



Indonesia Economic Quarterly December 2014

Delivering change



Ndiamé Diop
Lead Economist (Indonesia)

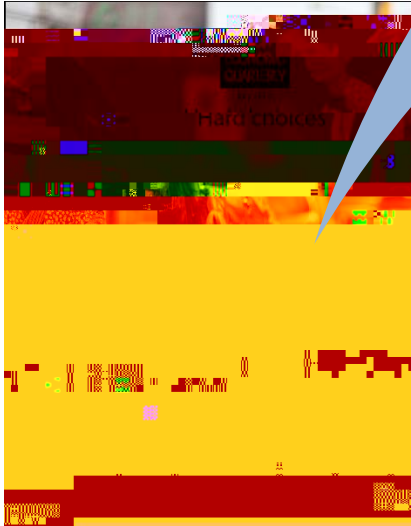
December 8, 2014

MOVING TOWARDS *DELIVERING CHANGE...*

Increased focus on governance, accountability and implementation

Ambitious plans for accelerating infrastructure development and social programs

Safeguarding the fiscal position and freeing up funds for development spending



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

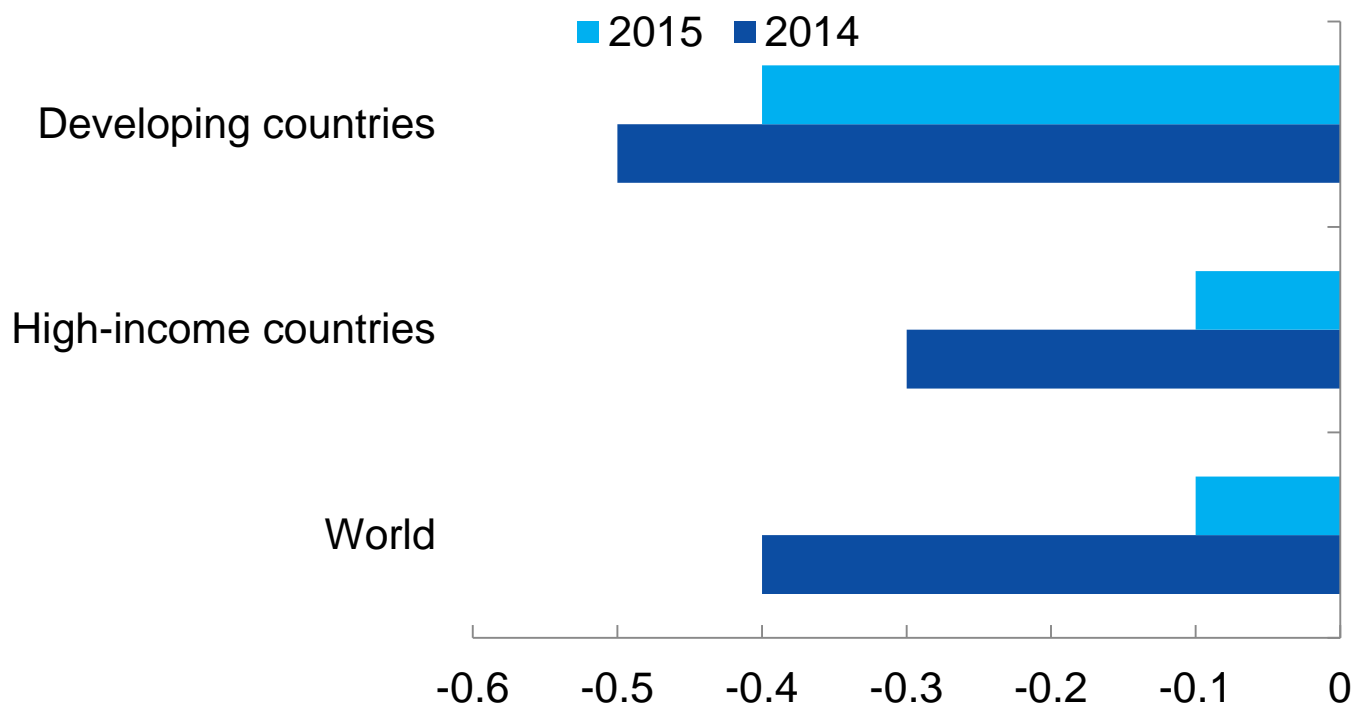
Near

Delivering change: 3 focus areas

Conclusions

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

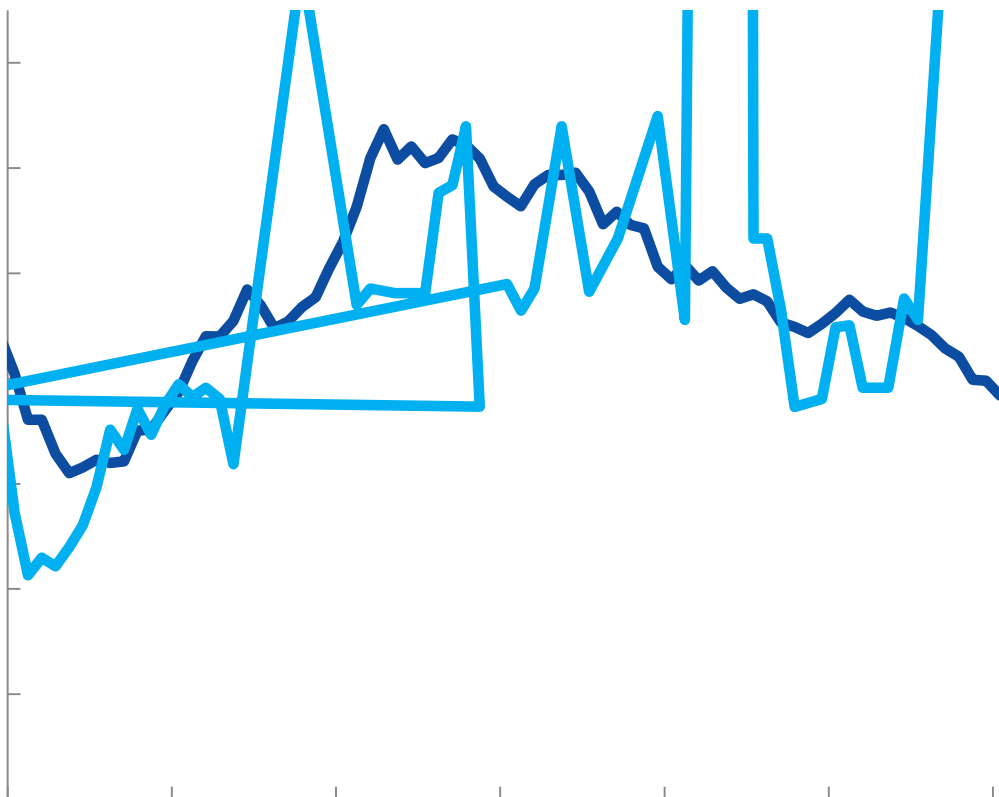
Difference between April 2014 and October 2014 World Bank growth projections, percentage points



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

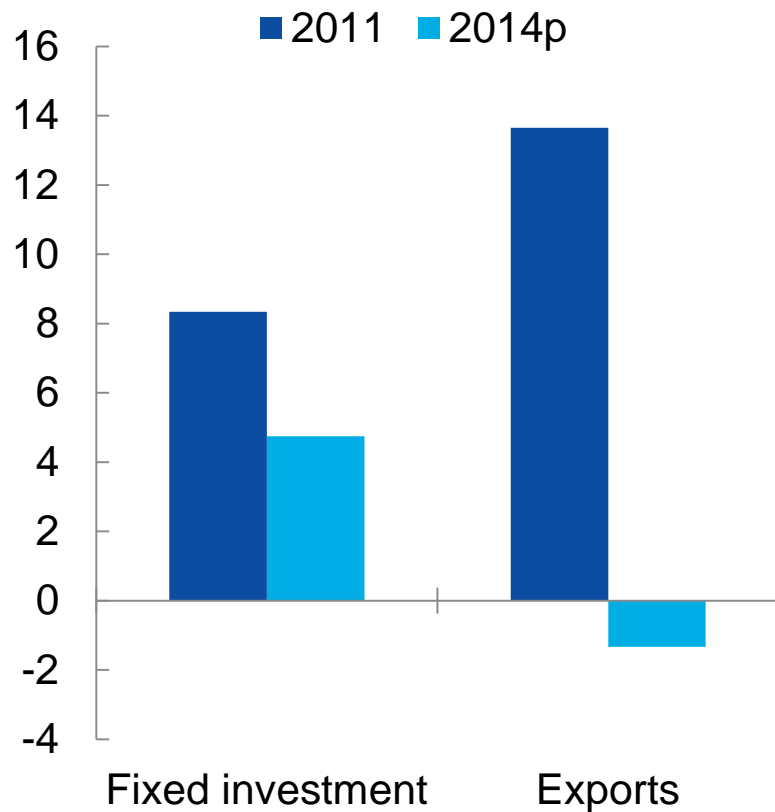


External balance still in focus

Contributions

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

Real annual growth rate, percent



Source: BPS; World Bank staff calculations

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

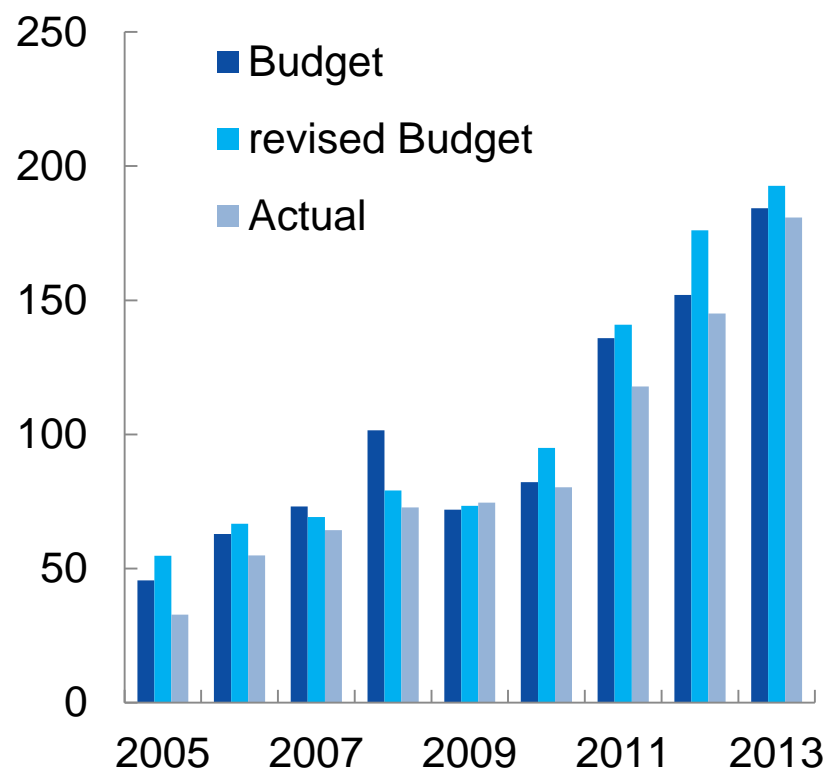
Credit growth yoy, percent

Source: BPS; World Bank staff calculations

Source: BI; World Bank staff calculations



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



Note: current IDR



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

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

M

Introduction: delivering change

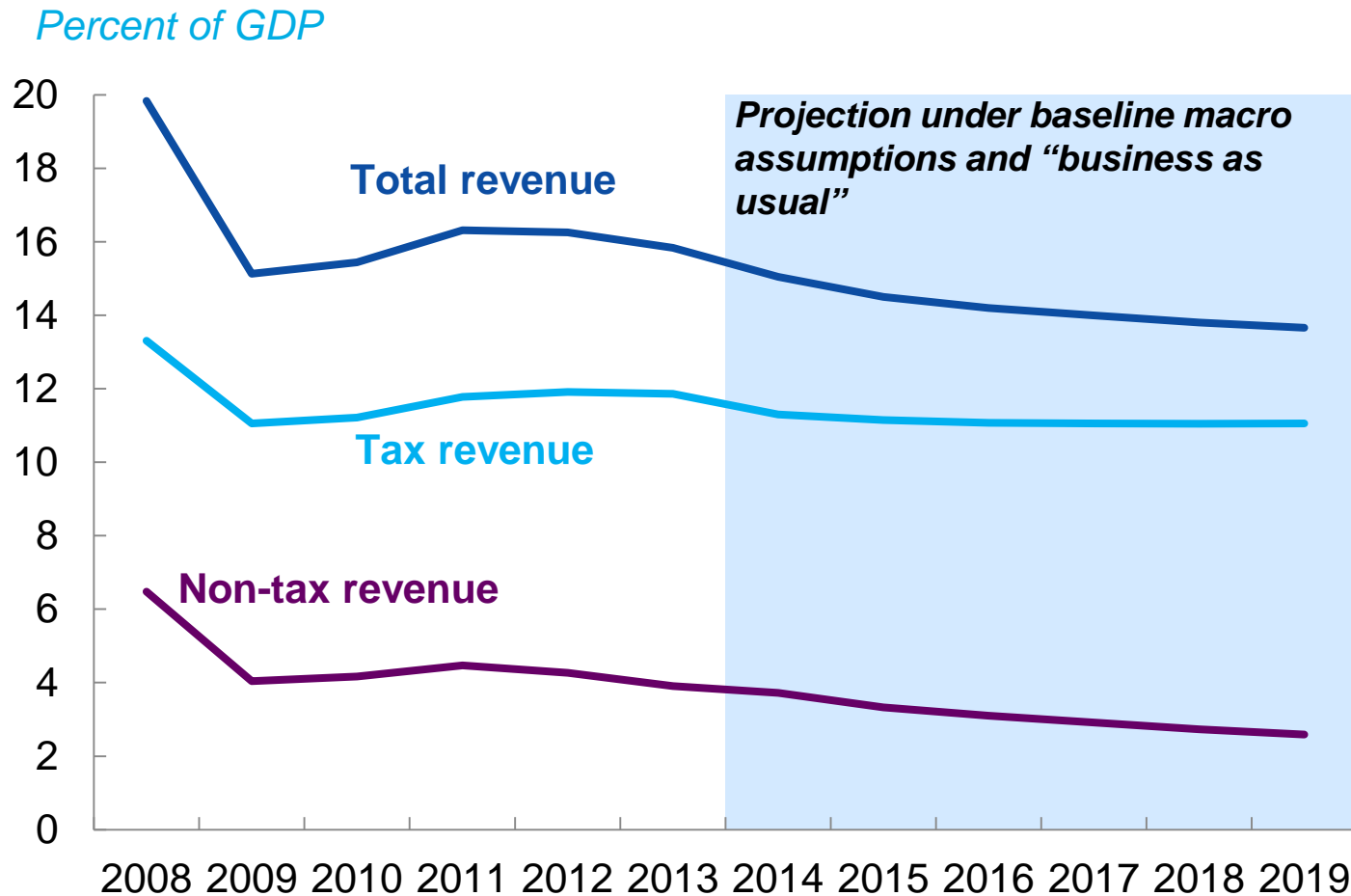
Recent economic developments: a challenging backdrop

Near-term economic outlook: relatively subdued

Delivering change: 3 focus areas

Conclusions

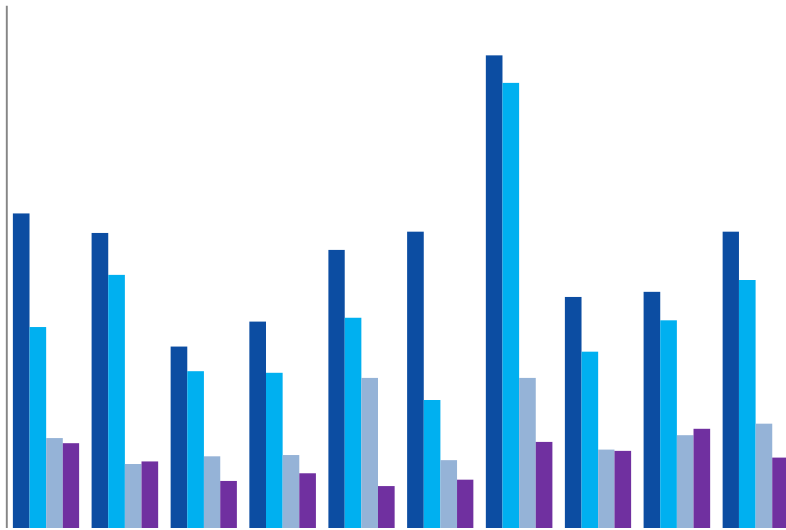
An urgent need to “collect more” ...



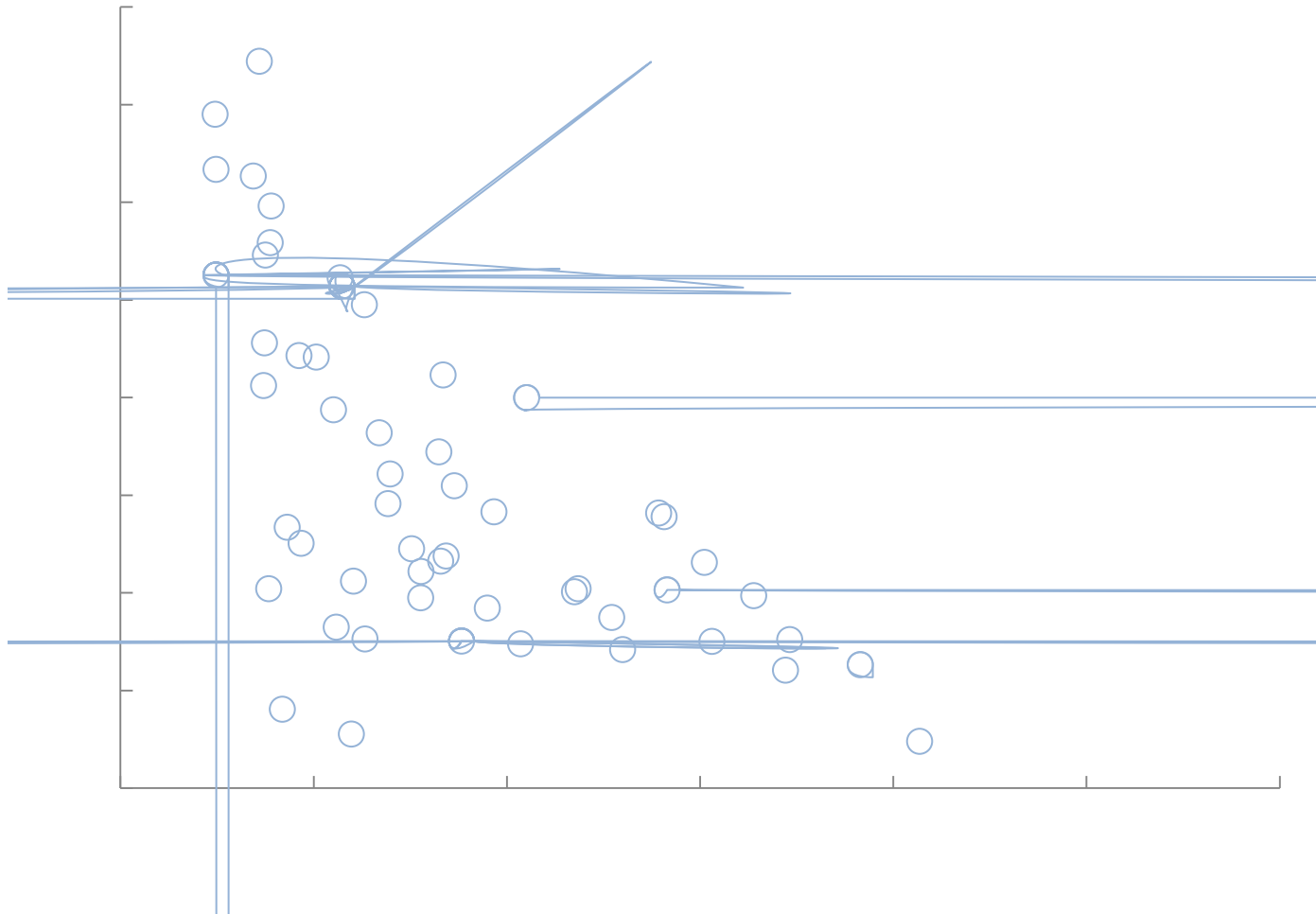
Source: MoF; World Bank projections



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

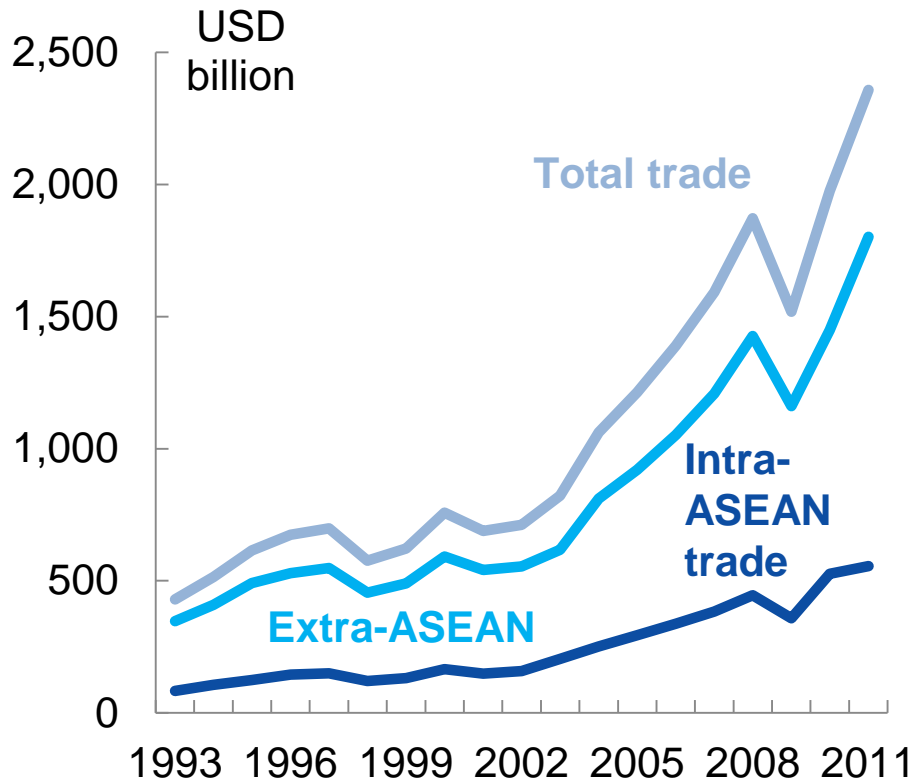


“Spending better” – gearing up for universal health care...



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

“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,

-

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

