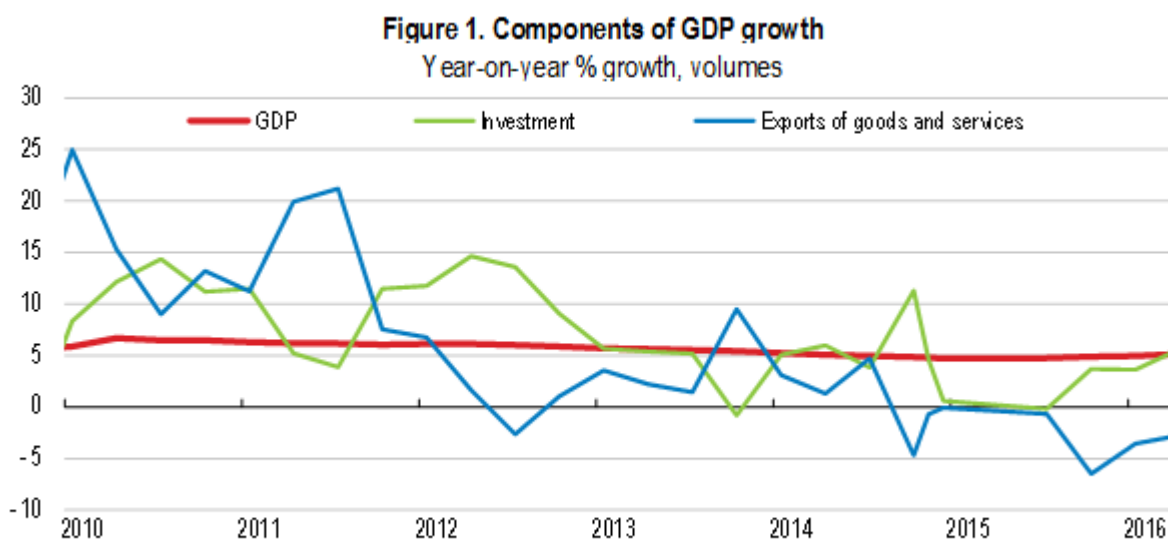


Funding priority spending will become increasingly challenging in Indonesia

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As described in the *2016 OECD Economic Survey of Indonesia*, economic growth is expected to pick up over the course of 2016 and into 2017. Despite persistently weak external conditions, confidence is returning, with inflation moderating, a stable rupiah and government investment in infrastructure gathering pace. Thanks to the stabilisation of the economy, BI has cut interest rates six times since January 2016, each time by 25 basis points. As recommended in the *Survey*, if growth disappoints, the authorities should continue to employ a prudent monetary policy to stabilise output without endangering financial stability.



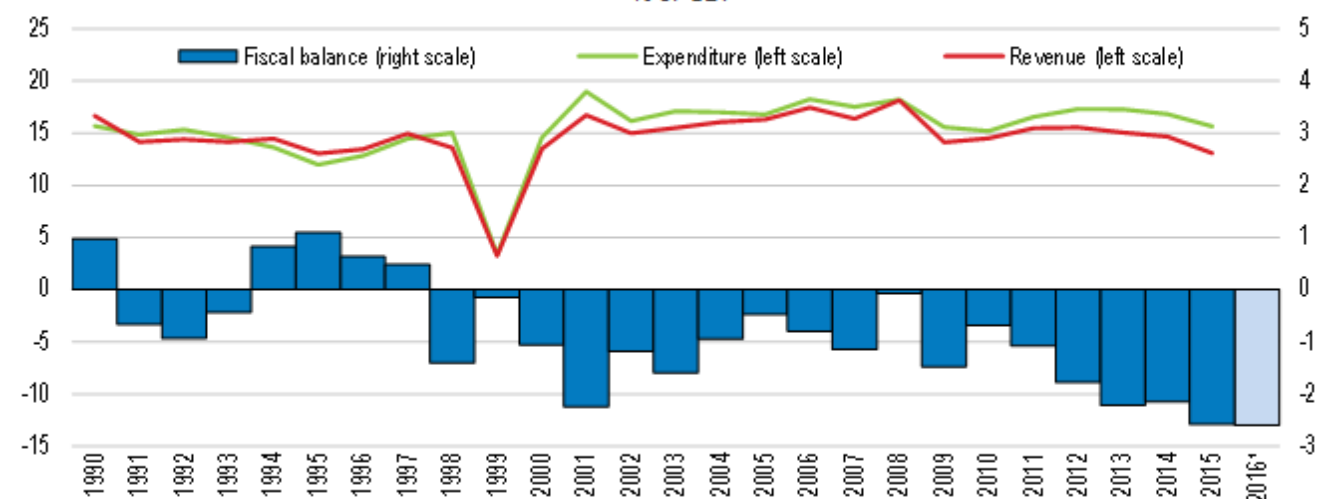
Source: OECD Economic Outlook database.

Seizing the opportunity resulting from lower oil prices, the government substantially reduced fuel subsidies from about 19% of public expenditure in 2014 to 7% in 2015. The funds were mostly reallocated towards ambitious programmes to alleviate

infrastructure gaps and poverty. However, the poverty rate is still relatively high compared to peer countries at a similar level of development. Moreover, a lack of infrastructure, especially in transportation (including maritime), logistics, water treatment and energy supply, is hampering Indonesia's economic, business and social development.

The recent boost to confidence could be undermined if the government fails to deliver on its promises, notably in terms of infrastructure investment. With lacklustre revenues notably due to low tax compliance, the government's programme is at risk. For several years, the fiscal deficit has been close to the 3% legal cap (Figure 2). In June and then in August, expenditure cuts (first by 1% and then 6.5% of government expenditure) were announced in the wake of lower revenues and a larger projected deficit. A tax amnesty was launched in July to boost tax collection. With the OECD's Automatic Exchange of Information regime due to come into force over the next two years, the timing of the amnesty is good, as it provides taxpayers with an early opportunity to regularise past non-compliance. As of 30 September, over 400 000 Indonesians had declared about 3 500 trillion rupiah (USD 280 billion) in assets, generating about 90 trillion rupiah (USD 7 billion) in additional government revenues.

Figure 2. Central government revenue, expenditure and balance
% of GDP



1. OECD staff estimates

Source: CEIC database.

In addition, improving the efficiency of public spending would allow getting the most out of existing resources. To that end, the *Survey* highlights in particular the need to boost the capacity and skills of civil servants, particularly in some sub-national governments. The “big-bang” decentralisation has proven to be popular and successfully brought government closer to the people. In order to complete it, more tax autonomy at the regional level would help to improve both tax collection and accountability.

References

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