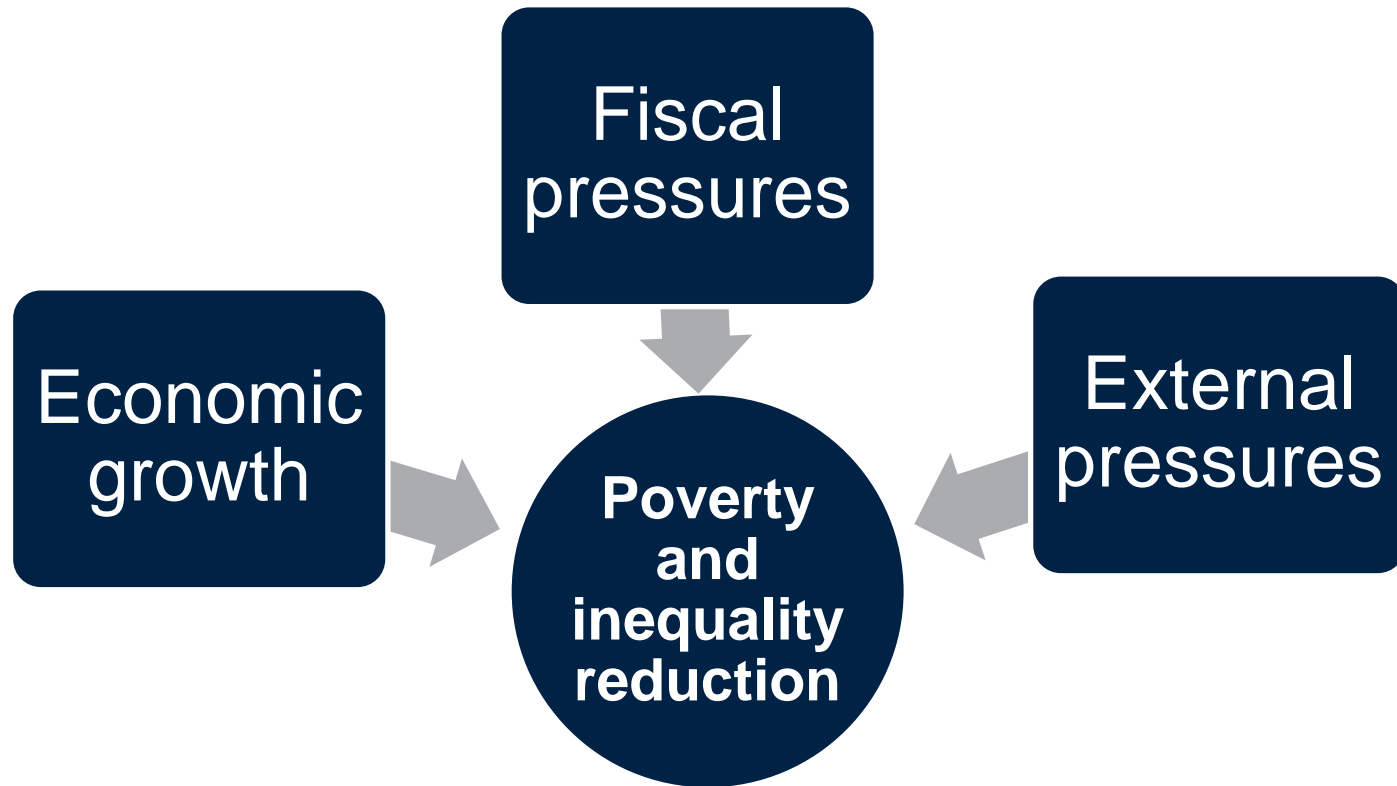




# Indonesia Economic Quarterly, July 2014 *Hard choices*

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# The new administration will face major near-term challenges



**Ending extreme poverty and achieving shared prosperity?**

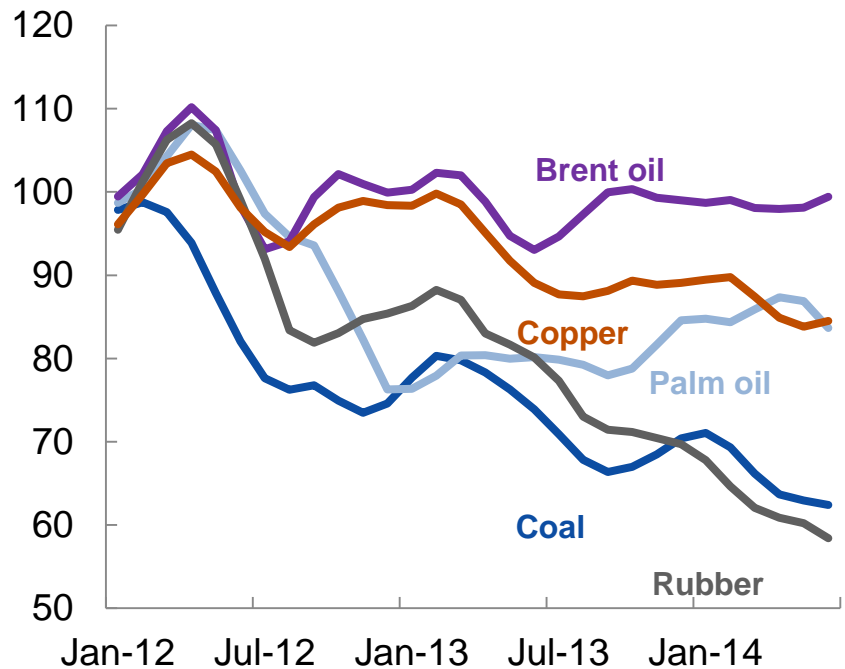
**OR**

**Persistent pockets of extreme poverty and many Indonesians left behind?**

# International backdrop

High-income economy growth is strengthening...

...but most global commodity prices, except oil, continue to decline  
(index, January 2012 = 100, 3mma)

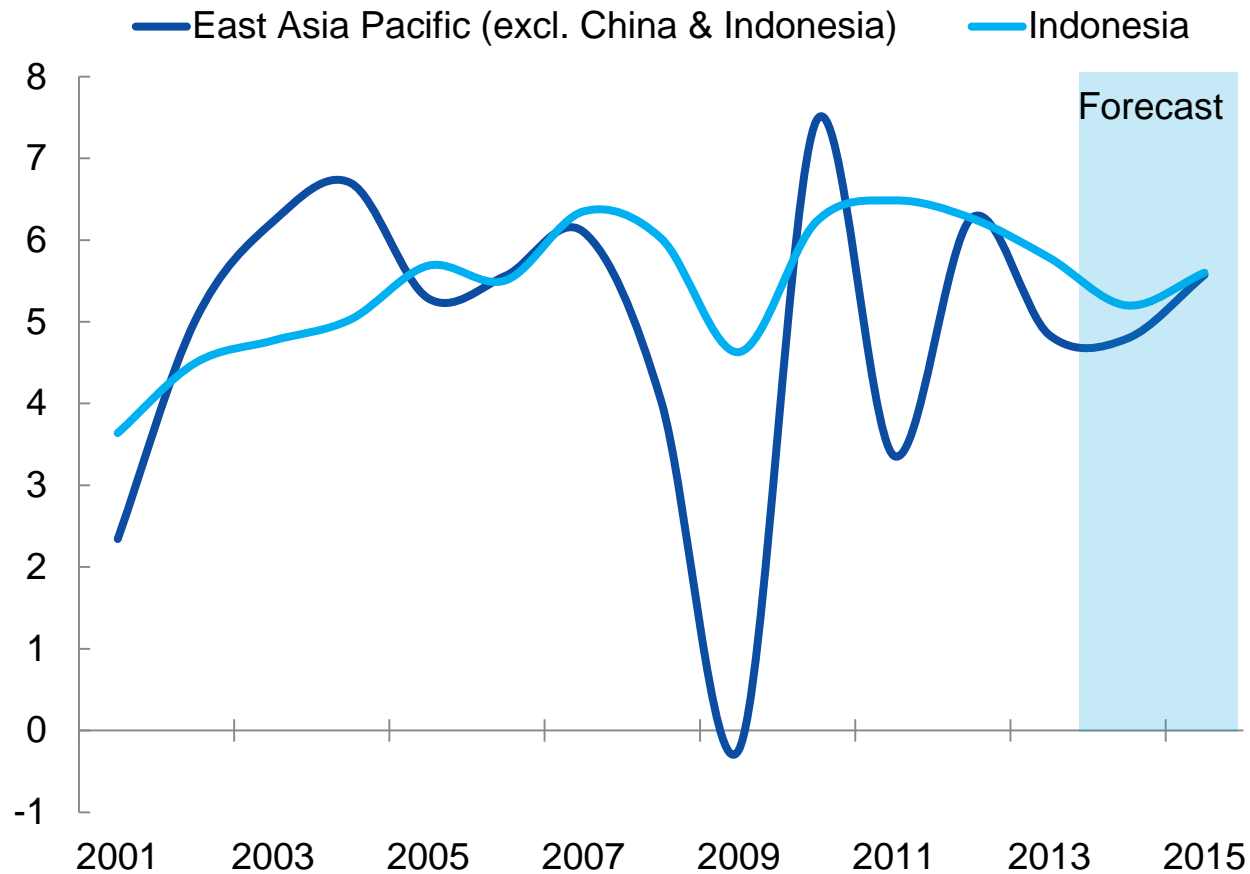


Source: World Bank



# Economic growth - Will Indonesia return to 6% growth?

*(annual growth, percent)*

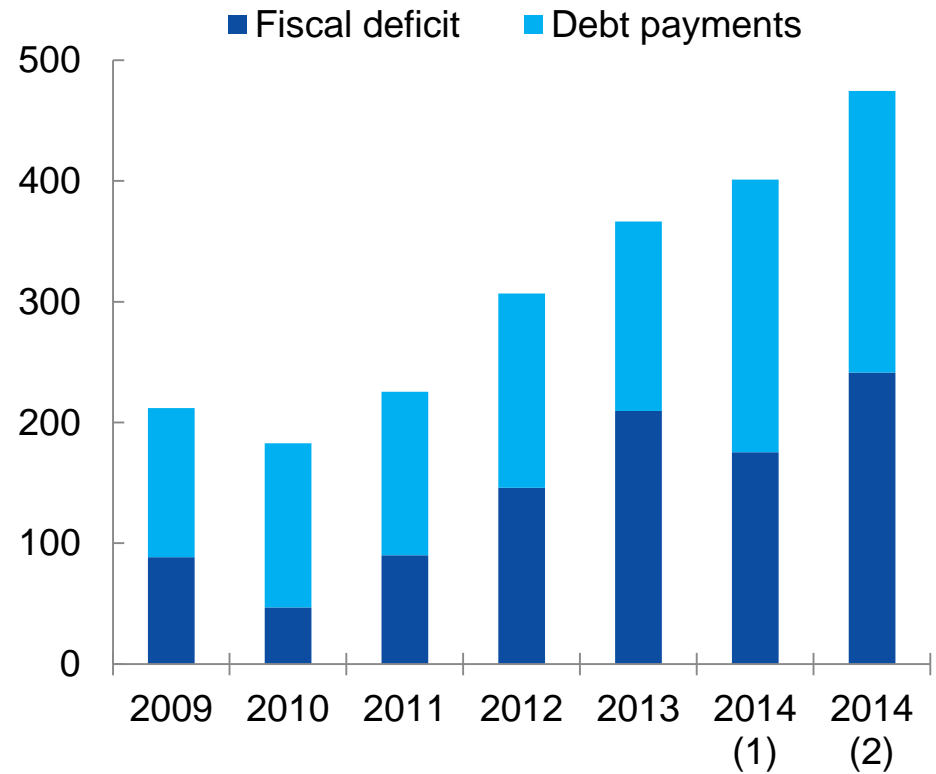
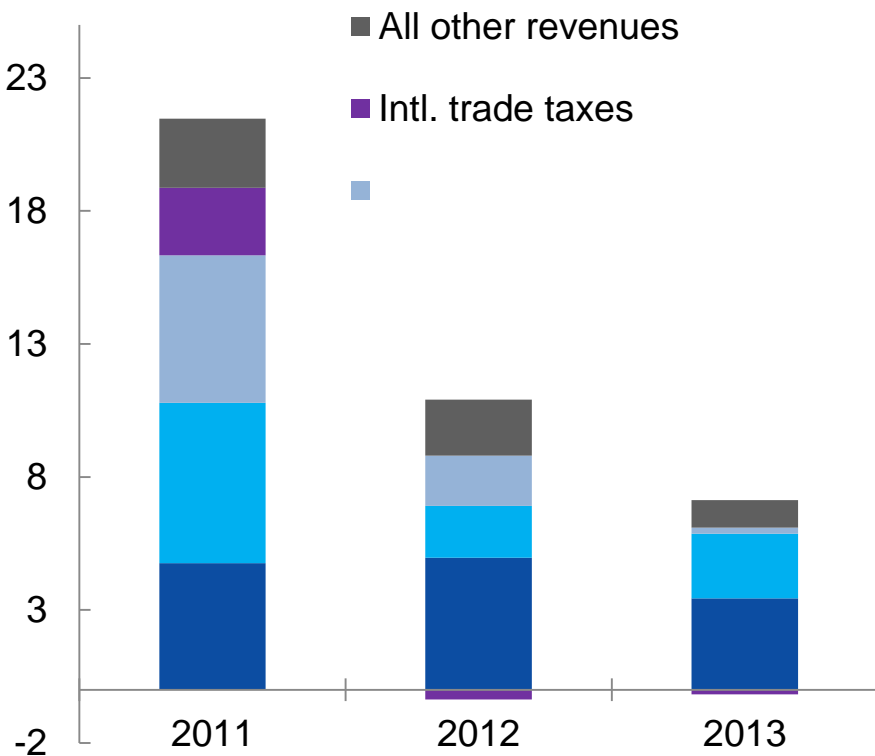


Source: BPS; World Bank staff calculations



# Fiscal risks are building up steeply

... and contributed to a substantial rise in government financing needs



Note: 2014 (1) is initial Budget (APBN), (2) is revised Budget (RAPBN-P)

Source: Ministry of Finance; World Bank staff calculations



Hard choices

# External balance still in focus despite macro stabilizing measures

After successful macro stabilization,  
focus now on weak exports...  
*(export and import USD values, yoy  
growth, 3mma)*

...which have been hit by ongoing  
commodity sector challenges  
*(contributions to export value growth  
yoy, percentage points)*

Source: CEIC; World Bank staff calculations



# Moderate pace of growth expected to continue

			July IEQ		Previous (March IEQ)	
			2014p	2015p	2014p	2015p
		2012 2013	2014p	2015p	2014p	2015p
Real GDP	(% change)	6.2 5.8	5.2	5.6	5.3	5.6
Consumer price index	(% change)	4.3 6.9	5.8	4.9	6.2	5.2
Current account balance	(% of GDP)	-2.8 -3.3	-2.9	-2.4	-2.9	-2.1
Budget balance	(% of GDP)	-1.9 -2.2	-2.8	n.a.	-2.6	n.a.

Source: BI; BPS; Ministry of Finance; World Bank staff projections

# Assessing the hard policy choices ahead



## Addressing near-term macro challenges

Reinvigorating growth  
Fiscal pressures  
External pressures

...AFFECTS THE CAPACITY TO DELIVER ON KEY STRUCTURAL REFORMS:

### - SUPPLY-SIDE REFORMS

*Infrastructure*

*Skills*

*Functioning of markets*

### - REFORMS TO ENSURE SHARED PROSPERITY

*Local access to services*

*Social protection*

*Management of disaster risks & resilience*



### FISCAL REFORMS

*Redirecting spending*

*Mobilizing revenue*

...and achieve key development outcomes

Faster poverty reduction

Reduced inequality





# Why does inequality matter for Indonesia?

- **Inequality can slow down economic growth**

Preliminary research comparing districts in Indonesia indicates that high levels of inequality hurt growth.

- **Inequality slows down poverty reduction**

If all households received growth equally, poverty would have fallen from 17.4 percent in 2003 to 0 percent by 2010.

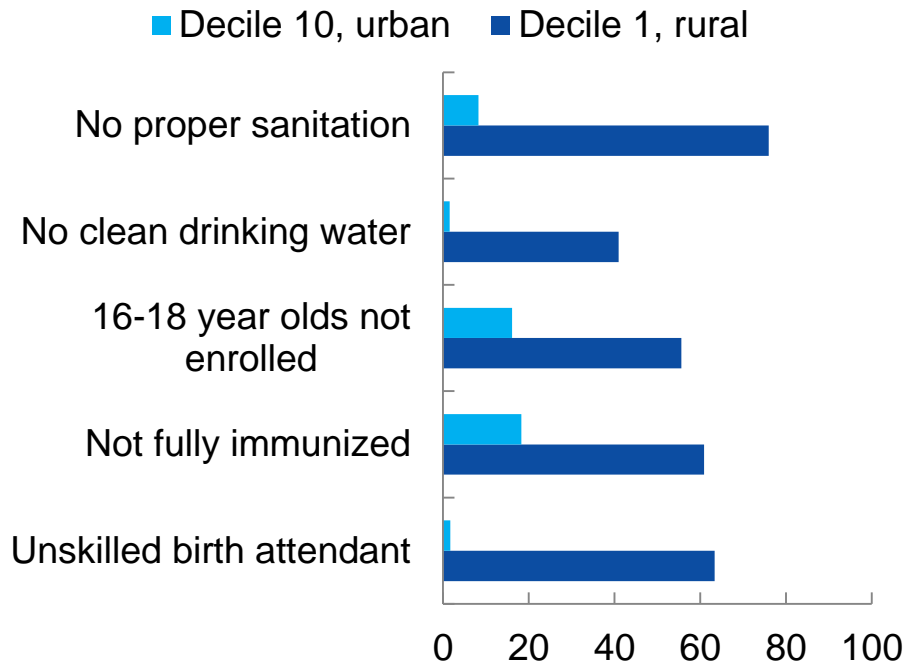
- **Inequality can trigger conflict and social tension**

Districts with Gini coefficients of 40 experienced 60 percent more conflict than districts with Gini coefficients of 20.

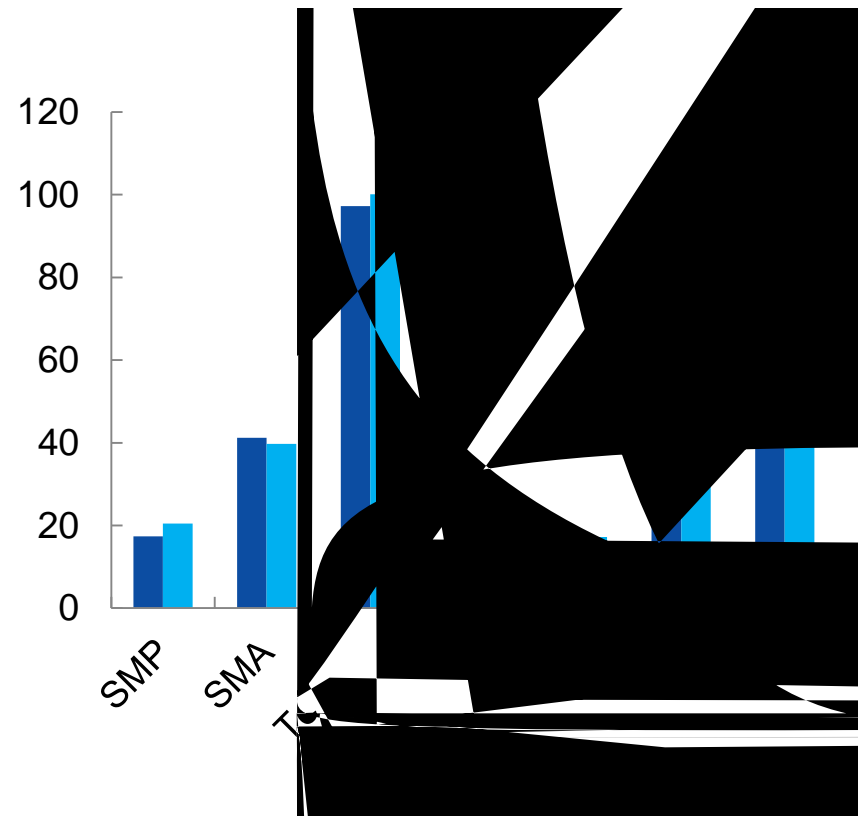
- **The majority of Indonesians believe that the country is more unequal than they'd like it to be**

# What is causing the rise in inequality?

Children are born with unequal opportunities



Returns from jobs favor the rich and well-educated



Source: Susenas; DHS; World Bank staff calculations





# What can be done to address rising inequality?

83% of Indonesians believe **it is “urgent” for the new government to tackle inequality**

- **Distribution:** improve spending and taxation policies (for example, eliminate regressive fuel subsidies, enhance tax compliance)
- **Opportunities:** increase poor households’ access to high quality education and health
- **Mobility:** support labor mobility for high-quality job creation
- **Safety nets:** adequate and well-targeted, to reduce the vulnerability of the poor to shocks

# Thank you

## July 2014 IEQ Contents:

- Regular update on economic developments and the outlook
- New purchasing power parity-adjusted estimates of Indonesia's economy
- |

