MOVING TOWARDS *DELIVERING CHANGE*...

**THEN (July 2014)**

*“Hard choices”*

- Safeguarding the fiscal position and freeing up funds for development spending

**NOW (Dec 2014)**

*“Delivering change”*

- Increased focus on governance, accountability and implementation
- Ambitious plans for accelerating infrastructure development and social programs
Low revenues have emerged as a critical constraint to the increased spending needed to achieve Indonesia’s development goals.

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

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.
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)

- Non commodities
- Commodities
- Export value

Balance of payments main account balances, USD billion

- Current account
- Direct investment
- Portfolio
- Other investment
- Overall balance

Source: BI; World Bank staff calculations
The economy has continued to slow, due mainly to weaker investment and exports.

- **Fixed investment**
- **Exports**

*Real annual growth rate, percent*

*Annual growth, percent*

Sources:
- BPS; World Bank staff calculations
- World Bank
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

- Budget
- Revised Budget
- Actual

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

Note: current IDR
Source: MoF

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

<table>
<thead>
<tr>
<th>(percentage change, unless otherwise indicated)</th>
<th>December IEQ</th>
<th>Revisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP</td>
<td>5.8</td>
<td>5.1</td>
</tr>
<tr>
<td>Consumer prices</td>
<td>6.4</td>
<td>6.4</td>
</tr>
<tr>
<td>Current account balance (% of GDP)</td>
<td>-3.3</td>
<td>-3.2</td>
</tr>
<tr>
<td>Fiscal balance (% of GDP)</td>
<td>-2.3</td>
<td>-2.3</td>
</tr>
</tbody>
</table>

Source: MoF; BPS; BI; World Bank projections
Main risks to outlook: external environment and domestic policy agenda and execution

<table>
<thead>
<tr>
<th>External</th>
<th>Domestic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Positive</strong></td>
<td><strong>Negative</strong></td>
</tr>
<tr>
<td>Lower than forecasted international oil prices</td>
<td>Reform agenda delivers early success; investment and growth rise more quickly than expected</td>
</tr>
<tr>
<td>Slower than currently projected global recovery</td>
<td>Limited reform and implementation (capital expenditure execution), and impact on growth is slower to materialize</td>
</tr>
<tr>
<td>Weaker than base case commodity price trajectory;</td>
<td></td>
</tr>
<tr>
<td>Tighter than expected external financing conditions</td>
<td></td>
</tr>
</tbody>
</table>
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”…

Projection under baseline macro assumptions and “business as usual”

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…

Out of pocket expenses as a share of total health spending

Source: WDI
…including “spending better” at the district level

Change in Immunization Coverage (percent, 2004-2011)

Change in real health expenditure (percent, 2003-2011)
“Facilitate business” – opportunities from more regional economic integration

- 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

Source: ASEAN Secretariat and World Bank
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