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INDONESIA ECONOMIC QUARTERLY

December 2014

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Delivering change

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Preface

The Indonesia Economic Quarterly (*IEQ*) has two main aims. First, it reports on the key developments over the past three months in Indonesia's economy, and places these in a longer-term and global context. Based on these developments, and on policy changes over the period, the *IEQ* regularly updates the outlook for Indonesia's economy and social welfare. Second, the *IEQ* provides a more in-depth examination of selected economic and policy issues, and analysis of Indonesia's medium-term development challenges. It is intended for a wide audience, including policymakers, business leaders, financial market participants, and the community of analysts and professionals engaged in Indonesia's evolving economy.

The *IEQ* is a product of the World Bank's Jakarta office and receives editorial and strategic guidance from an editorial board chaired by Rodrigo Chaves, Country Director for Indonesia. The report is compiled by the Macroeconomics and Fiscal Management Global Practice team, under the guidance of Shubham Chaudhuri, Practice Manager, Ndiame Diop, Lead Economist, and Ashley Taylor, Senior Economist. Led by Alex Sienaert, Country Economist, and with responsibility for Part A, editing and production, the core project team comprises Arsianti, Magda Adriani, Masyita Crystallin, Fitria Fitrani, Ahya Ihsan, Elitza Mileva (Part A lead), Michele Savini Zangrandi and Violeta Vulovic, with additional editing by Peter Milne and data input from Yus Medina, Michaelino Mervisiano, Astrid Rengganis Savitri and Daim Syukriyah. Administrative support is provided by Titi Ananto. Dissemination is organized by Farhana Asnap, Indra Irnawan, Jerry Kurniawan, Desy Mutialim and Nugroho Sunjoyo, under the guidance of Dini Djalal.

This edition of the *IEQ* also includes contributions from Matthew Wai-Poi and Mattia Makovec (Section A, poverty and minimum wages), Yue Man Lee, Bernard Myers, Arvind Nair and Violeta Vulovic (Part B.1, Revenues), Ahmad Ahsan (Section B.2, AEC), and Ajay Tandon, Darren Dorkin, Eko Pambudi and Puti Marzoeki (Section C, Universal Health Coverage, which is based on background work for the National RPJMN 2015-2019). Key data and input were received from Cut Dian Augustina, Brasuka Sudjana and Sjamsu Rahardja. The report also benefited from discussions with and in-depth comments from Vivi Alatas, Jim Brumby, Jamie Carter, Michael Engelschalk, Carlos Ferreira, Edgar Janz, Cristobal Ridao-Cano, Ben Bingham (IMF), Bill Wallace and David Nellor (Australia Indonesia Partnership for Economic Governance), David Gottlieb (Australia Department of Foreign Affairs and Trade) and Natalie Horvat (Australian Treasury, Australia-Indonesia Government Partnership Fund).

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Executive summary: Delivering change

Indonesia's new government has taken positive early steps…

Having taken office on October 20, 2014, Indonesia's new President, Joko Widodo, and his administration have set out a series of ambitious development goals, particularly on the improvement of energy and other infrastructure, and social programs. Steps aimed at strengthening governance in key sectors have also been taken, for example, in the oil and gas industry. A third feature has been a focus on implementation and a more centralized approach to policy formulation. Notably, the president took the important decision to raise subsidized fuel prices effective November 18, shoring up Indonesia's fiscal position and freeing up space for much-needed increases in development spending. These positive steps and commitments in the early days of the new government suggest a willingness to make the hard choices that are required to address many of Indonesia's long-standing structural priorities.

…but, given the scale of the challenges to be addressed, further work lies ahead to deliver on an ambitious development agenda

However, this is not to underestimate the scale of the challenges, nor the complex domestic political environment that will need to be navigated. Domestic growth is moderating, with weaker investment growth and sluggish exports reflecting falls in commodity prices since 2012, and is unlikely to pick up markedly in the near term. Further work by the government will be required to build on the early steps that have been taken, and even if key policy constraints are addressed, it will take time for the impact on development and growth outcomes to be seen. Among the bold reforms, and implementation, that will be required are three areas focused on in this edition of the *IEQ*: "collecting more", i.e. mobilizing more public revenues, "spending better", i.e. improving public service delivery, notably in the health sector, and "facilitating business", for example, to enable Indonesian firms and workers to seize the opportunities afforded by greater regional economic integration.

The global growth outlook has been downgraded and commodity prices remain weak, with oil prices falling sharply in recent months

International economic conditions and their impact on Indonesia remain mixed. Among major economies, activity has picked up in the US but has disappointed in the Euro Area and Japan. China's economic rebalancing has continued, resulting in a somewhat slower pace of growth. Looking ahead, the global economy is still expected to pick up, but since the previous *IEQ* in July 2014, near-term global growth forecasts have generally been revised lower, and emerging markets as a whole are now expected to grow at rates below those observed over the past decade. This moderation in global growth expectations has contributed to the continued softening of the international prices of Indonesia's key export commodities. Crude oil prices have fallen particularly steeply, by approximately one-third since June, to four-year lows. Since Indonesia is a net importer of oil, this will provide welcome support for the terms of trade. However, the impacts on the energy sector and on the fiscal sector (with potential relief for energy subsidy costs but a negative effect on oil-related revenues), will also be crucial determinants of the ultimate impact on the Indonesian economy.

Indonesia's economy recorded another quarter of moderate growth due to weaker investment and exports

The pace of economic growth in Indonesia has continued to moderate, weighed down by relatively subdued investment spending, and ongoing export weakness. In the third quarter, real GDP grew at 5.0 percent year-on-year (yoy), down from 5.1 percent yoy in the second quarter. In sequential terms, GDP increased by 5.3 percent quarter-on-quarter at a seasonally-adjusted annualized rate (qoq-saar), also slightly down, from 5.4 percent in the second quarter. Private consumption, Indonesia's main expenditure growth driver, together with higher government spending, broadly compensated for the drop in the contributions of fixed investment and net exports to year-on-year GDP growth in the third quarter.

Export weakness has meant only a modest narrowing so far in the current account deficit

The continued weakness of export revenues, notwithstanding the resumption of some mineral exports in the second half of 2014, has meant that Indonesia's current account deficit has so far narrowed only modestly, despite significant import compression. The current account deficit eased to USD 6.8 billion or 3.1 percent of GDP in the third quarter, 1.0 percentage point of GDP lower than the seasonally high level in the second quarter, and 0.8 percentage points of GDP below the year-ago level. Within the wider current account, however, the goods trade balance turned positive, helped especially by subdued imports. On the financial account side of the balance of payments, direct investment and net portfolio investment, notably foreign purchases of government bonds, remained strong.

In the fiscal sector, revenue growth has remained relatively weak, while capital expenditure has contracted

In the fiscal sector, total revenue collection growth (10.8 percent yoy in January-October 2014) has continued to come in below nominal GDP growth (11.8 percent yoy in Q1-Q3 2014) despite a lift to exchange rate-sensitive revenues from the weaker Rupiah. On the expenditure side, overall budget disbursement rates by the end of October increased relative to previous years. However, this was mainly driven by higher energy subsidy spending, and capital expenditure has significantly underperformed, with only 38 percent of the revised Budget allocation realized. This disbursement rate of capital expenditure is well below the execution rates in 2012 and 2013 and, in nominal terms, capital expenditure has declined for the first time in recent years, by 18 percent. In addition to long-standing budget execution challenges such as land acquisition, the substantial mid-year budget revision and the transition to a new government may have also slowed capital project execution.

The subsidized fuel price rise will increase inflation temporarily, but also generates vital fiscal savings…

Looking ahead, the 34 percent average increase in subsidized gasoline and diesel prices effective November 18 is expected to have only a limited negative short-term effect on private consumption and GDP. Higher compensatory social spending and the prospect of some savings being redirected towards infrastructure investment are anticipated to be offsetting factors in terms of the overall growth effect. The impact on inflation is expected to be pronounced but temporary, lifting CPI by approximately 3 percentage points before dropping out of the annual comparison late next year, resulting in average annual headline inflation in 2015 of 7.5 percent. The projected fiscal savings from the announced fuel price increase amount to more than IDR 100 trillion in 2015 (1 percent of GDP), though, as seen in 2013, this could be eroded by future Rupiah depreciation or a reversal in global oil prices. As emphasized in recent statements by the government, these risks point to the need to secure the dividends of this price increase by establishing a subsidy mechanism that reduces the volatility of subsidy costs.

…allowing a redirection of spending and potential deficit reduction under a revised Budget which is expected to be proposed during the first quarter of 2015

The 2015 Budget, which was formulated and deliberated under the previous administration and parliament, was approved in late September 2014. The approved fiscal deficit of 2.2 percent of GDP in 2015 is slightly lower than the projected deficit of 2.4 percent in 2014. The budget is expected to be revised during the first quarter of 2015, to reflect the priorities of the new government such as infrastructure for food security and maritime and social protection. An important aspect of this revision will be the redirecting of part of the fiscal savings from the subsidized fuel price increase to priority sectors such as infrastructure, health, and social protection, including compensation measures, and the use of the remainder of the fiscal savings to reduce the 2015 fiscal deficit.

Economic growth is expected to stabilize at close to current levels, before picking up modestly in 2016…

Projected GDP growth is revised down marginally to 5.1 percent in 2014 (from 5.2 percent in the July *IEQ*) and more substantially to 5.2 percent in 2015 (from 5.6 percent prior), while in 2016 the World Bank expects GDP to accelerate to 5.5 percent (Table 1). The outlook reflects disappointing fixed investment and trade data releases, and the continuing deceleration in credit. A stronger than expected acceleration in fixed investment through 2015 could drive a more rapid economic expansion than in the baseline, but would require that the ongoing disbursement challenges for public capital spending allocations are addressed. The current account deficit narrows gradually in the baseline scenario to 2.8 of GDP in 2015 and 2016, from 3.2 percent of GDP in 2014.

Table 1: Under the baseline scenario, Indonesia's growth is projected at 5.2 percent in 2015, similar to 2014, and the current account deficit is expected to narrow slightly

		2013	2014p	2015p	2016p
Real GDP	(percent change)	5.8	5.1	5.2	5.5
Consumer price index	(percent change)	6.4	6.4	7.5	5.2
Current account balance	(percent of GDP)	-3.3	-3.2	-2.8	-2.8
Budget balance*	(percent of GDP)	-2.3	-2.4	-2.2	n.a.
Major trading partner GDP	(percent change)	3.5	3.8	3.8	3.8

Note: * Government figures, realized (2013) and approved budget balances (2014 and 2015)
Source: BI; BPS; Ministry of Finance; World Bank staff calculations

…contributing to an only modest pace of poverty reduction

The relatively modest pace of economic growth over the forecast period compared with that of recent years is expected to contribute to only slow reductions in the national poverty rate, which stood at 11.3 percent in March 2014. Compensation measures are expected to shield the poor effectively from the negative impacts of higher food and transportation prices following the November subsidized fuel price

increase, though methodological changes in poverty measurement will make this difficult to estimate precisely. However, on a medium-term view, Indonesia faces a challenge to address stubborn extreme poverty. Poverty is projected to remain above 8 percent in 2018 in the baseline scenario, unless there is concerted action to support shared growth and to strengthen and expand the social safety net.

A strong focus on revenue by the new government will be critical to create the fiscal space for implementing its development programs…

Funding the new government's ambitious development goals, as well as pre-existing expenditure commitments such as universal health coverage (see below) and increased district level transfers under the 2014 Village Law, while safe-guarding Indonesia's strong commitment to fiscal prudence, will not be easy, especially in the current context of more subdued economic growth. Indonesia currently collects just over 11 percent of GDP in tax, and 15 percent of GDP in total revenue, amongst the lowest in the region and in the G20. Under a "no major reform" scenario, revenue collection is projected to fall further as a share of GDP to 13.7 percent by 2019. Consequently, and as emphasized by the government, a sustained effort to mobilize revenues is critical. Revenue policy reforms to broaden the tax base, simplify tax structures, rationalize tax types, and selectively revise certain rates to be in line with international levels, could help to raise revenues, as well as reduce economic distortions and lower administration costs. In addition, improving tax and non-tax revenue administration and compliance through a more strategic, risk-based approach to compliance management, and additional efforts to increase voluntary compliance, will also help to address this challenge.

…including the realization of the ambitious goal of universal health coverage by 2019…

One priority area in need of the additional public spending that could be enabled by mobilizing more revenues is the health sector. Public health spending across all levels of government was only about 1.2 percent of Indonesia's GDP in 2012 (about USD 43 per capita), the fifth-lowest health-spending-to-GDP ratio globally. At the same time, Indonesia has recently implemented a series of key reforms with the objective of attaining universal health coverage by 2019, a fundamental policy to ensure and sustain inclusive economic growth and accelerate poverty reduction. In order to realize this ambitious goal, there needs to be a focus not just on increasing access to, and end-user affordability of, health services, but also on ensuring that effective health care services exist, especially in the eastern regions of Indonesia and at the primary care level.

…while ongoing moves towards ASEAN regional economic integration offer opportunities for Indonesian enterprises

Indonesia also faces challenges, and opportunities, from the prospect of more regional economic integration. In December 2015, the Association of Southeast Asian Nations (ASEAN) will create the ASEAN Economic Community (AEC), aiming for a free flow of goods, services, skilled labor and, to a more limited extent, capital. The strategic importance to Indonesia's economy of seizing the opportunities created by more regional market access and increased flows of goods and services has only been increased by the recent downward pressures on commodity prices, highlighting the need to drive export growth through raising the international competitiveness of manufacturing and services firms and finding new markets for Indonesian products. Positioning Indonesia to benefit fully from this opportunity places an additional premium on supporting economic competitiveness by addressing infrastructure and skills gaps, and reforming regulations so as to lower firms' costs. Close engagement with other ASEAN countries in regulatory cooperation, to reduce non-tariff barriers and regulatory bottlenecks, especially in services, will be necessary to achieve and realize the benefits of closer regional economic integration.

A. Economic and fiscal update

1. The outlook for Indonesia's external environment has weakened

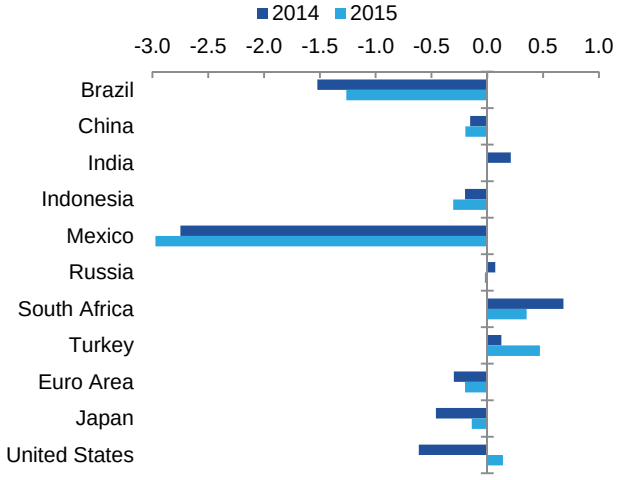
Near-term growth projections have been lowered in many emerging markets and Indonesia's main trading partners

Near-term global growth forecasts have been revised down and the global recovery is projected to be more gradual and more uneven than anticipated at the time of the last *IEQ* (Figure 1). Among major economies, activity has picked up in the US but has lagged behind in the Euro Area and Japan. At the same time, China's economic rebalancing has continued, resulting in a somewhat slower pace of growth. The emerging markets as a group are now expected to grow at rates below those observed before the global financial crisis or during the post-crisis recovery. In line with the revised prospects for global growth and international trade, the outlook for Indonesia's main trading partners has also weakened slightly, contributing to the World Bank revising down its macroeconomic forecasts for Indonesia as well (see Section 2).

Commodity prices remain under significant pressure

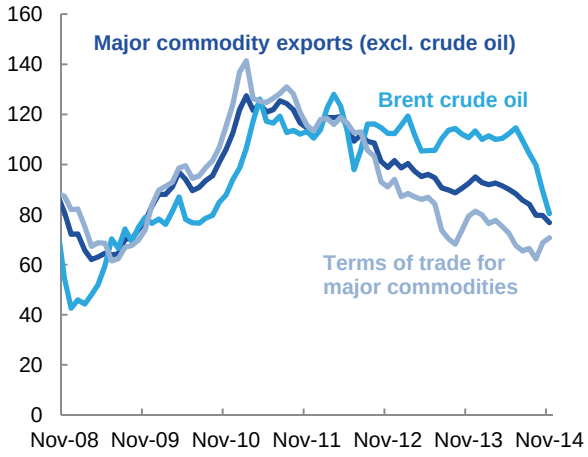
As a result of the recent faltering of the global recovery, the prices of Indonesia's main commodity exports, except liquefied natural gas (LNG), have recorded significant declines, moving further below their post-global financial crisis highs of early 2011. In US dollar terms, as of November 2014, the price of rubber is down 74 percent from its peak, coal 53 percent, crude palm oil 44 percent and copper 32 percent. Over recent months, oil prices have fallen sharply, with the Brent crude benchmark down 33 percent from July 1 to December 2. Global commodity price movements therefore continue to shape the outlook for Indonesia's economy. As a net oil importer, Indonesia has benefited from a reduced oil import bill, but this benefit continues to be offset by falls in the export values of other commodities (Figure 2). The fiscal and corporate sectors have also been affected, although the large depreciation of the Rupiah from its highs in mid-2011 has acted as a shock absorber, cushioning some of the impact of lower commodity prices on revenues.

Figure 1: Near-term revisions to the growth outlook have been mostly negative
(difference between April 2014 and October 2014 IMF World Economic Outlook growth projections, percentage points)



Source: IMF WEO; World Bank staff calculations

Figure 2: Indonesia's commodity terms of trade have deteriorated, offset recently by lower oil prices
(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 financing conditions have remained generally favorable in terms of interest costs and market access, but the US Dollar has strengthened markedly

Global liquidity conditions remain generally comfortable, under the influence of continuing monetary policy accommodation in advanced economies. However, there has been an increasing divergence between the policy of the US Federal Reserve, which has concluded its asset purchase program, and the very accommodative monetary stance of the European Central Bank and that of the Bank of Japan. This has contributed to the US dollar strengthening by almost 10 percent against a basket of ten major US trading partner currencies since June 30. Emerging market currencies have also declined against the US dollar and sovereign yields have generally risen, indicating a mild tightening trend in external financing conditions for most emerging economies, albeit not as pronounced as expected at the time of the last *IEQ* and with considerable variation amongst borrowers.

2. Indonesia's growth has continued to slow

The growth in economic activity was again moderate in the third quarter of 2014 due to weaker investment and exports…

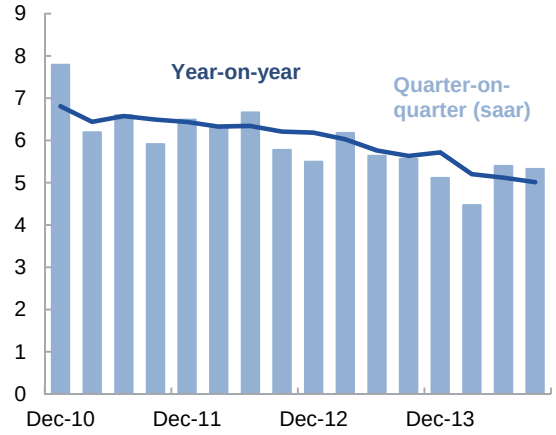
In the third quarter of 2014, Indonesia's real GDP grew 5.0 percent year-on-year (yoy), down from 5.1 percent in the second quarter. In sequential terms, GDP increased by 5.3 percent quarter-on-quarter at a seasonally-adjusted annualized rate (qoq-saar), slightly down from 5.4 percent in Q2 2014 (Figure 3). Private consumption, Indonesia's main growth driver, together with higher government spending, compensated for the drop in the contributions of fixed investment and net exports to year-on-year GDP growth in Q3. Taking into account the latest national accounts and credit market data releases, and the external developments discussed in the preceding section, economic activity in Indonesia is projected to continue to grow at a moderate pace in 2015, picking up somewhat in 2016.

… while private consumption has continued to support growth

In the third quarter of 2-14, domestic demand growth remained stable at 4.9 percent yoy, but, in contrast to Q2, it was supported by government spending while investment continued to weaken. Private consumption rose by 5.4 percent yoy compared with 5.6 percent in each of the previous two quarters. Sequentially, the growth of this expenditure component actually accelerated to 5.9 percent qoq-saar

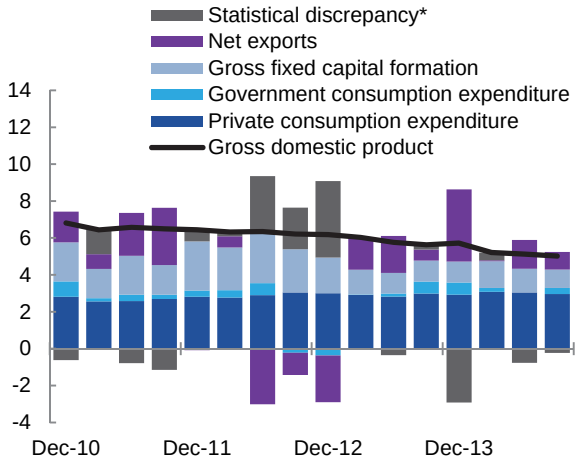
in Q3 2014 from 5.5 percent in Q2. Private consumption continues to be Indonesia's engine of growth, contributing 3.0 percentage points to year-on-year GDP growth in Q3 (Figure 4). Following a trend of typically higher budget execution rates in the second half of each year, government spending rose by 4.4 percent yoy (15.5 percent qoq-saar) in Q3, after declining by 0.7 percent in the previous quarter.

Figure 3: Indonesia's GDP growth slowdown continued in Q3 2014…
(real growth yoy and qoq-saar, percent)



Source: BPS; BPS; CEIC seasonal adjustment; World Bank staff calculations

Figure 4: … driven by persistently weak investment and exports
(expenditure components' contribution to real GDP growth yoy, percentage points)



Note: *Statistical discrepancy includes inventories
Source: BPS; World Bank staff calculations

In Q3 2014 fixed investment grew at the slowest pace since the global financial crisis

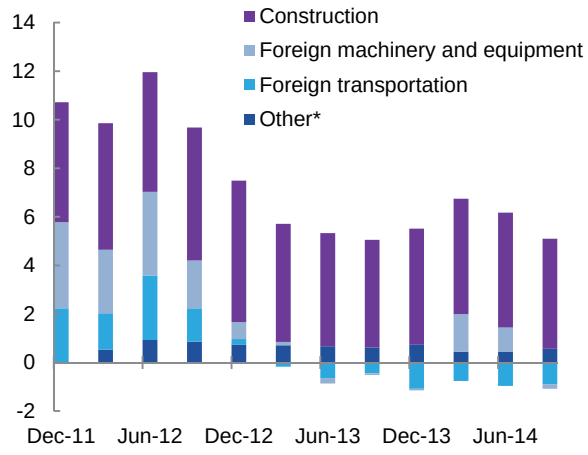
The downward momentum in fixed investment growth, observed over the past two years, continued into the third quarter. Gross fixed capital formation recorded the lowest growth rate, at 4.0 percent yoy, since Q3 2009, as the effects of weaker commodity prices, tighter credit conditions and the depreciation of the Rupiah continue to be felt. In sequential terms, fixed investment growth decelerated to 2.4 percent qoq-saar, down from 4.2 percent in Q2 2014. Building investment has remained the main growth driver, contributing 4.5 percentage points to year-on-year fixed investment growth in Q3 (Figure 5). In contrast, foreign machinery, equipment and transportation equipment spending subtracted 1.1 percentage points from fixed investment growth in the same period.

Relatively cheaper construction has dominated fixed investment growth in recent years

In fact, construction has dominated fixed investment growth in Indonesia since the mid-2000s. According to 2011 data from the International Comparison Program, which controls for differences in the price levels of countries,[1] the GDP share of real construction investment relative to the share of real spending on machinery and equipment is very high by global standards (Figure 6). This is true even when taking into account that, in Indonesia, construction investment prices are low relative to machinery and equipment prices. For example, India, the Philippines, Thailand and Vietnam have similar relative price ratios of construction to machinery and equipment to Indonesia's (equal to slightly more than 0.2) but much lower relative expenditure shares.

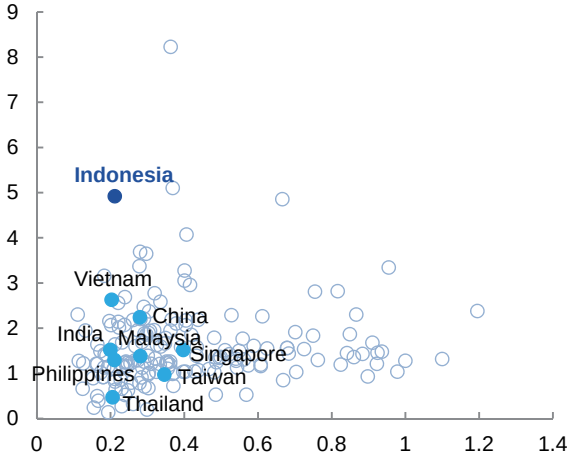
[1] See http://icp.worldbank.org for more details.

Figure 5: Construction has supported investment growth in Indonesia in recent years…
(investment components' contribution to real investment growth yoy, percentage points)



Note: * Other includes domestic machinery, equipment and transportation
Source: BPS; World Bank staff calculations

Figure 6: …and its expenditure share relative to machinery and equipment has been high
(ratio of real construction expenditure relative to machinery and equipment investment versus ratio of the corresponding 2011 PPP relative prices of the two investment components)



Source: 2011 International Comparison Program; World Bank staff calculations

The weakness in both exports and imports continued in the third quarter

The contribution of net exports to GDP growth remained positive in Q3 2014 (Figure 4), but it was again driven by declining imports. Exports of goods and services declined by 0.7 percent yoy (and by 0.7 percent qoq-saar). Based on trade volume data for July and August, the decline in exports was caused by a drop in rubber and coal exports. Lower demand for these commodities from China is mainly responsible for this decrease in exports. However, in the case of coal exports, India has offset partly the loss in Chinese demand in recent months. Despite the resumption of limited copper exports in the third quarter, ores have remained the main drag on export volume growth. In the same period, overall import volumes decreased by 3.6 percent yoy after declining by 5.1 percent in Q1, although were up slightly on the quarter, increasing by 1.3 percent qoq-saar.

Agriculture, mining and quarrying improved for the first time this year

From the production perspective, manufacturing and some service sectors contributed to the moderation in year-on-year real GDP growth. Manufacturing growth continued to weaken, to 4.6 percent yoy, from 5.0 percent in Q2. Similarly, the growth in trade, hotel and restaurant services weakened, moving to 4.2 percent yoy. The growth contribution of most other sectors remained broadly stable, with agriculture and mining and quarrying rising slightly.

The World Bank projects a moderate near-term growth outlook for Indonesia of 5.1 to 5.5 percent

Looking forward, GDP growth is revised down marginally to 5.1 percent in 2014 (from 5.2 percent prior) and more substantially to 5.2 percent in 2015 (from 5.6 percent prior). In 2016, the World Bank expects GDP to increase by 5.5 percent. The near-term outlook reflects the negative surprise in recent fixed investment and trade data releases. The projected delay in the pick-up of gross fixed capital formation growth is due to the continuing deceleration in credit growth (see Section 5), and a weaker than previously expected external environment. The increase in subsidized fuel prices on November 18 is expected to have only a limited negative short-term effect on private consumption and GDP, although the overall impact of any reallocation of spending to social protection programs or infrastructure

investment is dependent on the extent, design and implementation of such spending.

Medium-term growth will depend on external developments and domestic policy reforms

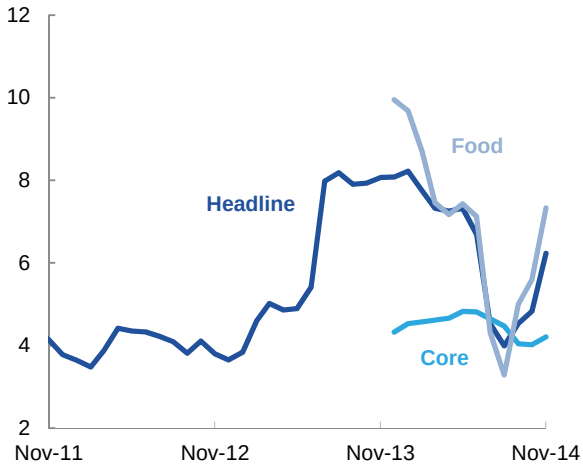
In the medium term, economic activity will be determined by the slower-than-recently-expected global growth, persistently weaker international commodity prices and rising foreign financing costs (see Section 1). Medium-term growth will also depend crucially on the ability of the new administration to deliver on long-standing structural reform challenges and key infrastructure investments. In this regard, the recently announced fuel subsidy cuts and proposed spending reallocations to infrastructure, if effectively implemented, are an important first step.

3. The inflationary impact of the rise in subsidized fuel prices is expected to be temporary

Through October, inflation has remained subdued as growth has moderated,…

As a result of weaker growth momentum in the third quarter of 2014 and favorable base effects, headline inflation was 4.8 percent yoy in October (Figure 7). In November, headline CPI increased to 6.2 percent yoy, mostly as a result of the increase in subsidized gasoline and diesel prices by IDR 2000 per liter on November 18 (see Box 2). Core inflation has remained contained, rising slightly to 4.2 percent in November. The electricity tariff increases phased in since July 2014 appear to have had a limited effect on consumer prices so far.

Figure 7: Inflation has remained broadly contained in the third quarter…
(inflation rates yoy, percent)



Note: The figure shows available 2012-base data for core and food inflation
Source: BPS; World Bank staff calculations

… but some food price pressures have emerged recently

After declining significantly between January and August 2014, food price inflation has risen in recent months to 7.3 percent yoy in November. As a result of lower rice production this year, due to the dry conditions caused by El Niño, domestic rice prices have increased somewhat since June.[2] However, some of the price pressure was offset by rice imports by the government, totaling 425 thousand tons so far this year. The prices of most other food items, except chilies, have declined in the third quarter. Despite its small weight in the food consumption basket (around 1.1 percent in 2007), the price of chilies, which has tripled since the end of June, has driven up food price inflation.

[2] See also the July 2014 *IEQ* for a detailed economic impact assessment of the February-March 2014 forest fires on the regional economy of Riau.

The inflation rate is projected to increase in the near term as a result of the subsidized fuel price increases

The 2014 and 2015 projected annual average CPI inflation rate has been revised up to 6.3 percent and 7.3 percent yoy, respectively, to account for the effect of the increase in subsidized fuel prices. In the base case, the World Bank does not expect the fuel price reform to have an impact on inflation beyond the short term, as was the case with the fuel subsidy cuts implemented in 2013. Moreover, on November 18, Bank Indonesia (BI) announced a 25 basis points increase in its policy rate (and some additional macro-prudential measures), as a signal to restrain inflation expectations. Average annual CPI inflation is expected to decrease to 5.2 percent yoy in 2016, just above the upper limit of the BI target range (4 percent +/- 1 percent for 2015).

Table 2: In the base case, GDP growth is expected to remain just above 5 percent in 2014 and 2015
(percentage change, unless otherwise indicated)

	Annual				YoY in Fourth Quarter				Revision to Annual	
	2013	2014	2015	2016	2013	2014	2015	2016	2014	2015
1. Main economic indicators										
Total Consumption expenditure	5.2	5.2	4.8	5.0	5.4	5.4	4.6	5.0	0.3	0.1
Private consumption expenditure	5.3	5.5	4.9	5.2	5.3	5.5	4.8	5.3	0.5	0.0
Government consumption	4.9	3.3	4.4	3.3	6.4	5.1	3.4	3.2	-1.0	0.7
Gross fixed capital formation	4.7	4.7	4.9	6.1	4.4	3.9	5.9	6.1	0.0	-1.5
Exports of goods and services	5.3	-1.3	4.1	6.3	7.4	-3.2	6.0	6.3	-1.7	-2.4
Imports of goods and services	1.2	-3.5	3.0	5.9	-0.6	-4.1	4.6	6.5	-3.6	-2.2
Gross Domestic Product	5.8	5.1	5.2	5.5	5.7	5.0	5.3	5.5	-0.1	-0.3
2. External indicators										
Balance of payments (USD bn)	-7.1	14.1	9.7	11.4	-	-	-		16.1	8.8
Current account bal. (USD bn)	-29.1	-27.1	-27.1	-29.2	-	-	-		-1.5	-3.5
As share of GDP (percent)	*-3.3*	*-3.2*	*-2.8*	*-2.8*	-	-	-		*-0.3*	*-0.4*
Trade balance (USD bn)	-6.2	-3.5	-0.2	1.2	-	-	-		-0.4	4.1
Financial account bal. (USD bn)	22.0	41.2	36.8	40.6	-	-	-		15.9	12.3
3. Fiscal indicators										
Central govt. revenue (% of GDP)	15.7	15.0	14.5		-	-	-		-0.4	-
Central govt. expenditure (% of GDP)	18.0	17.4	16.5		-	-	-		-0.8	-
Fiscal balance (% of GDP)	-2.3	-2.3	-2.0		-	-	-		0.5	-
Primary balance (% of GDP)	-1.1	-1.0	-0.7		-	-	-		0.4	-
4. Other economic measures										
Consumer price index	6.4	6.4	7.5	5.2	8.0	6.3	6.5	5.3	0.6	2.6
GDP Deflator	4.4	6.4	7.6	5.3	7.1	6.6	6.4	5.3	0.7	2.3
Nominal GDP	10.4	11.8	13.2	11.1	13.2	12.0	12.1	11.1	0.6	2.0
5. Economic assumptions										
Exchange rate (IDR/USD)	10563	11800	12100	12100	-	-	-		0	300
Indonesian crude price (USD/bl)	106	98	85	86	-	-	-		-8	-18
Major trading partner growth	3.5	3.8	3.8	3.8	-	-	-		-0.2	-0.1

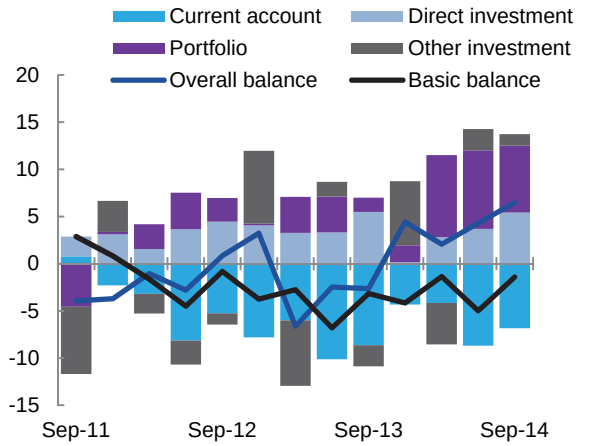
Note: Export and import figures refer to volumes from the national accounts. Exchange rate and crude oil price are assumptions based on recent averages. Revisions are relative to projections in the July 2014 *IEQ*
Source: MoF; BPS; BI; CEIC; World Bank projections

4. The current account adjustment remains gradual, capital inflows strong

The third quarter of 2014 saw a moderate narrowing in the current account and strong direct investment and government bond flows

Indonesia's external adjustment has remained relatively slow and dependent on import compression, with export revenues under continued pressure from commodity sector conditions. In the third quarter of 2014, Indonesia's current account balance narrowed somewhat. The deficit eased to USD 6.8 billion or 3.1 percent of GDP, 1.0 percentage point of GDP lower than the seasonally high level of USD 8.7 billion in Q2 and 0.8 percentage points below the year-ago level (Figure 8). On account of weak commodity exports, total export revenues continued to contract, albeit less so than in previous quarters. Despite this, however, continuing import compression supported the return to a positive goods trade balance of USD 1.6 billion, from USD -126 million in Q2. External financing of the current account and debt amortizations was supported by solid capital inflows, with strong inbound direct investment and foreign purchases of government bonds.

Figure 8: The current account deficit narrowed slightly and FDI and portfolio inflows were strong
(balance of payments main account balances, USD billion)



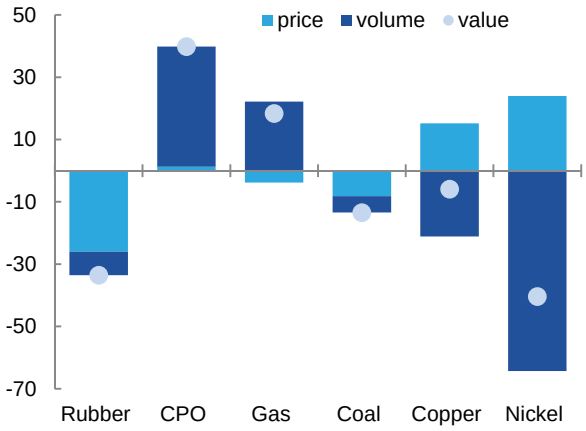
Note: Basic balance = direct investment + current account balance
Source: BI; World Bank staff calculations

Commodity exports remained weak and, while manufacturing exports have picked up, their momentum is flagging

Goods export growth remained negative at -0.4 percent yoy in Q3 2014, compared with -1.6 yoy in Q2. Performance across individual commodities was mixed but, at an aggregate level, commodities remained a drag on export growth, contributing -5.5 percentage points to the drop in goods exports. Rubber and coal exports declined significantly on account of both lower prices and volumes. Exports of nickel and copper were very low due to weak volumes related to the raw mineral export ban introduced in January 2014. Liquefied natural gas (LNG) and crude palm oil (CPO) exports grew, the latter driven by strong demand from India (Figure 9). In contrast, non-commodity exports contributed 5.0 percentage points to year-on-year goods export growth, offsetting in part the weakness in commodities. Supported partly by a real Rupiah depreciation, manufacturing exports have recorded positive year-on-year growth in 2014 (Figure 10). However, there are signs that the growth momentum of manufactured exports has flagged in recent months.

Figure 9: Commodity exports present a mixed picture, but remained weak overall in Q3 2014

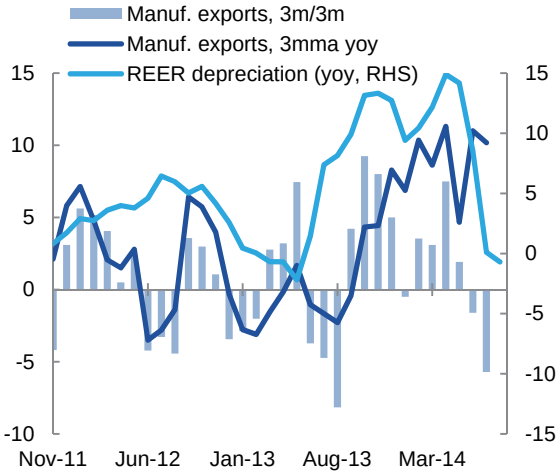
(July-August 2014 export value growth yoy, percent; decomposition by volume and price)



Source: BPS; World Bank staff calculations

Figure 10: Rupiah depreciation has helped manufactures exports but momentum is flagging

(3-month on 3-month growth and 3-month moving average yoy growth of manufacturing export values, percent; REER yoy percent change)



Source: BIS; BPS; World Bank staff calculations

Import compression has continued as investment demand weakened, supporting near-term external rebalancing

Goods imports declined by 3.8 percent yoy in the third quarter of 2014, driving the return to a positive goods trade balance. Weaker investment growth (see Section 2) has contributed to a decrease in raw material and capital goods imports, by 3.0 percent yoy and 7.1 percent yoy, respectively. Despite the strong momentum in private consumption, consumer goods imports declined by 3.8 percent yoy, perhaps impacted by higher imported goods costs as a result of Rupiah depreciation.

The financial account continued to see strong inflows in the third quarter on the back of inbound direct investment and government bond purchases

The capital and financial account balance recorded a large surplus of USD 13.7 billion in Q3 2014, compared with USD 14.3 billion in Q2 2014. Net direct investment increased by USD 1.7 billion relative to the previous quarter, on the back of 10-year high inflows of USD 7.4 billion. Investor appetite for foreign currency-denominated government bonds was also strong in Q3 2014, securing USD 2.8 billion of inflows, including Indonesia's first euro-denominated government security issued in July (for EUR 1 billion) and a USD 1.5 billion sukuk sold in September. Foreign investor demand for Rupiah-denominated securities remained robust, with USD 3.7 billion worth of purchases. The overall balance of payments recorded a surplus of USD 6.5 billion; gross reserves increased to USD 111.2 billion at end-September and up further to USD 112.0 billion in October.

The World Bank projects a gradual narrowing of Indonesia's current account deficit over the next two years in the baseline scenario

Looking ahead, the current account deficit is projected to narrow gradually, to 3.2 percent of GDP in 2014 and 2.8 percent in both 2015 and 2016. Compared with the July 2014 *IEQ* forecast, the current account balance has been revised down by 0.3 percentage points in 2014 and 0.4 percentage points in 2015. The World Bank now expects Indonesia's external adjustment process to take longer than previously anticipated, because of limited progress to date and the revised global outlook discussed in Section 1. The "basic balance", i.e. the sum of the current account balance and direct investment, is projected to remain negative through the forecast horizon, declining from -1.3 to -0.8 percent of GDP between 2014 and 2016. This implies a continued reliance of net external, i.e. current account, financing needs on potentially volatile portfolio and other investment flows. In addition, Indonesia's gross external financing needs, i.e. the sum of the current account deficit and external debt amortizations, remain high, at approximately USD 77 billion (12 percent of GDP) in the first three quarters of 2014.

Table 3: A current account deficit of 3.2 percent of GDP in 2014 and 2.8 percent in 2015-2016 is projected

(USD billion unless otherwise indicated)

	2013	2014	2015	2016
Overall balance of payments	-7.1	14.1	9.7	11.4
As percent of GDP	*-0.8*	*1.6*	*1.0*	*1.1*
Current account	-29.1	-27.1	-27.1	-29.2
As percent of GDP	*-3.3*	*-3.2*	*-2.8*	*-2.8*
Goods trade balance	5.8	7.0	9.2	11.7
Services trade balance	-12.1	-10.5	-9.4	-10.5
Income	-27.0	-28.3	-32.8	-36.6
Transfers	4.2	5.1	5.9	6.2
Capital and financial accounts	22.0	41.2	36.8	40.6
As percent of GDP	*2.5*	*4.8*	*3.9*	*3.8*
Direct investment	12.2	16.2	17.7	21.0
Portfolio investment	10.9	26.1	13.5	14.0
Financial derivatives	-0.3	-0.2	-0.2	-0.2
Other investment	2.6	4.8	5.8	5.8
Memo:				
Basic balance	-16.9	-10.9	-9.4	-8.2
As percent of GDP	*-1.9*	*-1.3*	*-1.0*	*-0.8*

Note: Basic balance = current account balance + net FDI
Source: BI; World Bank staff calculations

5. Private sector financing conditions remain tight

Private sector financing conditions have tightened further and are unlikely to improve in the short term

Domestic credit and deposits continued to grow at subdued rates through the third quarter of 2014, with few clear drivers for a reversal in this trend over the near term. In the first half of this year, external borrowing has to some extent supported private sector access to financing. However, in the third quarter both domestic and external credit conditions tightened. In addition, the cost of external financing is expected to rise and regulatory steps have been taken to limit external exposures.

The Rupiah has depreciated further against the US dollar since July, but strengthened in real effective terms through October

In line with broad US dollar strength (see Section 1), the Rupiah weakened by 6.1 percent against the US dollar between the end of July and December 2 but gained 9.6 percent against the weakening Yen and 2.4 percent against the Euro. As a result, Indonesia's real effective (trade-weighted) exchange rate has remained relatively stable, appreciating slightly, by 0.3 percent, over July-October (and by a more substantial 4.2 percent over the whole of 2014 through October), according to Bank for International Settlements (BIS) data. In relation to recent trends in Rupiah volatility, Bank Indonesia issued new regulations on foreign exchange transactions on September 18. The regulations revise the existing list of eligible underlying assets and the restrictions on extending credit for derivative transactions.[3]

[3] Bank Indonesia Regulations 16/16/PBI/2014 and 16/17/PBI/2014.

Indonesian equity and bond prices have strengthened in recent months, and there has been sustained net foreign buying of domestic bonds

Both equity and bond prices have been on a rising trend in the fourth quarter, lifting the Jakarta Composite Index of equities by 19.4 percent, and reducing domestic bond yields by 33-70 basis points across the 1-10 year maturity range, in 2014 through December 2. Net foreign purchases of Indonesian equities have been weak in recent months, totaling IDR 6.4 trillion (USD 562 million) over the second half of 2014 through December 2, after a strong start in the first half of the year with IDR 44.1 trillion (USD 3.8 billion) worth of net inflows. Foreign investor interest in government bonds has been much stronger, with purchases of IDR 126.1 trillion (USD 10.3 billion) of government bonds so far this year, IDR 67.8 trillion (USD 5.5 billion) of which was in the second half through December 2.

Bank credit continued to weaken in Q3 2014, with the slowdown in investment credit particularly pronounced

Bank credit growth continued to decline through August owing to funding constraints among some banks and possibly to banks' concerns over risks to asset quality which could increase non-performing loans (NPLs). Credit growth was 13.5 percent yoy in August, down from 20.9 percent in January. Real credit growth (deflated by the CPI) was 9.1 percent yoy, down from 11.8 percent in January. Investment credit, which accounted for 24 percent of total credit in August, recorded the largest slowdown in growth from 34.1 percent yoy in January to 16.9 percent yoy in August (Figure 11). Loan quality as measured by the NPLs has improved since October, though the NPL ratio, at 2.3 percent, still remains higher by 0.5 percentage points compared with January.

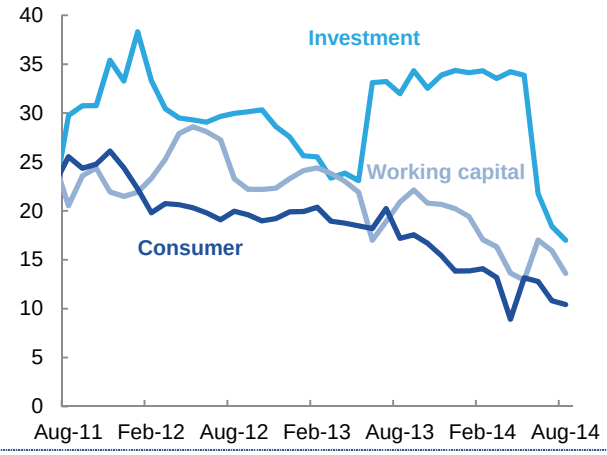
Total bank deposit growth slowed further in Q3, despite a pickup in time deposits

On the funding side, overall deposit growth has continued to decline because of the slowdown in demand deposit growth and despite an increase in time deposit growth over the past 12 months (due to rising time deposit rates) (Figure 12). Moreover, growth of bank deposits at Bank Indonesia has also slowed, demonstrating that liquidity conditions remain tight. In an effort to reduce competition among banks for third party funds and thereby lower funding costs, Indonesia's Financial Services Authority (*Otoritas Jasa Keuangan*, OJK) introduced a temporary cap on deposit rates.

Following the subsidized fuel price increases, BI immediately raised the policy rate but also announced efforts to support bank liquidity and credit conditions

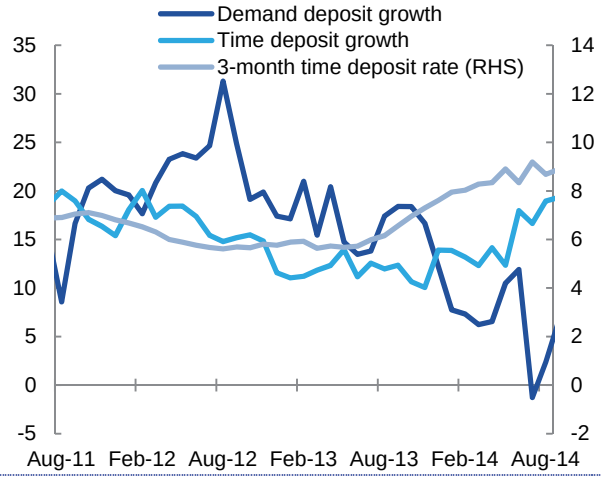
On 19 November, following a special Board meeting, BI announced a 25 basis point increase in the policy rate to 8.0 percent in response to the increase in subsidized fuel prices, in order to control inflation expectations. However, the central bank kept the deposit facility interest rate at 5.75 percent, keeping the move neutral for bank liquidity. In addition, BI announced its intention to help improve domestic credit conditions by providing incentives to banks to boost credit to small and medium enterprises. Furthermore, BI extended the definition of deposits in the calculation of the loan to deposit ratio to include securities issued by banks, providing more headroom for lending.

Figure 11: The credit growth slowdown continued, particularly in investment lending
(growth yoy, percent)



Source: BI; World Bank staff calculations

Figure 12: Declining demand deposit growth has resulted in tighter bank liquidity conditions
(percent)

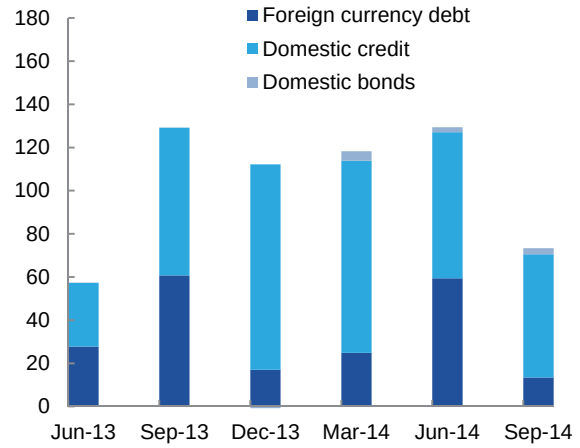


Source: BI; World Bank staff calculations

External borrowing temporarily offset the decline in domestic credit to the private sector in the first half of 2014, but also tightened in the third quarter

In recent months, non-financial corporations[4] have faced tighter credit conditions, both from domestic and external sources. The growth rate of non-financial corporate sector domestic bank credit, local bonds and external debt has steadily decreased since January. Non-financial corporations substituted domestic credit with external debt in the second quarter of 2014, but the trend was short-lived and reversed in Q3. Moreover, the increase in year-on-year growth of external debt converted in Rupiah has been partly due to the significant currency depreciation since mid-2013. Reflecting concerns over the rise in non-financial private sector external debt over recent years (increasing from USD 95.5 billion or 11.2 percent of GDP at end-2012 to USD 118.4 billion or 14.6 percent of GDP in September 2014), BI has issued a new prudential regulation on the management of external debt.[5] As of January 1, 2015, the central bank requires non-financial corporations to satisfy a prescribed hedging ratio, liquidity ratio and credit rating.

Figure 13: The growth of external and domestic credit to non-financial corporates has recently fallen
(quarterly net increase, IDR trillion)



Note: External debt includes loan agreements, debt securities and trade credits
Source: BI; World Bank staff calculations

[4] BI statistics for private sector non-financial corporations include state-owned enterprises.
[5] Bank Indonesia Regulation 16/20/PBI/2014 issued on October 28, 2014.

Box 1: A Financial Conditions Index for Indonesia points to a tightening since Q3 2013

Accurate and timely monitoring and assessment of financial conditions is an important input to the conduct of sound macroeconomic policy. A Financial Conditions Index (FCI), estimated using a broad range of variables, is one method to provide a more comprehensive view of aggregate financial conditions than looking individually across a range of indicators. According to FCI estimates for Indonesia, financial conditions were broadly neutral in 2013 and have tightened considerably since the emerging market asset sell-off of 2013 and subsequent policy response of BI.

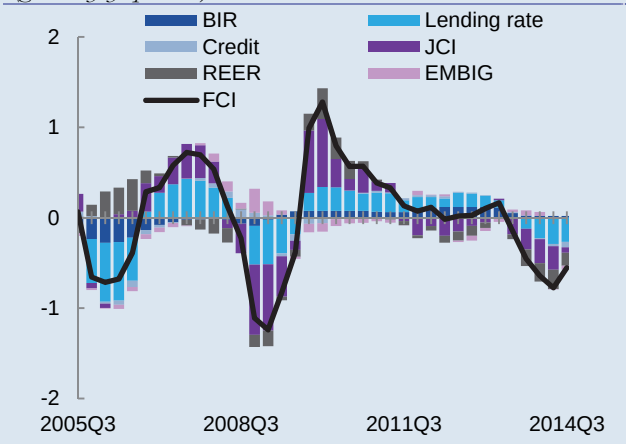
The FCI outlined in this box is estimated by vector autoregression, as in Osorio et al. (2011)[1], using the following variables: real GDP growth, Bank Indonesia's policy rate (BI rate), the weighted-average bank lending rate, credit growth, the Jakarta Composite Index (JCI), the real effective exchange rate (REER), and Indonesia's sovereign spread as measured by the JP Morgan Emerging Market Bond Index Global (EMBIG). The FCI index is calculated as a weighted sum of standardized financial variables (where the individual weights are derived from the estimated four-quarter cumulative impact of each variable on real GDP growth). The estimated weights are: BI rate -0.11, bank lending rate -0.31, credit growth 0.0004, JCI 0.31, REER 0.0016 and EMBIG 0.0007.

A zero value of the FCI indicates neutral financial conditions, whereas positive and negative values mean loose and tight conditions, respectively. The negative weights show that increases in the BI and bank lending rates are associated with tighter financial conditions. In contrast, increases in credit growth, the JCI and the EMBIG spread are associated with better availability of domestic or foreign funding and hence looser conditions. A REER depreciation is associated with tighter conditions, consistent with the impact of higher external debt servicing costs or balance sheet effects (i.e. access to foreign borrowing is more difficult when the currency depreciates, because the external debt leverage increases).

Since mid-2013, there has been a tightening of financial conditions (Figure 14), driven primarily by increases in domestic lending rates and falls in the JCI. These followed the announcement of a possible reduction in asset purchases by the US Federal Reserve, and the tightening in Indonesian monetary policy. The BI rate was raised by 100 basis points between July 2013 and September 2014, with bank lending rates up an average of 91 basis points in the same period. Credit growth also fell from 22.4 to 13.5 percent yoy between July 2013 and August 2014 and the REER depreciated by 16.4 percent in H2 2013. Taking into account the latest data, the FCI shows somewhat less tight financial conditions in Q3 2014 relative to Q2, mostly due to a better performance of the JCI and an appreciation in the REER.

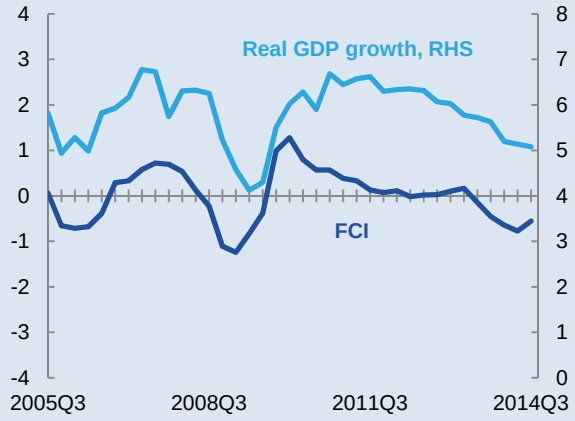
The tighter financial conditions in Indonesia observed over the past year have been associated with a moderation in GDP growth. The positive relationship between the FCI and GDP growth is evident in previous years as well (Figure 15). Overall, the FCI appears to be a reasonably good leading indicator of real year-on-year GDP growth.

Figure 14: Higher interest rates and weaker capital inflows have tightened financial conditions
(growth yoy, percent)



Source: CEIC; JP Morgan; World Bank staff calculations

Figure 15: The FCI appears to be a good leading indicator of GDP growth
(real GDP growth yoy, percent; FCI index)



Source: CEIC; JP Morgan; World Bank staff calculations

Note: [1] See Osorio, C., R. Pongsaparn and D.F. Unsal, 2011, "A Quantitative Assessment of Financial Conditions in Asia", IMF Working Paper No. 11/170.[2] Gumata et al., 2012, and Kara et al., 2012, obtain similar results with respect to the REER in the case of South Africa and Turkey, respectively. See Gumata, N., Klein, N. and Ndou, E., 2012, "A Financial Condition Index for South Africa", IMF Working Paper No. 196; and Kara, H., Özlü, P. and Ünalmış, D., 2012 " Financial Conditions Indices for the Turkish Economy" CBT Research Notes in Economics, No. 2012-31.

6. Subsidized fuel prices have been increased, revenue growth remains weak

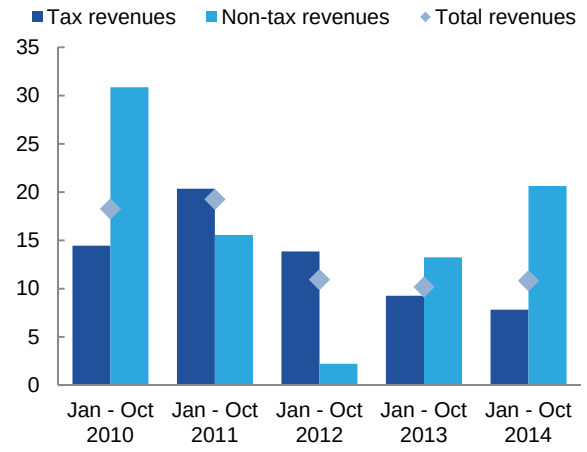
Lower fuel subsidy spending provides much needed relief, while revenue pressures have also moved into focus

The government's decisive move to increase subsidized fuel prices beginning on November 18 is an important step to contain expenditure pressures and free up space for much-needed increases in development spending. Public spending on infrastructure has fallen sharply in 2014, and the near- and medium-term economic outlook will be affected significantly by the extent to which the quantity and quality of spending in this area is increased again. On the revenue side, growth has slowed such that total revenues are expected by the World Bank to slip to 15 percent of GDP in 2014. This relatively weak performance is discussed further below in the context of the most recent fiscal data, and in Section B.1, which examines the longer-term drivers of fiscal revenues and their future prospects.

Year-to-date revenue collection in 2014 has remained soft, although oil and gas revenues have picked up on the depreciation of the Rupiah

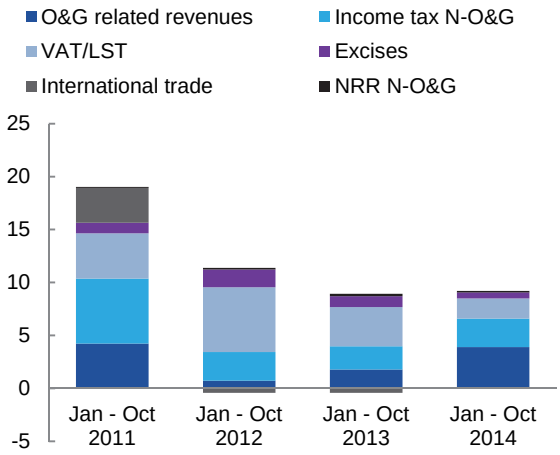
The first ten months of 2014 saw total revenue collection grow at only a moderate pace, as observed since 2012 (Figure 16; see also Box 2 in the July 2014 *IEQ*). Despite declining global oil prices and lower production volumes (see Box 4), oil and gas revenue collection (both income tax and royalties) improved, due to the Rupiah's weaker level against the US dollar. At the same time, the year-on-year growth of consumption and international trade taxes declined. Overall, total revenue growth in 2014 through October rose slightly to 10.8 percent yoy, from 10.2 percent yoy in the same period last year, with the increase significantly below the corresponding increase in the growth rate of nominal GDP.

Figure 16: Tax revenue weakness continued in the first ten months of 2014, while non-tax collection picked up
(growth yoy, percent)



Source: Ministry of Finance; World Bank staff calculations

Figure 17: Oil and gas related revenues supported total revenues, offsetting falling consumption tax growth…
(contributions to total revenue growth yoy, percentage points)



Note: O&G denotes "oil and gas", N-O&G denotes "non-oil and gas", NRR denotes "natural resource revenues", Oil & gas revenues comprise both income tax and non-tax revenues, VAT: value-added tax, LST: luxury sales tax
Source: Ministry of Finance; World Bank staff calculations

The decline in consumption tax growth was broadly consistent with slower nominal expenditure growth…

During January-October 2014, total value-added tax (VAT), luxury sales tax (LST) and excise taxes grew by only 7.1 percent yoy (a five-year low), compared to 14.1 percent in 2013 and 26.4 percent in 2012. As a result, VAT/LST contributed only 1.9 percentage points yoy to total revenue growth of 10.8 percent in the first ten months of 2014 (Figure 17). The contribution of excise taxes, at 0.6 percentage points, was also lower this year. Slightly slower growth of nominal private consumption in the first three quarters of 2014 (11.9 percent) relative to the

corresponding period last year (12.5 percent) may have been a contributing factor, especially for domestic VAT. In contrast, VAT from imports, whose Rupiah value was boosted by the Rupiah's depreciation, recorded slightly higher growth in 2014 (10.2 percent yoy) than in 2013 (8.3 percent), but still significantly below the growth in 2011 and 2012 (an average of 24.4 percent).

… but may also have been affected by policy changes to VAT and excise taxes

In addition to the above macroeconomic factors, VAT collection over 2014 may have been impacted by the increase in the VAT registration threshold from IDR 600 million to IDR 4.8 billion of annul taxable turnover,[6] which became effective on January 1, 2014. In addition, according to the Ministry of Finance, the payment of VAT refunds in the first ten months of 2014 was 38.0 percent higher than in the corresponding period last year. Excise tax performance may have been impacted by the introduction of a new regional tax of 10 percent on the excise value of certain cigarettes on January 1, 2014,[7] and new health warnings on packaging,[8] to the extent that a dampening of consumption may have offset higher tobacco prices and taxes.

Recent policy changes may also have affected the structure of non-oil and gas income tax revenues

Despite a decline in the prices of non-oil and gas commodities, income tax from non-oil and gas sectors recorded a slightly higher yoy growth in 2014 (8.9 percent) than in 2013 (7.0 percent) and 2012 (8.4 percent) in line with the growth rate of nominal GDP in the corresponding period. However, the structure of this tax has been changing. The collection of personal income tax (PIT) on wages and salaries (under Article 21 of the 1983 Income Tax Law)[9] has picked up this year, after declining in 2013 mainly on account of an increase in the non-taxable PIT threshold in January 2013. On the other hand, corporate income tax (CIT) collection (Article 25/29) has declined, likely as a result of lower commodity prices, but also due to the impact of the implementation of the partial mineral export ban in January 2014.[10] Freeport, Indonesia's largest copper producer and one of the largest CIT payers, halted its exports immediately after the regulation became effective, thereby affecting CIT collection during this period.[11] A further regulation impacting the performance of CIT since 2013 was the implementation from July 1, 2013, of a final tax of 1 percent on annual gross turnover, rather than paying CIT (or VAT), for enterprises with gross turnover of not more than IDR 4.8 billion.[12]

[6] Minister of Finance Regulation No. 197/PMK.03/2013.
[7] Minister of Finance Regulation No. 115/PMK.07/2013.
[8] Minister of Health Regulation No. 28/2013.
[9] Law No.7/1983
[10] Minister of Finance Regulation No. 1/2014.
[11] Freeport resumed its exports of copper in August.
[12] Minister of Finance Regulation No. 28/2013.

Ten months into the 2014 fiscal year, budget execution of capital expenditure has remained low

On the expenditure side, overall budget disbursement by the end of October 2014 increased relative to previous years, mainly driven by higher energy subsidy spending. However, capital expenditures have significantly underperformed, with only 38 percent of the revised Budget allocation realized. This disbursement rate of capital expenditures is well below the execution rates in 2012 and 2013 (Table 4). In nominal terms, capital expenditures have in fact declined for the first time in recent years (by 18 percent yoy). In addition to long-standing budget execution challenges such as land acquisition, the substantial budget revision in mid-2014, the transition to the new government and, potentially, concern over the overall budget deficit, may have also slowed the execution of capital projects.

Table 4: In 2014 to date the disbursement rate of capital expenditures remained low but higher energy subsidies contributed to a rise in overall budget disbursement

	Jan-Oct (percent of revised Budget)				Jan-Oct (nominal growth yoy, percent)			
	2011	2012	2013	2014	2011	2012	2013	2014
Total Expenditures	67.7	69.3	71.7	75.3	22.1	20.0	15.4	14.1
Central Gov't, o/w	63.7	63.7	67.6	72.6	25.0	17.9	18.7	15.0
Personnel	79.8	79.4	80.5	78.6	19.9	15.5	11.2	8.5
Material	50.9	53.2	47.3	63.3	16.2	18.7	13.3	15.7
Capital	38.4	41.9	45.4	38.4	37.8	36.3	18.6	-18.4
Energy subsidies	84.4	90.9	87.9	92.6	83.8	11.6	38.1	27.8
Non-energy subsidies	46.9	70.5	49.6	57.0	1.0	53.1	-20.6	25.6
Social	46.7	62.0	79.6	81.4	-18.4	39.5	23.1	9.2
Transfers to the regions	76.6	81.7	81.1	80.9	17.1	23.8	9.8	12.4

Source: Ministry of Finance; World Bank staff calculations

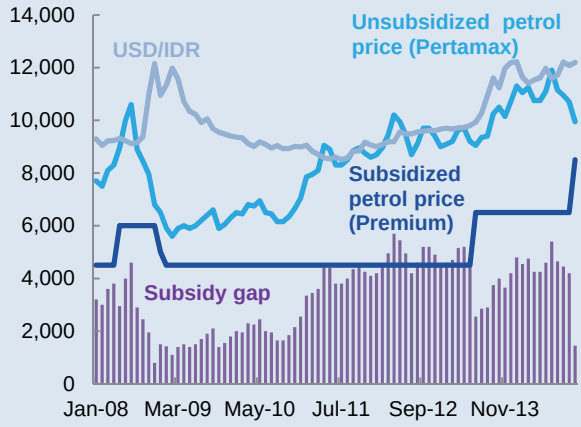
Box 2: The latest increase in subsidized fuel prices is expected to yield significant fiscal savings in 2015 and beyond

On November 17, 2014, President Joko Widodo announced an increase in subsidized fuel prices of IDR 2,000 per liter to IDR 8,500 for gasoline (a 31 percent rise) and IDR 7,500 for diesel (a 36 percent rise) (Figure 18). This is a positive step which will help to provide some relief to fiscal pressures in 2014 and, more significantly, provide additional fiscal space for higher spending on development priorities in 2015 and beyond (Figure 19). The impact on poor and vulnerable households is being cushioned through regular social assistance programs and temporary cash transfers (see Section 7). The fuel price increase follows on from the increases in electricity tariffs for higher-end customer groups through 2014 and other measures to restrain expenditures that were introduced in the first half of the year, including efficiency measures such as a nearly IDR 50 trillion material expenditure cut introduced as part of the revised Budget 2014 (see the July 2014 *IEQ*).

The World Bank estimates that the projected savings, relative to a baseline of no price adjustment, from the fuel price increase amount to more than IDR 100 trillion in 2015, or close to IDR 650 trillion cumulatively until 2019. According to media reports, the Government intends to allocate 60 percent of the fiscal savings to infrastructure projects in the revised 2015 Budget, but discussions within the new administration are still ongoing.[1] Effective use of this additional fiscal headroom to begin closing the infrastructure gap during the upcoming Budget year will require rapid and improved planning and implementation.

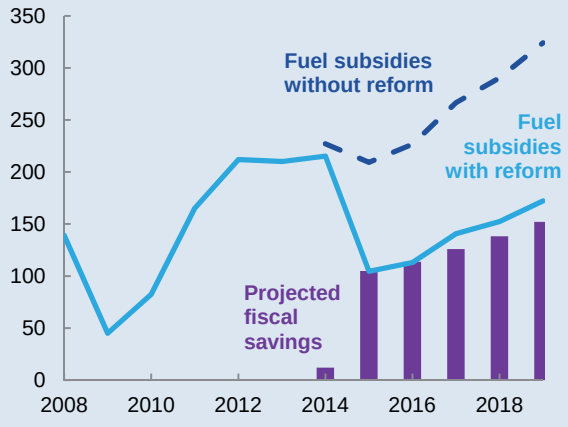
However, a continuation of the approach of one-off price adjustments leaves sizeable fiscal risks for the budget due to changes in the macroeconomic environment. For example, the 33 percent subsidized fuel price increase in June 2013 was projected to produce significant fiscal savings but they were quickly wiped out by the Rupiah depreciation. Therefore, as highlighted by the Minister of Finance, it will be important to build on the recent price adjustment, taking advantage of current low oil prices, and move towards a rules-based pricing mechanism to lock in the fiscal savings going forward.[2] Such alternative pricing mechanisms have been implemented by Indonesia in the past and by other countries (e.g. Malaysia[3]).

Figure 18: The recent subsidized price increase reduces the gap with the market price of fuel…
(non-subsidized Pertamax and regulated gasoline subsidized price, IDR per liter)



Note: Subsidy gap shown is an indicative measure since unsubsidized (Pertamax) is higher octane
Source: CEIC; World Bank staff calculations

Figure 19: …providing potential significant fiscal savings in 2015 and beyond
(IDR trillion)



Source: Ministry of Finance; World Bank staff calculations

Note: [1] http://www.thejakartapost.com/news/2014/11/27/govt-allocate-60-fiscal-savings-infrastructure.html
[2] http://www.cnnindonesia.com/ekonomi/20141125110516-78-13649/pemerintah-terapkan-subsidi-bbm-tetap-di-2015
[3] http://m.themalaymailonline.com/malaysia/article/putrajaya-to-roll-back-all-subsidies-for-ron95-petrol-diesel-next-month
[4] http://en.tempo.co/read/news/2014/11/20/056623219/Govt-Raises-Fuel-Hike-Compensation-Budget

The 2015 Budget, which was approved in late September 2014, is expected to be revised during the first quarter of 2015

The 2015 Budget, which was formulated and deliberated under the previous administration and parliament, was approved in late September 2014. The approved budget projected a fiscal deficit of 2.2 percent of GDP in 2015, slightly lower than the projected deficit of 2.4 percent in 2014. However, the approved budget can be viewed as a "placeholder budget", since it does not reflect such priorities of the new government as infrastructure for food security and maritime and social protection, and was approved prior to the fuel price adjustment. Moreover, the assumptions used in the approved Budget were also relatively optimistic (e.g. GDP was assumed to grow by 5.8 percent and inflation was projected to average 4.4 percent yoy), and requires adjustments to align better with recent economic developments. The approved Budget is therefore expected to be revised during the first quarter of 2015. An important aspect of this revision will be the redirecting of part of the fiscal savings from the subsidized fuel price increase to priority sectors such as infrastructure, health, and social protection, including compensation measures, and the use of the remainder of the fiscal savings to reduce the 2015 fiscal deficit.

The government's 2014 securities financing plan was met in November

In terms of financing needs, by early November the government had met its 2014 securities issuance target of IDR 428.1 trillion. Under the current 2015 Budget, gross securities financing is planned to remain broadly stable next year (at IDR 431 trillion). In addition, to reduce interest expenses, the government plans to shorten the average maturity of its bonds to 8-9 years from the current 9.9 years.[13] In anticipation of higher US Dollar interest costs in 2015 and a risk of lower emerging market capital flows, the government plans to further diversify the issuance of foreign debt, including considering 5-10 year maturities.

The World Bank projects a fiscal deficit of 2.3 percent in 2014, and 2.0 percent of GDP in 2015

The World Bank has revised down its projected fiscal deficit for 2014 from 2.8 percent of GDP (July 2014 *IEQ*) to 2.3 percent (Table 5), in order to take into account recent macroeconomic trends (notably the recent substantial fall in oil prices), budget execution rates, the year-to-date deterioration in revenue collection, and the above-mentioned revenue and expenditure policy changes. For 2015, the World Bank's projected fiscal deficit under baseline assumptions is 2.0 percent of GDP (or 2.4 percent after accounting for IDR 45 trillion in fuel subsidy arrears). In line with recent government announcements, these projections redirect part of the fiscal savings from the subsidized fuel price increase to priority sectors such as infrastructure, health, and social protection, including compensation measures. In addition, the World Bank projection assumes that a part of the fiscal savings will be used to reduce the 2015 fiscal deficit. The government has also signaled a strong commitment to continuing to restrain consumption expenditures, including an IDR 16 trillion reduction in spending on meetings and trips, and more symbolic measures such as not buying new ministerial cars.[14]

[13] According to the Director of Debt Management at the Ministry of Finance, in 2014 the cost of servicing the government debt was IDR 121.3 trillion (USD 10 billion), a 7.7 percent increase from last year. At 8.3 percent of government revenues, this interest cost is the highest since 2010 as a proportion of revenues.

[14] See http://thejakartaglobe.beritasatu.com/news/jokowi-trim-2015-budget-official-trips-meetings-40/

Table 5: The World Bank projects a fiscal deficit of 2.3 percent of GDP in 2014 and 2.0 percent in 2015
(IDR trillion, unless otherwise indicated)

	2013 Actual	2014 Revised Budget	2015 Budget	2014 World Bank	2015 World Bank
A. Revenues	**1,439**	**1,635**	**1,794**	**1,528**	**1,667**
1. Tax revenues	1,077	1,246	1,380	1,148	1,282
Income tax	506	570	644	547	606
Oil and gas	89	84	89	97	90
Non-oil and gas	418	486	556	451	516
VAT	385	476	525	410	466
2. Non tax revenues	355	387	410	378	382
B. Expenditures	**1,651**	**1,877**	**2,039**	**1,764**	**1,894**
1. Central government, o/w	1,137	1,280	1,392	1,180	1,257
Personnel	222	259	293	245	293
Material	170	178	222	166	206
Capital	181	186	175	160	222
Interest payments	113	135	152	135	152
Subsidies, o/w	355	403	415	357	235
Energy subsidies	310	350	345	312	165
Fuel subsidies	210	246	276	215	104
Electricity subsidies	100	104	69	96	61
Non-energy	45	53	70	46	70
Grants	1	3	4	3	0
Social	92	88	86	85	103
Other	3	28	46	28	45
2. Transfers to the regions	513	597	647	584	638
C. Primary balance	**-99**	**-106**	**-94**	**-100**	**-75**
D. Overall balance	**-212**	**-241**	**-246**	**-236**	**-227**
as percent of GDP	**-2.3**	**-2.4**	**-2.2**	**-2.3**	**-2.0**
Key economic assumptions					
Economic growth (percent)	5.7	5.5	5.8	5.1	5.2
CPI (yoy, percent)	8.4	5.3	4.4	6.3	7.3
Exchange rate (IDR/USD)	10,542	11,600	11,900	11,800	12,100
Crude oil price (USD/barrel)	106	105	105	98	85
Oil production ('000 barrels/day)	825	818	900	818	848

Source: Ministry of Finance; BPS; World Bank staff calculations

7. Compensation is expected to shield the poor from the impacts of higher subsidized fuel prices but the trend rate of poverty reduction is slowing

The recent subsidized fuel price increases are coupled with compensation measures…

Following the November 18 subsidized fuel price rise, headline inflation will likely reach 7.5 percent yoy by March 2015 (see Section 3). Without compensation measures, increases in fuel and food prices would likely negatively impact poverty. However, the impact on vulnerable households is being cushioned through social assistance programs ("smart cards", *Kartu Indonesia Pintar*, previously *Bantuan Siswa Miskin*) and temporary cash payments. 15.5 million households with family welfare cards (*Kartu Keluarga Sejahtera*, previously *Kartu Perlingdungan Sosial*) are receiving IDR 400,000 each, distributed between late November and early December. One million of these households will receive it via a Bank Mandiri SIM-card pilot, with the remaining 14.5m receiving cash through the post office (PT Pos).

…and, consequently, are unlikely to result in a near-term increase in poverty…

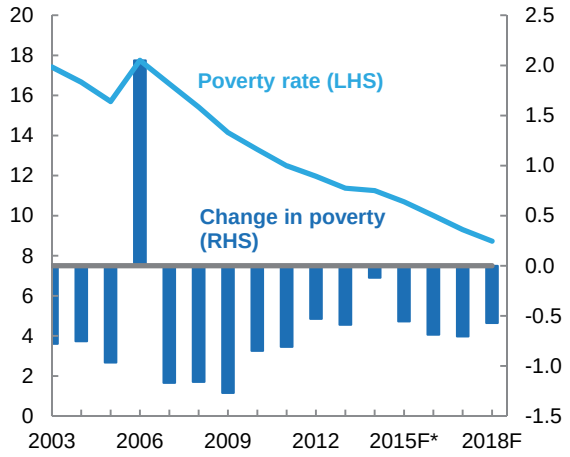
The official BPS poverty rate for March 2014 was 11.3 percent, with the September 2014 figure expected to be released in January 2015. Previous experience of fuel price increases, coupled with compensation measures, indicates that the poverty rate is unlikely to rise. For example, poverty continued to fall during the 2008-2009 fuel price increase, mitigated by the *Bantuan Langsung Tunai* (BLT) cash assistance, and essentially stayed flat during the 2013 subsidized fuel price increase due to the *Bantuan Langsung Sementara Masyarakat* (BLSM) benefits (see the December 2013 *IEQ*). The value and ultimate poverty impact of the new temporary cash support will depend in part on how far into next year it continues, which has yet to be announced.

The long run outlook suggests a continued decline in the rate of poverty reduction…

Poverty reduction has been slowing over the last five years, with annual poverty reduction below one percentage point each year, particularly for the last three years. The 2014 near-zero decline is the smallest in over a decade, with the exception of the nearly two point increase in 2006 which was due mainly to food price shocks (Figure 20).

Figure 20: Poverty reduction is expected to continue at a somewhat slower pace in the coming years

(poverty rate, percent, and change in poverty, percentage points)



Note: *2015 forecast is without the fuel price increase (due to difficulties in estimating impact given methodological changes)
Source: BPS; World Bank staff calculations

Over the next three years, economic growth is projected to remain at or below 5.5 percent. Moreover, the remaining poor are increasingly further below the poverty line, meaning it is harder to pull them of poverty (see the June 2014 *IEQ*). Given this, on current trends, future poverty reduction is expected to continue to happen slowly. The baseline poverty trend for March 2015 to 2017, abstracting from the recent fuel price increase, is for declines in poverty to remain below one percentage point per year, as has been the case since 2010. Consequently, poverty is projected to remain above 8.0 percent by 2018.

…and points to the need for additional measures to support sustained progress

Against this backdrop, accelerating poverty reduction over the next five years will require concerted action and a comprehensive strategy. Broadly, policies will need to support a return to more rapid sustainable economic growth, but growth will also need to be shared more equally, and in the process generate more productive and well-paying jobs (see Box 3) with respect to minimum wages, and the June 2014 *IEQ*). At the same time, the strengthening and expanding of Indonesia's social safety net needs to continue (see the December 2013 *IEQ*).[15]

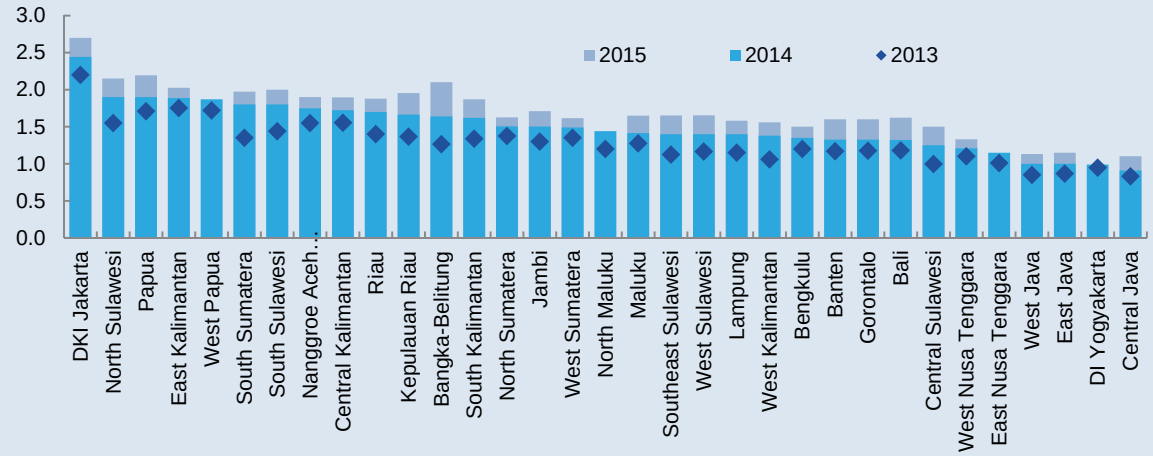
[15] For a recent overview of the challenge of achieving more inclusive growth and faster poverty reduction in Indonesia, see the World Bank 2014 Development Policy review, "Indonesia: Avoiding the Trap".

Box 3: Minimum wage increases for 2015: relatively moderate, but still a source of labor market uncertainty

In recent years, minimum wage increases have posed upside risks to inflation in Indonesia, having increased extremely rapidly in some provinces. For example, between 2012 and 2013, minimum wages increased by 48.9 percent in East Kalimantan, by 43.9 percent in Jakarta and by 40.3 percent in Gorontalo. However, with the bulk of minimum wage increases for 2015 now having been agreed, the pace of increase has slowed. Minimum wages have been determined in 29 of 33 provinces, with increases ranging between 7.4 percent and 28 percent, and a simple (unweighted) average increase of 14.5 percent (compared with higher, 16.6 percent and 18.3 percent simple average increases for the prior two years). The minimum wage in the District of Jakarta has reached IDR 2.7 million per month, the highest in the country (Figure 21) and up by 10.6 percent from 2014.

While the increases for 2015 are still sizable and will contribute to cost-push price pressures, they are not so large that they are expected on their own to pose a major upside risk to inflation. However, the current decentralized system for setting minimum wages does continue to generate significant uncertainties for both workers and employers about the level of adjustment that can be expected from year to year. This effect is felt throughout the labor market, because minimum wages are linked to general wage-setting. There thus continues to be a need to consider how to provide real protection for workers, without pushing up labor costs relative to productivity, and generating uncertainty, that may compromise needed investment in labor-intensive industries and the pace of quality job creation in Indonesia.

Figure 21: Variability of minimum wages levels and recent increases across provinces remains high
(IDR million)



Source: Ministry of Manpower

8. Mixed external conditions and the reform agenda of the new administration define the main uncertainties to Indonesia's outlook

International risks to Indonesia's outlook are largely on the downside

The international risks to the World Bank's economic outlook for Indonesia are tilted to the downside. Risks include a slower than currently projected global recovery, which would lead to an even weaker commodity price trajectory in the next few years. In addition, renewed international financial market volatility remains a possibility. Lower than expected global commodity demand, together with higher foreign financing costs and tighter domestic credit constraints (see Section 5), may restrain Indonesia's fixed investment and export growth more significantly than projected in the base case. On the upside, a further decline in global oil demand and prices may provide a stronger than expected boost to economic activity in oil-importing countries, including Indonesia.

The new administration's reform agenda is an important determinant of economic performance…

In terms of domestic risks, Indonesia's near- and medium-term outlook depends to a significant extent on the implementation of policy reforms planned by the new administration. The subsidized fuel price increases announced in November have freed up fiscal resources which could be spent on developmental priorities, such as infrastructure investment (see Box 2). However, the Government's reform plans are subject to several risks. First, the new administration faces a complex domestic political environment. Second, the low budget execution rates and other implementation challenges, including regarding capital expenditures (see Section 7), may limit the extent to which fiscal resources can be effectively deployed, at least in the short term, to priority areas.

…with both positive and negative risks to the outlook

Although the policy implementation challenges are considerable, the World Bank assesses the related risks to the macroeconomic outlook as balanced. On the one hand, reforms may be more limited and slow to introduce than initially planned and their impact on growth may take a long time to materialize. On the other hand, if the Government's reform agenda is seen to have a positive momentum, and deliver early success, investor confidence in the country may rise quickly and result in a faster recovery in investment than currently expected. This in turn will have a positive impact on Indonesia's medium-term growth potential.

B. Some recent developments in Indonesia's economy

1. Understanding and strengthening Indonesia's revenue performance

The new government has placed a strong focus on improved revenue mobilization, which will be critical to create the fiscal space for implementing its development programs

Indonesia's new government has laid out an ambitious development agenda, including dramatically increasing infrastructure spending and expanding social security. Funding these goals requires mobilizing more revenues, in order also to meet pre-existing expenditure commitments such as for universal health coverage (see Section C) and increased district level transfers under the 2014 Village Law, and the need to safeguard Indonesia's well-established commitment to fiscal prudence. However, Indonesia's revenue-to-GDP ratio remains low, both relative to peers and to potential, and has been declining in recent years. A sustained effort to increase revenue through tax and non-tax revenue policy reform and improved administration and compliance—a key priority for the new government—will be critical. This section provides a brief overview of recent revenue trends, the medium-term outlook (2015-2019), and outlines some main focus areas for improving revenue performance.

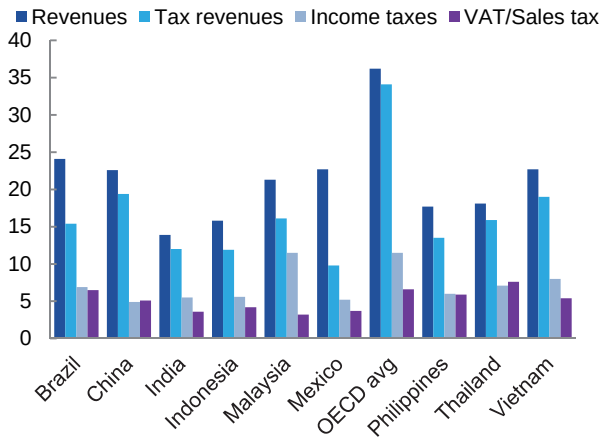
a. Indonesia collects less revenues than peers and performance has weakened

Indonesia currently has a very large gap between actual and potential revenue

Relative to its regional and emerging market peers, Indonesia has one of the lowest ratios of revenue-to-GDP (15.8 percent in 2013) and tax-to-GDP (11.9 percent in 2013) (Figure 22). This is not due to lower tax potential. By one estimate, Indonesia is collecting less than 50 percent of its total potential tax revenue, underperforming its peers (Figure 23).[16] The IMF has estimated that Indonesia could increase taxes through broadening the tax base and improving tax compliance at current tax rates, up to 21.5 percent of GDP in the long-term, with a realistic medium-term target of between 13.4 and 16.4 percent of GDP.[17]

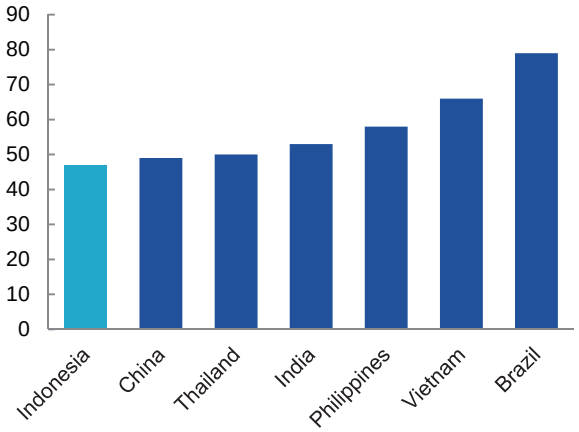
[16] Fenochietto, R. and Pessino, C., 2013, "Understanding Countries' Tax Effort", IMF Working Paper WP/13/244.
[17] IMF, 2011a, "Revenue Mobilization in Developing Countries", IMF Policy Paper. IMF, 2011b, "IMF Country Report: Indonesia", No. 11/30.

Figure 22: Indonesia has one of the lowest revenue-to-GDP ratios among its peers…
(percent of GDP)



Note: Bars represent actual collection as percent of GDP. Indonesia data is 2013. Other countries use 2012 data as 2013 is preliminary
Source: IMF country reports; CEIC

Figure 23: …and one of the biggest gaps between actual and potential tax revenues
(actual tax revenues as a share of potential tax revenues, percent)

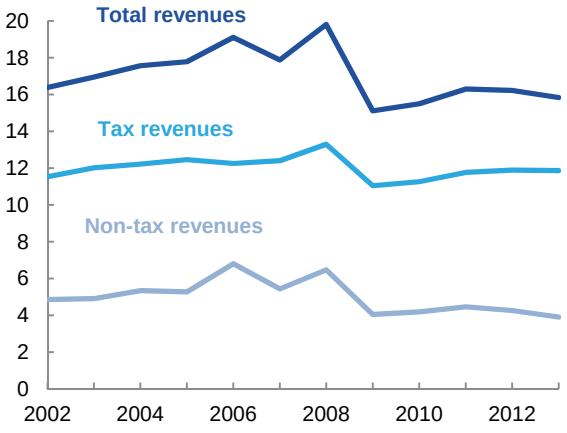


Note: Bars represent tax effort calculated as the ratio of actual tax collection to estimated potential tax collection
Source: Fenochietto and Pessino (2013)

Since dropping significantly in 2009, Indonesia's revenue to GDP ratio has been unable to recover to pre-crisis levels, and has actually been declining since 2011

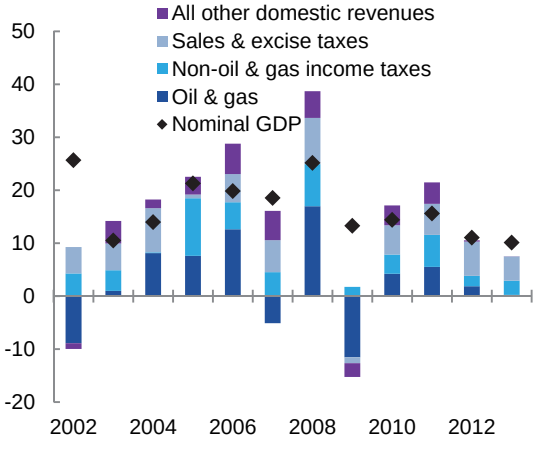
Between 2002 and 2008, the growth in Indonesia's fiscal revenues kept pace with strong nominal GDP growth, peaking in 2008 as key commodity export prices, especially for oil, surged. As the global financial crisis unfolded, Indonesia's growth proved relatively resilient, dipping from 6.0 percent in 2008 to 4.6 percent in 2009, before rebounding to an average of 6.3 percent from 2010-2012. However, revenues were more significantly impacted, dropping as a share of GDP from 19.8 percent in 2008 to 15.1 percent in 2009. Although the revenue-to-GDP ratio subsequently picked up through 2011, it has never recovered to its pre-2009 level. Indeed, since 2011, both nominal GDP and revenue growth have slowed; however, the latter slowed disproportionately, leading to a renewed decline in the revenue-to-GDP ratio, from 16.3 percent in 2011 to 15.8 percent in 2013 (Figure 24 and Figure 25).

Figure 24: Revenue-to-GDP has been lower since 2009…
(percent of GDP)



Source: Ministry of Finance; World Bank staff calculations

Figure 25: …reflecting weak oil and gas revenue growth and a deceleration in other revenue sources
(contribution to total domestic revenues growth, percentage points)



Note: Oil & gas revenues comprise both income tax and non-tax revenues
Source: Ministry of Finance; World Bank staff calculations

Indonesia's main revenue streams are consumption taxes, non-oil and gas income taxes and oil and gas revenues

In terms of the structure of Indonesia's main revenues, consumption taxes—value-added tax (VAT), luxury sales tax (LST) and excises, mostly on tobacco—accounted for 34 percent of total revenue in 2013. Income taxes unrelated to oil and gas—one-quarter personal income taxes[18] (PIT) and three-quarters corporate income taxes (CIT)—accounted for 29 percent. Oil-and gas-related revenues accounted for 20 percent of total revenues in 2013, of which 30 percent was collected as tax and 70 percent collected as non-tax revenues.

Recent weakening revenue growth has been primarily due to a notable decline in revenues from oil and gas…

The relative importance of these revenue streams shifts over time and is particularly sensitive to changes in commodity production and prices. One clear trend is a sustained decline since 2009 in oil-and gas-related revenue growth, from an average 23 percent for 2010-2011 yoy to 8.5 percent in 2012 and 1.1 percent in 2013. Oil and gas revenue as a share of GDP, which had averaged 4.7 percent over 2002-2007, declined from 3.6 percent of GDP in 2011 to 3.2 percent in 2013. The decline reflects a combination of a longer-term structural decline in oil and gas production (see Box 4 for details) with a broader weakening in commodity prices since 2011.

…and slowing revenues from other commodities, driven by weaker international commodity prices since 2011…

Indonesia's weighted average export commodity price index decreased by approximately 30 percent over 2011-2014 —a significant, negative terms of trade shock. The direct impact of this shock on revenues can be seen in the absolute decline of export taxes (mostly related to crude palm oil) by 8.2 percent yoy in 2012 and 4.4 percent yoy in 2013. Export taxes as a share of GDP fell from 0.4 percent in 2011 to 0.2 percent in 2013. The indirect impact on revenues of the weaker commodity prices has been through slower nominal GDP growth, which in turn has reduced non-oil-and-gas income tax growth, from an average of 15.8 percent for 2010-2011 yoy to 6.6 percent in 2012 and 9.5 percent in 2013. CIT was particularly impacted (growth reduced from 17.5 percent in 2011 yoy to 0.6 percent in 2012 and 2.8 percent in 2013). The volatility of commodity-related revenues highlights why broadening and diversifying the revenue base is a priority.

…which other revenues such as consumption taxes and non-oil and gas income taxes, have been unable to offset

Non-oil and gas income taxes, consumption taxes and other revenue streams have not been able to compensate for the falls in direct commodity-related revenues and, as a result, overall revenue-to-GDP has declined. While consumption taxes grew faster than nominal GDP, thereby increasing as a share of GDP from 4.8 percent to 5.4 percent between 2011 and 2013, income tax from non-oil and gas sources fell as a share of GDP—from 4.8 percent to 4.6 percent—between 2011 and 2013.

Recent tax policy and administration changes may have also played a role in the recent revenue performance

Alongside oil and gas sector challenges and macroeconomic factors, recent policy and administration changes are likely to have influenced revenue performance. There have been policy changes in CIT (a progressive tax schedule was replaced with a flat tax rate of 30 percent in 2009, which was reduced to 25 percent in 2010), PIT (the top marginal tax rate was reduced and non-taxable income threshold increased in 2009 and 2013) and in LST (the tax rate was increased in 2009). Several tax administration changes have also been made, including VAT e-filing and the start of the National Tax Census in 2011. The theoretical effect on revenues across these measures is ambiguous, and empirically estimating their impacts is challenging. Because of this and the complex interactions between macroeconomic factors, tax policy and tax administration, further analysis is required to assess the relative contributions of these different factors on revenue performance.

[18] Some PIT is derived from oil- and gas-related earnings, but the split is not available and so total PIT is treated as non-oil and gas-related, thereby understating the overall share of oil- and gas-related revenues.

b. Medium-term revenue outlook under a "no major reform" scenario

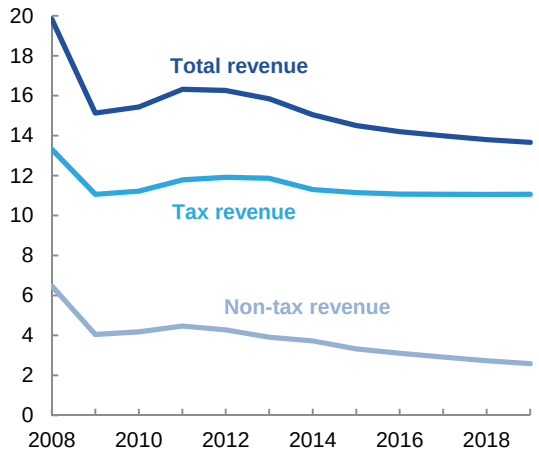
In the medium-term, assuming similar macroeconomic conditions and structural declines in oil and gas production…

Looking ahead to the next National Medium Term Development Plan (*Rencana Pembangunan Jangka Menengah Nasional*, RPJMN) period, 2015-2019, what is the revenue outlook and total resource envelope (revenue plus deficit financing, within the fiscal rule) for spending? To examine this question, a medium-term revenue outlook was developed by first projecting the revenue base of different revenue streams under baseline assumptions of moderate nominal GDP growth, slight nominal exchange rate depreciation, a continuing moderation in oil, gas and other commodity prices, and ongoing structural decline in oil and gas production.[19] Empirically-estimated elasticities of revenue streams with respect to their revenue base were then applied to project revenue collection over the period 2015-2019. Under a "no major reform" scenario, where there are no significant tax policy and tax administration reforms that would increase effective tax rates, the revenue projections assumed no changes in tax elasticities over the medium term.

…revenue collection is set to continue to fall as a share of GDP in a "no major reform" scenario

Total revenue-to-GDP is projected to fall from 15.0 percent in 2014 to 13.7 percent in 2019, in a "no major reform" scenario. Tax revenue falls from 11.3 percent to 11.1 percent, while non-tax revenue declines significantly, from 3.7 percent to 2.6 percent of GDP. Non-oil and gas income tax is projected to increase from 4.4 percent to 4.7 percent and consumption taxes increase from 5.2 percent to 5.4 percent of GDP, but this is not enough to offset the projected fall (in absolute terms and as a share of GDP) in oil and gas tax and non-tax revenue. The fall in oil and gas revenues is due to the projected decline of their revenue bases - the gross production values of oil and gas (see Box 4).

Figure 26: Revenue-to-GDP is set to continue to decline under a "no major reform" scenario
(percent of GDP)



Note: Projections assume relatively unchanged macroeconomic conditions and no significant revenue policy reforms
Source: World Bank staff calculations and projections

Should this scenario transpire, weak revenue performance would thus reduce the size of the resource envelope during the next RPJMN period and constrain severely the fiscal space for spending on the development priorities of the new administration. Consequently, a renewed, intensified effort to increase revenue collection through improvements in tax policy and compliance will be critical.

[19] Revenue bases for key revenue items are as follows: nominal GDP for non-oil-and-gas income tax, non-oil-and-gas non-tax revenue and excises; nominal private consumption for VAT; import value in Rupiah for import duties; oil and gas production value in Rupiah for oil-and-gas-related tax and non-tax revenue; crude palm oil production value in Rupiah for export taxes.

Table 6: Under baseline macroeconomic conditions and in the absence of significant reforms, total revenue is projected to decline significantly relative to GDP
(percent of GDP)

	Actual						Projections under a "no major reform" scenario					
Revenue items	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Total revenue	**19.8**	**15.1**	**15.4**	**16.3**	**16.3**	**15.8**	**15.0**	**14.5**	**14.2**	**14.0**	**13.8**	**13.7**
Tax revenue	**13.3**	**11.1**	**11.2**	**11.8**	**11.9**	**11.9**	**11.3**	**11.1**	**11.1**	**11.1**	**11.1**	**11.1**
Income non-O&G	5.1	4.8	4.6	4.8	4.6	4.6	4.4	4.5	4.5	4.6	4.6	4.7
Income O&G	1.6	0.9	0.9	1.0	1.0	1.0	1.0	0.8	0.7	0.6	0.5	0.5
Income - oil	n.a	n.a	n.a	n.a	n.a	0.4	0.3	0.3	0.2	0.2	0.2	0.2
Income - gas	n.a	n.a	n.a	n.a	n.a	0.6	0.6	0.5	0.4	0.4	0.3	0.3
VAT	4.2	3.4	3.6	3.7	4.1	4.2	4.0	4.1	4.1	4.1	4.2	4.2
Excises	1.0	1.0	1.0	1.0	1.2	1.2	1.1	1.1	1.2	1.2	1.2	1.2
Int. trade tax	0.7	0.3	0.4	0.7	0.6	0.5	0.5	0.4	0.4	0.4	0.3	0.3
Non-tax revenue	**6.5**	**4.0**	**4.2**	**4.5**	**4.3**	**3.9**	**3.7**	**3.3**	**3.1**	**2.9**	**2.7**	**2.6**
NTR oil	3.4	1.6	1.7	1.9	1.8	1.5	1.4	1.1	1.0	0.9	0.7	0.6
NTR gas	0.9	0.6	0.6	0.7	0.7	0.8	0.8	0.6	0.5	0.5	0.4	0.4
NTR - all other	2.2	1.8	1.8	1.9	1.8	1.7	1.6	1.6	1.6	1.6	1.6	1.6

Note: 2008-2013 audited LKPP; 2014 is Dec 2014 *IEQ* estimates; 2015-2019 are projections; O&G denotes oil and gas
Source: Ministry of Finance; World Bank staff calculations and projections

c. Opportunities to lift revenues through policy and administrative reforms

Reforms to enhance policy and improve administration across multiple revenue streams are needed if ambitious revenue targets are to be realized

There is no single "magic bullet" reform that will significantly and sustainably increase revenue collection; instead, enhancing policy and improving administration across multiple revenue streams is required. A necessary condition for lifting revenues—a clear government commitment to do so—is already in place. The new government has indicated that increasing revenues will be a priority, with President Widodo pledging to lift the tax-to-GDP ratio to 16 percent by 2019. The remainder of this section briefly discusses potential revenue-enhancing opportunities, drawing on international and domestic experience and existing and ongoing analyses. While the focus is on revenue mobilization, it is important to note that revenue policy and administration have a large impact on the business climate, influencing investment, production and ultimately the growth of revenue bases. Sustained improved revenue performance thus requires reforms that not only mobilize revenues but also improve efficiency in tax administration and reduce compliance costs.

Tax policy reforms could mobilize additional revenues across several taxes as well as reduce economic distortions and lower administration costs

Changes to the current tax policy design could increase revenues from income taxes (CIT, PIT), consumption taxes (VAT, luxury sales tax and excise tax) and land and building tax in the following ways: 1) broadening the tax bases by reducing exemptions and other loopholes; 2) simplifying complicated tax structures and rationalizing the number of tax types, brackets and tax rates; and 3) selectively increasing tax rates that are particularly low by international standards. For example, as in other countries, instead of multiple CIT rates for larger (non-SME) firms, a single corporate income tax rate could be applied. In another example, changing from an ad valorem (i.e. percentage on value) to a specific (i.e. fixed Rupiah amount) tax on motor vehicles would simplify administration and likely increase compliance. These types of reforms not only raise more revenues, but potentially reduce economic distortions from exempting certain taxpayers and sectors, reduce strategic behavior by taxpayers to avoid higher tax rates, and lower administration costs. Indeed, the interaction between revenue policy and administration is an important factor, along with the relative timing of their impacts, when considering overall reform strategies.

In addition to policy reforms, improving revenue administration and compliance will be critical…

While many core elements of modern tax administration are in place, tax compliance levels are still low – with low rates of filing/payment (estimated at 50-60 percent of registered taxpayers) and low rates of accurate reporting across a wide range of taxes, taxpayer segments and sectors. Similar compliance issues exist for non-tax revenues (NTR). For example, the World Bank has estimated that 47 percent of coal royalty potential in 2012 (equivalent to 0.2 percent of GDP) was not collected due to non-payments and under-payments.

…which will require shifting to a more strategic, risk-based compliance management approach that focuses on high-risk sectors and segments

The introduction of a strategic, risk-based compliance management approach could have a significantly positive impact on revenue collection in the medium-term, while reducing the burden on compliant businesses. A risk-based approach means focusing on increasing registration, filing and auditing in high-risk (high tax potential but low compliance) sectors and segments. This is likely to be more productive than the current approach of focusing on significantly increasing registration ("extensification") and requiring universal filing of tax returns. For example, revenue performance can be lifted significantly by focusing resources on improving voluntary filing and payment compliance levels among large taxpayers, where performance significantly lags international standards (currently 50-60 percent versus more than 98 percent in other countries). The January 2014 increase in the VAT threshold from IDR 600 million to IDR 4.8 billion has reduced the number of VAT taxpayers (from 385,000 to around 50,000), which should facilitate better monitoring of VAT compliance among large taxpayers.

This will require strengthening the Directorate General of Taxes and creating an enabling environment for its activities

In order to successfully move to a risk-based approach and improve compliance, the Directorate General of Taxes (DGT) will have to build its capacity to effectively analyze third-party information and improve its audit capacity, both of which are major challenges. The first challenge would require improved access to third-party data, the use of unique identification (ID) numbers to match data across databases, and greater IT and data management capacity. The second challenge could be addressed by more strategic (risk-based) use of auditors, including moving away from the resource-intensive practice of universal auditing of VAT refund requests. As highlighted in the figures cited above on coal royalty losses, there is also scope to improve the government's capacity to enforce compliance and audit mining NTR, which is currently administered by the Ministry of Energy and Mineral Resources.

Compliance enforcement should be complemented by efforts to increase voluntary compliance

International experience shows that increasing the level of voluntary compliance is a more cost-effective approach to compliance management in the long-term. This requires providing services such as call centers, mobile filing and payment options to assist taxpayers who are willing to comply but lack capacity or information to properly fulfill their tax obligations, and rewarding those taxpayers with high levels of voluntary compliance with lower costs of doing business.

For oil and gas revenues, further analytical work can help to guide potential improvements in the fiscal regime and administration

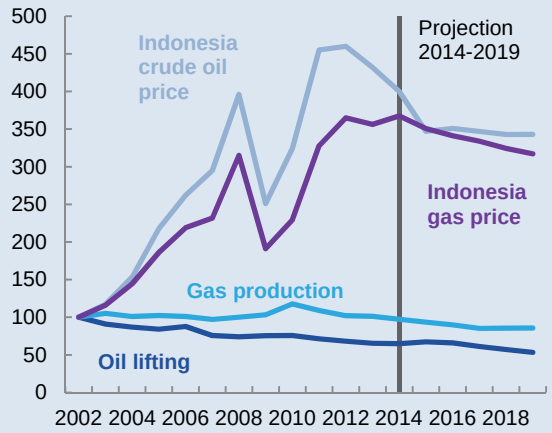
Although expected to decline as a share of total revenue, oil and gas revenue will remain significant. While the revenue base (the gross value production value of oil and gas) is unlikely to increase in the short-to-medium-term (Box 4), the fiscal regime and administration could be improved to support revenues from the sector within this context. The analytical evidence base to guide potential reforms in this area is limited. A first step is to conduct analyses to identify the issues, such as benchmarking the current fiscal regime against other oil and gas producing countries to assess revenue collection performance and competitiveness, and conducting a diagnostic of the current oil and gas revenue administration system to identify the key risks.

Box 4: A projected decline in oil and gas revenues reflects long-standing structural declines in production

Declining oil and gas lifting and production, together with continued moderation in oil and gas prices in the World Bank's baseline scenario, lead to a projected decline in the Rupiah-denominated gross value of oil and gas production in the medium-term. Assuming no significant reforms to the fiscal regime and administration takes place, oil and gas tax and non-tax revenue are expected to decline significantly in absolute terms and as a share of GDP, though whether and to what extent this occurs is sensitive to the uncertain future path of oil prices.

Oil and gas production in Indonesia is governed by Production Sharing Contracts (PSC), which require contractors to pay taxes and make non-tax royalty payments linked to the Rupiah-denominated gross value of production.[1] The key drivers of oil and gas revenue are therefore the Rupiah-denominated gross value of oil lifting and gas production, which is determined by volume, prices and the exchange rate, and the effective government share of the value of production, which is determined by the fiscal regime and administration.

Figure 27: Rising oil and gas prices until 2012 partly offset steadily declining production
(index, 2002 = 100)



Source: BPS; World Bank Commodity Outlook; World Bank staff calculations and projections

The gross value of oil lifting (i.e. production) declined as a share of GDP from 2002 to 2012. Rising oil prices along with a depreciating Rupiah offset a decline in lifting but this was outweighed by a five-fold increase in nominal GDP. As Figure 27 highlights, oil and gas prices rose considerably in this period, increasing nearly five-fold for oil (from USD 24 in 2002 to USD 120 per barrel in 2012) and four-fold for gas. However, oil lifting has declined by 30 percent, from 1.26 million barrels in 2002 to 861,000 barrels per day in 2012. Gas production has increased marginally by 2 percent over the period, reaching 6.95 trillion British Thermal Units (BTU) per day in 2012.

The decline in oil lifting, which is the result of maturing fields and a slowdown in exploration for new fields, is set to continue in the medium term (Figure 27). The majority of Indonesia's oil fields are maturing and require expensive enhanced recovery methods to continue production, which is reflected in the 350 percent increase in operational expenses for oil and gas producers in Indonesia, from USD 4 billion in 2002 to USD 13.7 billion in 2012, despite declining lifting. At the same time, oil and gas exploration spending in Indonesia has decreased by 50 percent from the 1998 peak to 2012, even as new exploration is increasingly taking place off-shore and more expensive.[2] Assuming that the lead time from exploration to discovery and production from new fields is at least 5 years, even if there are new discoveries in the near future, they are unlikely to offset the decline in lifting from existing fields in the medium term. Therefore, the baseline projection adopted in this section is for a continued decline in oil lifting by 18 percent from 818,000 barrels per day in 2014 to 670,000 barrels per day in 2019.

Gas production has remained steady over the past decade in Indonesia, but the medium term picture is uncertain on account of the production outlook from major gas blocks. Gas exploration activity has been strong with a ten-fold increase in the number of gas wells completed from 2002 to 2012; this implies a more positive medium-term outlook for gas production. However, investment in existing major gas blocks is currently stalled due to regulatory uncertainty over PSCs.[3] This is incorporated in a projected decline in gas production by 12 percent from 2014 to 2019.

In the past two years, oil prices (Indonesia crude price) have declined from a monthly peak of USD 122 per barrel in February 2012, falling precipitously over September-December 2014 to USD 76 per barrel in November 2014. Indonesian gas prices, which are driven by Japanese liquid natural gas (LNG) prices, closely track oil prices as contracts for sales are often indexed and have also declined in this period. This decline in oil prices has been driven by the increase in global supply from unconventional oil sources in North America and a moderating of demand, especially in the OECD countries.[4] The baseline medium-term outlook for the oil price is around USD 85 per barrel and for the gas price is USD 11-12 per million BTU; however, this outlook is subject to uncertainty on account of possible disruption of supply in the Middle East, moderation in global demand for oil, and supply responses by producers.

Note: [1] There are five generations of PSCs in Indonesia, which pioneered the concept in 1965, with the latest generation of PSC contracts enacted post 2001. A simplified illustration of a Production Sharing Contract is that the gross value of production is split into: share of equity for the contractor, share of equity for government and reimbursement of specified costs to producers (cost recovery). The contractor is further required to pay taxes on profits generated from its share of equity. [2] Figures for operational and exploration and production spending from SKK Migas Annual Reports (various years) and see PwC Oil and Gas Guide, 2012, for a discussion on location of new exploration. [3] The major block for which these concerns are salient is the Mahakam natural gas project, which accounted for approximately 30 percent of Indonesia's gas production in 2010. [4] For more details on global energy price projections and their drivers see World Bank Commodity Outlook, October 2014

2. Indonesia and the ASEAN Economic Community

Just over a decade after its announcement, the realization of the bold vision of the ASEAN Economic Community is due in 2015, creating the fifth largest economic bloc in the world

A decade ago, the leaders of the Association of Southeast Asian Nations (ASEAN) announced their bold vision of creating the ASEAN Economic Community (AEC) in 2015, including the goal of integrating Southeast Asia into a "single market and production base". There would be free flow of goods, services, skilled labor and, to a more limited extent, capital. Now, with the formation of the community a year away, in December 2015, there are understandable concerns about the impact of, and the preparation for, such integration in many economies of the region, including Indonesia. At the same time, the achievements to date of the integration process, together with the benefits, are not widely appreciated. Looking ahead to 2015, this section briefly provides background and describes the achievements to date, and the potential for further gains from integration, as well as the challenges facing ASEAN member states.

a. ASEAN and the impetus for regional economic integration

The regional economic integration agenda of ASEAN has become an increasing priority since the early 1990s…

Established nearly 50 years ago in 1967, ASEAN is one of the most prominent and enduring regional organizations in the developing world. Similar to the European Union (EU), it was originally conceived mainly with the political goal of supporting regional peace and stability. ASEAN's economic integration agenda became a priority from the early 1990s, when the political and security concerns of the Cold War and regional tensions diminished and ASEAN turned its focus towards economic goals. A series of treaties and agreements put regional integration at the center of the economic agenda.[20] The 1997/98 Asian financial crisis provided further impetus to this agenda, with a larger regional market seen as important in attracting investors and building greater resilience against macro-financial instability.

…with the vision of a significant deepening of integration through the AEC set out in 2003

The integration agenda was significantly deepened in the 2003 Declaration and the 2007 AEC Blueprint for achieving AEC in 2015 by setting up a "single market and production base" for the ten ASEAN member countries, comprising 600 million people with a current aggregate nominal GDP of USD 2.3 trillion.[21] In 2013 purchasing power parity (PPP) international dollar terms,[22] the economies of ASEAN accounted for 6 percent of global output, making it the fifth largest economic bloc in the world after NAFTA (20 percent), the EU (17 percent), China (16 percent), and India (7 percent).

ASEAN economic integration aims to support growth, a task made only more urgent by the tepid global recovery from the 2008/9 financial crisis…

The fundamental motivation for freer flows of investment, technology and services, across the region is to boost productivity and supply-side economic performance. On the demand side, regional demand based on a rapidly rising and young middle class within a large, integrated ASEAN market can also provide new sources of growth. Such benefits are longer-term and structural in nature, but supporting economic growth has only been made more urgent by current world economic conditions. Many high income countries continue to recover only slowly from high deficits and debt following the global financial crisis, and their demand for imports is weaker than before, raising the relative importance to developing countries of "south-south" and regional trade.

[20] For further information see "ASEAN 2011: Indonesia's Chairmanship" in the July 2011 *IEQ*.
[21] "ASEAN Economic Community Blueprint", ASEAN Secretariat, 2008
[22] PPP GDP is gross domestic product converted to international dollars using purchasing power parity rates. An international dollar has the same estimated purchasing power over GDP as the US dollar has in the United States. Data are in constant 2011 international dollars.

…and one likely to remain central to the wider ASEAN agenda, and in which Indonesia plays a key role

Southeast Asia's continued regional economic integration is now at a crucial crossroads with the launching of the AEC next year, and will likely continue to be central to the wider ASEAN agenda. For example, the formation of the AEC will provide a strong platform for even broader economic integration, of the kind being discussed under the ASEAN + 3 and ASEAN + 6 umbrellas.[23] Indonesia, with the largest economy in ASEAN, at around 40 percent of ASEAN GDP, and almost half of ASEAN's population, is a crucial stakeholder in this ongoing process.

b. ASEAN's contribution to regional integration and remaining challenges

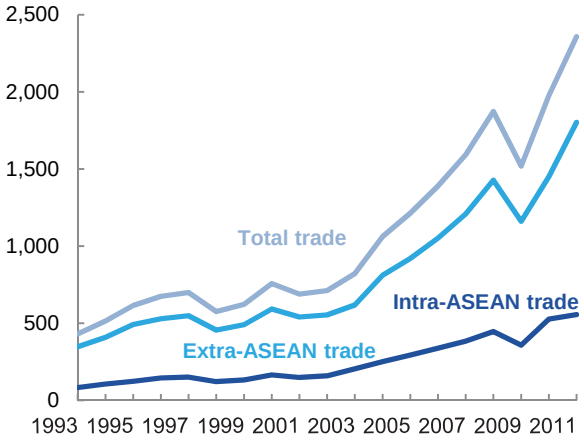
The achievements of ASEAN's regional integration agenda can be seen in five key areas…

Although not widely appreciated, ASEAN's regional integration agenda has already made significant achievements, particularly with respect to gains from freer trade in goods. The recent joint ASEAN Secretariat and World Bank *ASEAN Integration Monitoring Report* identifies integration gains from five sources: (i) significant trade integration; (ii) lowering trade costs; (iii) contribution to service sector development and trade; (iv) helping to attract FDI, both from outside and inside the region; and (v) helping to stimulate reform in lower-income ASEAN economies.[24]

…including in the extent, and nature, of trade integration…

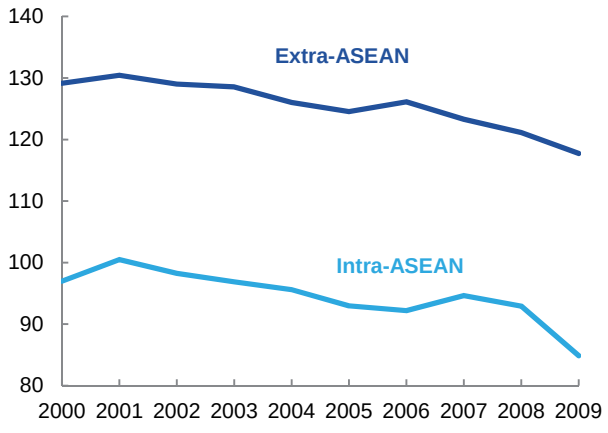
First, ASEAN has achieved a significant degree of trade integration and, importantly, this integration has been trade-creating (i.e. increasing trade with lower cost partners) and not trade-diverting (reducing trade with lower cost partners). This has happened because, while ASEAN economies have made significant progress in almost eliminating tariffs on trade within the region (to less than 1 percent on average), they have also reduced tariffs on trade with other countries. Further, as intra-ASEAN trade expanded, trade with the rest of the world also increased proportionately (Figure 28).

Figure 28: Increased intra-ASEAN trade has been accompanied by rising extra-ASEAN trade…
(ASEAN trade, current USD billion)



Source: ASEAN Secretariat and World Bank

Figure 29: … as costs of trade both within and outside of ASEAN have fallen over time
(trade costs in ad valorem terms, i.e. percent of total trade value)



Source: ASEAN Secretariat and World Bank

…and lowering trade costs

The ASEAN integration process has also involved a lowering of trade costs. Both intra-ASEAN and extra-ASEAN trade costs have fallen significantly, but intra-ASEAN trade costs have fallen more quickly (Figure 29), partly as a result of the trade facilitation measures undertaken by the ASEAN member states.

[23] ASEAN +3 includes the three East Asia nations of China, Japan and South Korea, with the addition of India, Australia and New Zealand forming ASEAN + 6.
[24] ASEAN Secretariat and World Bank, 2013, "ASEAN Integration Monitoring Report"

Added impetus to services liberalization, along with a more than doubling in investment flows within ASEAN in the past decade, have been additional achievements…

The AEC agenda has also contributed to service sector development and trade by providing a push for services trade liberalization commitments that go beyond similar efforts in the World Trade Organization (WTO). This can be seen in a comparison of ASEAN Framework Agreement on Services (AFAS) commitments with commitments under the General Agreement on Trade in Services (GATS). ASEAN integration has also been associated with increased FDI, both from outside and from inside the region. FDI to ASEAN countries increased from USD 20 billion in 2001 to USD 94 billion in 2010, while intra-ASEAN FDI flows have increased from an annual average of USD 5 billion in the 1990s to USD 13 billion over the past three years.

…but implementation challenges remain, including in trade facilitation and the transport sector

Despite these achievements, implementation remains limited in several areas, most notably in realizing the commitments made to integrate service sectors (e.g., transportation) and further efforts are also needed to enhance trade facilitation and with regards to investment. Domestic regulatory reforms, enhanced regulatory and implementation capacities, strong internal coordination and sufficient budgets are imperative to address these implementation challenges. Service sector integration poses a particularly complex challenge, but as discussed below could yield significant gains for Indonesia.

c. Gains from deeper integration under AEC are estimated to be significant

Important gains are also expected from deepening regional integration, including for Indonesia

ASEAN's future integration plans promise significant gains, though realizing them will depend crucially on implementation. The impact of the deep integration measures envisaged under AEC, if fully implemented, has been estimated to range from 5 to 7 percent of output, with gains in per-capita incomes of 26 to 38 percent in the resource-rich original group of ASEAN countries compared with the baseline, including the effects of higher FDI. Indonesia's large relative economic size in ASEAN will not prevent it from experiencing these benefits; recent estimates suggest that Indonesia will enjoy access to a far larger market for its goods and for obtaining consumer goods, raw materials, and intermediate goods, as well as critical, high-quality services that can raise its economic productivity.[25]

A recent study projects significant gains in net skilled jobs creation in Indonesia

Full AEC implementation could result in a net increase of 14 million jobs by 2025 in six ASEAN economies (Cambodia, Indonesia, Lao PDR, the Philippines, Thailand and Vietnam), according to a recent Asian Development Bank-International Labour Organization study, although many of these jobs would be informal.[26] However, high-skill employment is also estimated to grow by 41 percent over 2010-25, with half of this growth in Indonesia. Data do not support concerns that Indonesia will be flooded by skilled workers from other ASEAN members. For example, in 2007 Singapore and Malaysia received more skilled workers from Indonesia than vice versa—almost 11,000 Indonesian skilled workers migrated to Singapore and about 6,500 to Malaysia, while only about 100 Singaporeans and fewer than 400 Malaysians went to Indonesia.[27] A more pressing concern for Indonesia than inward migration is likely to be how to absorb its own large skilled and unskilled labor force.

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[25] See Plummer and Yue, 2009, "Realizing the ASEAN Economic Community: A comprehensive assessment", Institute of Southeast Asian Studies; International Labour Organization (ILO) and the Asian Development Bank (ADB), August 2014, "ASEAN Community 2015: Managing integration for better jobs and shared prosperity"; and ASEAN Secretariat and World Bank, 2013, "ASEAN Integration Monitoring Report".

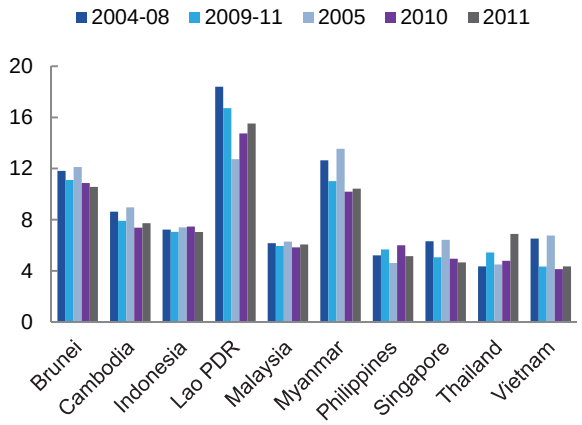
[26] International Labour Organization (ILO) and the Asian Development Bank (ADB), ibid. The estimate considers AEC scenarios (removal of tariffs, liberalization of non-tariff barriers by 50 percent, and trade facilitation) yielding a 20 percent reduction in fixed trade costs, against a baseline with none of the above measures.

[27] Global Bilateral Migration Database, Global Trade Analysis Project 8 Database (GTAP 8 GMig2), Purdue University, 2012.

Further goods trade integration is one source of Indonesia's expected gains from the AEC…

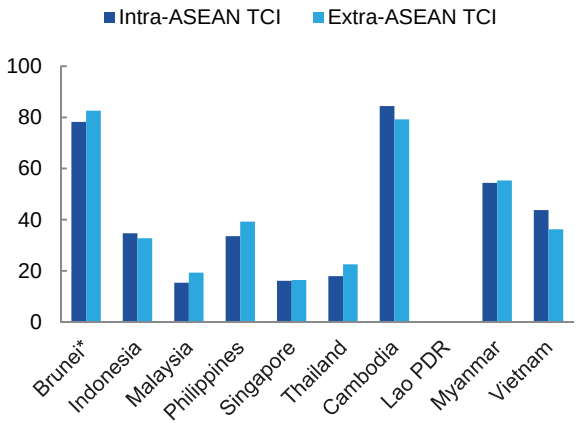
Indonesia also stands to benefit from the AEC through increasing trade with other ASEAN economies. Indonesia's trade intensity with ASEAN is high (Figure 30); the share of Indonesia's trade with ASEAN economies is five times that of the rest of the world's share with ASEAN. In addition, measures of Indonesia's trade complementarity—how well a country's exports (or imports) are matched with another country or region's imports (or exports)—are also high with its ASEAN partners, slightly higher than with the rest of the world (Figure 31). This suggests that the ASEAN market and producers are more important for Indonesia's economy than the rest of the world. For these reasons, efforts to make Indonesia's trade more efficient in ASEAN by reducing remaining trade barriers can be expected to provide sizeable gains for Indonesian consumers, directly by lowering the cost of consumer goods, and indirectly by lowering the cost of intermediate goods, contributing to improvements in Indonesia's efficiency and competitiveness.

Figure 30: Indonesia's trade with ASEAN partners, at under 10 percent of its total trade, has scope to grow…
(share of total trade, percent)



Source: ASEAN Secretariat and World Bank (2013)

Figure 31: ...especially given relatively high trade complementarity between Indonesia and ASEAN
(index of trade complementarity)



Note: TCI denotes Trade Complementarity Index
Source: ASEAN Secretariat and World Bank (2013)

…along with a lowering of Indonesia's high trade costs

Indonesia also stands to gain from deeper ASEAN trade integration through lowering trade costs. In general, trade costs in ASEAN are high as measured by tariff ad valorem equivalents (costs as a percentage of total cost and freight): total trade costs in Indonesia of 100 to 150 percent are among the highest in ASEAN and well above countries such as Malaysia, Vietnam, and Thailand. For comparison, trade costs for the US and Germany in 2010 of 69 percent and 66 percent, respectively, are much lower than the levels seen in most ASEAN economies. Indonesia, it would appear, has considerable scope to reduce its relatively high trading costs by improving vital areas such as logistics services and infrastructure.[28]

[28] Figures in this paragraph are from ASEAN Secretariat and World Bank, 2013, "ASEAN Integration Monitoring Report".

However, improved service sector performance would likely generate the biggest economic gains from ASEAN integration…

Beyond further goods trade integration and reductions in trading costs, the biggest gains from ASEAN integration into AEC will likely come from services.[29] Modern services, such as transport and logistics, energy, finance, commercial services and retail, are tightly linked to production processes in manufacturing and industry. Hence, an increase in services efficiency through trade leads directly to productivity gains in the manufacturing and service sectors. Indeed, reforms in Indonesia's service sector are estimated to have contributed to about 0.4 percentage points in annual productivity growth in firms from 1997 to 2009. Relaxing policies toward FDI in services is associated statistically with improvements in the perceived performance of Indonesia's service sector. The gains accrue largely to the most productive firms and are related to the relaxation of restrictions in transport, and the electricity, gas and water services sub-sectors.[30]

…presenting a big economic opportunity for Indonesia

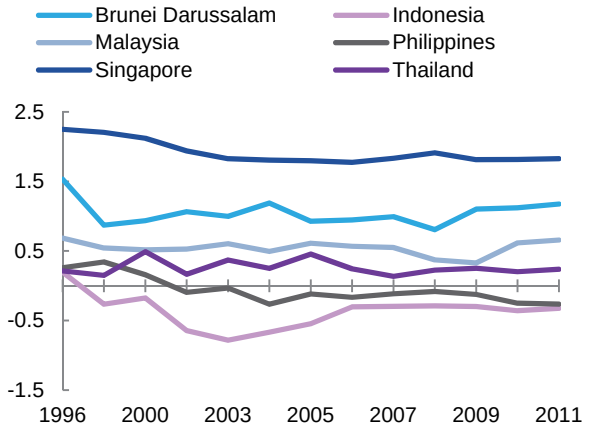
The scope for improved service sector performance in ASEAN countries, including Indonesia, aided by increased regional integration under AEC, is enormous. Most ASEAN economies tend to underperform globally in services and services trade (even accounting for their income levels). Indonesia underperforms even within ASEAN, and even if one allows for the large size of its GDP. Services trade is less than 7 percent of GDP, while its contribution to value added is 39 percent—among the lowest in ASEAN. Services trade restrictiveness indices for Indonesia are high, suggesting that there is significant potential for gains from increasing services trade with ASEAN partners.[31]

Institutional and regulatory convergence through the regional integration process can also support Indonesia's economic performance

There is a high degree of institutional and regulatory heterogeneity within ASEAN, as may be expected in a region ranging from high-income Singapore through to low-income economies such as Lao PDR and Myanmar (Figure 32). Regulatory cooperation can provide significant gains in such a context, although costs also need to be considered. The higher the regulatory heterogeneity among countries, the higher the potential benefits of cooperation that promotes regulatory convergence.

Figure 32: Indonesia lags behind regional peers in regulatory quality[32]

(index of quality of regulations, standard normal units)



Note: Regulatory Quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development
Source: Worldwide Governance Indicators, World Bank[33]

[29] See, for example, Duggan, V. Rahardja, S. and Varela, G., 2013, "Can Open Service Sector FDI Policy Enhance Manufacturing Productivity? Evidence from Indonesia", World Bank; Economic Research Institute for ASEAN and East Asia (ERIA), October 2012, "Mid-Term Review of the Implementation of AEC Blueprint"

[30] Duggan et al., World Bank, 2013 (ibid).

[31] World Bank Services Trade Restrictions Database, 2008 estimates.

[32] For a complete description of this regulatory quality index, see http://info.worldbank.org/governance/wgi/index.aspx#home

[33] The Worldwide Governance Indicators report on six broad dimensions of governance, including regulatory quality (Worldwide Governance Indicators, World Bank, 2014).

d. What can Indonesia do to prepare further for regional integration?

Indonesia is already significantly economically integrated with the rest of ASEAN with respect to goods trade. The next step will be managing the opening of trade in services

While the potential gains from deeper regional integration are large, it is also important to prepare the Indonesian economy for this. Trade integration is already significant—Indonesia has eliminated tariffs on 98 percent of product lines committed to under ASEAN. In effect, most of the goods trade adjustments with other ASEAN countries have already taken place, except in areas where Indonesia has imposed non-tariff measures (NTMs).[34] The next step in regional integration will come through services trade, where Indonesia has committed to open to services obtained through travelling abroad or by importing them directly. Indonesia's main challenge, therefore, will be opening up to ASEAN services suppliers via FDI and to skilled labor. If well managed, the economic impact of both should be positive.

Several specific steps will need to be taken in order to better prepare the Indonesian economy for AEC

There are specific steps that the government can take to enhance the capacity of the Indonesian economy to benefit from continued regional economic integration. Many of these steps are required in any case to strengthen domestic economic performance more generally, and are in line with the government's development agenda. Key areas include addressing infrastructure and skills gaps, enhancing financial development, and introducing regulatory reforms to lower costs for firms. For example, infrastructure investment in Indonesia (at under 4 percent of GDP), is among the lowest in the region, and energy and freight logistics have emerged as particular bottlenecks. In the key regulatory areas such as obtaining construction permits, paying taxes, and enforcing contracts, firms in Indonesia are subject to much longer delays, cumbersome procedures and higher costs.[35]

The government can support Indonesian firms' preparations for integration…

A recent study of firms across the region suggests that nearly 80 percent of firms are optimistic about their prospects under AEC. Indonesian firms are less optimistic: only 45 percent of those surveyed think that ASEAN integration provides an opportunity, while 9 percent think it is a serious threat.[36] However, some large Indonesian firms are well positioned. For instance, 9 Indonesian firms have been identified among the 50 firms in the region with annual sales over USD 500 million. An example is Indonesia's packaged-food company Mayora, which operates in all ten ASEAN countries. In general, firms face the challenge of greater competition, and also the opportunity to sell their products in a larger market and become more competitive by using intermediate goods and services, including finance, investment, skilled labor and technology, from other ASEAN member countries. One challenge will be to prepare small and medium-sized enterprises (SMEs) for the impending competition. Government can play a proactive role in helping firms prepare, as in Singapore and Malaysia where, for example, SMEs receive support for showcasing their products in foreign markets.

…roll back NTMs…

While ASEAN has made remarkable progress in reducing tariffs, the increasing use of NTMs by some ASEAN economies, including Indonesia, threatens to reverse progress in trade integration. To roll back trade-restrictive measures introduced in the past few years, a number of technical steps can be taken, such as (i) improving

[34] Indonesia's NTMs cover 3,714 out of 8,750 tariff lines at 9-digit HS level, or 42 percent of Indonesia's tariff lines. See Rahardja, S., Magiera, S., Munadi, E. and Wicaksono, T., 2010, "Inventory Assessment of Indonesia's Import Non-Tariff Measures" World Bank.

[35] For a recent overview of Indonesia's wider development policy and implementation challenges, see the World Bank 2014 Development Policy review, "Indonesia: Avoiding the Trap".

[36] Chin, V., Meyer, M., Tan, E., and Waltermann, B., 2014, "Winning in ASEAN: How Companies Are Preparing for Economic Integration.", The Boston Consulting Group

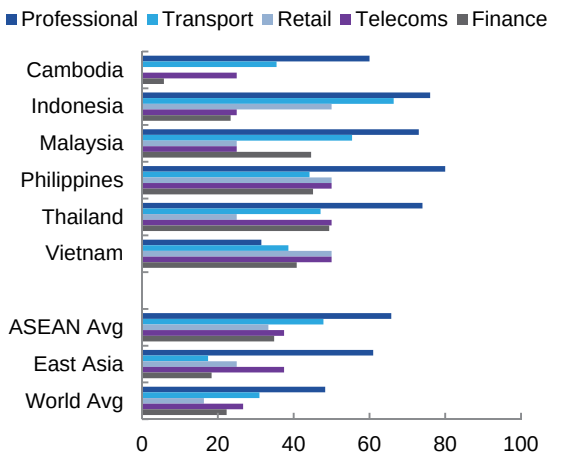
the classification of NTMs according to the UNCTAD guidelines adopted in February 2012; (ii) updating and verifying country lists in an open process driven by the ASEAN Secretariat, rather than on a voluntary basis by individual member states; (iii) eliminating, with only few exceptions, all quantity control measures comprising non-automatic licensing, import and export quotas and prohibitions; (iv) identifying the other most egregious trade-restrictive measures, with help from the private sector and with sectoral regulatory impact assessments; and finally (v) deciding in ASEAN bodies on national-level regulatory modifications, as well as regional harmonization actions necessary to eliminate or minimize the trade-restrictive impact of the NTMs identified.

…and accelerate the liberalization and integration of services trade

Indonesia has committed to open the service sector to trade and investment from ASEAN partners.[37] As in other ASEAN countries, however, Indonesia's commitments in this area are not yet being implemented. Indonesia's restrictiveness in many services is deeper than other ASEAN countries and in a survey of service sector policies and regulations in 2008, Indonesia was identified as being one of the most restrictive countries in ASEAN. This is especially the case in the professional, transport and retail sub-sectors (Figure 33).

Figure 33: Indonesia continues to be relatively restrictive in services trade

(2008 restrictiveness index, 100 = most restrictive)



Source: World Bank Services Trade Restrictions Database (latest available estimates)

Regional services integration will require much more regulatory cooperation…

Restrictions on trade in professional services, transport services, and investment, adversely affect the productivity and competitiveness of many Indonesian firms. Such restrictiveness also deters FDI in manufacturing and services. One reason why Indonesia and other ASEAN countries lag behind in implementation is that many domestic regulations are involved, in contrast to the relatively simple task of slashing goods trade tariffs. As in the case of NTMs, these regulations can have a valid role in addressing national objectives and market failures. However, if the service sector in ASEAN is to be integrated then more regulatory cooperation is essential.

…which could be supported by a program for regional regulatory cooperation…

Regulatory cooperation can provide significant gains where countries currently have very different regulations, such as in ASEAN. Regulatory reforms have costs, and relative costs and benefits will depend on the state of regulatory development and capacity, which differs widely across the region. ASEAN's services integration goals require cooperation in four particular dimensions: (i) promoting regulatory convergence, through mutual recognition; (ii) convergence on regulatory principles, in particular regarding the design, adoption, and application of regulations; (iii) convergence of regulatory capacity, which includes cooperation among regulatory

[37] In particular, Indonesia has ratified the Eighth Package of Commitments under AFAS.

bodies, exchange of information for regulatory purposes and experience on regulatory reforms; and (iv) identifying and adopting good regulatory practices in new areas. Several business areas are already initiating the processes for regulatory and standards convergence under ASEAN coordination, including foodstuffs, health supplements, pharmaceutical products, and telecommunications.

…in which Indonesia is well placed to play a key role

Indonesia is well-placed to lead this process of regulatory cooperation and is already undertaking regulatory reforms that could be expanded to support wider regulatory cooperation. First, on investment, the government has added an additional category for ASEAN investors to the Negative Investment List (*Daftar Negatif Investasi*, DNI), as of 2014. This category allows for ASEAN-based investment participation in several service sector areas, such as surveying, hotels, arts and entertainment, advertisement services, and international sea transport. Second, ASEAN already has mutual recognition agreements (MRAs) for eight services sub-sectors—engineering, architectural services, surveying, accountancy, tourism, dental practitioners, medical practitioners, and nursing services—that will improve the quality of Indonesian professionals. More importantly, these MRAs also push regulatory and institutional competency standards, training, and certification for other sectors in Indonesia, and will provide a basis for ASEAN-wide regulatory convergence.

C. Indonesia 2015 and beyond: A selective look

1. Universal Health Coverage by 2019? Only with adequate health services

Indonesia is implementing universal health coverage, a crucial step forward in the fight against poverty and reducing vulnerability

Indonesia has recently implemented a series of key reforms with the objective of attaining universal health coverage (UHC), a fundamental policy for ensuring and sustaining inclusive economic growth and accelerating poverty reduction. If implemented effectively, UHC will significantly improve Indonesians' access to essential health services and prevent impoverishment resulting from catastrophic personal health expenditures. This section reviews progress towards achieving UHC in Indonesia, focusing on an assessment of the adequacy of health services. It highlights significant gaps in health service delivery and points to some policy options to address these gaps.

a. The strong case for universal health coverage in Indonesia

Indonesia has performed well on a number of health indicators over the past decade…

Indonesians have become healthier over the past decade. Life expectancy at birth steadily increased to 71 years in 2012, up from 68 years in 2002. The under-five mortality rate declined from 48 per 1,000 live births in 2002 to 31 in 2012; at current trends, Indonesia is projected to meet the child-health related Millennium Development Goal (MDG) of an under-five mortality rate of 28 per 1,000 by 2015. Indonesia is also on track to attain the two nutrition-related MDG indicators: the percentage of under-five children that were moderately or severely underweight decreased from 23 percent in 2002 to 18 percent in 2012 (the goal is 14.9 percent); and the proportion of the population below the minimum level of dietary energy consumption decreased from 19 percent in 2002 to 9 percent in 2012 (the goal is 9.9 percent).

…but it still has the levels of maternal mortality and child malnutrition of a low income country…

However, maternal mortality and child malnutrition remain persistently high in Indonesia, and there are large disparities in health outcomes across regions and income levels. While declining over the period 1990-2013, the maternal mortality ratio (MMR) remains high at 190 per 100,000 live births in 2013 and the pace of decline will not be sufficient for the country to attain the MDG MMR target of 108 by 2015. In addition, Indonesia's MMR is one of the highest in the region and is high relative to the country's income and health expenditures per capita (Table 7). Indonesian children under-five suffer from high rates of malnutrition, with prevalence of stunting at 36 percent and of wasting at 12 percent.[38] Good child nutrition is critical for the development of human capital: malnutrition's most adverse effects occur during pregnancy and in the first two years of life, and cause early damage to health and brain development, which is largely irreversible. Malnutrition rates in childhood also increase propensity for diabetes and cardiovascular diseases later in life, termed the "double burden of malnutrition".[39] In addition to these high levels of maternal mortality and child malnutrition, there is a high disparity in outcomes; provincial data reveal a two- to three-fold range in mortality, with infant and child mortality rates among the poorest quintiles of households more than double those in the wealthiest quintiles.

Table 7: Indonesia spends relatively little on health, and reducing child malnutrition and maternal mortality rates remain key challenges

Country	GDP per capita, 2013 (USD)*	Total health expenditure per capita, 2012 (USD)	Stunting prevalence (percent)**	Wasting prevalence (percent)**	Maternal mortality ratio (2013)	Annual change in MMR, 1990-2013 (percent)
Cambodia	1,008	51	41	11	170	-8.1
China	6,807	322	9	2	32	-4.7
India	1,499	61	48	20	190	-4.5
Indonesia	**3,475**	**108**	**36**	**12**	**190**	**-3.5**
Lao PDR	1,646	40	48	7	220	-6.8
Malaysia	10,514	410	17	15	29	-2.8
Myanmar	1,126	20	35	8	200	-4.5
Philippines	2,765	119	34	7	120	0.6
Sri Lanka	3,280	89	19	12	29	-2.2
Thailand	5,779	215	16	5	26	-2.0
Vietnam	1,911	103	23	4	49	-4.4

Note: *Myanmar is 2012 (UN Data); **Latest available WDI data shown; date differs across countries (2006-2011); Indonesia: 2010
Source: WDI (2013)

[38] "Stunting" refers to a height-for-age Z-score of less than -2, "wasting" to a weight-for-height Z-score of less than -2, and "severe wasting" to a weight-for-height Z-score of less than −3.

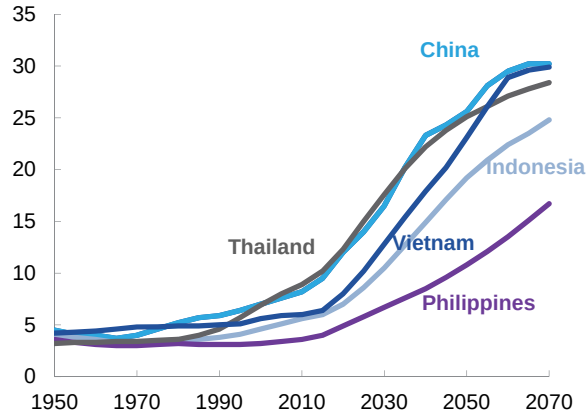
[39] The "double burden of malnutrition" refers to the coexistence of both undernutrition and overnutrition of macronutrients and across the course of life in the same population, community, family or even individual. See Shrimpton, R., & Rokx, C., 2013, "The double burden of malnutrition: a review of global evidence", World Bank, and "Indonesia: facing up to the double burden of malnutrition" in the July 2013 *IEQ*.

…while Indonesia's population is becoming older and more prone to non-communicable diseases (NCDs) at a more rapid pace than it is becoming richer

Indonesia's population is becoming older and more prone to non-communicable diseases (NCDs) at a more rapid pace than it is becoming richer. The country's disease profile is rapidly changing: NCDs are now the biggest health challenge facing Indonesia and account for the largest share (58 percent) of the overall burden of disease.[40] In contrast to communicable diseases (CDs), NCDs such as hypertension and diabetes place greater demands on health systems in terms of promotive and preventive care requirements; regular screening, follow-up, and monitoring; and coordinated management and treatment of associated complications at higher levels of care. The NCD share of the disease burden will continue to grow as Indonesia completes its epidemiological transition from CDs to NCDs—a natural part of socioeconomic development that is expected to accelerate as the population begins to age, with a rapid increase in the share of the population aged 65 and above beginning to occur around 2015 (Figure 34). Although the overall trend is towards a rise in NCDs, the burden from some CDs such as HIV is also rising: Indonesia is one of nine countries where the estimated incidence rate of HIV infection among adults (15-49 years of age) increased over 25 percent in 2001-11.[41]

Figure 34: Indonesia's population will soon begin ageing

(share of population aged 65 and over, percent of total)



Source: UN World Population Prospects (2012 Revision)

Out-of-pocket spending on health remains too high in Indonesia and gives rise to a high risk of impoverishment

High out-of-pocket (OOP) spending for health remains a persistent and serious problem for the sector, creating significant financial barriers to accessing health care, as well as a lack of financial protection for those who do utilize health care. Although health insurance coverage rates have increased in the past decade, almost half the population remains without any coverage and, at 45 percent of total health spending, OOP spending remains high. High OOP payments are a prominent risk factor for impoverishment, especially given that a large proportion of Indonesia's population is vulnerable: there are 96 million poor and vulnerable people (40 percent of the population), who live below 1.5 times the national poverty line.[42]

b. Indonesia's road to universal health coverage: challenges ahead

Landmark legislation in 2004 and the setting up of the BPJS in 2011 mean that UHC is now a

The universal right to health care was included as an amendment to Indonesia's constitution in 1999. However, the impetus for UHC came a few years later in the landmark 2004 National Social Security System (*Sistem Jaminan Sosial Nasional,* SJSN) Law, which formed the legal basis for attaining several social protection objectives. In 2011, the follow-up Social Security Agency (*Badan Penyelenggara Jaminan Sosial*,

[40] WHO's global burden of disease (GBD) measures burden of disease using the disability-adjusted-life-year (DALY). This time-based measure combines years of life lost due to premature mortality and years of life lost due to time lived in states of less than full health. See http://www.who.int/topics/global_burden_of_disease/en/.

[41] UNAIDS, 2012, "Report on the Global Aids Epidemic", Geneva.

[42] Based on 2014 National Socioeconomic Survey (SUSENAS) data.

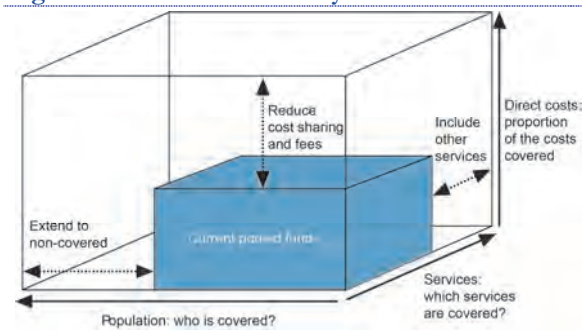
reality, with the aim of extending coverage to the whole population by 2019

BPJS) Law was passed, defining the administrative and implementation arrangements. This stipulated that all existing contributory and non-contributory social health insurance schemes should be merged to provide streamlined uniform benefits under a single-payer umbrella. Following institutionalization of the single-payer insurance administrator (BPJS) and the new unified national health insurance program (*Jaminan Kesehatan Nasional*, JKN) in 2014, the government plans to extend coverage incrementally to the entire population by 2019.[43]

UHC is not just about coverage of the population, but also about adequate health services and user affordability of these services

UHC is not only about increasing the number of people covered by health insurance programs—although this is clearly one important dimension of UHC—but also about the level of health service benefits provided and the extent of financial protection accorded. UHC comprises three key dimensions—*population coverage* (who is covered, or "breadth"), *service coverage* (what is covered, or "depth"), and *cost coverage* (how much is covered, or "height") (Figure 35)—in order to ensure that adequate health services are supplied, are of sufficient quality to be effective, and are physically accessible and financially affordable to all.[44]

Figure 35: UHC has three key dimensions



Source: World Health Report, WHO, 2010

Despite attempts to increase health insurance coverage, half the population remains uninsured

The key challenges in expanding coverage are: (i) to ensure the poorest 40 percent of the population are covered as intended with central government financing; and (ii) to expand contribution collection among non-poor informal workers (under current regulations, this group must contribute in order to enroll in JKN). In terms of cost coverage, and as mentioned earlier, OOP payments are high, including among those with coverage. Although the incidence of catastrophic health spending is declining, recent estimates indicate that this remains a significant issue: almost 20 percent of all households that utilized inpatient care faced OOP spending for health percent of a quarter of more of non-medical household expenditure.[45]

The adequacy of health services is crucial for the success of UHC

Although all three dimensions of UHC are important, the focus of the remainder of this section is specifically on the service coverage dimension of UHC—namely on the challenges to ensuring effectiveness of service delivery, including human resources, health facilities, medicines and equipment, and quality of care.

[43] For more information on the planned implementation of, and challenges regarding, Indonesia's national social security system, see "Indonesia's challenge: implementing the new social security system" in the July 2013 *IEQ*.

[44] See World Health Organization (WHO), 2005, "Technical briefs for policymakers: achieving universal health coverage - developing the health financing system", Geneva. It is important to note that the three dimensions of UHC ("depth", "breadth" and "height") are neither independent nor mutually exclusive: ensuring depth of coverage has implications for the breadth and height of UHC as well. Universal availability of the benefit package for all—not just those who are well-off and live in urban areas—is a key aspect of ensuring that UHC is not a hypothetical aspiration but a realized policy designed to enhance health and improve social protection. In addition, high OOP payments—i.e. a low height of UHC—are often a result of poor depth of coverage if patients have to pay OOP for drugs or seek care elsewhere in private facilities that are outside the network.

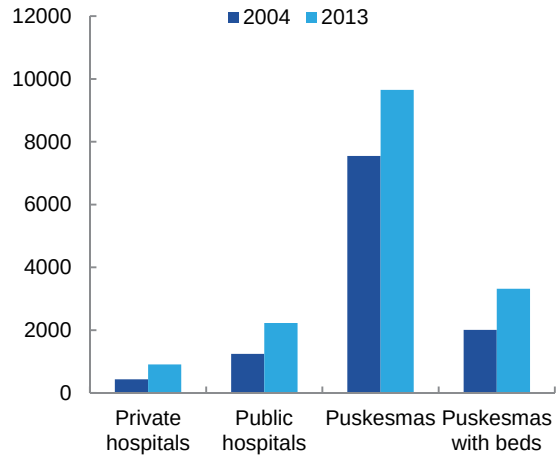
[45] Susenas (2011).

c. Universal health coverage requires adequate health services

Access to health facilities has improved but remains a serious challenge in some regions

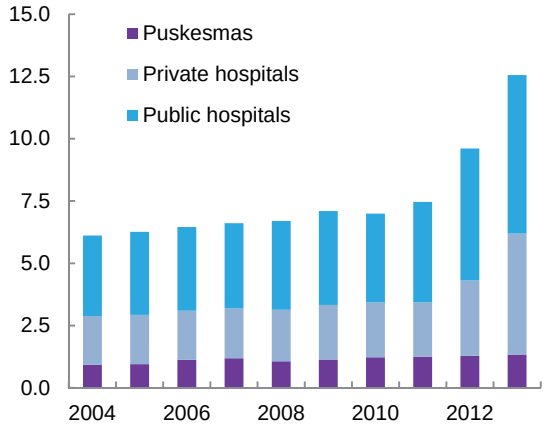
Access to health facilities has improved substantially over the past decade.[46] The number of hospitals almost doubled between 2004 and 2013, and the number of public health clinics (*Pusat Kesehatan Masyarakat*, commonly abbreviated to "Puskesmas") increased by almost 30 percent during the same period, resulting in an increase in inpatient beds per capita from 7.0 to 12.6 per 10,000 people (Figure 36 and Figure 37). However, Indonesia's bed density ratio remains far below WHO's recommendation of 25 per 10,000, and there is a four-fold difference in the bed density ratio across provinces. Although the median distance to a health facility in Indonesia was only 5 km in 2011, in provinces such as West Papua, Papua, and Maluku the median distance was over 30 km (Figure 38). Over 40 percent of people in West Sulawesi, Maluku, and West Kalimantan took more than one hour to reach a public hospital, compared to 18 percent nationally. Only 2 percent of the population took more than one hour to reach a Puskesmas, but the proportion is much higher in Papua (28 percent), East Nusa Tenggara (11 percent), and West Kalimantan (11 percent). Outpatient and inpatient utilization rates have risen steadily, especially among the bottom 40 percent of the population. However, utilization rates still remain very low by global standards and there remain huge disparities across provinces: Indonesia's inpatient utilization rate of 1.9 percent was less than one-fifth of WHO's proposed benchmark of 10 discharges per 100 people and there was a five-fold difference in this rate across provinces.

Figure 36: The number of hospitals and Puskesmas increased from 2004 to 2013…



Note: Puskesmas with beds are a subset of total puskesmas
Source: Ministry of Health

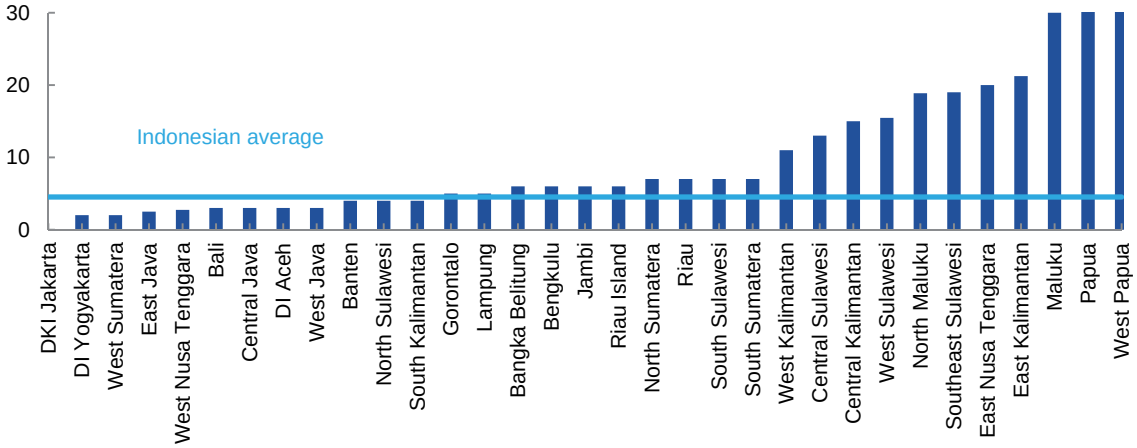
Figure 37: …as did the number of inpatient beds
(number of beds per 10,000 people)



Source: Ministry of Health

[46] The assessment of service delivery and supply-side readiness for Indonesia is based on analysis of data from several primary and secondary sources. Data sources for macro-level indicators on health coverage and outcomes as well as health financing are from WHO, the World Development Indicators (WDI) database, BPS, Indonesia Demographic and Health Survey (IDHS), and the Ministry of Health. Other micro-level indicators are derived from facility data including from the 2011 Rifaskes facility census, the 2007 Indonesia Family Life Survey (IFLS), and 2012 IFLS East.

Figure 38: Many Indonesians travel great distances to reach the nearest health facility
(average kilometers to nearest health facility)



Source: Ministry of Health

Health facilities are not well equipped to provide basic health services mandated by law, particularly in eastern Indonesia…

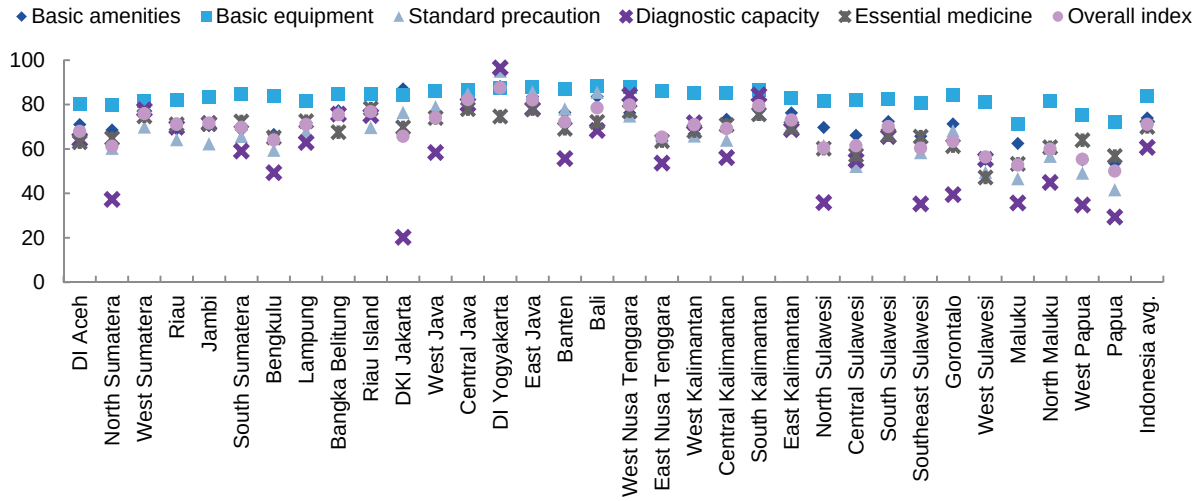
In a recent assessment based on the analysis of facility data, the general service readiness of health facilities to provide basic health services at minimum standards was found to be highly variable across provinces, with notable weaknesses in some of the eastern provinces such as Papua, Maluku, West Papua, West Sulawesi, and North Maluku. The readiness to provide basic services was measured by a set of 38 tracer indicators that were collected as part of the 2011 health facility census (Rifaskes) across five domains: basic amenities, basic equipment, standard precautions for infection prevention, diagnostic capacity, and essential medicines.[47] These Rifaskes tracer indicators, as well as those discussed below for service-specific readiness, are consistent with WHO standards. Across Indonesia, not even one Puskesmas reported having all 38 tracer indictors available for general service readiness.[48] Whereas Puskesmas on average had more than 80 percent of the 38 tracer indicators available in DI Yogyakarta, East Java, and Central Java, only about half reported the same in Papua and Maluku (Figure 39).

…with deficiencies in key services like antenatal and basic obstetric care, and routine childhood immunization

Numerous challenges remain with regard to service-specific readiness, and the capacity of health facilities to provide interventions in key program areas, such as family planning, antenatal care, basic obstetric care, routine childhood immunization, malaria, tuberculosis, diabetes, basic surgery, blood transfusion, and comprehensive surgery. In particular, Table 8 highlights a snapshot of the deficiencies and variation in provision of key services provided in an analysis of Risfaskes facility data and other sources.

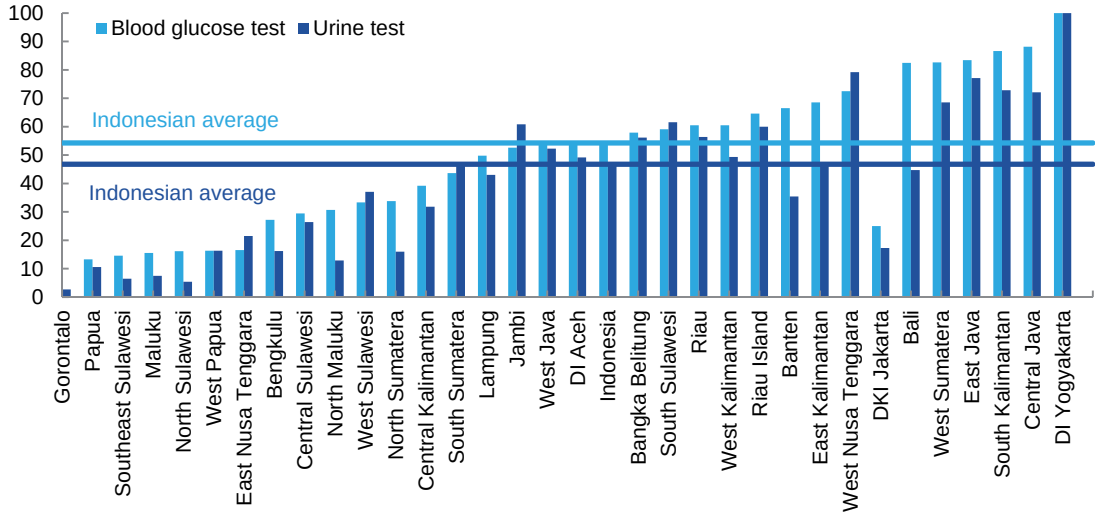
[47] WHO's SARA Reference Manual lists 50 tracer indicators for general service readiness. Rifaskes collected data on 38 related indicators. See WHO (2013).
[48] For more information on geographical disparities in public services, see "Village infrastructure for basic service delivery" in the December 2012 *IEQ*.

Figure 39: There is wide variation in the service readiness of Puskesmas across provinces, and divergences across provinces in general service domains such as diagnostic capacity and essential medicines
(selected service indicator scores, and general service readiness index, for puskesmas by province, 2011)



Note: the general service readiness index is based on scores from a set of 38 tracer indicators from the 2011 health facility census
Source: Ministry of Health

Figure 40: Most Puskesmas lacked key diagnostic capacity to perform blood glucose and urine tests
(availability of blood and glucose tests, percent)



Source: Ministry of Health

Table 8: Facility-level data highlights deficiencies, and regional variation, in provision of key health services

Key services	Examples of level of service provision
Family Planning	Forty-two percent of Puskesmas lacked one staff member trained in the previous two years in family planning services, and 38 percent lacked family planning guidelines available at the facility. About 60 percent of private clinics lacked combined oral contraceptive pills and about 35 percent lacked injectable contraceptives.
Antenatal Care	In North Sulawesi, Maluku, and Papua, less than 60 percent of Puskesmas were able to diagnose anemia with hemoglobin testing, while urine tests were almost completely unavailable in Gorontolo, North Sulawesi, and Maluku. Only 14 percent of the 30 private hospitals surveyed, and 15 percent of private clinics, were able to conduct hemoglobin or urine tests. This largely explains why only 25 percent of public hospitals, and none of the 30 private hospitals surveyed maintained all eight antenatal care tracer items.
Basic Obstetric Care	Only 62 percent of Puskesmas mandated to provide basic emergency obstetric and neonatal care (*Pelayanan Obstetri Neonatal Emergensi Dasar*, or PONED) had at least one staff trained in this area in the previous two years, only slightly higher than in non-PONED Puskesmas (50 percent). Only 39 percent of public hospitals, and 3 percent of the 30 private hospitals surveyed, maintained all 23 basic obstetric care tracer items.
Routine Childhood Immunization.	More than 20 percent of Puskesmas in Papua, West Papua, and Maluku reported that they did not have measles, DPT, polio, and BCG vaccines, while only about a quarter of private facilities, and less than 10 percent of those in eastern provinces, reported availability of these vaccines.
Malaria	Antimalarial medicine was not available in 38 percent of Puskesmas and malaria blood tests were not available in 29 percent of Puskesmas in the 10 provinces with the highest malaria prevalence rates.
Tuberculosis (TB)	35 percent of Puskesmas did not have staff trained in TB management, and 27 percent did not have the capacity to diagnose TB from sputum samples, while crucial first-line treatment was not widely available either in Puskesmas or public hospitals.
Diabetes	Only 66 percent of public hospitals, and 27 percent of the 30 private hospitals surveyed, maintained all seven diabetes tracer items. Only 54 percent of all Puskesmas reported the ability to test for blood glucose—a crucial aspect in the management of diabetes—and only 47 percent reported the ability to test urine, with availability of each test well below 20 percent in six eastern provinces (Figure 40).
Basic Surgery	Very low availability was evidenced for provision of many key basic surgery items, including nasogastric tubes (16 percent), guidelines (21 percent), trained staff (29 percent), adult and pediatric resuscitators (47 percent), oxygen (53 percent), and scalpel handle with blade (56 percent). Only 53 percent of public hospitals, and 60 percent of the 30 private hospitals surveyed, maintained all 12 basic surgery tracer items.
Blood Transfusion	Only 20 percent of all public hospitals, and none of the 30 private hospitals surveyed, maintained all six blood transfusion tracer items. Only DI Yogyakarta (47 percent) and West Sumatra (41 percent) had more than 40 percent of public hospitals with all items, whereas eight provinces had less than 10 percent of public hospitals with all items. Blood typing capacity was largely unavailable in private hospitals (11 percent). Hospitals scored very low on sufficient blood supply (public, 41 percent; private, 13 percent) and blood supply safety (public, 44 percent; private 37 percent).
Comprehensive Surgery	Only 18 percent of all public hospitals, and 33 percent of the 30 private hospitals surveyed, maintained all nine comprehensive surgery tracer items. Only Bali (62 percent), DKI Jakarta (47 percent), and Banten (44 percent) had more than 40 percent of public hospitals with all items. In contrast, a large majority of provinces (25 out of 33, or 76 percent) had less than 30 percent of public hospitals with all items, including eight provinces with zero hospitals reaching this target.

Source: Rifaskes (2011), IFLS 2007, IFLS East 2013

The supply of core health workers has increased rapidly and it is now close to WHO standards, but doctors are very unequally distributed

The health-worker-to-population ratio has improved over time, but inequities in the distribution between geographical regions and provinces, and between urban and rural areas, remain a critical challenge. Indonesia has rapidly increased the supply of core health workers in recent years. The core health-worker-to-population ratio was 2.2 per 1,000 in 2013 (the ratio for both physicians and midwives is 0.5), only slightly lower than the 2.3 level that WHO recommends as necessary to attain an 80 percent skilled birth attendance rate.[49] Still, based on one estimate, about 25 percent

[49] Indonesia Medical Council and the *Badan Pengembangan dan Pemberdayaan Sumber Daya Manusia Kesehatan*, Ministry of Health 2013 data.

of Puskesmas, mostly in eastern Indonesia, do not have a doctor.[50] Only three of the 33 provinces in the country have achieved WHO's recommendation of at least one physician per 1,000 people. The availability of specialist physicians remains largely skewed towards the provinces in Java. There are significant shortages in key health worker positions at public hospitals and Puskesmas, where the shortage of nurses is noticeably large despite the large number of nursing graduates.

Indonesia has made great efforts to improve the quality of health professionals, but poor competency remains an issue

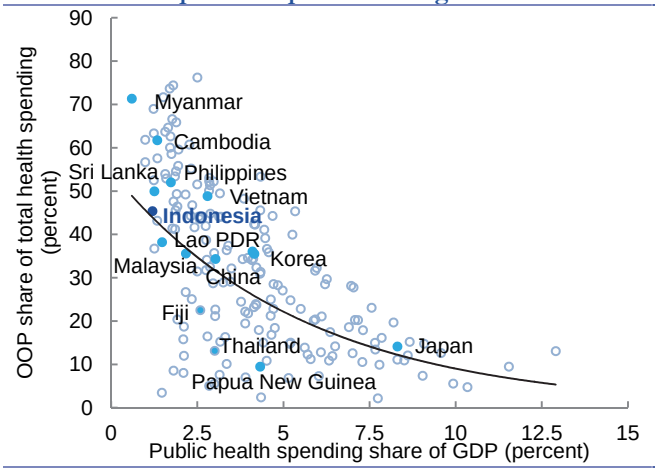
Indonesia has also made significant investments in improving the quality assurance system of health professional education by strengthening the school accreditation system and introducing nationally-standardized competency testing for graduate certification. This was much needed because of the rapidly growing number of health professional schools, especially those that are privately managed. However, health worker quality remains an issue. The 2007 IFLS[51]—which included vignettes to assess the quality of physicians, nurses, and midwives—showed poor accuracy of responses: only 45 percent for antenatal care, 62 percent for child curative care, and 57 percent for adult curative care responded as expected when presented with hypothetical patients describing typical symptoms related to these conditions.[52]

d. Policy options for improving health service delivery in Indonesia

Indonesia's public health spending, one of the lowest in the world, needs to increase substantially…

Realizing UHC by 2019 requires a significant increase in public health spending. In 2012, public health spending across all levels of government was only about 1.2 percent of GDP (about USD 43 per capita). This is the fifth-lowest health-spending-to-GDP ratio out of the 188 countries for which data are available: only South Sudan, Pakistan, Chad, and Myanmar have lower ratios.[53] Most countries that have reduced OOP spending to below WHO's target of 15 to 20 percent of total health spending have done so at levels of public spending around 5 percent of GDP.[54] Indonesia's central government affords the health sector a relatively low priority as judged by spending: allocations to health have typically been less than 5 percent of the central government budget in recent years, about a quarter of the education allocation and less than a quarter of the energy subsidy allocation.

Figure 41: Public health spending in Indonesia is very low and out-of-pocket expenses are high



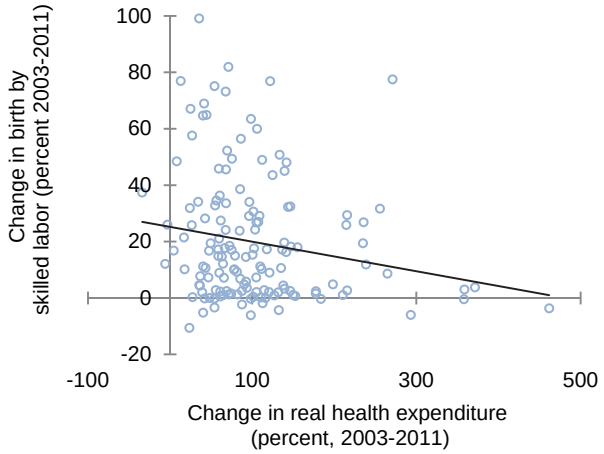
Source: WDI

[50] Kompas newspaper, November 12, 2011, "Distribution of Doctors is Uneven".
[51] Indonesia Family Life Survey, Rand Corporation (2007).
[52] Rokx, C., Giles, J., Satriawan, E., Marzoeki, P., Harimurti, P. and Yavuz, E., 2010, "New Insights into the provision of health services in Indonesia: a health workforce study", World Bank, Washington DC.
[53] World Development Indicators, 2014.
[54] WHO recommends out-of-pocket spending to be at most 15 to 20 percent of total health expenditure, as only at these levels has the risk of impoverishment due to catastrophic health spending generally been found to be low. See WHO, 2010, "Health System Financing: The Path to Universal Coverage", Geneva.

But money also needs to be spent better, by making local governments more accountable and better able to deliver health services on the ground

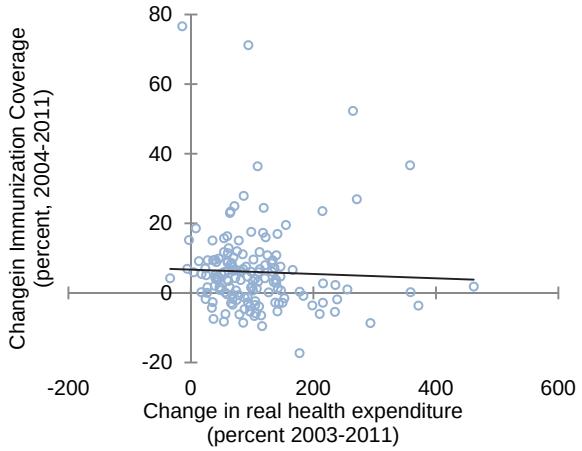
Districts have had the main responsibility for delivering health services since 2001. Decentralization was meant to improve the delivery of health services by bringing decision-making closer to the ground, particularly in a country as vast and diverse as Indonesia. However, as discussed above, achievements have fallen short of expectations. In fact, there is no correlation between the levels and changes of districts spending on health and some important dimensions of outcomes (Figure 42 and Figure 43). Why? Ongoing work shows four key policy areas for improving local service delivery, including health: (i) a clear distribution of functions (backed up by funding) between central government and local governments (vertical national health programs coexist, and are largely unconnected, with transfers to districts, fragmenting health financing and diluting accountability); (ii) incentives for local governments (and service providers) to deliver, by linking financing to results (there is little accountability over what districts do with their money, and transfers are not linked to results); (iii) adequate capacity of local governments (and service providers) to deliver (there is low availability of drugs, equipment and tests, and inadequate competency of service providers to deliver standardized services); and (iv) citizens' demand for better services and involvement in social accountability.

Figure 42: Health spending has increased in many districts and cities…



Note: sample of 147 districts based on available data in both years
Source: Ministry of Finance; BPS

Figure 43: …but with no correlation and often little impact on key health outcomes



Note: sample of 154 districts based on available data in both years
Source: Ministry of Finance; BPS

Targeted investments with built-in incentives can help

Increased *Dana Alokasi Khusus* (DAK) multi-year transfers to districts could be linked to measurable gaps in key health services relative to basic standards, such as those related to maternal and child health. Districts' contribution to DAK would be reimbursed provided districts show these services are being provided, as has been piloted successfully in a number of provinces for DAK infrastructure transfers. Districts that under-perform could be supported, provided that the problem is a weak capacity to deliver. If needed, the central government could consider taking over the service temporarily, as it has been done successfully in countries like Colombia. Subsequent transfers can also be linked to progress in closing gaps.

Provider payments are another mechanism to ensure services are effectively delivered

Current provider payment systems in the former Jamkesmas program are being adapted for use by the Ministry of Health and BPJS. An analysis of potential efficiency gains from the strengthening of these payment systems' focus on primary care and the limiting of overuse of high-cost services may include: (i) analysis of the share of insurance payments made to primary, secondary, and tertiary care to possibly inform benchmarking for increasing allocation to primary care; (ii) analysis

of the rate of potentially avoidable hospitalizations for primary care-sensitive conditions; and (iii) analysis of drug prices and reimbursement relative to international benchmarks and neighboring countries.

Good quality data collection is crucial

The success of the proposed schemes relies heavily on the ability to collect regular and relevant facility-level data (in a sample of facilities representative at the district level, including private facilities) and ensure that data collected reflect national guidelines and norms. This would help to shed light not just on where the deficiencies lie but also why they exist. Such data collection efforts would be independent and, ideally, separate from routine administrative data monitoring, which is also crucial. If possible, data would also be collected from a sample of beneficiaries to ensure that service provision is occurring as intended and that patients are receiving the care they are entitled to. There are other dimensions of service delivery—including the ability and effort of providers—that capture higher dimensions of provision of care that could also be assessed and improved systematically and regularly. These could include efforts to ensure that the basic equipment in facilities is not just available but also properly calibrated and utilized, and assessments made of whether or not health workers have the necessary skills and motivation to provide high-quality services.

UHC needs to be better socialized among local governments, beneficiaries and providers

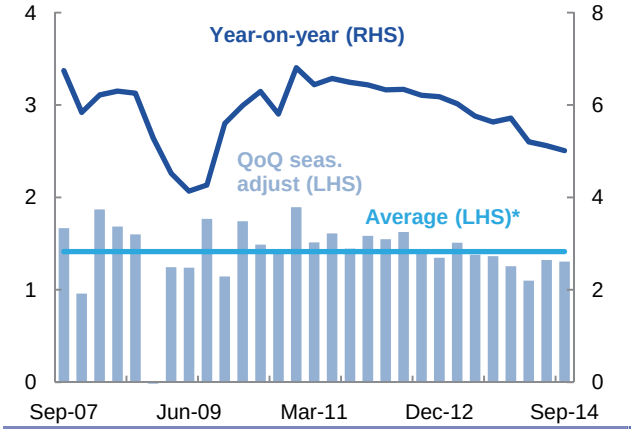
In some cases, the issue is likely not one of additional resources but more to do with greater knowledge of, and ongoing preparations for, UHC among local governments, beneficiaries and providers. The government could ensure that clear supply-side implications are specified based on the JKN benefits package, and that this information is effectively disseminated and fed into operational priorities. This would cover the equipment, training, diagnostic capabilities, and medicines to be provided at different levels of care. It would also specify accountabilities for this provision and finance appropriate referrals as needed. In this regard, BPJS could consider implementing a regular and independent accreditation process for public and private facilities.

Ensuring adequate health services is pivotal to the success of UHC in Indonesia

Universal Health Coverage by 2019 in Indonesia would represent one of the world's great health sector achievements. In order to realize this goal and support continued improvements in health outcomes, there needs to be a focus not just on increasing access (breadth) and end-user affordability (height) to health services, but also on ensuring that effective depth of coverage exists, especially in the eastern regions of Indonesia and at the primary care level. Responding to this challenge, and as part of JKN, the government is working to strengthen the supply side, including building the capacity of primary care by setting standards of services and increasing the ability of primary care providers to manage one hundred and fifty-five priority diseases at the primary level. For the comprehensive JKN health benefits package to translate into real improvements in health outcomes for all Indonesians, there needs to be a continued strong focus in years ahead on ensuring that facilities are ready to provide key health services. Without that, UHC could become an empty promise.

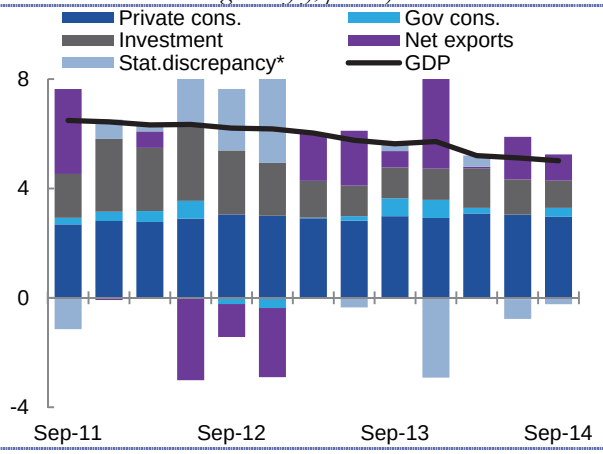
APPENDIX: A SNAPSHOT OF INDONESIAN ECONOMIC INDICATORS

Appendix Figure 1: Quarterly and annual GDP growth
(real GDP growth, percent)



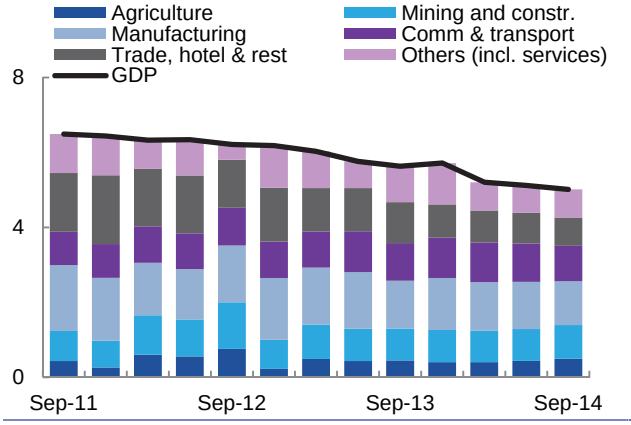
Note: *Average QoQ growth, Q3 2007–Q3 2014
Source: BPS; World Bank staff calculations

Appendix Figure 2: Contributions to GDP expenditures
(contribution to real GDP growth yoy, percent)



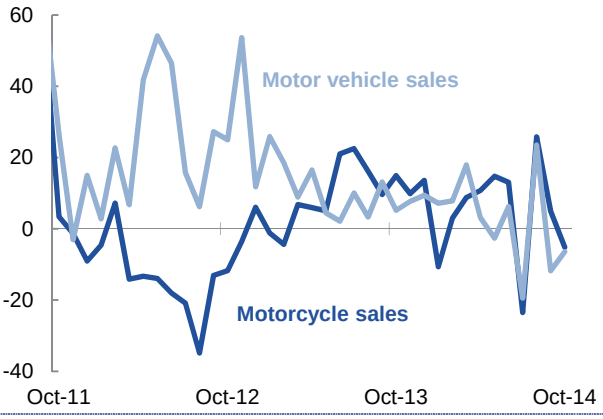
Note:* includes changes in stocks
Source: BPS; World Bank staff calculations

Appendix Figure 3: Contributions to GDP production
(contribution to real GDP growth yoy, percent)



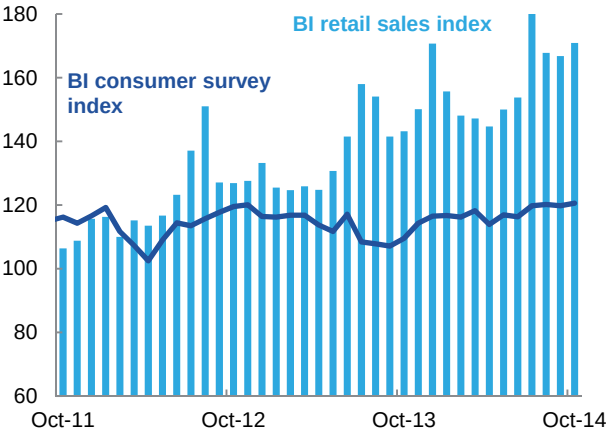
Source: BPS; World Bank staff calculations

Appendix Figure 4: Motorcycle and motor vehicle sales
(seasonally-adjusted sales growth yoy, percent)



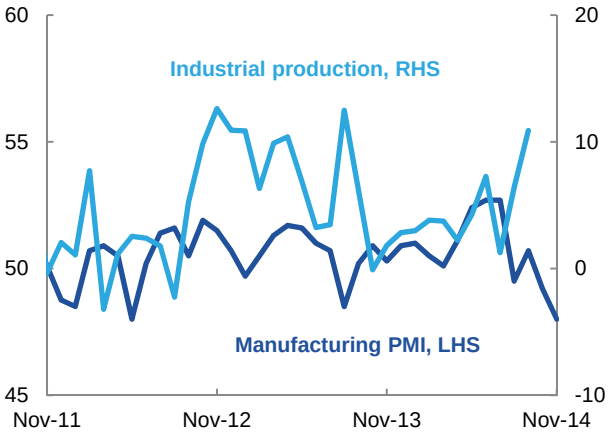
Source: CEIC; World Bank staff calculations

Appendix Figure 5: Consumer indicators
(retail sales index 2010=100)



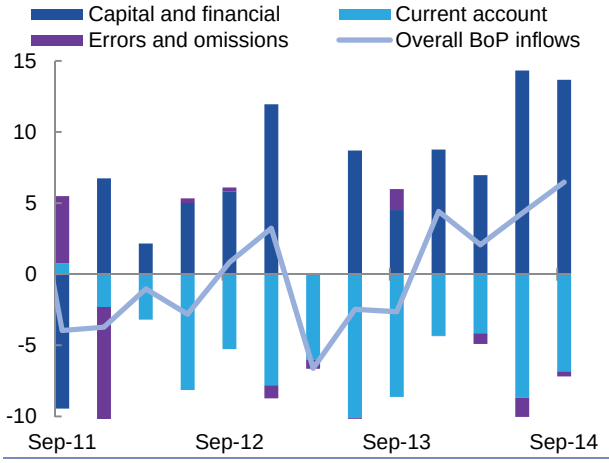
Source: BI

Appendix Figure 6: Industrial production indicators
(PMI diffusion index, and production index growth yoy, percent)



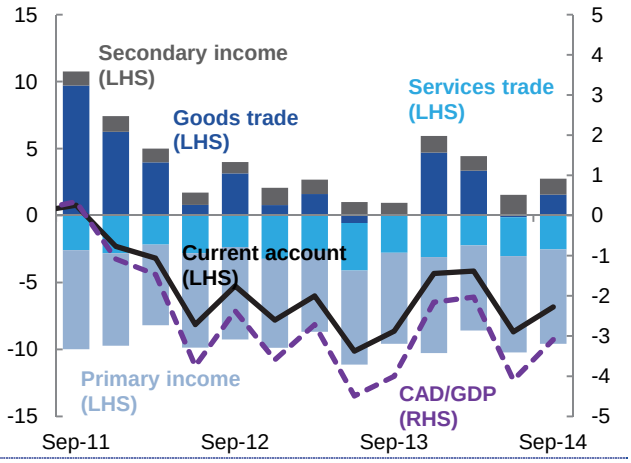
Source: BPS; Markit HSBC Purchasing Managers Index

Appendix Figure 7: Balance of payments
(USD billion)



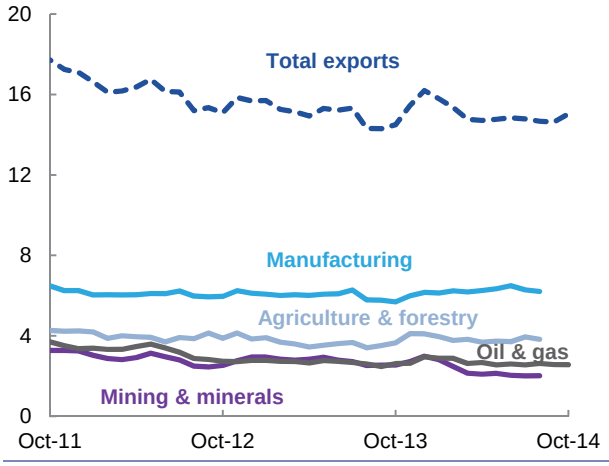
Source: BI

Appendix Figure 8: Current account components
(USD billion LHS, and percent of GDP, RHS)



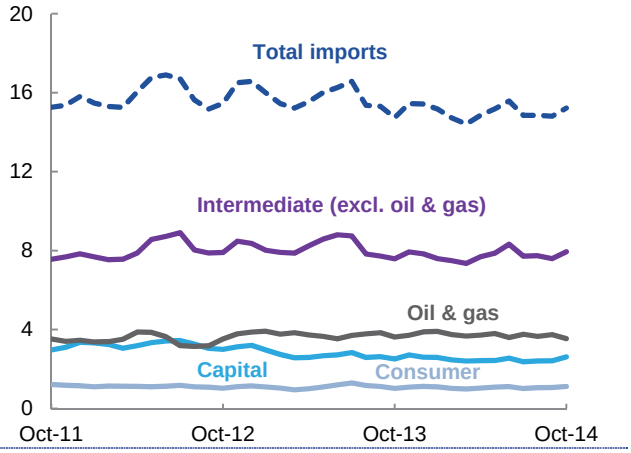
Source: BI; World Bank staff calculations

Appendix Figure 9: Exports of goods
(3-month moving average, USD billion)



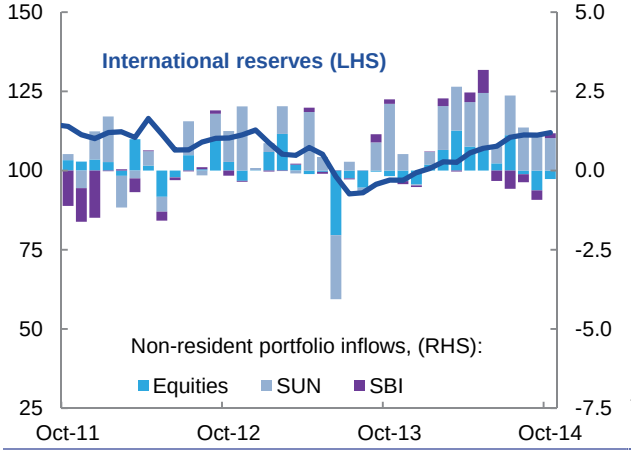
Source: BPS

Appendix Figure 10: Imports of goods
(3-month moving average, USD billion)



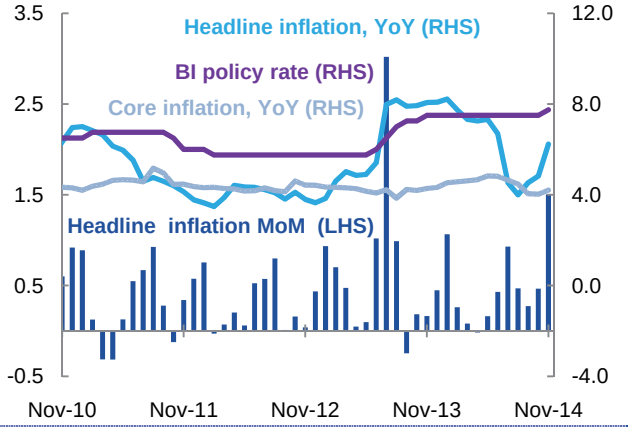
Source: BPS

Appendix Figure 11: Reserves and capital inflows
(USD billion)



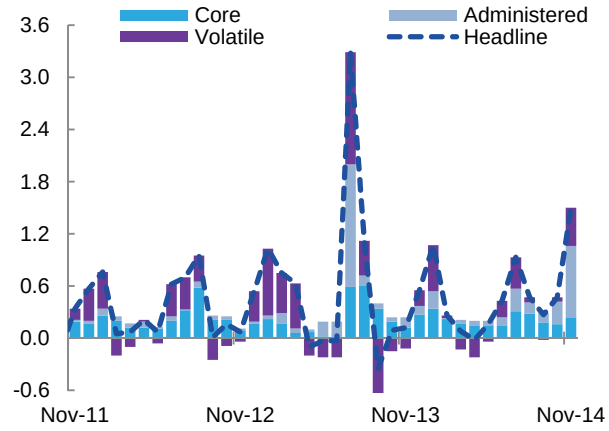
Source: BI; CEIC; World Bank staff calculations

Appendix Figure 12: Inflation and monetary policy
(month-on-month and year-on-year growth, percent)



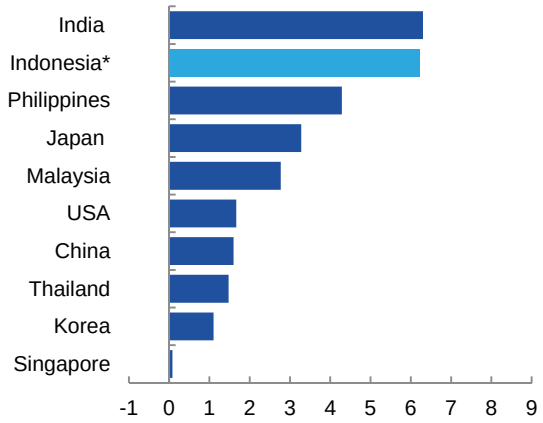
Source: BPS; World Bank staff calculations

Appendix Figure 13: Monthly breakdown of CPI
(percentage point contributions to monthly growth)



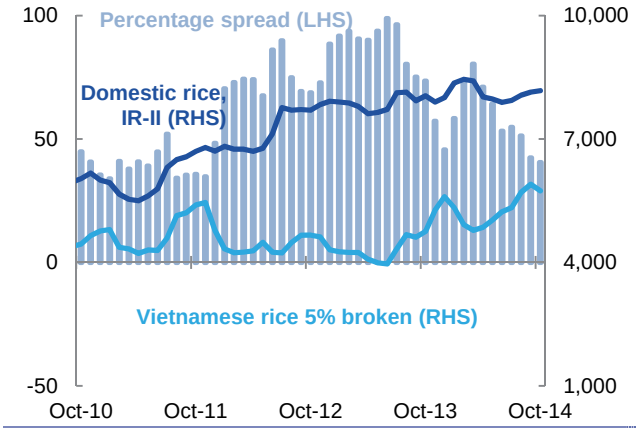
Source: BPS; World Bank staff calculations

Appendix Figure 14: Inflation comparison across countries
(year-on-year, November 2014)



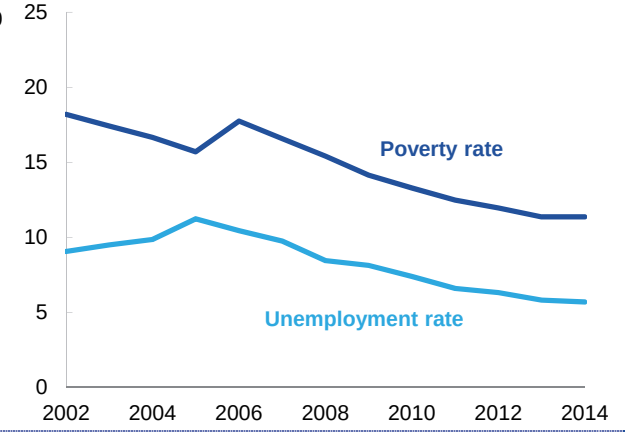
*November is the latest available month, others October
Source: National statistical agencies via CEIC; BPS

Appendix Figure 15: Domestic and international rice prices
(percent LHS, wholesale price, in IDR per kg RHS)



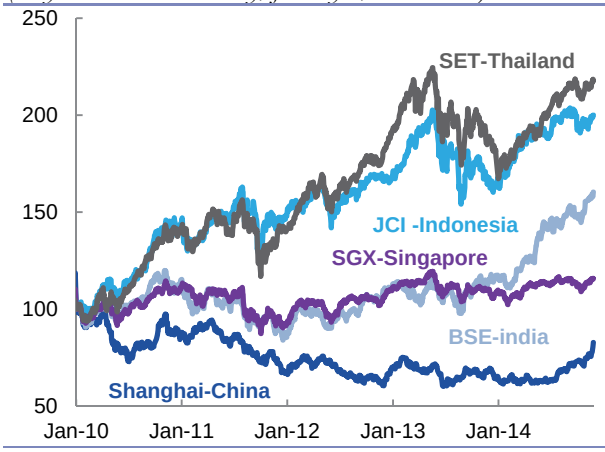
Source: Cipinang wholesale rice market; FAO; World Bank

Appendix Figure 16: Poverty and unemployment rate
(percent)



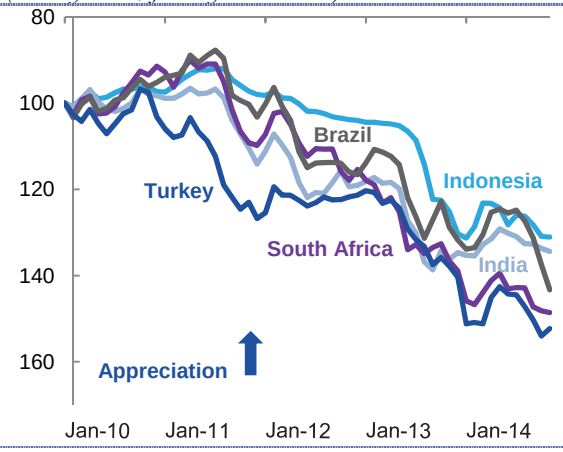
Source: BPS

Appendix Figure 17: Regional equity indices
(daily index in local currency, January 4, 2010=100)



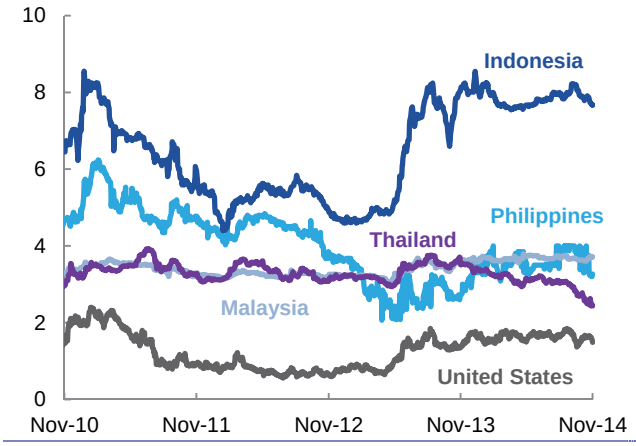
Source: CEIC; World Bank staff calculations

Appendix Figure 18: Selected currencies against USD
(monthly index, January 2010=100)



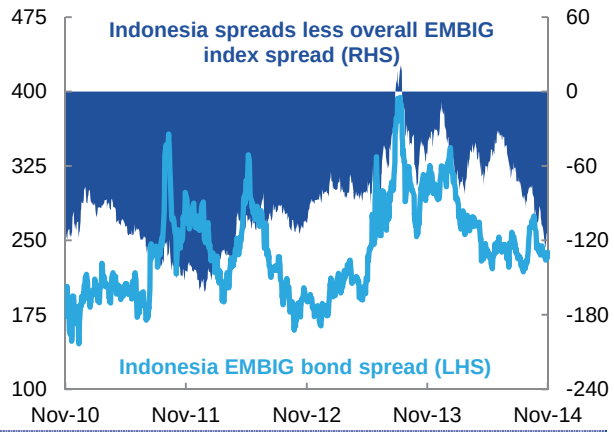
Source: CEIC; World Bank staff calculations

Appendix Figure 19: 5-year local currency govt. bond yields
(percent)



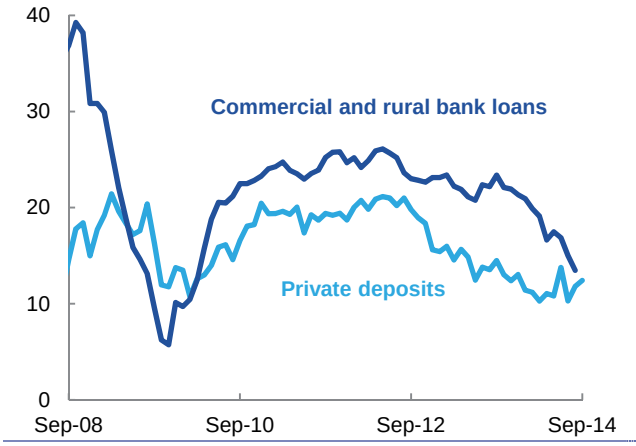
Source: CEIC

Appendix Figure 20: Sovereign USD bond EMBIG spread
(basis points)



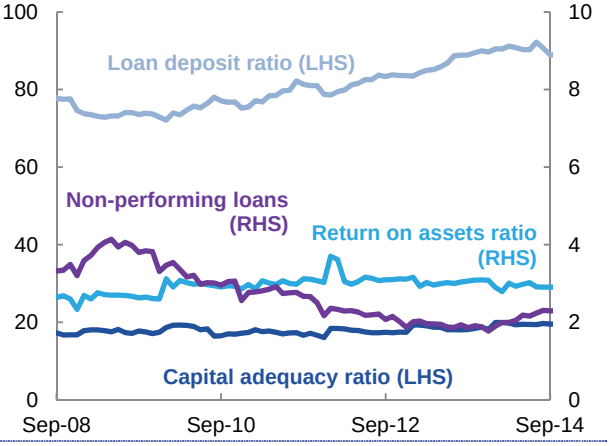
Source: JP Morgan; World Bank staff calculations

Appendix Figure 21: Commercial and rural credit and deposit growth
(year on year growth, percent)



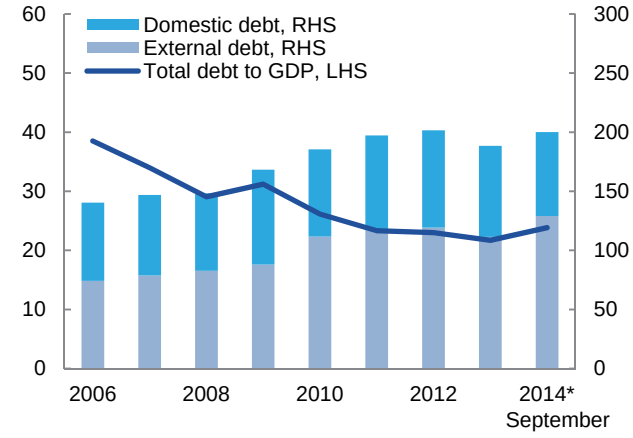
Source: BI; World Bank staff calculations

Appendix Figure 22: Banking sector indicators
(monthly, percent)



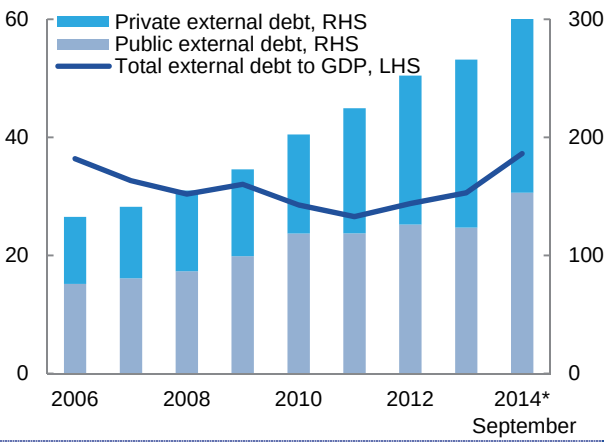
Source: BI

Appendix Figure 23: Government debt
(percent of GDP; USD billion)



Source: MoF; BI; World Bank staff calculations

Appendix Figure 24: External debt
(percent of GDP; USD billion)



Note: 2014 data are for September
Source: BI; World Bank staff calculations

Appendix Table 1: Budget outcomes and projections

(IDR trillion)

	2009	2010	2011	2012	2013	2014	2015
	Actual	Actual	Actual	Actual	Actual	Revised budget	Proposed budget
A. State revenue and grants	**849**	**995**	**1,211**	**1,338**	**1,439**	**1,762**	**1,762**
1. Tax revenue	620	723	874	981	1,077	1,246	1,371
2. Non-tax revenue	227	269	331	352	355	387	388
B. Expenditure	**937**	**1,042**	**1,295**	**1,491**	**1,651**	**1,877**	**2,010**
1. Central government	629	697	884	1,011	1,137	1,280	1,380
2. Transfers to the regions	309	345	411	481	513	597	631
C. Primary balance	**5**	**42**	**9**	**-53**	**-99**	**-106**	**-94**
D. SURPLUS / DEFICIT	-89	-47	-84	-153	-212	-241	-249
(percent of GDP)	-1.6	-0.7	-1.1	-1.9	-2.3	-2.4	-2.2

Source: Ministry of Finance

Appendix Table 2: Balance of payments

(USD billion)

	2012	2013	2012	2013				2014		
			Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Balance of payments	**0.2**	**-7.3**	**3.2**	**-6.6**	**-2.5**	**-2.6**	**4.4**	**2.1**	**4.3**	**6.5**
Percent of GDP	0.0	-0.8	1.5	-3.0	-1.1	-1.2	2.2	1.0	2.0	2.9
Current account	**-24.4**	**-29.1**	**-7.8**	**-6.0**	**-10.1**	**-8.6**	**-4.3**	**-4.2**	**-8.7**	**-6.8**
Percent of GDP	-2.8	-3.4	-3.6	-2.7	-4.5	-4.0	-2.2	-2.0	-4.1	-3.1
Trade balance	-1.9	-6.2	-2.4	-1.0	-4.1	-2.7	1.6	1.1	-3.0	-1.0
Net income & current transfers	-22.5	-22.9	-5.4	-5.0	-6.0	-5.9	-5.9	-5.3	-5.7	-5.9
Capital & Financial Account	**24.9**	**22.0**	**12.0**	**0.0**	**8.7**	**4.5**	**8.8**	**7.0**	**14.3**	**13.7**
Percent of GDP	2.8	2.5	5.5	0.0	3.9	2.1	4.4	3.4	6.8	6.1
Direct investment	13.7	12.2	4.1	3.3	3.3	5.5	0.2	2.8	3.7	5.4
Portfolio investment	9.2	10.9	0.2	3.8	3.8	1.5	1.8	8.7	8.3	7.1
Other investment	1.9	-1.2	7.7	-7.0	1.6	-2.5	6.8	-4.5	2.3	1.1
Errors & omissions	**-0.3**	**-0.2**	**-0.9**	**-0.6**	**-1.0**	**1.5**	**0.0**	**-0.7**	**-1.3**	**-0.4**
Foreign reserves*	**112.8**	**99.4**	**112.8**	**104.8**	**98.1**	**95.7**	**99.4**	**102.6**	**107.7**	**111.2**

Note: * Reserves at end-period
Source: BI; BPS

Appendix Table 3: Indonesia's historical macroeconomic indicators at a glance

	1995	2000	2005	2010	2011	2012	2013
National Accounts (% change)[1]							
Real GDP	8.4	4.9	5.7	6.2	6.5	6.3	5.8
Real investment	22.6	11.4	10.9	8.5	8.3	9.7	4.7
Real consumption	21.7	4.6	4.3	4.1	4.5	4.8	5.2
Private	22.7	3.7	0.9	4.7	4.7	5.3	5.3
Government	14.7	14.2	6.6	0.3	3.2	1.3	4.9
Real exports, GNFS	18.0	30.6	16.6	15.3	13.6	2.0	5.3
Real imports, GNFS	29.6	26.6	17.8	17.3	13.3	6.7	1.2
Investment (% GDP)	28	20	24	32	32	33	32
Nominal GDP (USD billion)	202	165	286	709	846	877	868
GDP per capita (USD)	1229	948	1,560	3,494	3,849	3,920	3,277
Central Government budget (% GDP)[2]							
Revenue and grants	15.2	20.8	17.8	15.5	16.3	16.2	15.8
Non-tax revenue	4.8	9.0	5.3	4.2	4.5	4.3	3.9
Tax revenue	10.3	11.7	12.5	11.3	11.8	11.9	11.9
Expenditure	13.9	22.4	18.4	16.2	17.4	18.1	18.2
Consumption	3.9	4.0	3.0	3.8	4.0	4.1	4.3
Capital	4.6	2.6	1.2	1.3	1.6	1.8	2.0
Interest	1.4	5.1	2.3	1.4	1.3	1.2	1.2
Subsidies	..	6.3	4.3	3.0	4.0	4.2	3.9
Budget balance	1.3	-1.6	-0.6	-0.7	-1.1	-1.9	-2.3
Government debt	32.3	97.9	47.2	25.9	24.1	23.7	25.3
o/w external government debt	32.3	51.4	23.4	11.9	10.7	10.4	11.8
Total external debt (including private sector)	61.5	87.1	47.1	28.5	26.6	28.8	30.6
Balance of Payments (% GDP)[3]							
Overall balance of payments	..	..	0.2	4.3	1.4	0.0	-0.8
Current account balance	3.2	4.8	0.1	0.7	0.2	-2.8	-3.4
Exports GNFS	26.2	42.8	35.0	23.5	25.2	24.1	23.6
Imports GNFS	26.9	33.9	32.0	20.5	22.3	24.3	24.3
Trade balance	-0.8	8.9	2.9	3.0	2.8	-0.2	-0.7
Financial account balance	..	..	0.0	3.7	1.6	2.8	2.5
Net direct investment	2.2	-2.8	1.8	1.6	1.4	1.6	1.4
Gross official reserves (USD billion)	14.9	29.4	34.7	96.2	110.1	112.8	99.4
Monetary (% change)[3]							
GDP deflator[1]	9.9	20.4	14.3	8.3	8.1	4.4	4.4
Bank Indonesia interest key rate (%)	..	..	9.1	6.5	6.6	5.8	6.5
Domestic credit	..	..	28.7	17.5	24.4	24.2	22.1
Nominal exchange rate (average, IDR/USD)[4]	2,249	8,422	9,705	9,090	8,770	9,387	10,461
Prices (% change)[1]							
Consumer price Index (eop)	9.0	9.4	17.1	7.0	3.8	4.3	8.4
Consumer price Index (average)	9.4	3.7	10.5	5.1	5.4	4.3	7.0
Indonesia crude oil price (USD per barrel)[5]	17	28	53	79	112	113	107

Source: [1] BPS and World Bank staff calculations, [2] MoF and World Bank staff calculations (for 1995 is FY 1995/1996, for 2000 covers 9 months), [3] Bank Indonesia, [4] IMF, [5] CEIC

Appendix Table 4: Indonesia's development indicators at a glance

	1995	2000	2005	2010	2011	2012	2013	2014
Demographics[1]								
Population (million)	199	213	227	241	244	247	250	..
Population growth rate (%)	1.5	1.3	1.2	1.3	1.3	1.2	1.2	..
Urban population (% of total)	36	42	46	50	51	51	52	..
Dependency ratio (% of working-age population)	61	55	54	53	53	52	52	..
Labor Force[2]								
Labor force, total (million)	84	98	106	117	117	120	120	126
Male	54	60	68	72	73	75	75	77
Female	31	38	38	45	44	46	45	49
Agriculture share of employment (%)	43	45	44	38	36	35	35	35
Industry share of employment (%)	19	17	19	19	21	22	20	21
Services share of employment (%)	38	37	37	42	43	43	45	44
Unemployment, total (% of labor force)	7.0	8.1	11.2	7.1	7.4	6.1	6.2	5.7
Poverty and Income Distribution[3]								
Median household consumption (IDR 000 per month)	..	104	211	374	421	446	487	548
National poverty line (IDR 000 per month)	..	73	129	212	234	249	272	303
Population below national poverty line (million)	..	38	35	31	30	29	28	28
Poverty (% of population below national poverty line)	..	19.1	16.0	13.3	12.5	12.0	11.4	11.3
Urban (% of population below urban poverty line)	..	14.6	11.7	9.9	9.2	8.8	8.4	8.3
Rural (% of population below rural poverty line)	..	22.4	20.0	16.6	15.7	15.1	14.3	14.2
Male-headed households	..	15.5	13.3	11.0	10.2	9.5	9.2	11.2
Female-headed households	..	12.6	12.8	9.5	9.7	8.8	8.6	11.9
Gini index	..	0.30	0.35	0.38	0.41	0.41	0.41	0.41
Percentage share of consumption: lowest 20%	..	9.6	8.7	7.9	7.4	7.5	7.4	7.5
Percentage share of consumption: highest 20%	..	38.6	41.4	40.6	46.5	46.7	47.3	46.8
Public expenditure on social security & welfare (% of GDP)[4]	..	..	0.4	0.4	0.4	0.4	0.6	..
Health and Nutrition[1]								
Physicians (per 1,000 people)	0.16	0.16	0.13	0.29	..	0.20	..	..
Under five mortality rate (per 1000 children under 5 years)	67	52	42	33	32	31	29.3	..
Neonatal mortality rate (per 1000 live births)	26	22	19	16	15	15	14.4	..
Infant mortality (per 1000 live births)	51	41	34	27	26	25	24.5	..
Maternal mortality ratio (estimate, per 100,000 live births)	420	340	270	210	..	..	190	..
Measles vaccination (% of children under 2 years)	63	74	77	78	80	85	84	..
Total health expenditure (% of GDP)	1.8	2.0	2.8	2.9	2.9	3.0	..	..
Public health expenditure (% of GDP)	0.7	0.7	0.9	1.1	1.1	1.2	..	..
Education[3]								
Primary net enrollment rate (%)	..	..	92	92	92	93	92	..
Female (% of total net enrollment)	..	..	48	48	49	49	50	..
Secondary net enrollment rate (%)	..	..	52	61	60	60	61	..
Female (% of total net enrollment)	..	..	50	50	50	49	50	..
Tertiary net enrollment rate (%)	..	..	9	16	14	15	16	..
Female (% of total net enrollment)	..	..	55	53	50	54	54	..
Adult literacy rate (%)	..	..	91	91	91	92	93	..
Public spending on education (% of GDP)[5]	..	..	2.7	3.2	3.4	3.4	3.6	..
Public spending on education (% of spending)[5]	..	..	14.5	20.0	19.7	18.8	19.0	..
Water and Sanitation[1]								
Access to an improved water source (% of population)	74	78	81	84	84	85	..	..
Urban (% of urban population)	91	91	92	93	93	93	..	..
Rural (% of rural population)	65	68	71	75	76	76	..	..
Access to improved sanitation facilities (% of population)	38	44	53	57	59	59	..	..
Urban (% of urban population)	60	64	70	70	73	71	..	..
Rural (% of rural population)	26	30	38	44	44	46	..	..
Others[1]								
Disaster risk reduction progress score (1-5 scale; 5=best)	..	..	..	..	3.3	..	..	..
Proportion of seats held by women in national parliament (%)[6]	..	8	11	18	18.2	18.6	18.6	16.8

Source: [1] World Development Indicators; [2] BPS (Sakernas); [3] BPS (Susenas) and World Bank; [4] MoF and World Bank staff calculations, only includes spending on Raskin, Jamkesmas, BLT, BSM, PKH and actuals; [5] MoF; [6] Inter-Parliamentary Union

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