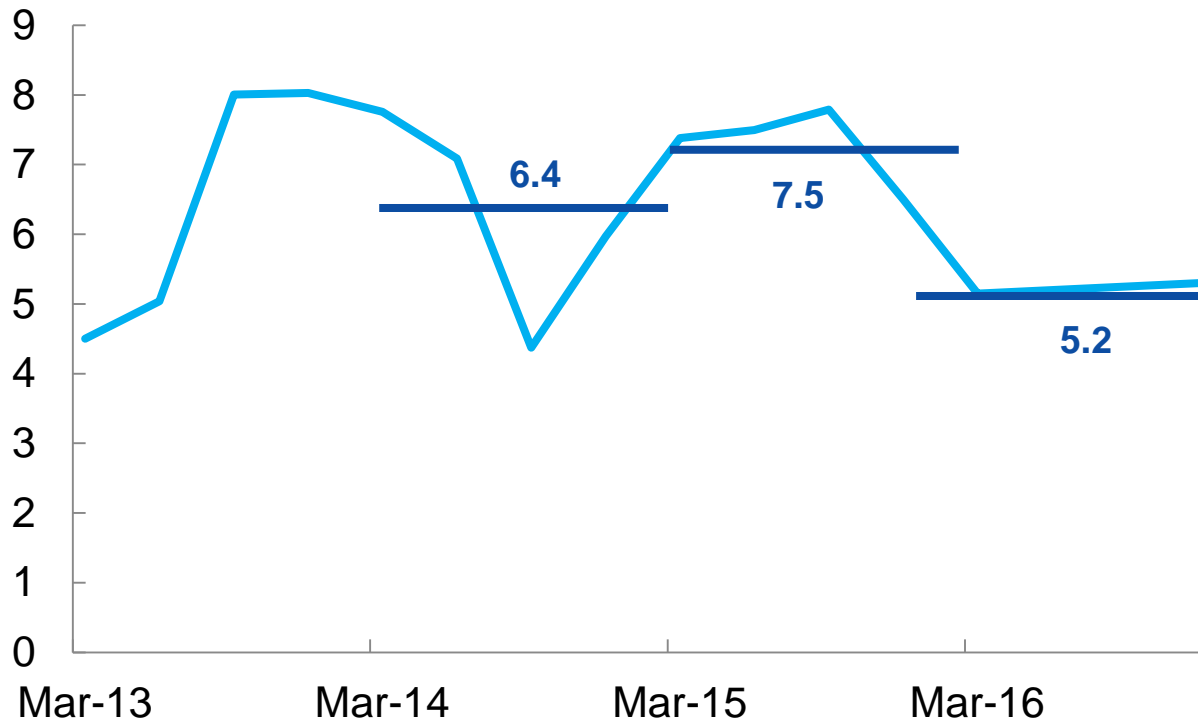
Monthly central government capex, IDR trillion (bars, LHS) and percent of total (lines, RHS)



Note: current IDR
Source: MoF

Inflation to increase following the subsidized fuel price increase, but only temporarily

Quarterly and average annual inflation, percent yoy



Note: Dark bars indicate projected average annual inflation
Source: BPS; World Bank staff calculations

The near-term economic outlook is expected to remain fairly subdued

	December IEQ				Revisions	
<i>(percentage change, unless otherwise indicated)</i>	2013	2014p	2015p	2016p	2014	2015
Real GDP	5.8	5.1	5.2	5.5	-0.1	-0.4
Consumer prices	6.4	6.4	7.5	5.2	0.6	2.6
Current account balance (% of GDP)	-3.3	-3.2	-2.8	-2.8	-0.3	-0.4
Fiscal balance (% of GDP)	-2.3	-2.3	-2.0	-	0.5	-

Source: MoF; BPS; BI; World Bank projections

Main risks to outlook: external environment and domestic policy agenda and execution

External

Domestic

Positive

- Lower than forecasted international oil prices

- Reform agenda delivers early success; investment and growth rise more quickly than expected

Negative

- Slower than currently projected global recovery
- Weaker than base case commodity price trajectory;
- Tighter than expected external financing conditions

- Limited reform and implementation (capital expenditure execution), and impact on growth is slower to materialize

Introduction: delivering change

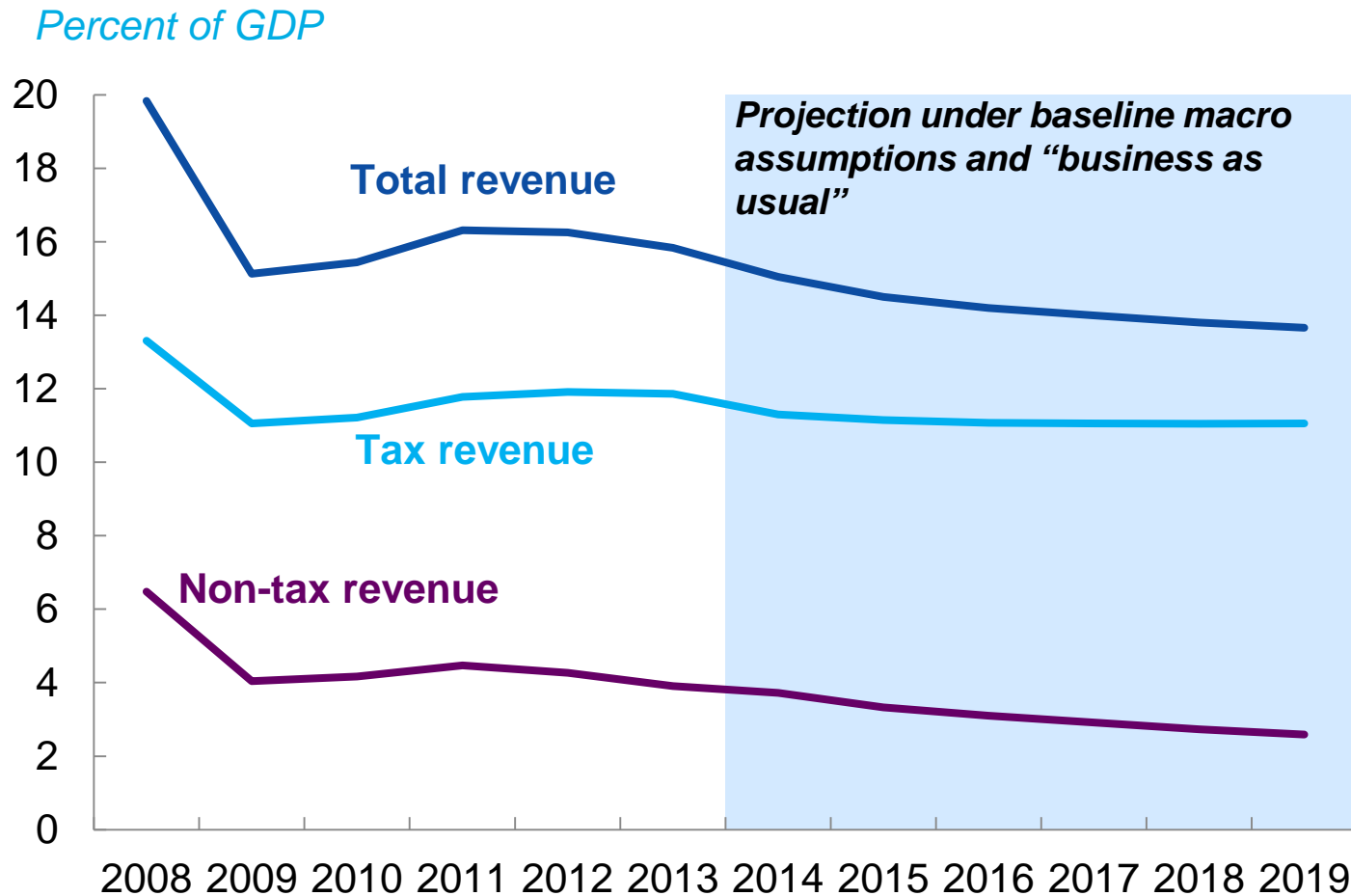
Recent economic developments: a challenging backdrop

Near-term economic outlook: relatively subdued

Delivering change: 3 focus areas

Conclusions

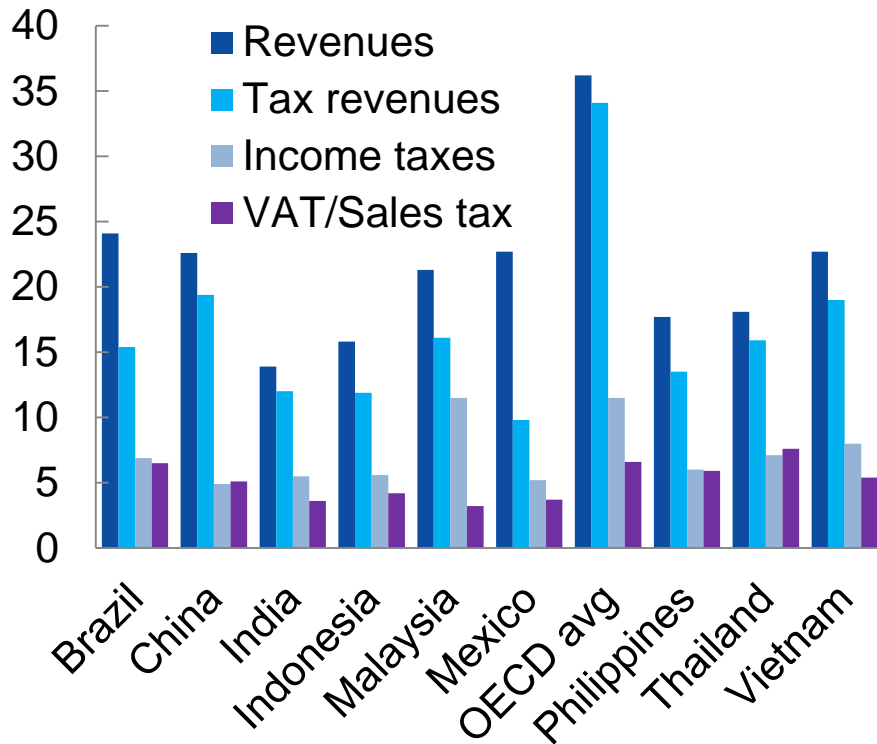
An urgent need to “collect more” ...



Source: MoF; World Bank projections

...with potential to move revenues closer to peers, with policy and admin. reforms

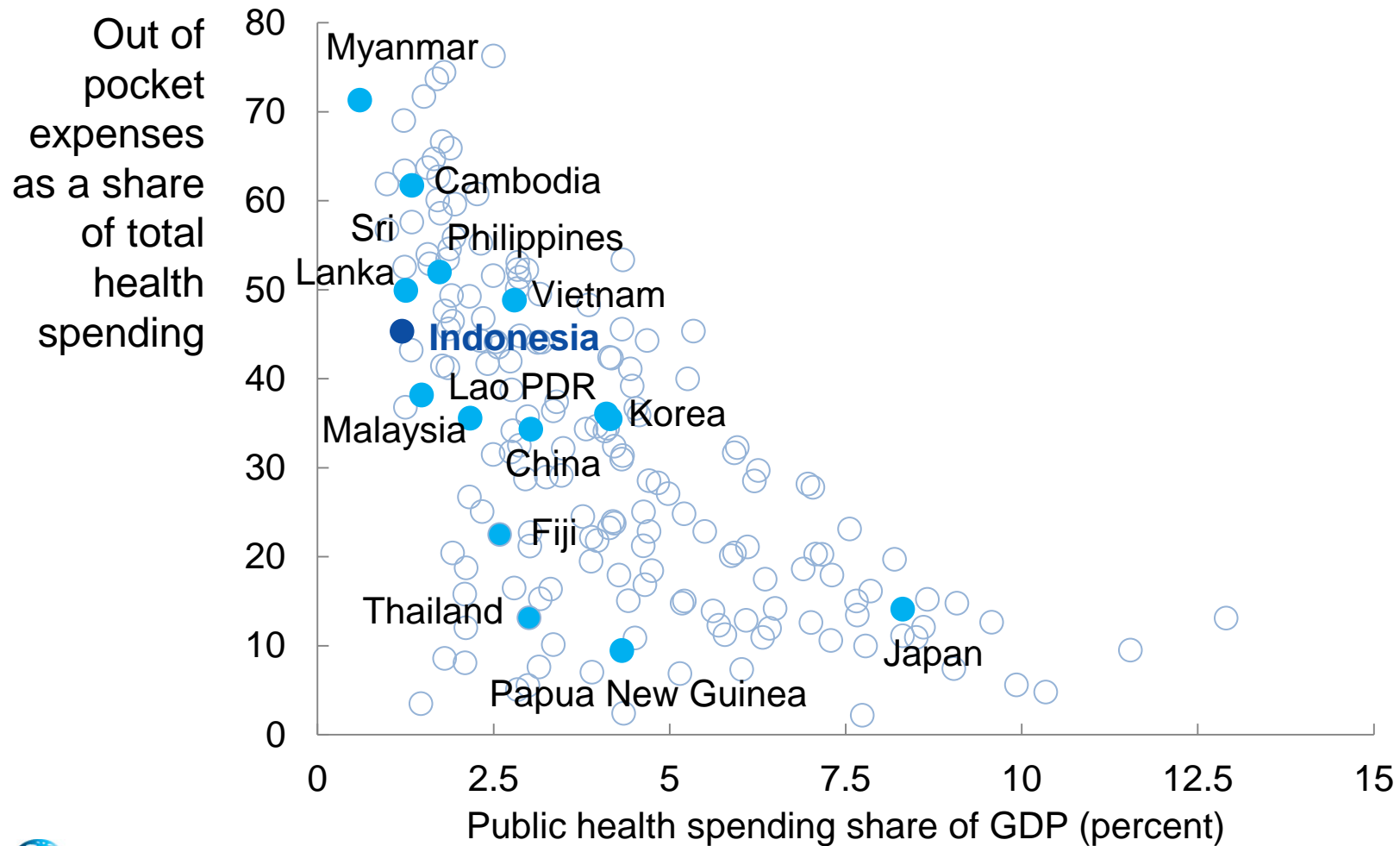
Benchmarking against peers shows the scale and potential of revenues challenge (percent of GDP)



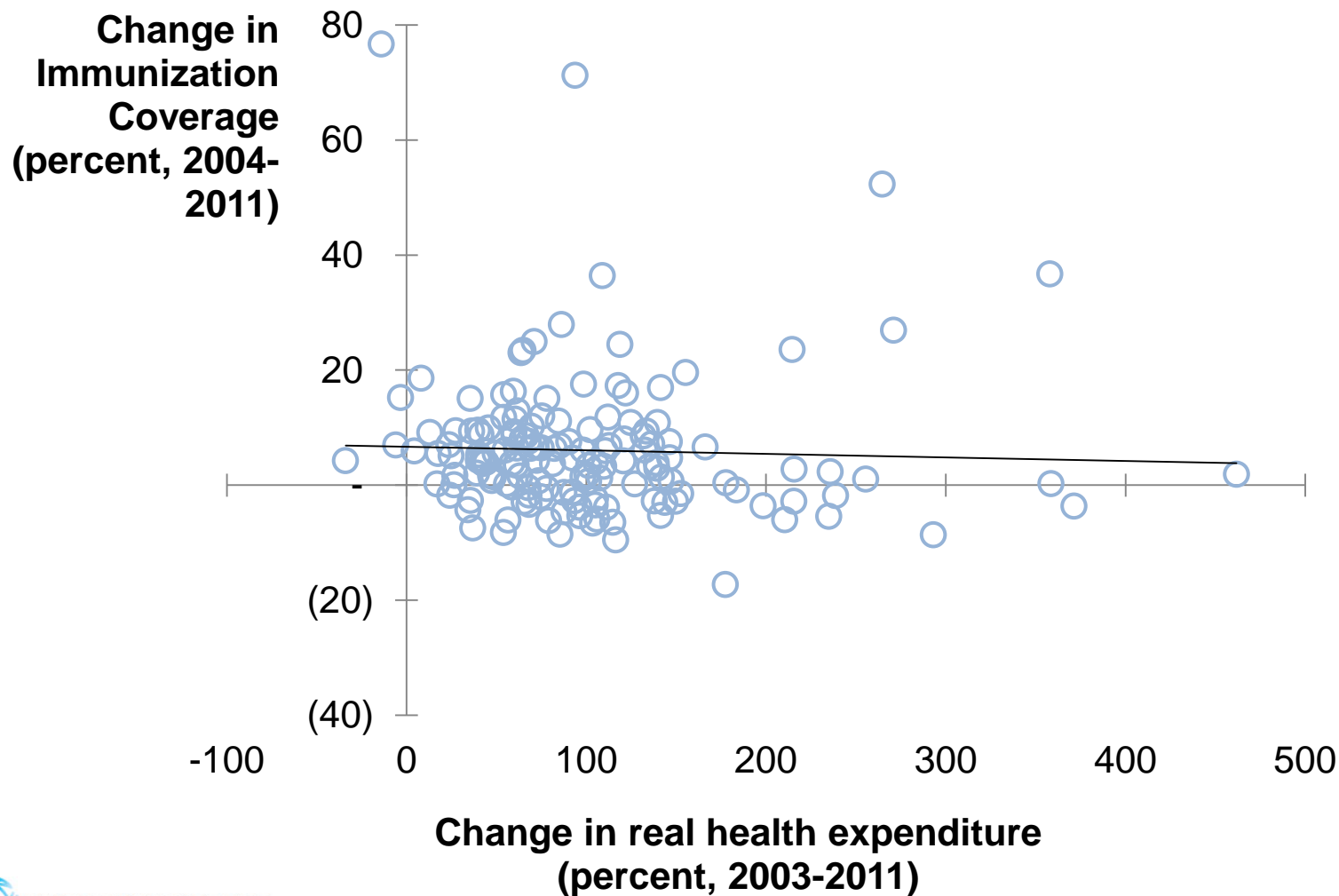
- Broadening the tax base
- Simplifying tax structures
- Rationalizing tax types
- Adopting a strategic, risk-based approach to compliance management
- Increasing voluntary compliance

Source: IMF; CEIC

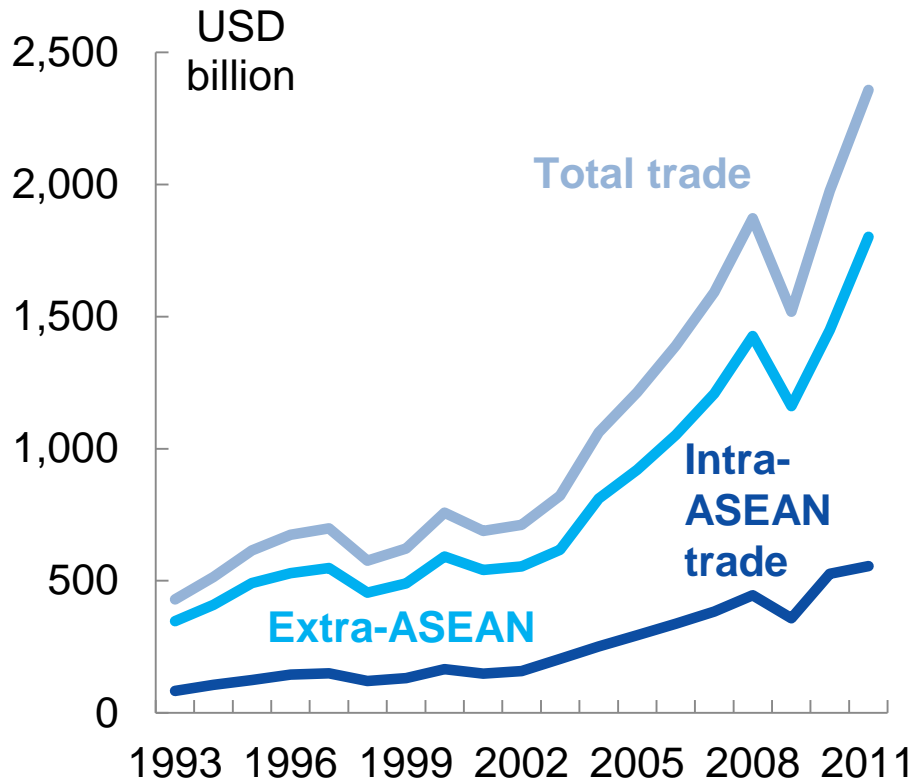
“Spending better” – gearing up for universal health care...



...including “spending better” at the district level



“Facilitate business” – opportunities from more regional economic integration



Source: ASEAN Secretariat and World Bank

- Rapid growth in intra-ASEAN trade but scope for much more, especially in **services**
- ASEAN Economic Community, scheduled for implementation in December 2015:
 - Large market opportunity for Indonesian firms
 - A potential anchor for the regulatory reforms needed to support growth and competitiveness

Introduction: delivering change

Recent economic developments: a challenging backdrop

Near-term economic outlook: relatively subdued

Delivering change: 3 focus areas

Conclusions

Conclusions

- Optimistic time for Indonesia
- But challenging economic realities:
 - Slower investment, weak exports
- The bold steps of the kind the government has signaled in its first few months are very needed, to support growth and poverty reduction
- It will take implementation, and potentially some time, for the benefits to flow through

