



# COMPREHENSIVE GROWTH STRATEGY: INDONESIA

## A. ECONOMIC OBJECTIVE AND KEY POLICY COMMITMENTS

The purpose of this section is to state your country's economic objective and to set out the five key policy commitments that will contribute meaningfully to that objective.

### Economic Objective

*Describe your country's short- and medium-term economic objectives.*

*Since 2013, considering increasing uncertainties in the global economy, the Government's short-term focus is to promote economic stability. Specifically, it is acknowledged on the need to manage current account deficit to a sustainable level supported by adequate financing.*

*At the same time, the Government is also improving interconnectivity across regions within the country to help reduce logistic costs to support domestic supply chain. This will be conducted through accelerating investments in infrastructure projects. Fostering Infrastructure development will also enhance the production capacity of the economy to meet the growing domestic demand so that could ease pressures in the external balance.*

*In the medium term, fiscal policy will be directed towards maintaining sustainability and enhancing government capabilities to support sustained growth acceleration and coping with inequality. Maintaining fiscal sustainability is important as it becomes an anchor of macroeconomic stability which will give a solid ground for sustainable growth. Enhancing fiscal capability will be conducted through creating larger fiscal space and improving spending quality. This will require energy subsidy reform to take place as it has created mounting burden to the government budget. Optimizing government revenue is also required through broadening tax base and modernizing tax administration. In coping with inequality, anti-poverty programs are strengthened and even combined with the enhancement of social protection programs. Fostering human capital development through various education programs is also another focus of fiscal policy in the medium to longer term.*

*In short, fiscal policy will be focused towards addressing the medium-term challenges to achieve sustained growth acceleration through supporting long-term key drivers of growth such as infrastructure development, technology advancement, human capital development as well as institutional improvement. These all are aimed at supporting government's medium term target of avoiding the middle income trap. Accordingly, the government will continue poverty alleviation and income distribution programs and also improve access to education, health care and social protection. Improving good governance to improve Government capabilities to support growth acceleration is also included in the medium term policy.*

*On the monetary side, taking into account the prevailing prospects and risk factors, Bank Indonesia will remain focused on maintaining macroeconomic and financial system stability. Monetary policy will remain directed towards controlling the rate of inflation in harmony with the inflation target. In the current situation, Bank Indonesia also support government's effort to bring down current account balance to a more sustainable level. Such policy will be implemented through interest rate policy and exchange rate policy in line with its fundamental. In this regard, the exchange rate is expected to play*

*the role of shock absorber rather than shock amplifier in the economy. Bank Indonesia will also continue to strengthen monetary operations, manage the flow of foreign exchange and persist with financial market deepening to support the effectiveness of policy transmission, while at the same time reinforcing the structure and capacity of the financial system in providing financing for the economy. In addition, to mitigate uncertainty from the global economy, Bank Indonesia continues to take measures to buttress the second line of defence through cooperation between the central bank and financial authorities in the region.*

*In addition to monetary policy, macro-prudential policy will remain directed towards maintaining financial system stability and fostering banking system resilience by prioritising prudential principles. Bank Indonesia will also reinforce the implementation of its new function and jurisdiction as the macro-prudential authority. To this end, macro-prudential policy will be directed towards managing systemic risk and ensure financial system remain sound.*

*Government and Bank Indonesia work in synergy to pursue a policy mix to bring economic stability and maintain balance economic growth. The policy mix consist of three major areas that involves (i) a synergy between monetary policy and macroprudential policy to enable policy objectives to be pursued with optimum results; (ii) fiscal policies designed to curb the current account deficit in synergy with monetary policy to manage domestic demand in order to curb excessive import; and (iii) structural policies, such as policy to improve investment climate and to promote economic self-sufficiency.*

*Over the medium term, the domestic economy is expected to expand at a progressively rapid pace, with inflation tamed at a low rate and current account outturn improved. This prognosis, however, rests upon the implementation of reform to overcome impediments to sustained economic growth. Key impediments that have raised concerns relate to the structure of development financing, weaknesses in the production side, including in food and energy, the fallout of energy subsidy on the State budget, and the inadequacy of basic enablers to support sustained high economic growth.*

*An array of reforms has already been introduced by the Government and Bank Indonesia to overcome the aforementioned impediments. Irrespective of the achievements already accomplished, expediting the implementation of remaining initiatives is imperative. Among the main reform agendas that will be expedited are promoting deep and liquid domestic financial markets, strengthening the capability of domestic manufacturing sector and facilitating its further integration to the global value chains, and improving fiscal space for a strengthened development financing. Advancement of these economic reform agendas is expected to prevent Indonesia from falling into the so called middle-income trap.*

*On the real sector side, the implementation of policies aimed at ensuring adequate provision of basic enablers to support the development of a more globally competitive domestic manufacturing industry are expected to continue and be expedited. These include the development of (a) seamless physical and digital connectivity, (b) skilled and globally competitive labour force (human capital), and (c) favourable institutions and business climate conducive to broader private sector participation. Through these measures, the domestic manufacturing sector is projected to become more competitive and integrated to the global value chains. Furthermore, stronger implementation of policies to promote adequate supply of food and energy, as vital production inputs for industrialisation, is also anticipated. In addition, increased fiscal space on the back of a more rational*

*policy on fuel subsidies is envisaged. This is projected to contribute to the development of adequate basic enablers to facilitate the emergence of a more competitive domestic manufacturing sector.*

*In addition, financial deepening and financial inclusion will also be developed to improve financial intermediaries and to strengthen the domestic economy in the long-term. Financial deepening is pursued through increasing domestic investor base and the number of companies doing IPO. Conducting public education and strengthening domestic investor with long-term investments will also add to efforts. Additionally, financial inclusion policy will be adopted by expanding banking access for people in rural areas, small medium and micro enterprises and low-income communities.*

**Discuss how your growth strategy will contribute to your country's economic objectives and the G-20's objectives of strong, sustainable, and balanced growth.**

*We believe that all measures aforementioned will contribute to our stronger, more sustainable, and more balanced growth collectively. Sound fiscal framework will foster and promote key policy measures in the operational level. Those areas of investment, employment, trade and competition believed to be the significant components to achieve our objectives for high quality growth. Stronger investments particularly in infrastructure will boost high productivity and create high employment. Expanded exports and trade achieved through more supportive competition climate will make growth more balanced and further support growth in worldwide.*

## Key Commitments

**List top 5 commitments from the Growth Strategy here. Selection should be based on relevance to key gaps, impact on growth, ability to generate positive spillovers and facilitate domestic and external rebalancing.**

### 1. Macroeconomic policy packages

*The authorities will implement policy packages to bring economic stability and maintain balance economic growth. On the fiscal side, the government will maintain sound and effective fiscal policy by optimizing revenue sources and improving spending. On the monetary side, Bank Indonesia will remain focus on maintaining macroeconomic and financial stability by implementing policy mix, including deepening financial market.*

### 2. Infrastructure investment policy framework (establishment of infrastructure body and PPP center)

*It improves the business environment, encourages good decision making, and creates opportunities for private investors to increase their involvement in the sector.*

### 3. Employment policy reform (entrepreneurship program)

*The national entrepreneurship movement program, which is collaborated with universities, banks, and businesses, is focused on agribusiness sector and export-oriented commodities (2014); focus to cover women entrepreneurship in 2015; and other sectors for the period after.*

### 4. Energy efficiency and sustainability policy (including reducing fuel subsidy and renewable energy)

*This policy is a part of comprehensive structural reform that will free up some fiscal space*

and create a stronger as well as sustainable growth.

#### 5. Promoting SMEs

Fiscal and monetary policy both are supporting SMEs to get financial access easier through simplifying taxpayers obligation and digital financial services.

## B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

The goal of this section is to outline the current state of growth in the economy, relative to potential growth (Indicative length – 2 pages).

### Current and Future Growth Prospects

Describe current growth and projections based on your current policy framework. In particular, are growth projections above or below potential growth and to what extent? Please use national projections.

	Key Indicators					
	2013***	2014	2015	2016	2017	2018
Real GDP (% yoy)	5.8	5.3	5.6	5.9 – 6.5	6.2 – 7.0	6.5 – 7.4
Nominal GDP (% yoy)	n/a	n/a	n/a	n/a	n/a	n/a
Output Gap (% of GDP)*	n/a	n/a	n/a	n/a	n/a	n/a
Inflation (% , yoy)	8.4	5.3	4.4	3.0 – 5.0	3.0 – 5.0	2.5 – 4.5
Fiscal Balance (% of GDP)**	-1.84%	-2.38%	-1.69%	n/a	n/a	n/a
Unemployment (%)	5.7	5.5 – 5.9	n/a	n/a	n/a	n/a
Savings (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a
Investment (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a
Current Account Balance (% of GDP)	- 3.3%	n/a	n/a	n/a	n/a	n/a

\*A positive (negative) gap indicates an economy above (below) its potential.

\*\*A positive (negative) balance indicates a fiscal surplus (deficit).

\*\*\* Indicators can be presented on a fiscal year basis, should they be unavailable for the calendar year.

### Key Drivers

Identify the industries and the expenditure components (e.g. consumption, investment) that are major drivers of growth and explain whether the composition of growth is expected to change.

Based on recent history, Indonesia's domestic private consumption has always been the key driver of the country's growth. Indonesia's economy is currently endowed with the so-called demographic dividend, a situation in which the working-age population dominates the age structure of the population. Private consumption contributes dominantly on the expenditure side. Strong household

consumption was supported by the well-maintained, increasingly robust consumer confidence and purchasing power. High purchasing power was in line with consumers' rising incomes and lower levels of inflation. Latest figure from the Statistic Bureau (BPS) showed a 5,2% growth in Q1-2014, a slight decrease from Q4-2013. Nevertheless, the portions of investment have been increasing significantly. On the sectoral side, manufacturing was still the largest contributors on the economic growth followed by agriculture, mining and trade. In term of growth, transportation and communication sector was the fastest growing sector in Indonesian economy.

The demographic dividend is a key factor in our national economy and has the potential to become the futures growth engine. This potential should be unleashed to accelerate Indonesia's economic development. Therefore, the economic development strategy would be to encourage contribution of the larger part of the Indonesian people in the long run.

As Indonesia's investment ranking has continuously improved, investment is forecasted to pick up in line with measures that have been taken to improve the investment climate such as relaxing the investment negative list and bureaucracy reform. Export will also improve benefiting rupiah depreciation whilst improving the trade balance.

## Assessment of Obstacles and Challenges to Growth

*Describe the key challenges, vulnerabilities, and policy gaps facing the economy (both near and medium term), which could include those highlighted by International Organisations and peers. In addition to conjunctural gaps, the focus should be on the themes agreed by Ministers (investment, employment, competition, trade), but other key issues can be discussed if they are particularly relevant in your country.*

*The short term focus on stability poses trade off on growth which is stability. With Indonesia's current structural profile, a high economic growth leads to a high demand towards imported goods and services. It is because our supply side is still very weak and can't fulfil the strong demand.*

*One of the main hurdles for the Indonesian economy to grow at its potential level is inadequate infrastructures. Demand pressures for infrastructure is mounting as the economy and population as well as the middle-income class grow. In particular, interconnectivity across regions has yet to be strengthened so as to decrease the logistic cost, thus production capacity and competitiveness. Infrastructure spending in Indonesia is still lower than the global G20 average. The limited funding to public infrastructure investment is related to the narrow fiscal space. Private investors can potentially play an important role to help fill the gap for infrastructure development. However, international surveys on Indonesian businesses, still gives less favor to the Indonesian economy. In order to make progress in this area, the Indonesian government will implement a number of structural reforms.*

*In addition, demographic dividend will not last forever. In other words, we have a time-limited opportunity to capitalize on the demographic dividend. Technological leap, extra efforts, and perhaps, "out of the box" approaches are some ways to accelerate economic development. To further strengthen the Indonesia's economic resilience, we have issued a number of fiscal measures to improve productivity and domestic products competitiveness in global market, especially in human capital investment.*

## C. POLICY RESPONSES TO LIFT GROWTH

The objective of this section is to discuss new policy actions that will be taken to contribute to our collective ambition to lift G-20 output by at least 2 per cent above the trajectory implied by current policies by 2018.

Policies are considered new when they are in addition to any commitments made at or prior to the Saint Petersburg Leaders' Summit. (Indicative length – as needed, but approximately 1 page per theme.)

This section should be a high level, narrative discussion of the key new policy commitments and their link to issues identified in section A as well as their intended impact on growth, employment and rebalancing.

For each policy area (macroeconomic policy and each structural policy thematic area), countries should:

- Identify the key policy actions;
- Explain the rationale for policy actions and how they will address key challenges and policy gaps identified in section A;
- Discuss the intended impact of policy actions, individually or collectively, on growth and employment;
- Discuss how policy actions will facilitate adjustment and global relancing as well as create positive spillovers, where relevant.

Details of the each new policy commitment should be included in tables in Annex 2. A table should be completed for each new policy commitment.

### New Macroeconomic Policy Responses (including Reforms to Frameworks)

Discuss the calibration of policy and how fiscal, monetary, exchange rate and macroprudential policy actions will support growth. New fiscal, monetary policy and exchange rate commitments, if any, as well as improvements in policy frameworks such as macro-prudential settings and/or capital controls should be set out here. An updated St. Petersburg fiscal template should be completed (see Annex 1).

*Discuss policy actions that will be taken in this area.*

*In recent years, the government has conducted significant reforms to accelerate economic growth through structural reform. These efforts are reflected in its efforts to promote infrastructure investment through better regulatory framework, improve investment climate, facilitate job creations and create better employment.*

*In order to realize the national policy agendas, the Government will implement sound and effective fiscal policy in an effort to achieve strong, sustainable, and inclusive economic growth. The government will also maintain the strict requirements on deficit (of maximum 3 percent of GDP) through optimizing revenue sources and improve spending.*

*To improve the quality of government expenditure, measures will be taken to increase the efficiency and effectiveness of spending. Necessary cut on less-productive expenditure, such as business trips, government vehicle spending, and outside office meetings for government meetings, will be continued in the future. On the other hand, the government is also committed to increasing the allocation of productive infrastructure spending to improve competitiveness and production capacity. Through increasing productivity, Indonesia expects to create higher value added, increase the economic capacity, and expand employment opportunities, which in turn will lead to higher prosperity for the whole society.*

*At the same time, monetary policy will remain focused on anchoring inflation expectations and reducing balance of payments pressures. Regarding to the stability of the economy and the financial system, Indonesia will strive to do its best in the implementation of policy mix, macro-prudential development, management of capital flow, initiative policies for the creation of Regional Financial Safety Net, financial inclusion and SMEs, and the development of digital financial services. In order to improve the external resiliency, Indonesia will strengthen the second line of defense through financial cooperation with other central banks and financial authorities in the region.*

## New Structural Policy Responses

### **Investment and Infrastructure**

**This section should closely reflect policy actions identified by the Investment and Infrastructure Working Group (IIWG). The IIWG will issue a guidance note on how to complete this section of the template. Please refer to this guidance note when completing this section.**

*Discuss policy actions that will be taken in this area.*

#### **A. Assessment of obstacles and challenges to growth**

*In general, Infrastructure spending in Indonesia is still lower than the global G20 average. The limited funding to public infrastructure investment is related to the narrow fiscal space. The private investors can potentially play an important role to help fill the gap for infrastructure development in particular as Indonesia is a large and growing market with significant possibilities for high rates of return for investors. International surveys on Indonesian businesses, however, still gives less favor to the Indonesian economy. In order to make progress in this area, the Indonesian government will to implement a number of reforms.*

*The government made an important policy decision last year to reduce the size of the existing fuel subsidy, which has created additional fiscal space to increase capital expenditure on infrastructure. Increasing the level of infrastructure expenditure reflects the Government's commitment to address head on Indonesia's infrastructure challenges and provide further opportunities for private sector involvement. The longer term objective is to lift the productive capacity of the Indonesian economy so that high growth can be maintained and jobs created.*

*Streamlined and transparent regulatory systems are generally associated with investor's expectation. In those surveys, Investors have highlighted the lack of coordination and policy coherences among various infrastructure related institutions in Indonesia. To improve this field, the government will conduct reforms to underpin investor certainty and lower the cost of doing business in Indonesia.*

*Improving the operation of infrastructure markets by supporting so-called economic infrastructure (with clear cash flows) is another way to attract increased private sector involvement in infrastructure projects. A shift towards government support for more of these kinds of 'bankable' projects can lead to an increase in the size of the infrastructure investment pipeline. This not only delivers a greater degree of certainty for investors but can also create more opportunities to develop related long term financing vehicles and products, which facilitates the further development of financial sector. Better operating infrastructure markets also assist to make meaningful progress in addressing infrastructure deficits.*

*An additional challenge for the Indonesian economy is that it is vulnerable to external shocks beyond*



*its control, which can destabilise macroeconomic indicators and impact negatively on investor perceptions more generally. Implementing reforms to address the challenges identified above can contribute to improving the investment environment and boosting growth – and thus helping the economy to become more resilient to these external shocks.*

*To maintain the momentum of Indonesia economic growth, in 2014 Indonesia has implemented policy packages in improving ease of doing business. The purpose is to make faster and easier people who want to start-up a business activities, especially would give great benefit for small and medium enterprises (SMEs). Indonesia sets target of eight areas of improvement to increase the ease of doing business, namely: starting a business, getting electricity, paying taxes and insurances, enforcing contract, resolving insolvency, registering property, dealing with construction permits, getting credits. In each areas, Indonesia sets totaling 17 action plans which covers one or more action plans for each area.*

*To ensure the implementation of this policy, any action plans has a clear Ministry or Agency in-charge. In addition, there would be a joint monitoring team consisting of the Presidential Working Unit for Control and Supervision on Development (UKP4), Ministry of Administrative and Bureaucratic Reform, Financial and Development Supervisory Agency (BPKP), and Investment Coordinating Board (BKPM).*

*To anticipate future challenges that are increasingly complex, it is necessary to have a comprehensive and systematic efforts to combat corruption. Corruption Eradication Commission (KPK) has launched “Road Map KPK” 2011-2023. The purpose is to maintain continuity between periods to realize the goals in eradicated corruption in Indonesia. KPK as an independent institution and trigger mechanism take a role as pioneer in the development of the National Integrity System (SIN) and then the proceed will continue with the next step of building a core of competence through the development of Fraud Control. The National Integrity System (SIN) is a nationally accepted system in order to eradicate corruption in an integrated manner involving all the important pillars of the nation. Corruption can be reduced because each pillar has a horizontal accountability, which distributes power so that there is no monopoly and policies that can not be accounted for.*

## **B. Current policy settings and new commitment**

### **1. Establishment of Infrastructure Prioritizing Body**

*The Indonesian Government is in the process of establishing a new infrastructure prioritizing body (the KP2IP). The body will assess and prioritise project proposals, and allocate them for implementation to line agencies, state owned enterprises or the PPP centre in the Ministry of Finance. It will also provide guidance on how each project can be appropriately financed. A key element of the new body is to ensure that its deliberations and decisions are transparent, which improves the business environment and encourages good decision making. It is also designed to improve coordination among infrastructure related governmental bodies.*

*This body is to improve an increase in the number ‘bankable’ infrastructure projects that will boost investment which should boost economic growth and employment. It will also make investors more confident in the Indonesian market and should encourage further financial market development to meet the financing needs of these projects.*

### **2. Establishment of PPP Center**

*The PPP centre in the Ministry of Finance will focus on developing a pipeline of bankable infrastructure projects that can be supported by the Indonesian Government. Its particular focus on economic infrastructure will improve the operation of infrastructure markets in Indonesia and create opportunities for private investors to increase their involvement in the sector. Through the creation of an infrastructure pipeline, more opportunities will be created to develop related long term financing vehicles and products, which can facilitate the further development of financial sector.*

*This institution to improve the operation of infrastructure markets, to take pressure off the budget by leveraging private sector investment in infrastructure; and to support economic activity by expanding investment in critical sectors, which can also underpin growth and employment.*

### *3. Regional Investment Relation Unit*

*Regional Investment Relation Unit (RIRU) is tripartite cooperation between Bank Indonesia, Provincial/Regional Government, and the Chamber of Commerce to promote investment activity, trade, and financing in order to enhance regional competitiveness and to accelerate regional development. The RIRU is essentially a coordination function across institution to promote sound investment climate, as well as to advocate government policy and services that is line with international best practice. This program is expected to be launched at the end of 2014.*

### *4. The Improvement of Business Environment and Investment Climate*

*Coordinated action to improve the investment climate is aimed at improving ease of doing business in Indonesia. One important initiation of this action is establishment of the One-Stop Services (OSS) which organize the complete Licensing and Non-licensing procedure of investment in single office that has the authority from related technical institutions or ministries to issue the Licensing and Non-Licensing document on particular sectors. This has been governed by the Regulation of the Chairman of the Investment Coordinating Board No 7 of 2013 Regarding Implementation of One Stop Service for Investment.*

*A sound and stable policy environment without onerous regulation will make Indonesia a more attractive investment destination. Higher investor confidence in Indonesia will see more investors viewing Indonesia as an attractive opportunity. Greater investment will in turn improve the efficiency of production in the economy while generating more employment and stimulating economic growth.*

### *5. Increasing Domestic Saving by “My Savings” (“TabunganKu”) Program*

*As found in many developing economies, Indonesian population is just about half of its population that has such access to financial services. This situation is only marginally than China, Pakistan, and Philippine, but it is worse than countries such as Thailand, Malaysia and Sri Lanka (close to 60% of population)<sup>1</sup>. To provide access to financing for greater share of population that is important for reducing income inequality as well as enabling more rapid economic growth, Bank Indonesia launched TabunganKu (My Savings) program. This program is also aimed at improving the culture of saving and financial planning, in particular in middle to low income*

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<sup>1</sup> According World Bank Survey in 2008.

society. *TabunganKu* is a savings scheme with more affordable requirements, - no charge for administrative costs, low minimum deposit, low minimum required balance. The administrative cost has been concern in particular for low income society as the cost is relatively high for them and will only dilute their saving account balance when they can not afford the required minimum balance.

## 6. Energy Efficiency and Sustainability

Indonesia has initiative to issue Standards and Labels of Energy Efficiency on 7 (seven) products of electronic appliances and has been implemented the Public Awareness Campaign in many kind of socialization activities in order to increase awareness of energy efficiency and change behaviour and culture become energy efficient. The targets of appliances are: Compact Fluorescent Lamp, Refrigerator, Room Air Conditioner, Electronic Ballast, Electric Fans, Rice Cooker, Motor. CFL was already issued the label of energy efficiency. The program will be implemented mostly in the household sector and it is expected to contribute 36% energy saving of the total energy use of electronic appliances in the household, business/commercial, and industrial sectors. The program is being implemented. CFL is started in 2013. There is also The Public Awareness Campaign implemented in many kind of socialization activities in order to increase awareness of energy efficiency and change behaviour and culture become energy efficient.

The signing of the cooperation between the Ministry of Energy and Mineral Resources and the Ministry of Forestry in implementing Bioenergy Development Program Based on Energy Forests.

Government is also supporting the development of new and renewable energy through the conversion of biofuels and gas with some programs such as development of biomass power plant which utilize corn barges as the main energy source and simplify the licensing procedure on electricity of water supply.

The government has committed to continue gradually reducing subsidy over the next few years and reallocate the funds to more productive spending such as infrastructure. Capital expenditure of state budget policy in the period 2015-2017, is dedicated to, among others: (1) to support national investment, through construction of basic infrastructure funding including energy infrastructure; and 2) increasing the capacity of mitigation and adaptation to the adverse impacts of climate change. The cut fuel subsidy program is a part of comprehensive structural reform that will free up some fiscal space and create a stronger as well as sustainable growth. Accelerating the use of Biodiesel by 20% on motor vehicles in 2016.

## Employment

This section should closely reference the growth aspects of the employment plans that are being developed within the Taskforce for Employment.

*Discuss policy actions that will be taken in this area.*

Future growth strategy should be reflected in the linkages of poverty alleviation and unemployment rate reduction. In terms of employment programs, building a strong economic capacity and competitiveness are some long term challenges that will be the main factors. To support this program, several plans will be implemented, such as:

1. Infrastructure development of roads, harbours/airports, telecommunication, railways, etc. in the rural and outskirts areas to help local resources create jobs and improve local economic activities.

2. *Develop open market should be developed by providing facilities, incentive policies and conducive environment for private sector running its business. Indonesia supports SMEs financing as they are an important factor in fostering high economic growth and employment, especially labour absorption.*
3. *Promote entrepreneurship to empower labour force to create job. This endeavour is conducted through entrepreneurship program for university graduates who have entrepreneurial passion and productivity orientation. Training and support, in both technical and managerial skills, will be given to help new entrepreneur to run their small/medium business by utilizing available natural and human resources. In this program, the government (MoMT) will also provide business assistance in the form equipment, depending on the type of business they are going to run. This program, collaborated with universities, banks, and businesses has a purpose to educate and encourage university graduates to become young entrepreneurs.*

*Bank Indonesia (BI) also contributed by launching entrepreneurship program in 2012 as a part of the national Entrepreneurship Movement program to promote entrepreneurship and to increase employment. This program (in 2014) is focused on agribusiness sector and export-oriented commodities. BI will continue to support the program and will enhance the focus to cover women entrepreneurship in 2015 and other sectors for the period after.*

4. *The empowerment and optimalization of public vocational training centres, aimed to improve the quality and productivity of labour force, will be continued in the near future. Additionally, as a part of “smart industrial policies”, the government will also encourage the private sector to provide training for those seeking jobs so that it can avoid the so called “labor mismatch”. This strategy will be accomplished through tax scheme by treating cost of training spent by companies as deductible for income tax.*
5. *To further strengthen Indonesia’s economic resilience, fiscal measures in human capital investment development will be continued. The government will still maintain the constitutional requirement of 20% allocation of our state budget for education. Moreover, to provide incentives for innovation and to encourage technological development, the plan of providing tax incentives for companies who relocate their Research and Development process in Indonesia will be developed.*
6. *To encourage job creations, the government have provided a variety of tax-related incentives such as tax incentives for labor-intensive businesses, and an increase in non-taxable income. These policies will be continued in the future to further spur economic growth and create employment. In addition, new simplified tax policy for small and medium businesses is targeted to improve SMEs’ business operations and management while promoting better access to investment and banking services.*
7. *Female Participation*
  - a. *Indonesia correlates some aspects that still need to be improved in order to support the improvement of living standard and sustainable development programs, as well as program implementation of Millennium Development Goals (MDGs) which will be done in 2015 of 8 indicators, there are four of 2015 MDG targets have been achieved, namely improvement of primary education, gender equality and the empowerment of women, reduction in child mortality, and to build a global partnership for development.*

- b. *Two Goals to be achieved by budget allocation on other priorities in the field of welfare of the people in 2014, one of which is the completion of the implementation of gender mainstreaming policy (PUG) field of labor. Therefore, government increase the 2014 budget for the sub-function for the empowerment of women riding around Rp192,7 billion or 2.8 percent.*
- c. *Indonesia has advanced its efforts to boost female labour force in high level political system. The Law No. 2/2011 regarding Political Party states in article 2 (5) that Political Party Management at central level must include at least 30% of female representation. Also article 29 (1a) states that in the recruitment process, political party should consider at least 30% of female representation to become member of parliament candidate.*
- d. *Indonesia has a ministry with a vision of addressing female participation issues, gender equality and the fulfilment of children's rights, namely: Ministry of Women's Empowerment & Children Protection.*

*The main purpose of the Ministry of Women Empowerment and Child Protection are: 1) To provide programs and gender-responsive government policies; 2) Ensure improvement and fulfilment of women's rights; 3) Ensure improvement and fulfilment of children's rights; 4) To ensure the realization of the policy on gender responsive data system and in accordance with the interests of the child; 4) Making management accountable.*

*Action plan in 2014-2015:*

- a. *Increase the number of policies / programs / activities in the field of gender responsive to Political, Social and Legal, implemented by ministries, Institutions and Local Government (with the main target to 11 line ministries and 26 provinces).*
  - b. *Improving the equality of women participation in SMEs, industry, and trade activities with the main area target in 3 provinces;*
  - c. *Increase fulfilment of women in agriculture, forestry, fisheries, marine, food security and agribusiness, coordinating with 3 line ministries and 3 provincial governments.*
8. *Administrative reforms and funding are needed to improve educational outcomes*
1. *According to Law no. 20/2003 regarding National Education System, the Government shall allocate 20% of its annual budget to education sector through: providing scholarships to fresh graduates of senior high schools to pursue their higher education; allocating vocational training and to develop school and university curriculums that support entrepreneurship.*
  2. *Developing employment competency standards by increasing Number of guideline administration and management development Vocational Training Institution (LPK) and Number of formulated and established Indonesia National Skill Competency Standards*
  3. *Competency based training and apprenticeship by increasing Number of licensed Professional Certification Institutions (LSP) (1<sup>st</sup>/2<sup>nd</sup>/3<sup>rd</sup> party) ; people in the labor workforce that have competency based training; Number of Competency Test Assessor that have capacity improvement; Number of trainers that have competence improvement*

## **Competition**

*Discuss policy actions that will be taken in this area that boost competition and reduce red-tape and unnecessary regulation. Both product market and service industry reforms should be considered.*

*Competition policy is designed to create a competitive environment in order economic growth is not*

only efficient but also directed for encouraging welfare. Therefore, government is responsible for the fate of his people through managing the main authority as far as not to damage the dynamics of competition itself.

IMF states several important factors supporting the growth such as by the accumulation of capital (human resources), institutional empowerment, openness of trade, technology and information, and investment. Referring to these factors and considering the appropriate competition policy, Indonesia programs as follows:

1. *Human Resources*

*The targeted human resource aspects need to be optimized in order to support the improvement of the living standards and sustainable development programs, as well as the consistency of Millennium Development Goals (MDGs) implementation. The aspects are included increasing the level of education and skills, women empowerment, and to build a global partnership for development. In addition, Indonesia believes that increasing the ratio of Indonesia's productive age with the availability of adequate employment will decrease dependency rate and future purchasing power for strengthening growth.*

2. *Strengthening institutional aspect*

*Indonesia has set the Master Plan for the Acceleration and Expansion of Indonesian Poverty Reduction (MP3KI) 2012-2025 which is a comprehensive effort to continue, improve, and integrate a wide range of programs and policies to reduce poverty. It is indubitably accompanied by a more effectiveness of institutional aspect arrangements.*

*Strengthening the national economy is also done through the economic connectivity that driven by strengthening institutional aspect in the main several sectors. For this, Indonesia recently focus on enhancement of institutional sectors in the industrial relation; trade, agriculture; and science and technology by improvement the quality of professional services management, human integrity, implementation of minimum service standards, and comprehensive demographic data.*

*Regarding these matters, the program is being carried out and will be sustained, such as:*

- 1) *Improving Institutional Exports through: (a) the development and strengthening of overseas marketing/representative such as: ITPC (Indonesian Trade Promotion Centre), Commercial Attaché, and Indonesia's Overseas Representatives (KDEI); (b) Improving marketing agencies/management representatives through Key Performance Indicator (KPI) of each institution, service standards, standards promotion and promotional materials .*
- 2) *Strengthening consumer protection institution through facilitation of BPSK (Badan Penyelesaian Sengketa Konsumen) or Settlement Body of Consumers Dispute; Strengthening LPKSM (Lembaga Perlindungan Konsumen Swadaya Masyarakat or Institute for Consumer Self Protection; Facilitation of BPKN (Badan Perlindungan Konsumen Nasional) National Consumer Protection Agency.*

3. *Openness of Trade*

*The global economy is expected to improve, followed by the increasing volume of world trade especially in terms of exports and imports to meet growing world demand. Domestic demand is*

also expected to continue to sustain Indonesia economic growth, supported by the increasing purchasing power of society. Several programs are being forward and continue to do are:

- a. *Development of distribution facilities through synergy market development, revitalization of traditional markets facilitation in order to improve the competitiveness of traditional market, development of distribution facilities particularly for border regions and remote areas in order to accelerate economic activities and trade growth.*
- b. *Improvement and diversification of export markets, destinations through: (a) improving and strengthening the prime/traditional market (European Union, United States, Japan, South Korea, and Singapore); (b) Development of potential/non- traditional market, among others: the PRC and the Asian region, Africa, the Middle East, Eastern Europe, and Latin America.*
- c. *Commitment in ASEAN Economy Community (AEC) will be implemented from 2015 according to AEC timeline and score card. The AEC aims to bring the ASEAN countries toward ASEAN single market and production base, comprising five core elements. Those are: (i) free flow of goods; (ii) free flow of services; (iii) free flow of investment; (iv) free flow of capital; and (v) free flow of skilled labour. In addition, the single market and production base also include two important components, namely, the priority integration sectors, and food, agriculture and forestry.*

#### 4. *Technologies and Information*

*One of the Indonesian national development priorities is the implementation of appropriate technology in various sectors. It is related to the relevance and productivity for increased economic competitiveness and prosperity. Some ongoing programs include the use of appropriate technology in food production; intermediation technology area of Natural Resources for public service and government agencies in disaster technology to improve the industry competitiveness by the Agency for the Assessment and Application of Technology (BPPT); realization of efficient – effective - clean management system through rigorous monitoring based on information technology by the Central Statistics Agency (BPS); and the development of technology for the infrastructure projects such as roads and bridges sub fields.*

*In the trade sector, Indonesia will consistently implement the Export information service through: (a) increasing in collection of information/data from a trade representative office, TPO (Trade Promotion Office); (b) Systematic dissemination of updated information; (c) increasing inquiry services; (d) periodical maintaining and updating the website; (e) increasing the activities of public relations and publications; (f) increasing business consulting for SMEs.*

#### 5. *Investment*

*The increase of competition to attract global liquidity for developing countries is closely related to the investment climate. Indonesia has enjoyed an increase in direct investment is being made in the form of FDI and domestic investment. The increase in direct investment activities, among others, are influenced by stable and robust economic fundamentals, and relatively better when compared to the countries affected by the global crisis. Some other things are also being contributing factors for the attractiveness of investment in Indonesia, among others, fiscal sustainability, investment ratings by international agencies, and large domestic market.*

However, with the economic recovery that will occur in the future, it is not enough to ensure whether investor interest remains high. In order to support the achievement of various targets in the priority investment climate and business climate, the policy priorities of investment climate and the business climate will be directed on: (1) simplification, acceleration, and transparency of investment and business procedures, as well as providing information assurance costs; (2) an increase in the harmonization and simplification of regulations related to investment and economic efforts to reduce the high cost and uncertainty of business; (3) accelerating the development and implementation of the functions of special economic zones (KEK/Kawasan Ekonomi Khusus) in the economic corridor that has been established in MP3EI; (4) the development and improvement of license and online facilities for export and import activities as well as investment and business licenses; and (5) implementation of wage policy toward a system that can accept flexibility in order to improve the labour market efficiency.

#### 6. Digital Financial Services

To help lower cost of transaction, Bank Indonesia promotes Digital Financial Service (DFS). The DFS is a payment system service conducted by 3<sup>rd</sup> parties and mobile and web basis media and instrument. Use of DFS is expected to expand financial access and facilitate secured and affordable transaction payment. This program is promoted as part of move toward less cash society and is very relevant in particular for MSMEs (micro, small and medium enterprises. The lower cost of transaction is expected to bring competitiveness to MSMEs and help micro, small and medium enterprises to grow.

Access to formal financial system at present covers only about 49% of the population (World Bank Survey 2011). The main constraints for unbanked people to get financial access are asymmetric information, limited capability to access financial services and geographical aspect. Thereby broadening access to financial service for all segments of the population including MSME (micro, small and medium enterprises) is warranted. Thus the authority takes advantage of information and communication technology to expand the financial services and provide greater access for people in remote areas. In that regard, the authority will also revisit (adding and modifying) regulation or policy in order to increase access to financial services such as regulation or policy that concerns on digital financial services, the platform to support the interoperability among related parties and product that suitable for the poor segment (quick, reliable, save and low cost).

In 2014, Bank Indonesia issued Bank Indonesia Regulation regarding e-money as it is the main instrument for supporting DFS Program. Furthermore, financial education regarding DFS and consumer protection has been done as a part of policy for supporting DFS Program. This program will continue to next five years.

#### 7. Financial Deepening

Despite strong macroeconomic performance over the past decade, Indonesia lags behind its peers in financial market development. Financial intermediation is still dominated by the banking system while Rupiah money market consists mainly of direct bank dealing with the central bank, the majority of which are uncollateralized transactions, with collateralized loan transactions still substantially underdeveloped. Deepening financial markets in Indonesia is the key to mobilizing domestic savings to fund both private and public investment, as well as key to providing a



greater range of financial products. Developing the non-bank sector and other financial markets, as well as domestic money and foreign exchange markets can help Indonesia achieve its desired level of growth and financial stability. The development of the money market and deepening secondary market liquidity of the government bond market, for example, would provide better benchmarks for long-term financing while enhancing the role of the capital market—by increasing transaction volumes and diversifying the market—can enhance capacity to intermediate capital flows without large swings in asset prices and exchange rates. It can also lower reliance on foreign savings by increasing the scope to raise domestic funds at longer maturities and providing alternative sources of funding during times of international stress.

The shallowness of the financial markets in Indonesia is militating against the financial sector performing its expected role in fostering economic growth and financial stability. Accordingly, Bank Indonesia has implemented an initiative program to accelerate financial market deepening since 2012 by inaugurating Indonesia Foreign Exchange Market Committee (Indonesia FEMC) in Jakarta as a forum for market players and a strategic partner of Task Force for Financial Market Deepening of Bank Indonesia and Financial Services Authority (OJK). This initiative has asset up priority programs

**A. FX Market:**

Focus will be to relax some regulation in order to support efficiency in FX transactions, increase market volume, and develop derivative transactions and instruments; this regulation is in the pipeline to be amended.

**B. Rupiah Money Market**

Focus will be looking at the possibilities to develop instruments to provide market with alternative source of fund and liquidity instrument, looking at the possibilities to implement FX special deposit accounts, with special rate to attract export proceeds to be placed in domestic accounts.

**C. Sharia Money Market**

Focus will be on enriching sharia money market instruments by developing interbank repo market with coordination of national Sharia Board.

8. Government has undertaken to promote small-medium enterprises' access to financing through Government Regulation number 46 year 2013. The purpose is to simplify the taxpayers pay their income tax both personal and company taxpayers, which have the sales turnover not more than IDR 4,800,000 (approx. USD 400,000) to comply their obligation with single tariff of 1% income tax per year. The obligation to register the business and pay income tax in single tariff will obviously encourage huge number of business to move from informal sector to formal sector. This is because having taxpayer register number will make access to financial services much easier.

## **Trade**

Discuss policy actions that will be taken to increase trade flows by reducing impediments to trade at or behind borders (e.g. reduce the cost of doing business and help business participate in the global economy).

## 1. Elements of Trade Action Plans

Trade has been a driving force of Indonesian economy. While the country is less dependent upon foreign markets in recent years due to growing domestic consumption, export continues to be an important factor in fueling the economy. In this regard, the aspiration has been for Indonesia to participate more in the global value chains. In this regard, and to contribute to the growth strategy from the perspective of trade, Indonesia's plan could be grouped into three main areas as follows:

### a. Across the Border:

- Continue working with other ASEAN countries to realize the ASEAN Economic Community by 2015 and ensure that the Community is functioning well.
- Promote the participation of SMEs in regional and global trade by inter alia assisting SMEs participation in trade fairs, expo and exhibitions in targeted countries.

### b. At the Border:

- Implement the WTO Trade Facilitation Agreement on "at the border" issues.
- Improve the hard infrastructure, including sea and airports.
- Make effective the application of the National Single Window, including by expanding the regime to other regional ports across the archipelago.
- Expand the implementation of e-certification of origin, including its socialization amongst the SMEs.

### c. Behind the Border:

- Trade Facilitation and implementation of the WTO Trade Facilitation Agreement with regard "behind the border" issues.
- Promote the use of e-commerce, and in parallel putting in place the necessary measures to protect the rights of users and consumers.
- Mainstream the development of services sectors deemed to function as lubricants for other sectors to grow faster in support of Global Value Chain narratives.
- Deepen and expand work on financial inclusion, especially in support of SMEs, and women and young entrepreneurs.
- Promote investment in infrastructure to develop and improve the domestic connectivity (to narrow price differences between regions, and open up more links between regional entry points and international markets)

## 2. Elaboration of the Trade Action Plans

MP3EI is the measures to encourage acceleration of growth for Indonesian economy into a developed country through an inclusive higher economic growth equitable and sustainable. MP3EI successful implementation is highly dependent on the degree of connectivity strength of the national economy (intra-region and inter-region) as well as international connectivity Indonesian economy with the world market. Direct implication that should be anticipated is the growing need for reliable support infrastructure to promote the distribution of goods and services. The challenge of a large country like Indonesia is the provision of infrastructure to support economic activity. Provision of infrastructure that encourages connectivity will reduce transportation costs and logistics costs in order to improve product competitiveness and accelerating the economic motion. In addition, to reduced transportation costs and logistics costs to improve product competitiveness, several major programs related to the development

*of the services sector became the focus of major programs such as transportation, ICT, tourism sector and other services that support the program.*

*Blueprint for Development of Sislognas serves as a reference for ministers, leaders of non-ministerial agencies, governors, and regents/mayors in policy development and action plans related to the development of Sislognas in their respective duties, as outlined in their strategic plan document each ministry/non-ministerial government agencies and local government as part of a development plan document. Blueprint of Sislognas instrumental in achieving RPJMN, support the implementation of MP3EI, and actualize the vision of the Indonesian economy in 2025. Logistics actors action plan and logistics service providers 2011-2015 include empowerment and strengthening actors and logistics service providers, increasing the capacity of actors and service providers logistics, creation of conducive business climate for actors and logistics service providers, and improve the effectiveness of services, and the strengthening and expansion of the network of international cooperation.*

*The role trade in Indonesia is very important in improving economic development, but the development is not comply with the needs for national development challenges as of formed therein Trade Laws. Government may establish trade with other countries and/or institutions/international organizations to improve market access and to protect and safeguard of national interest. Harmonization of regulations within the framework of national unity is necessary to address the economic development of the globalization of trade situation in the present and the future. Implementation of economic democracy made through trade, is a major driver in the development of the national economy that can deliver power to increase production capacity and equalize incomes and strengthen competitiveness in the country.*

*In international forums, Indonesia also plays an active role in trade negotiations and cooperation, such as in the WTO, ASEAN (has arrived at AFAS package 9), Bilateral (IJ EPA, IK CEPA and IE CEPA), ASEAN Plus (ACFTA, AANZ FTA, AK FTA, AJCEP and ASEAN - India CECA). Expected from the results of international trade cooperation in addition to open market access can also secure national trade policies and obtain technical assistance and capacity building appropriate national interests. Trade policies made by Indonesia should be maintained in various international fora as not to violate the terms of international trade. The establishment of international trade cooperation with trading partners, Indonesia can negotiate capacity building and technical assistance from the state as one of cooperation agreed upon.*

*As a developing country, Indonesia has been struggling to improve its business environment such as licensing or simplifying the processes for business to start up and recognition of qualifications or to easing licensing requirements. Therefore, at the G20 forum it is expected to have cooperation on the development of capacity building activities in order to support trade performance of its members. Indonesia realizes that the big problems of unemployment and economic stagnation threatening the realization of prosperity Indonesian society shall be coped with certain breakthrough policies. It is believed that breakthrough policies can speed up the realization of wealth distribution. The breakthrough policies of Indonesia are the issuance of Trade Law and action plan of Trade Facilitation Agreement.*

*Trade law which established based on Law no. 7 of the year 2014 provides legal certainty for business activities in Indonesia. There are many important issues on the new trade law; two of which that are considered most important are E-commerce regulation and Trade Information System. Currently, Indonesia is now drafting the regulation of E-commerce and Trade Information System and Indonesia opens for input from other countries in formulating those issues.*

*Moreover, trade facilitation and business development are among Indonesian focus on trade reform. The focus is to close the development gap both domestically and regionally. In this regards, Indonesia will always encourage business sector, especially Small and Medium*

*business, to have a strong capability and competitiveness to enter the world market. As we may be aware, In Indonesia, SMEs have historically been main player in domestic economic activities, especially as a large provider of employment opportunities, and hence a generator or primary or secondary source of income for many households. Being a GDP earner, SMEs are instrumental in achieving inclusive growth which touches the lives of the most vulnerable and marginalized sections of society, including women, minorities, and other disadvantages groups. Indonesia therefore consistently supports its SME to drive SMEs empowerment by giving facilitation both on capacity building programs and facilitation on rolling fund management for micro business.*

*Another breakthrough is implementation of the Trade Facilitation Agreement. Indonesia is fully aware that Trade Facilitation Agreement is very important as it will accelerate the flow of goods and it will reduce economic costs so high that a good implementation of TFA will generate targeted economic development. Indonesia is very serious in implementing the TF agreement so that the president's office needs directly to monitor the implementation of TA agreement. To close the development gap both domestically and regionally, Indonesia develop concrete and realistic steps:*

- a. Reducing the Tariff Measures. Indonesia has implemented a tariff system based on HS 2012 which covers 10,025 tariff lines (previously it covered 8,755 tariff lines). The implementation is based on Minister of Finance Regulation (PMK) No. 213/PMK.011/2011 and amended by Minister of Finance Regulation No. 133/PMK.011/2013 FMD. The tariff commitments in several free trade agreements have been converted from HS 2010 to HS 2012.*
- b. Reducing Non-Tariff Measures to improve the importing process of certain products, to support the implementation of ASEAN Harmonized Tariffs Nomenclature, to provide business certainty, to create conclusive business climate and increase effective implementation of the international trade provisions, through the implementation of the Minister of Trade Regulation.*
- c. Improving services sector to support logistic performance, especially for the distribution for trade, through the implementation Minister of Trade Regulation.*

### **Other measures**

*Discuss policy actions that fall outside of the areas of investment and infrastructure, employment, competition, and trade but will facilitate transition and contribute to the G-20's ambition.*

## ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE —UPDATE

- 1. Update on Fiscal Strategy:** Please provide a summary of any changes to your fiscal strategy for achieving a sustainable debt-to-GDP ratio over the medium-term. If your projections for the debt-to-GDP ratio have changed, please explain whether this has been due to changes in economic assumption, or other factors (please specify), referring to the information provided.

*Gradual budget (energy subsidy) reform is essential and will be the top priority for GoI to provide the necessary budget capacity for government provision of infrastructure and social welfare and to create the right incentives for further development.*

- 2. Medium-term fiscal strategies (required for advanced economies – only if updated):**

- a. Overall strategy for debt sustainability**

*Our law on state finance explicitly stipulate that budget deficit can not go beyond 3% of GDP (in practice, we allocate 0.5% of GDP for local government budget deficit and 2.5% of GDP for central government budget deficit). Therefore, the state budget deficit is always set maximum at 2.5% of GDP.*

*The financing strategies include issuing more bonds, or through private placement, or getting some loan from development partners, or the combination of those.*

- b. Debt-to-GDP ratio objective**

(...)

- c. Intermediate objectives**

*Healthier fiscal policy will be achieved by creating adequate fiscal space. This fiscal space is needed not only as fiscal buffer for precautionary purposes in term of any adverse shocks but also to provide stimulus to support economic growth both through spending and taxation policies.*

- d. Expenditure and revenue reforms**

*We understand that we continue to face challenges. From our revenue structure, for example, our challenges is related to the administration of income and value added tax. We will develop our revenue and by expanding tax base and improve tax administration. Our tax base expansion, especially personal tax, has been the key area of improvement for Indonesia's revenue policy*

*From expenditure side, the issue that was often raised relates to subsidy policy, specifically energy subsidy. In this regards, the government subsidy policy will designed to protect purchasing power of the poor and support economic activity.*

- e. Reforms to strengthen the fiscal framework**

*In order to deliver fiscal headroom, efficient expenditure policy measure is needed. Importantly, more fiscal space will provide us with the capacity to improve overall welfare.*

- 3. Medium-term projections, and change since last submission (required for all members):**

		Estimate	Projections				
	2012-13*	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Gross Debt	24.0%	26.1%	24.6%	n/a	n/a	n/a	n/a
<i>ppt change</i>	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Net Debt	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<i>ppt change</i>							
Deficit	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<i>ppt change</i>							
Primary Balance	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<i>ppt change</i>							
CAPB	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<i>ppt change</i>							

\* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.

#### 4. Economic Assumptions, and change since last submission (*required for all members*):

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

		Estimate	Projections				
	2012-13*	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Real GDP growth							
<i>ppt change</i>							
Nominal GDP growth							
<i>ppt change</i>							
ST interest rate							
<i>ppt change</i>							
LT interest rate							
<i>ppt change</i>							

\* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.

## ANNEX 2: New POLICY COMMITMENTS

### **[Policy Commitment Table]**

• The New policy action:	Please describe the new policy being agreed to
<b>Implementation path and expected date of implementation</b>	Please describe when and how the policy will be implemented.
<b>What indicator(s) will be used to measure progress?</b>	Please indicate how the membership can check implementation.
<b>Explanation of additionality (where relevant)</b>	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

### **Investment and Infrastructure**

#### **Establishment of Infrastructure Prioritizing Body**

The Indonesian Government is in the process of establishing a new infrastructure prioritizing body (the KP2IP). The body will assess and prioritise project proposals, and allocate them for implementation to line agencies, state owned enterprises or the PPP centre in the Ministry of Finance. It will also provide guidance on how each project can be appropriately financed. A key element of the new body is to ensure that its deliberations and decisions are transparent, which improves the business environment and encourages good decision making. It is also designed to improve coordination among infrastructure related governmental bodies.

Improved coordination among infrastructure related governmental bodies should lead to an increase in the infrastructure project investment pipeline – which should be welcomed by private sector investors. Investors will also benefit from increased clarity and certainty about the nature of government supported projects. An increase in the number ‘bankable’ infrastructure projects will boost investment which should boost economic growth and employment. It will also make investors more confident in the Indonesian market and should encourage further financial market development to meet the financing needs of these projects.

<b>Implementation path and expected date of implementation</b>	The infrastructure prioritizing body will be formally established in Q2-2014 and will release an infrastructure priority project list in Q4-2014.
<b>What indicator(s) will be used to measure progress?</b>	<ul style="list-style-type: none"> <li>• Establishment of infrastructure prioritizing body</li> <li>• Publishing a list of priority projects</li> </ul>

<b>Explanation of additionality (where relevant)</b>	The infrastructure prioritizing body complements the recent decision by the Government to establish a PPP centre in the Ministry of Finance which will focus on developing bankable infrastructure projects.
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### Establishment of PPP Center

The PPP centre in the Ministry of Finance will focus on developing a pipeline of bankable infrastructure projects that can be supported by the Indonesian Government. Its particular focus on economic infrastructure will improve the operation of infrastructure markets in Indonesia and create opportunities for private investors to increase their involvement in the sector. Through the creation of an infrastructure pipeline, more opportunities will be created to develop related long term financing vehicles and products, which can facilitate the further development of financial sector.

The decision by the Indonesian Government to establish the PPP centre in the Ministry of Finance was made with a view to generating a pipeline of bankable infrastructure projects which will:

1. Improve the operation of infrastructure markets
2. Take pressure off the budget by leveraging private sector investment in infrastructure; and
3. Support economic activity by expanding investment in critical sectors, which can also underpin growth and employment.

Using government funds to – in effect – seed projects rather than fully fund them, will create room for the government to increase its support of critical areas of expenditure such as health, education and other direct measures to address poverty – which can also underpin growth and employment.

<b>Implementation path and expected date of implementation</b>	<i>2014-2015</i>
<b>What indicator(s) will be used to measure progress?</b>	<ul style="list-style-type: none"> <li>• <i>Establishment of the PPP center</i></li> <li>• <i>Publishing a PPP projects list</i></li> </ul>
<b>Explanation of additionality (where relevant)</b>	<i>In developing the PPP centre, the Indonesian Government has asked Ministry of Finance officials to work closely with an APEC PPP Experts Advisory Panel.</i>



## Regional Investment Relation Unit

Regional Investment Relation Unit (RIRU) is tripartite cooperation between Bank Indonesia, Provincial/Regional Government, and the Chamber of Commerce to promote investment activity, trade, and financing in order to enhance regional competitiveness and to accelerate regional development.

The RIRU is essentially a coordination function across institution to promote sound investment climate, as well as to advocate government policy and services that is line with international best practice. This program is expected to be launched at the end of 2014.

<b>Implementation path and expected date of implementation</b>	Some work programs to be implemented in 2015 includes discussion forum with potential investors, Focus Group Discussion, Round Table Discussions, and coordination meetings among related institution.
<b>What indicator(s) will be used to measure progress?</b>	Establishment of Regional Investment Relation Unit in Indonesia
<b>Explanation of additionality (where relevant)</b>	n.a.

## The Improvement of Business Environment and Investment Climate

Increasing evidence supports the fundamental role that an improved investment climate has in encouraging growth and alleviating poverty. With macroeconomic and political stability earned through reform efforts, investor confidence in Indonesia has picked up in recent years.

Coordinated action to improve the investment climate is aimed at improving ease of doing business in Indonesia. One important initiation of this action is establishment of the One-Stop Services (OSS) which organize the complete Licensing and Non-licensing procedure of investment in single office that has the authority from related technical institutions or ministries to issue the Licensing and Non-Licensing document on particular sectors. This has been governed by the Regulation of the Chairman of the Investment Coordinating Board No 7 of 2013 Regarding Implementation of One Stop Service for Investment.

The Indonesian Foreign Investment Review Board recently announced the intention to reduce the time involved for foreign entities to establish a business in Indonesia by providing for applications for business and investment licences to be made online.

A sound and stable policy environment without onerous regulation will make Indonesia a more attractive investment destination. Higher investor confidence in Indonesia will see more investors viewing Indonesia as an attractive opportunity. Greater investment will in turn improve the efficiency of production in the economy while generating more employment and stimulating economic growth.

<b>Implementation path and expected date of implementation</b>	<i>To be determined by Gol</i>
<b>What indicator(s) will be used to measure progress?</b>	<ul style="list-style-type: none"> <li>• <i>Policy Certainty</i></li> <li>• <i>Macroeconomic stability</i></li> <li>• <i>Tax rate</i></li> <li>• <i>Corruption level</i></li> <li>• <i>Access to finance</i></li> <li>• <i>Crime</i></li> <li>• <i>Regulations and tax administration</i></li> <li>• <i>Improved courts and legal system</i></li> <li>• <i>Labor regulation</i></li> <li>• <i>Level of FDI</i></li> </ul>
<b>Explanation of additionality (where relevant)</b>	<i>n.a</i>

### Increasing Domestic Saving by “My Savings” (“TabunganKu”) Program

As found in many developing economies, Indonesian population is just about half of its population that has such access to financial services. This situation is only marginally than China, Pakistan, and Philippine, but it is worse than countries such as Thailand, Malaysia and Sri Lanka (close to 60% of population)<sup>2</sup>. To provide access to financing for greater share of population that is important for reducing income inequality as well as enabling more rapid economic growth, Bank Indonesia launched TabunganKu (My Savings) program. This program is also aimed at improving the culture of saving and financial planning, in particular in middle to low income society. TabunganKu is a savings scheme with more affordable requirements, - no charge for administrative costs, low minimum deposit, low minimum required balance. The administrative cost has been concern in particular for low income society as the cost is relatively high for them and will only dilute their saving account balance when they can not afford the required minimum balance.

It is expected that the TabunganKu will encourage saving habit and financial planning. In the long run, this will encourage domestic financing sources for investment.

<b>Implementation path and expected date of implementation</b>	Bank Indonesia has started TabunganKu program since 2012 and will continue to improve the program by establishing some working group on financial education in regional area to accelerate the program until 2015.
<b>What indicator(s) will be used to measure progress?</b>	<ul style="list-style-type: none"> <li>- Increasing number of savings account</li> <li>- Numbers of working group on financial education in regional area</li> </ul> <p><a href="http://www.bi.go.id/en/statistik/seki/terkini/moneter/Contents/Default.asp">http://www.bi.go.id/en/statistik/seki/terkini/moneter/Contents/Default.asp</a></p>

<sup>2</sup> According World Bank Survey in 2008.

<b>Explanation of additionality (where relevant)</b>	n.a.
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### Energy Efficiency and Sustainability

Indonesia has initiative to issue Standards and Labels of Energy Efficiency on 7 (seven) products of electronic appliances and has been implemented the Public Awareness Campaign in many kind of socialization activities in order to increase awareness of energy efficiency and change behaviour and culture become energy efficient.

The signing of the cooperation between the Ministry of Energy and Mineral Resources and the Ministry of Forestry in implementing Bioenergy Development Program Based on Energy Forests.

The government has committed to slowly reduce the subsidy over the next few years and reallocate the funds to more productive spending such as infrastructure. The cut fuel subsidy program is a part of comprehensive structural reform that will free up some fiscal space and create a stronger as well as sustainable growth. Accelerating the use of Biodiesel by 20% on motor vehicles in 2016.

Government is also supporting the development of new and renewable energy through the conversion of biofuels and gas with some programs such as development of biomass power plan which utilize corn barges as the main energy source and simplify the licensing procedure on electricity of water supply.

It is expected to:

1. Contribute 36% energy saving of the total energy use of electronic appliances in the household, business/commercial, and industrial sectors.
2. Provide more fiscal policy space and more budget allocation to the other more sectors that have significant public interest.
3. Encourages planning efforts and funding development of forest-based bioenergy energy.
4. Have more infrastructure development will attract more investments which lead to more employment and productivity.

<b>Implementation path and expected date of implementation</b>	2014-2019
<b>What indicator(s) will be used to measure progress?</b>	<ul style="list-style-type: none"> <li>• Cutting the state budget for fuel subsidies</li> <li>• Re-allocate the funds to finance the infrastructure development and social welfare improvemnet programs</li> </ul>

<b>Explanation of additional (where relevant)</b>	n.a
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**Employment**

**Competition**

**Trade**

**Any other structural policy**

Under each of these six categories, we would expect G20 members to provide several major policy commitments with each policy commitment table being no longer than 1 page.