



KEMENTERIAN KOORDINATOR  
BIDANG PEREKONOMIAN  
REPUBLIK INDONESIA



# NATIONAL AND REGIONAL ECONOMIC UPDATE, 2<sup>nd</sup> Quarter of 2018

## ENCOURAGING INCLUSIVE GROWTH THROUGH INNOVATIVE INFRASTRUCTURE FINANCING FOR REGIONAL DEVELOPMENT



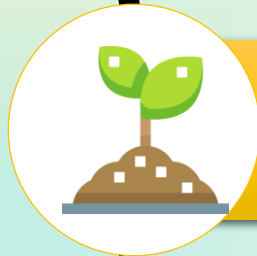
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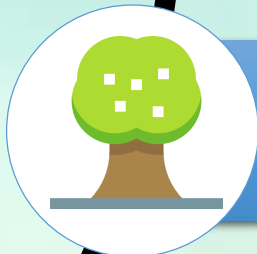
# **Executive Summary**



## **2<sup>nd</sup> Quarter-2018 Economic Update**



### **Economic Diversification Through Downstream Process of Agricultural/Plantation and Tourism Sector in North Sumatera**



### **Analysis of Agricultural Sector Development in South Sulawesi**



### **Policy Direction**



## **OUTLINE**



# Executive Summary



- Amidst the heightened global economic uncertainty, Indonesia's economic growth in 2nd quarter of 2018, has increased to approximately 5,27% (y-o-y). From expenditure side, economic activity showed increase in most of sectors except Gross Fixed Capital Formation (PMTB) caused by the completion of most of the infrastructure projects.
- One of Indonesia's economic growth challenges is how to improve the growth and to reduce inequality (within and between regions).
- By sector, the contribution of agriculture and industrial sectors need to be optimized. Meanwhile spatially, Java Island remains as the main contributor of national economic growth.
- Quantitatively, Bappenas Inclusive Economic Index indicated that economic development at provincial level are very diverse, and mostly are below the national level.
- National Strategic Policy aims for the Government Policy Packages (Paket Kebijakan) such as infrastructure development, strengthening the competitiveness, strengthening the economic zone, tourism zone development in all of Indonesia regions with supported by economic equality policy.
- In order to boost economic inclusive growth, National Policy needs to be synergized with the program innovations and the financial sources of regional government.

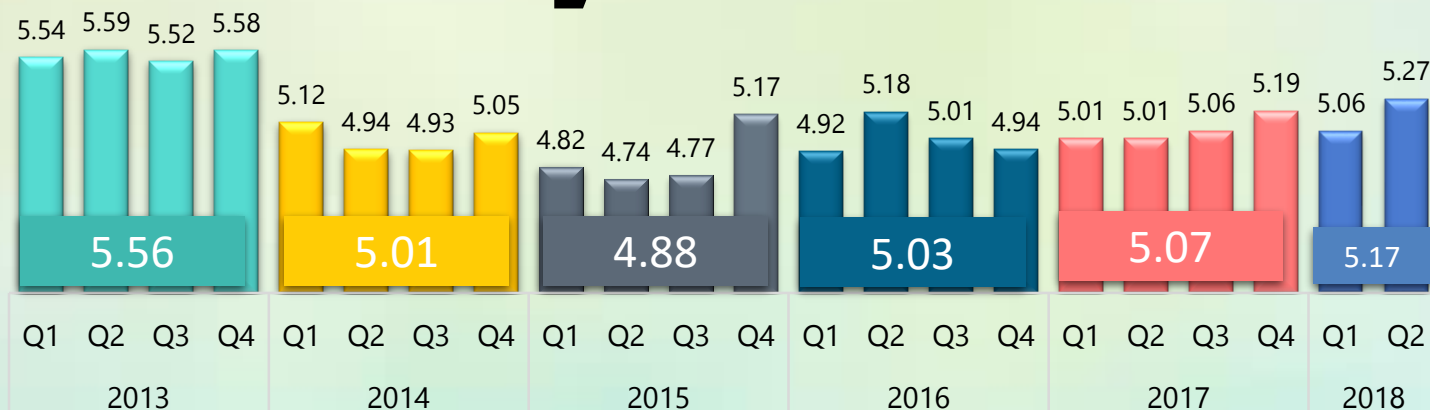


# Economic Update Second Quarter-2018

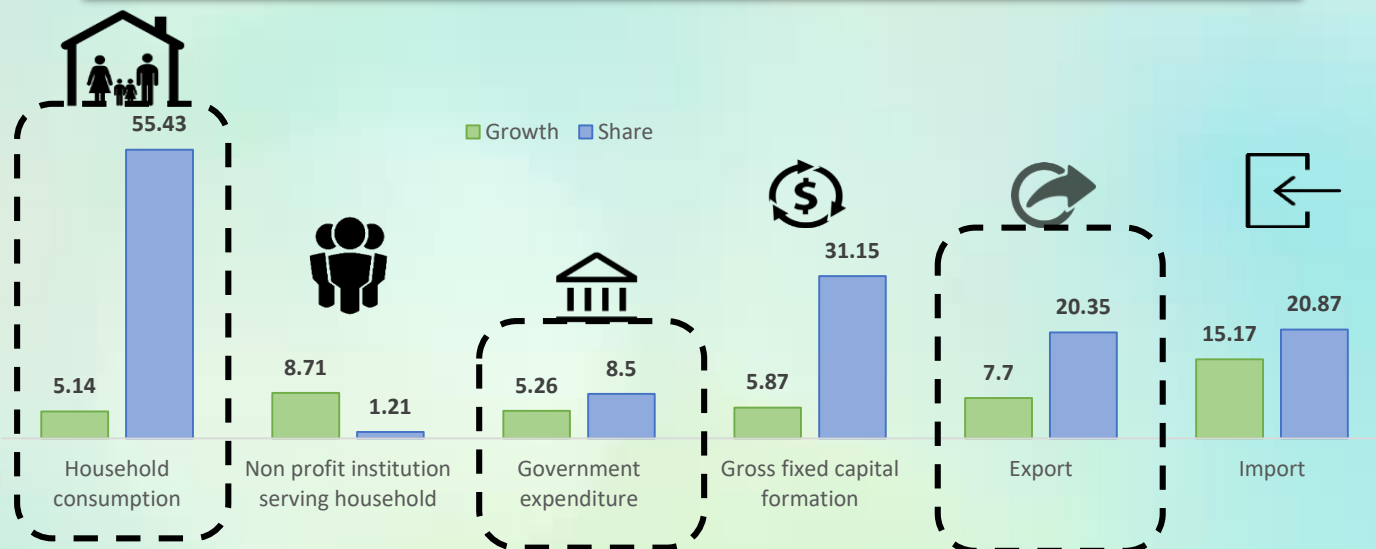


# Economic Growth 2<sup>nd</sup> Quarter - 2108

Amidst the heightened global economic uncertainty, the growth of Indonesian economy increased approximately 5,27% (yoy) for Q2 2018



## GDP based on Expenditure 2<sup>nd</sup> Quarter-2018 (%yoy)



- **Expenditure side of 2<sup>nd</sup> quarter of 2018 Indonesian Economy** was driven by the growth of Household Consumption, Government Expenditure and Export.
- Household and government consumptions growth has increased, affected by holiday allowance (THR) and government expenditure such as international sport event preparation (Asian Games 2018) and social assistance spending.
- The growth of export sector is positive, but lower than import. The increase in export occurred in Java and Sumatera area due to higher CPO Price. However, the raw material import also increased in order to support manufacture industry and infrastructure project.
- Investment performance slowed down because of:
  - The completion of ongoing infrastructure projects without additional new projects on the pipeline
  - Momentum of rising commodity price utilized by corporation to invest in 2017 and part of 2018

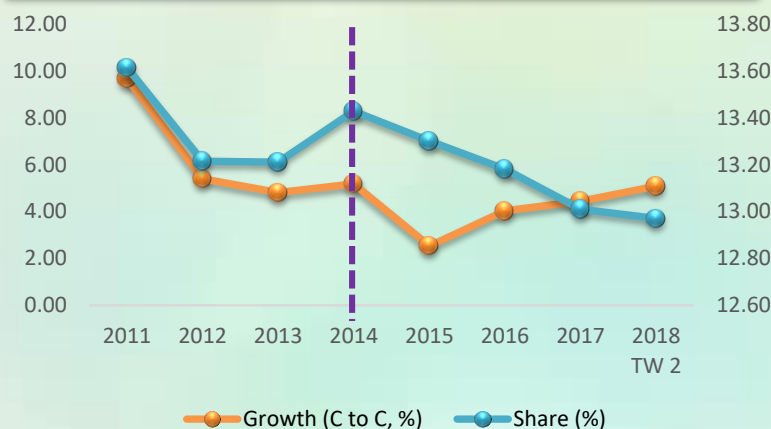




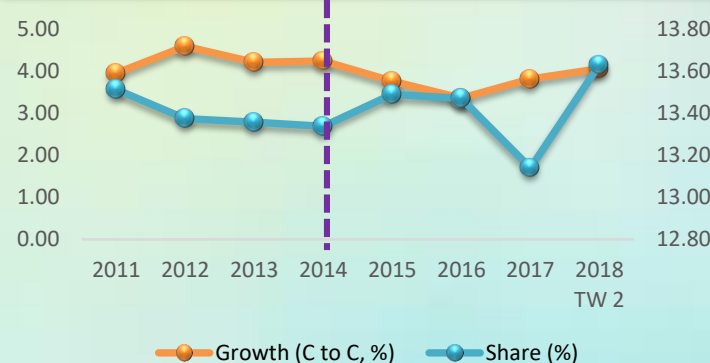
## The growth of accommodation, food and beverage and trade sectors in the 2<sup>nd</sup> quarter of 2018 has increased along with holiday season (school and Eid holiday)

- Meanwhile, the growth of manufacturing industries had not increase significantly
- Agriculture sector performance indicating improvement since lower commodity price era in 2014. In addition, the growth in the second quarter was resulted by harvest time that shifted earlier and also favorable weather.
- The rising domestic demand boosted the acceleration in business activities, while, manufacturing industries and construction sector distribution had not showed improvement yet /declined because of commodity price recovery and reducing working day during religious holiday (*lebaran*).

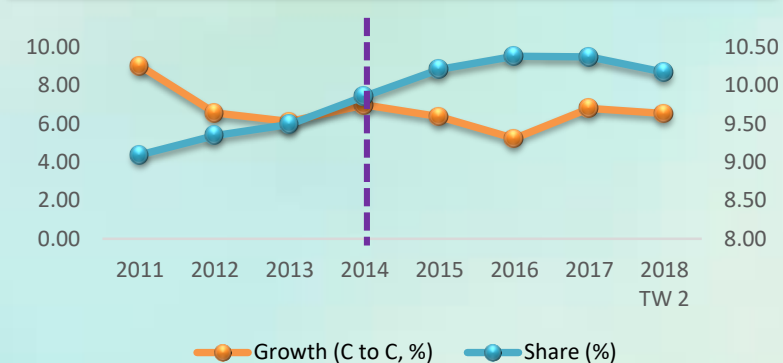
### Wholesale and Retail Trade



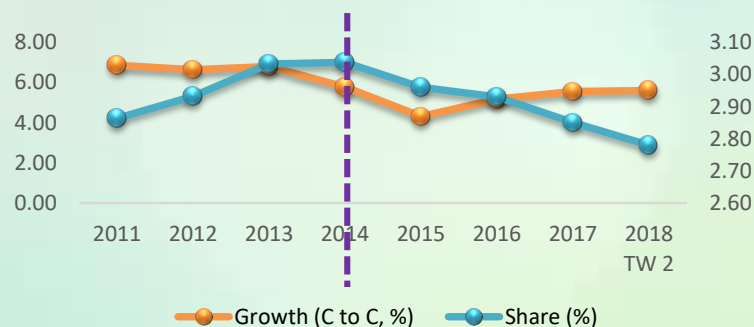
### Agriculture, Forestry, Fishery



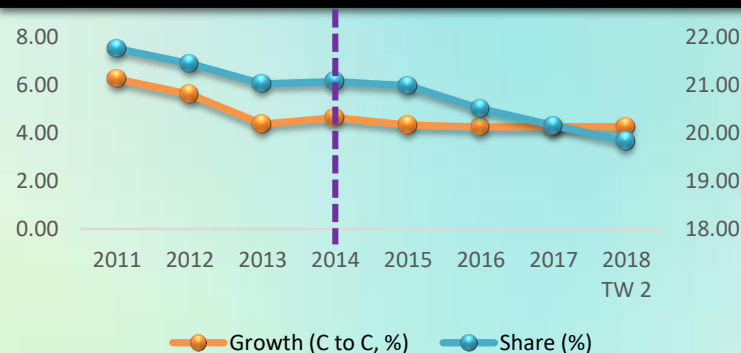
### Construction



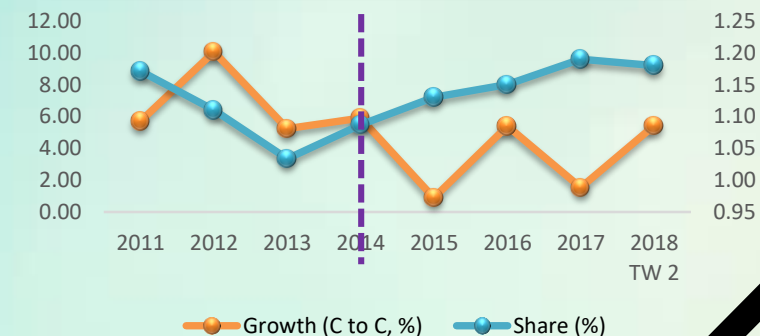
### Food Beverage and Accommodation



### Manufacture



### Gas and Electricity

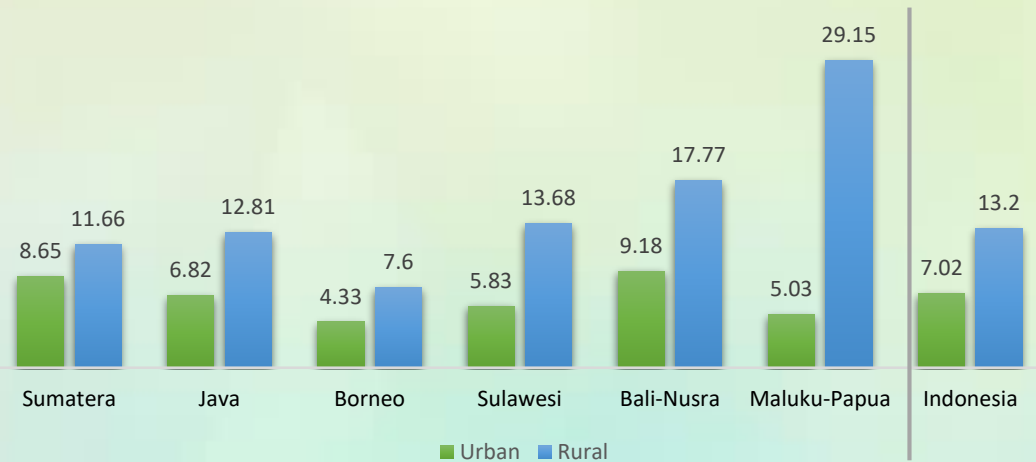




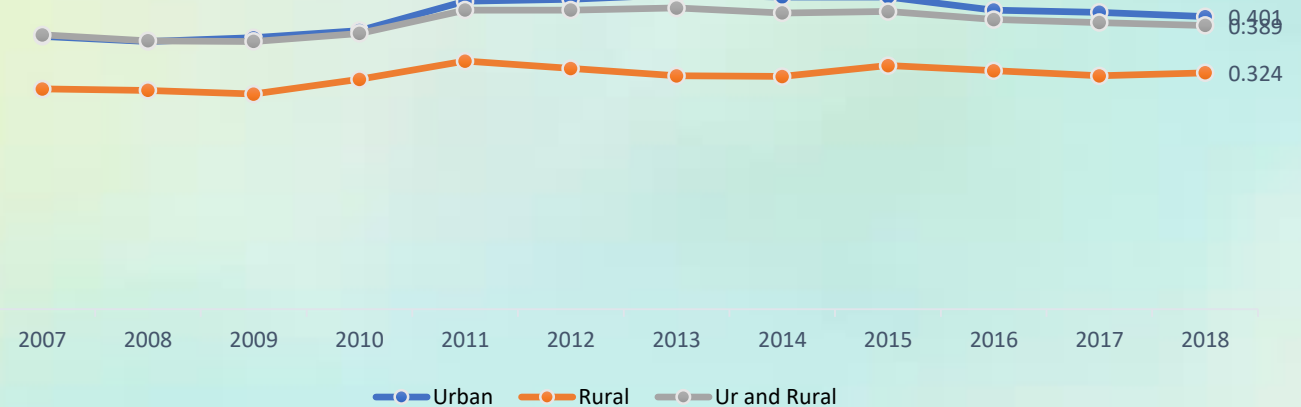
# Inter-regional Development Discrepancy and Inequality of Income Distribution

... poor population in rural area are about 13.20% while 7.02% in urban area

## Percentage of poor population by Island



## Indonesian Gini Ratio by Residence



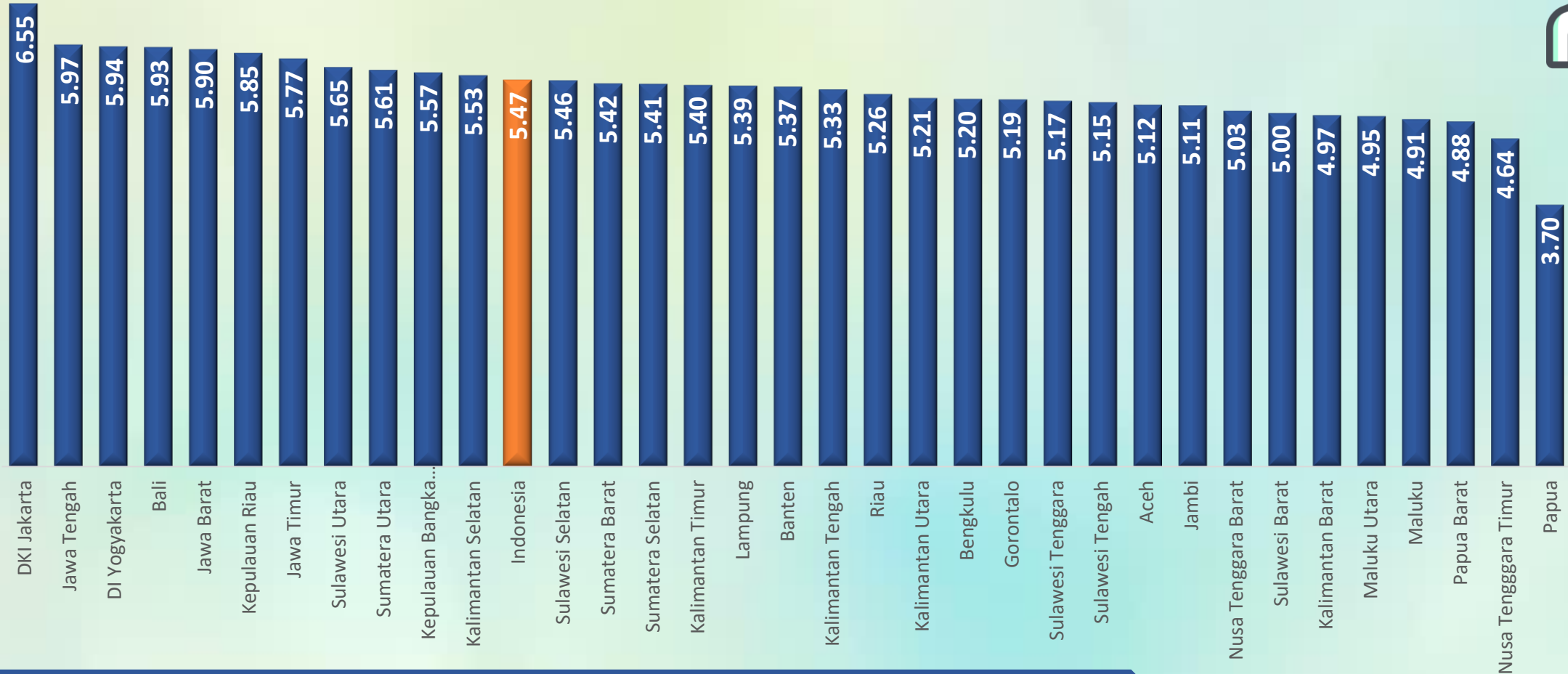
- Poverty in urban and rural area had different characteristics, however with different poverty line between urban and rural area, there were more poor population in the rural area.
- Comparing inter-regional data, we found inequality of social development between west and east area. The poverty in east area of Indonesia was higher than west area, especially in rural area such as Bali-Nusra and Maluku-Papua.
- Gini Ratio has been increasing from 0.376 in 2007 to 0.389 in 2018.



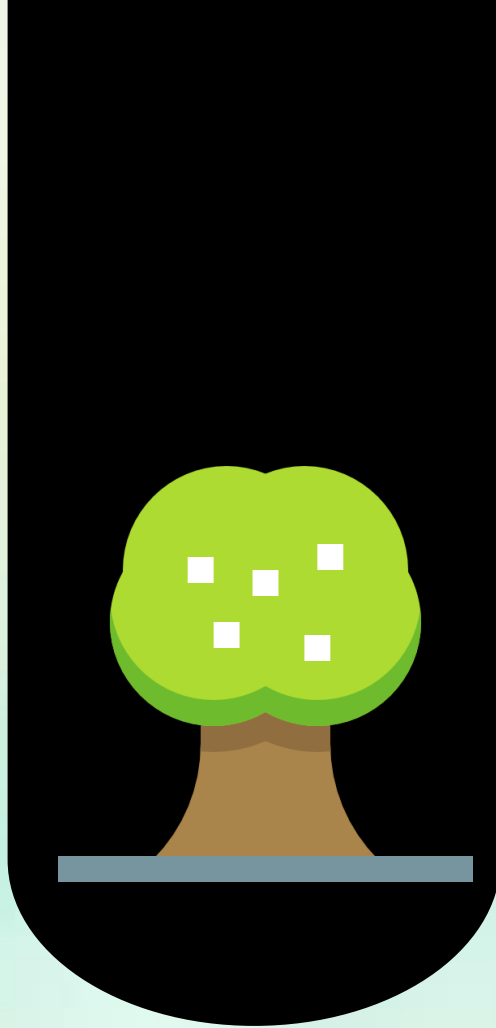


# National Inclusive Economic Index is 5.47

- Some provinces had Inclusive economic development index below the national level
- Since the number of poverty is still high it creates the low rate of Inclusive economics index.



- Notes: values 1-3 are “unsatisfied” categories values 4-7 are “satisfied” categories and values 8-10 are “very satisfied” categories. Calculation of the Inclusive Economic Development Index based on economic growth, income distribution and poverty reduction and expansion of access and opportunity



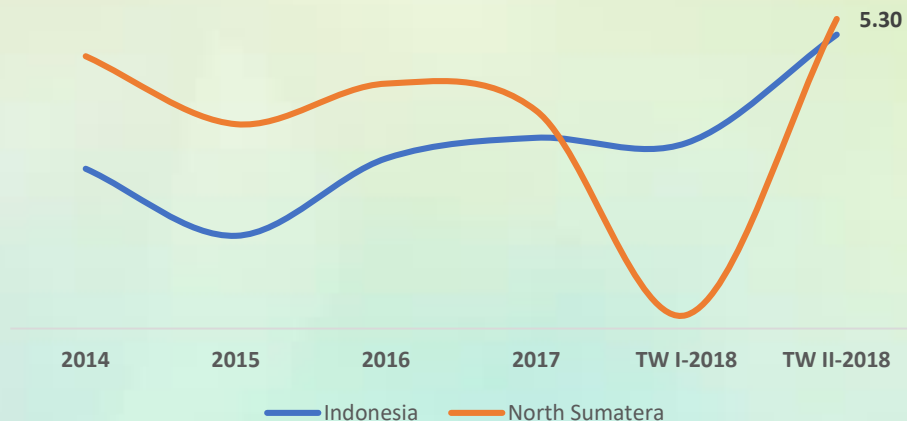
# **Economic Diversification through Downstream Processing of Agriculture/ Plantation and Tourism Sectors in North Sumatera**



# North Sumatera Economic Growth in 2<sup>nd</sup> quarter – 2018 is 5,30% (yoy), higher than previous quarter in 2017

... The growth in second quarter of 2018 is driven by consumption and export performance improvement

North Sumatera and National Economic Growth, % (yoy)

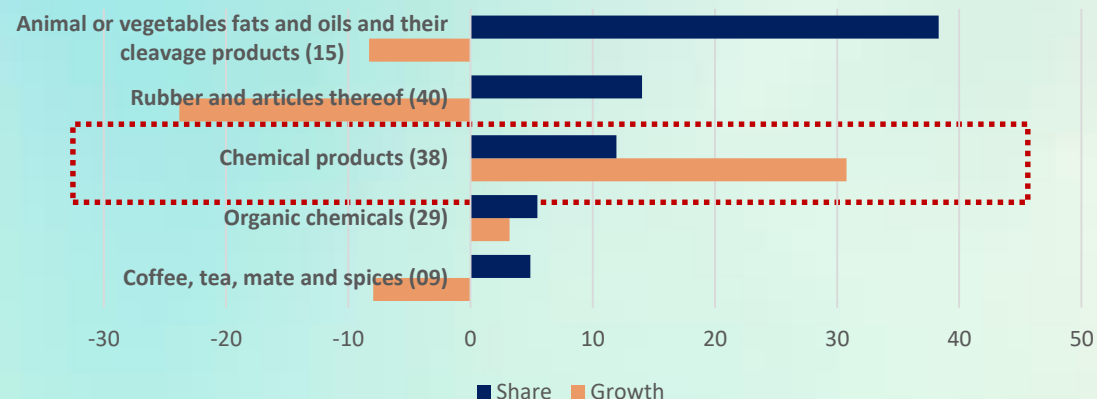


- Non profit institution serving household grows 11,10%, increased significantly compared to previous quarter inline with gubernatorial election in North Sumatera.
- Export performance grows 5,38% (yoy), improved compared to the first quarter due to the increase in chemical products (HS 38) commodity exports.
- In addition, there are market diversification of CPO commodity export (HS 15), and it can prop the sharp decline of CPO export after protectionism policy from trading partner like India.
- The unstable condition of world CPO Price could potentially become an obstacle for export performance in second quarter -2018.
- Need to focus on the high rate of import especially for fuel oil. The import growth of North Sumatera could be higher than National level.

GRDP based on Expenditure 2<sup>nd</sup> Quarter - 2018 (%yoy)

Description	2017			2018		Share
	Q1	Q2	Total	Q1	Q2	
Household Consumption	5.63	5.51	5.12	4.98	6.64	53.93
Non Profit Institution Serving Household	3.96	3.70	3.26	7.06	11.10	0.96
Government Expenditure	4.63	4.54	5.77	6.26	5.25	7.46
Gross Fixed Capital Formation	4.02	4.73	5.91	6.96	7.37	31.06
Export	1.32	-2.74	6.34	-0.08	5.38	35.51
Import	2.01	-4.92	6.65	0.88	9.95	30.59
Intraregional Net Export	-135.53	-41.23	-81.72	-197.29	-52.38	0.00
GRDP	4.53	5.14	5.12	4.73	5.30	100.00

Main export commodity of North Sumatera (Jan-June 2018)





# On the production side, economic growth is driven by agriculture, forestry and fishery sectors' improvement

... these sectors grow 5,02% (yoy) boosted especially by increasing oil palm production

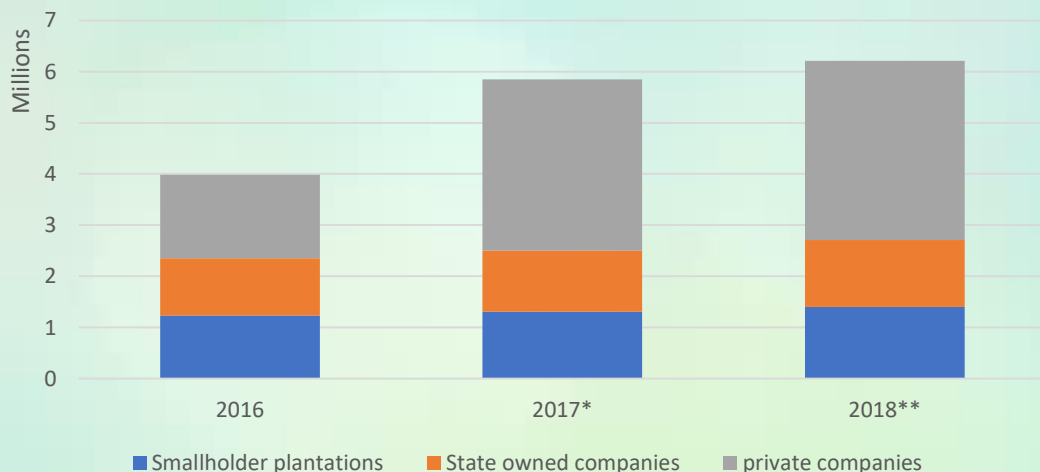
**GRDP based on Business Activity in 2<sup>nd</sup> Quarter-2018 (%yoy)**

Description	2017			2018		Share
	Q1	Q2	Total	Q1	Q2	
Agriculture, Forestry, and Fishery	2.22	3.97	5.31	3.25	5.02	20.82
Manufacture	3.34	4.11	2.31	2.52	3.50	20.18
Construction	5.21	5.88	6.79	6.87	5.95	13.64
Wholesale and Retail Trade	7.16	6.44	5.87	5.66	6.02	18.43
Transportation and Warehousing	7.79	7.78	7.35	7.48	6.78	5.06
Gross Domestic Product	4.53	5.14	5.12	4.73	5.30	100.00

Source : BPS



**Palm Oil Production based on Business Status (Ton)**



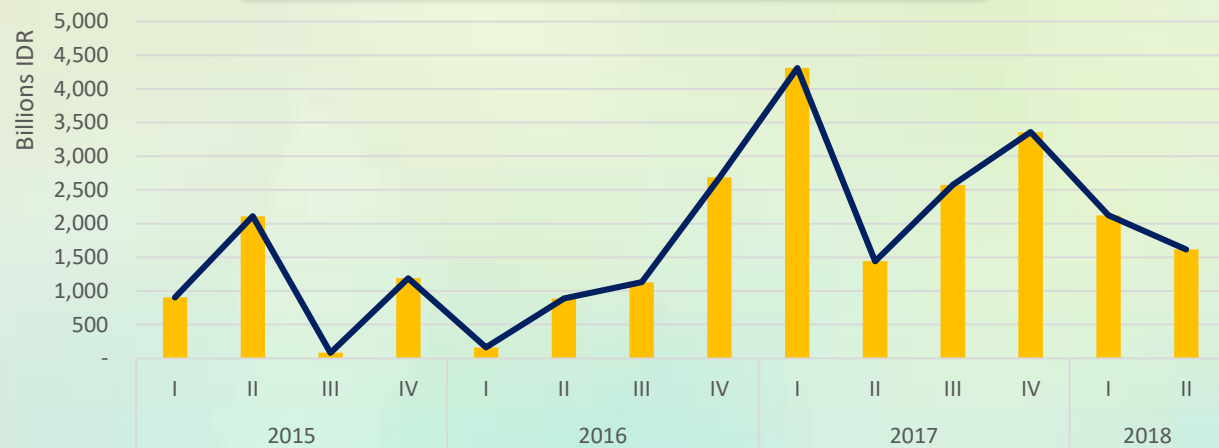
Source : Agriculture Ministry

- The ongoing harvest of the food crops and horticulture sub-sectors and the end of the oil palm track season are the driving factors for improving the performance of the agricultural sector.
- The annual plantation sub-sector has shared 45% for agricultural sector. The main commodity in this subsector is oil palm.
- Several risk factors that need to be anticipated related to oil palm, i.e.: tariff barriers in major export countries, non-tariff barriers such as environmental, health and social issues.
- It is necessary to measure the impact of these risks and its mitigation, especially the diversification of other sectors as well as tourism.

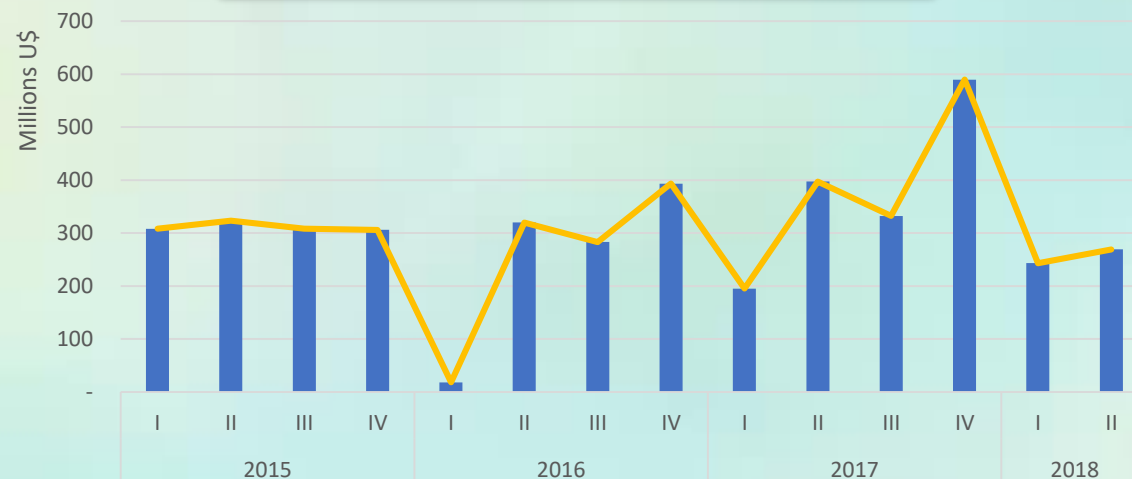


# North Sumatera's investment realization in 2nd quarter of 2018 declined by 22.76% and is lower compared to the previous quarter at the same time.

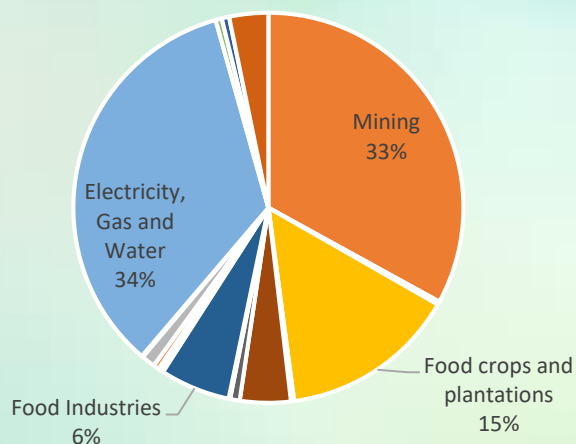
### Domestic Investment Update in North Sumatera



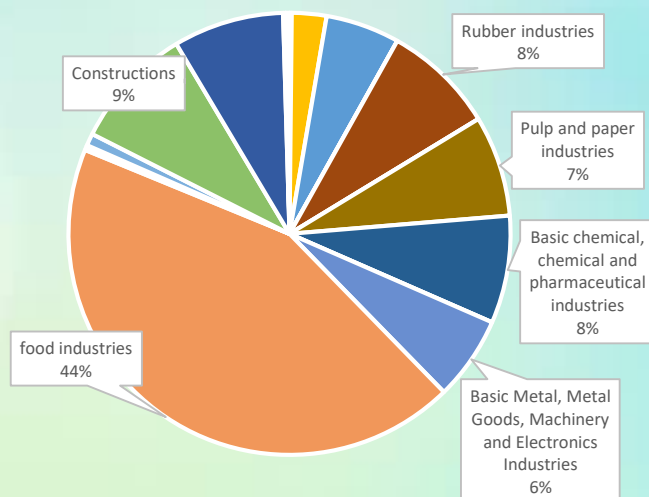
### Foreign Investment Update in North Sumatera



### Foreign Investment (Jan-June 2018)



### Domestic Investment (Jan-June 2018)

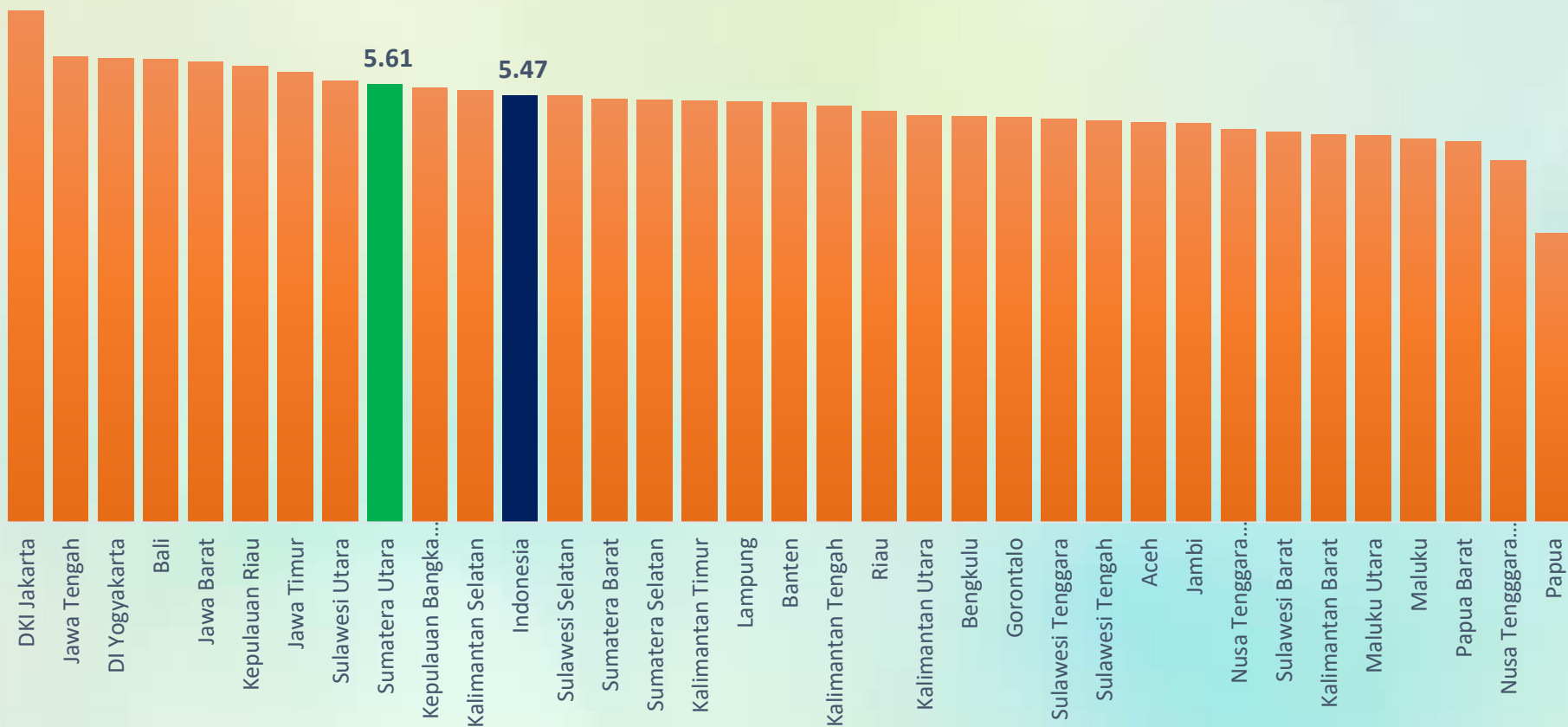


- In general, the realization of North Sumatera investment was the second largest after South Sumatera during the 2nd quarter of 2018 in the Sumatera Island.
- However, investment growth in North Sumatera in Q2 2018 decreased by 2.92% (qtq) compared to the previous quarter and fell to 22.76% compared to the same quarter in the previous year (yoy).
- The decline was driven by a decrease in the role of FDI in the investment of food, electricity, gas, and water. Foreign investment growth contribution dominated the total investment in North Sumatera
- During the first semester of 2018 it was recorded the composition of domestic investment dominated by the food industry, while for foreign investment in the electricity, gas, water and mining sectors.



# North Sumatera's Inclusive Economic Development Index was 5.61, higher than National which was 5,47

... North Sumatera index for 1<sup>st</sup> pillar was lower than Indonesia level.



## 1st Pillar : Economic Growth

5.17



Indonesia

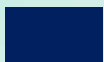
5.12



North Sumatera

## 2nd Pillar: Income Equality and Poverty Reduction

6.64



Indonesia

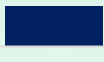
6.96



North Sumatera

## 3rd Pillar: Improving Access and Opportunity

5.05



Indonesia

5.42



North Sumatera

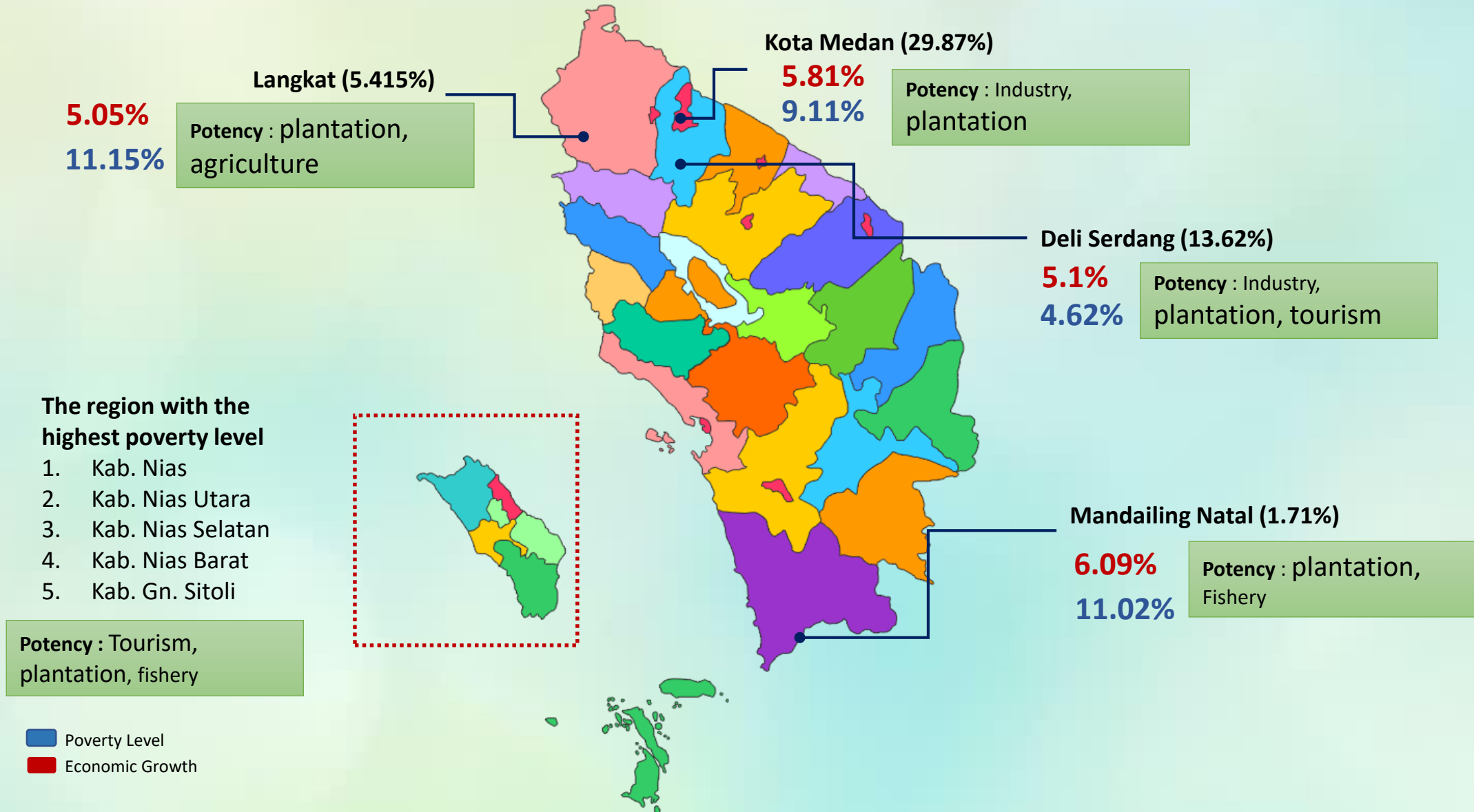
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# Cities and Regencies in North Sumatera have different characteristics

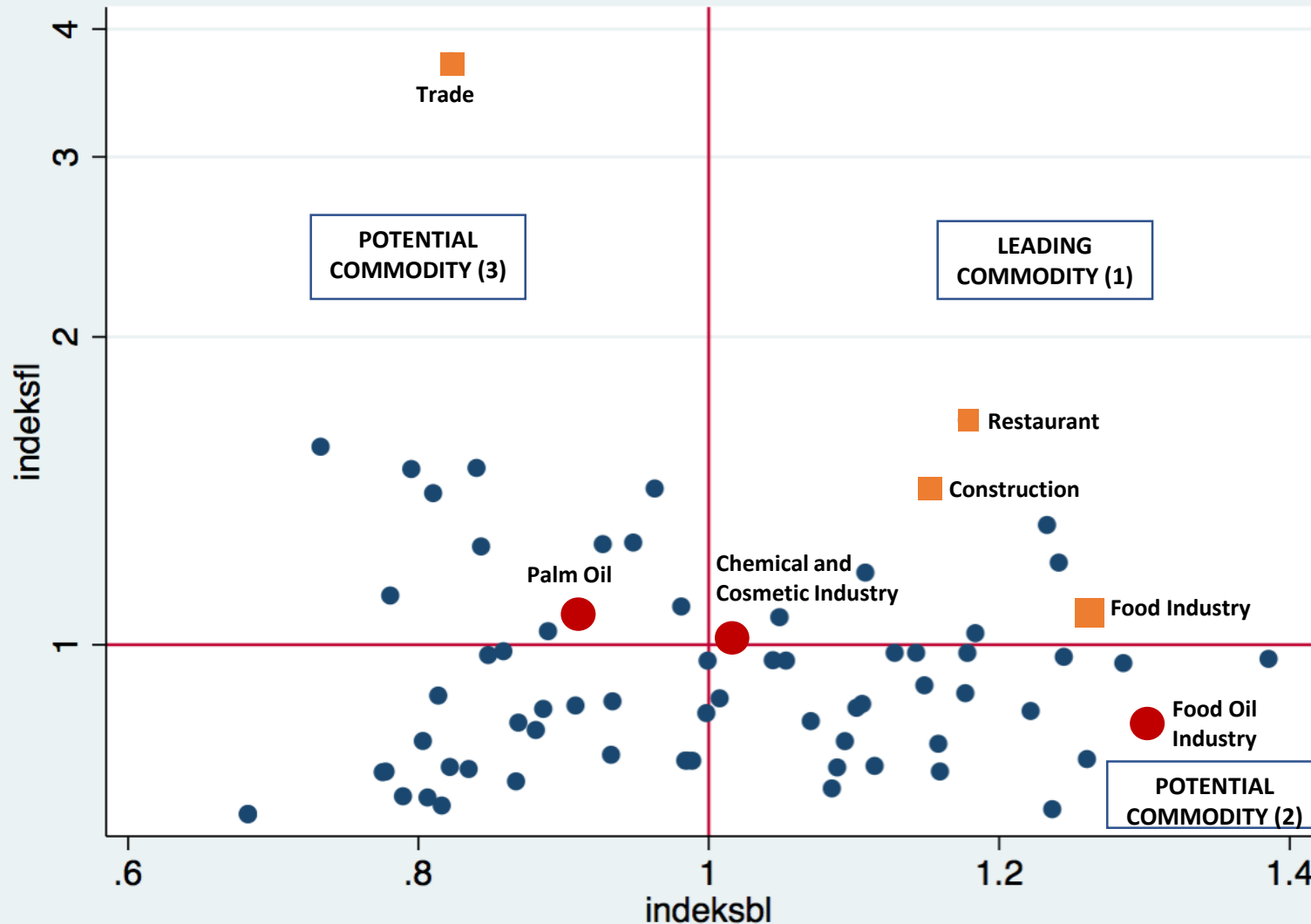
... It needs diversification potential sectors through optimizing regency/municipal characteristics.





# The sectors that need to be continuously developed i.e. CPO and its downstream industries: food & beverage and cosmetic industries

... to maintain the continuity of high growth level, North Sumatra also needs diversification, some sectors that could be developed are sectors related to Tourism such as the restaurant, accommodation and food and beverage sectors.



## Notes :

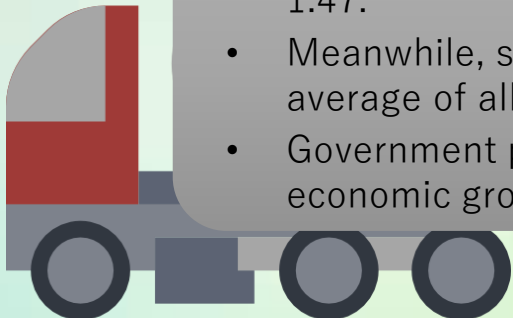
- Quadrant 1 : Commodities that include in the superior category are the commodity that have both of backward and forward linkage value more than 1.
  - Industries related their development: restaurants, food and beverage industry, and construction.
- Quadrant 2 : Commodities that include in this potential category are the commodities that have *backward linkage* more than 1 **and** *forward linkage* less than 1.
  - This quadrant is potential input supply for the other sectors, i.e. food oil industry and rubber industry.
- Quadrant 3: Commodities that include in this potential category are the commodities that have backward linkage less than 1 and forward linkage more than 1.
  - This quadrant is output market that potential for the other sectors, i.e. CPO, trade and air transport.



# Output, income and employment multiplier for leading and potential sectors

Ranking	Sector	Backward linkage	Forward linkage	Multiplier		
				Output	Income	Employment
1	Rice, Grains and Flour industry	2.03	1.42	2.03	6.59	37.03
2	Food oil industry	1.91	1.23	1.91	3.26	12.85
3	Beef production, vegetables and Fruits Industry	1.88	1.41	1.88	4.25	17.97
4	Other Food Industry	1.85	1.58	1.85	2.20	5.50
5	Apparel Industry	1.85	1.13	1.85	2.20	3.03
6	Rubber and Rubber Goods Industry	1.82	1.43	1.82	4.40	21.20
7	Food from flour, sugar, chocolate and processing Industry	1.82	1.76	1.82	1.95	4.64
8	Leather tanning, footwear and leather goods industry	1.81	1.01	1.81	2.55	4.88
9	Spinning, weaving and knitting Industry	1.81	1.92	1.81	2.07	2.79
10	Oil and Gas Industry	1.79	1.26	1.79	2.28	2.70
13	Restaurant	1.73	2.43	1.73	1.67	1.70
17	Residential buildings and non-residential buildings	1.69	2.08	1.69	1.56	2.08
38	Hospitality	1.44	1.13	1.44	1.33	1.23
45	Palm oil	1.33	1.56	1.33	1.30	1.08

- Sectors related to CPO and its derivatives have an output multiplier of 1.62, better than the overall sector average 1.47.
- Meanwhile, sectors related to the tourism industry have a multiplier output reaching 1.67, higher than the average of all sectors and the average CPO and its derivatives.
- Government policy to make Lake Toba as a tourism destination is the right thing to create new sources of economic growth.



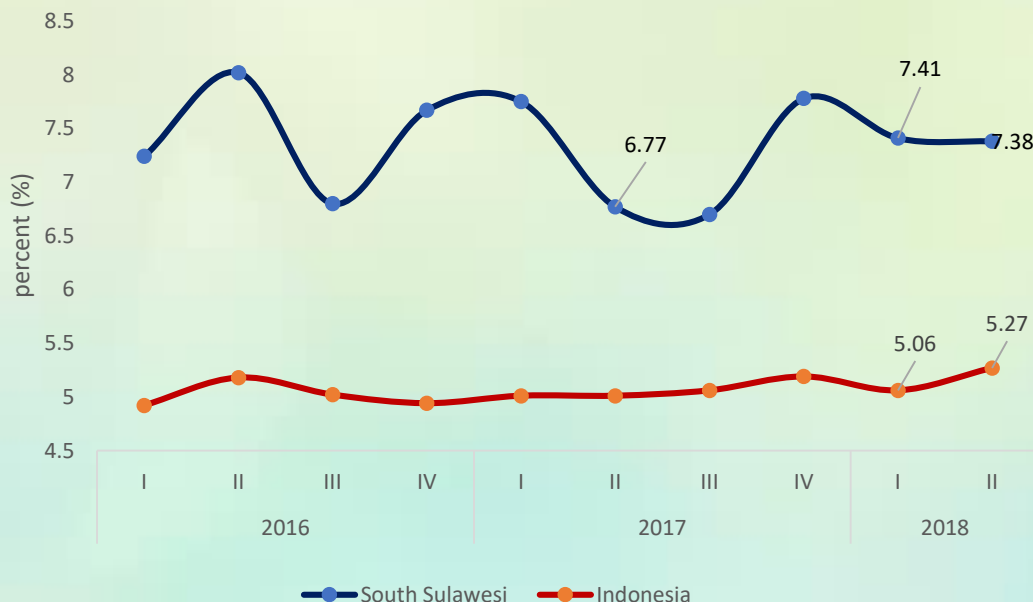


# Analysis of Agricultural Sector Development in South Sulawesi

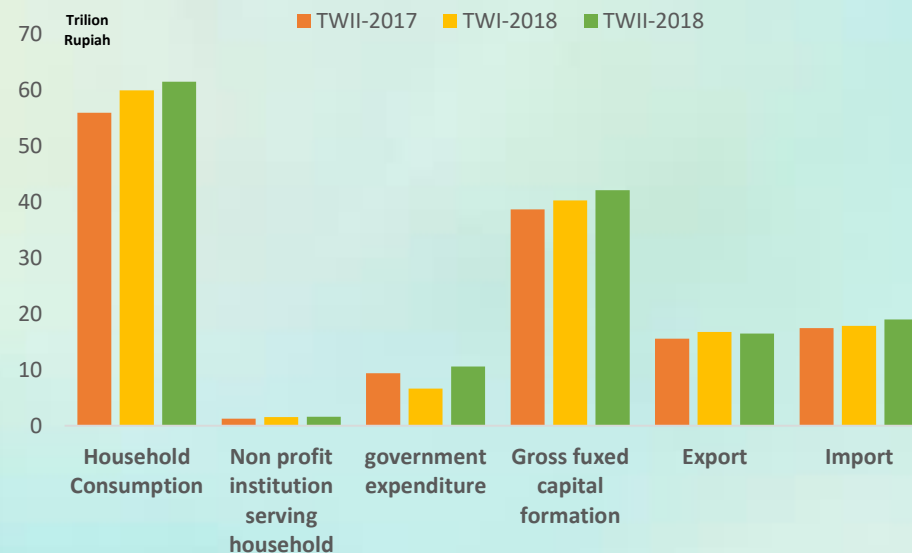


# South Sulawesi's Economic Growth is above the National Growth in the second quarter of 2018

Economic Growth in South Sulawesi



Economic Growth based on Expenditure Side in South Sulawesi



- Despite decreasing in growth in the second quarter of 2018 (qtq), the growth of South Sulawesi is always above the national level (except for exports).
- From Expenditure side, economic growth in the 2nd quarter of 2018 is 7.38% (y-on-y), affected by positive growth in almost all expenditure components.
- The highest growth was achieved by the component of Non Profit Institution Consumption Expenditures Serving Households (LNPR) by 21.7%; followed by Government Consumption at 6.8% and Gross Fixed Capital Formation (PMTB) at 6.32%.
- The high growth of LNPR impact by regional head elections (pilkada) which encouraged the rapid increase in LNPR spending.

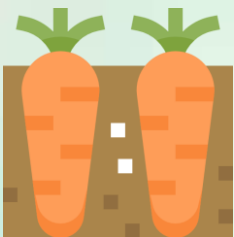
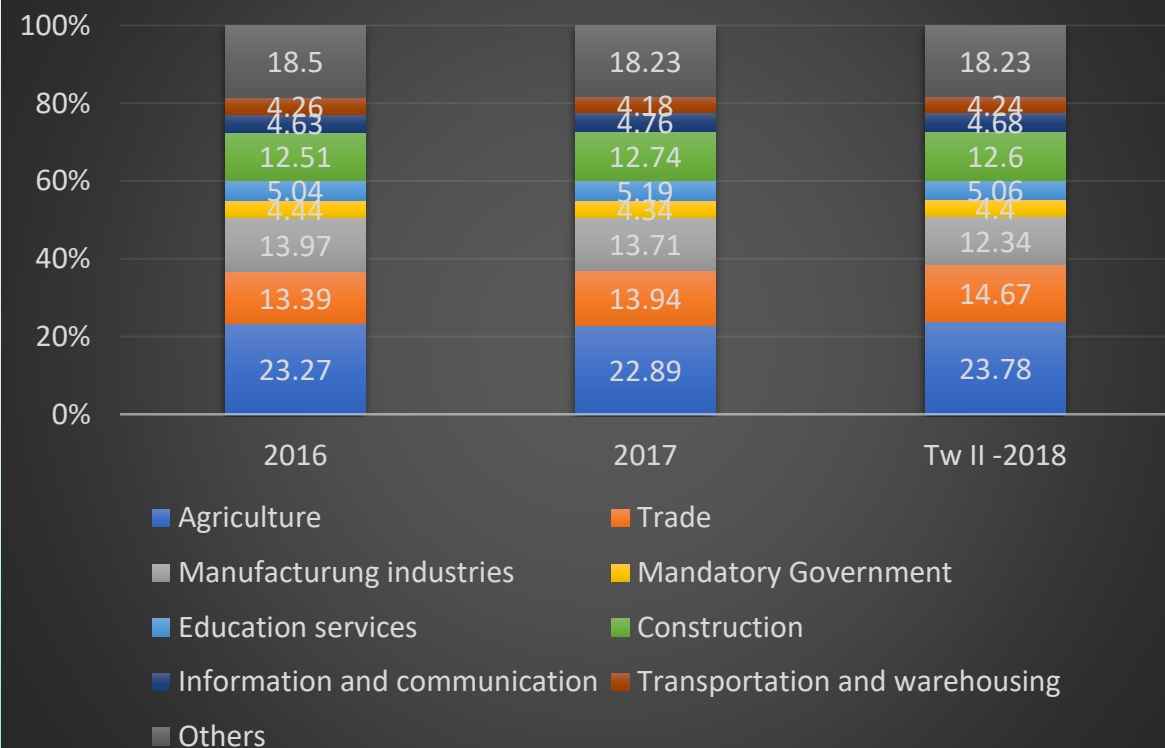


# The Economy of South Sulawesi is diversified but Agriculture remain the leading sector

## Sectoral Economic Growth in South Sulawesi

Sector based on year 2010	2016	2017	Q1 - 2018	Q2 - 2018
Agriculture, Forestry and Fishery	7,86	5,34	14,43	10,77
Mining and Excavation	1,22	4,52	-3,57	6,01
Manufacturing Industry	8,23	5,03	-6,12	-2,72
Electricity supply, Gas	11,52	6,1	-7,1	6,32
Water supply	5,44	7,89	2,76	4,84
Construction	6,75	8,66	-4,43	4,1
Large and wholesale trade	9,87	10,74	-2,37	10,5
Transportation and Warehousing	7,75	8,37	-1,31	6,62
Food and Beverage Accommodation	8,47	11,66	0,16	5,71
Information and Communication	8,13	10,52	0,64	2,3
Financial Service	13,63	4,39	0,13	3,71
Real Estate	6,37	4,48	0,29	1,07
Firm service	7,88	8,44	0,43	2,52
Mandatory Government, Defense and Social Administration	-0,22	5,2	-1,58	8,8
Education Service	6,86	9,72	0,16	5,18
Health and Social Activities Service	8,45	8,8	-2,21	3,86
Others Service	9,81	9,58	0,04	5,59

## Sectoral Contribution in South Sulawesi



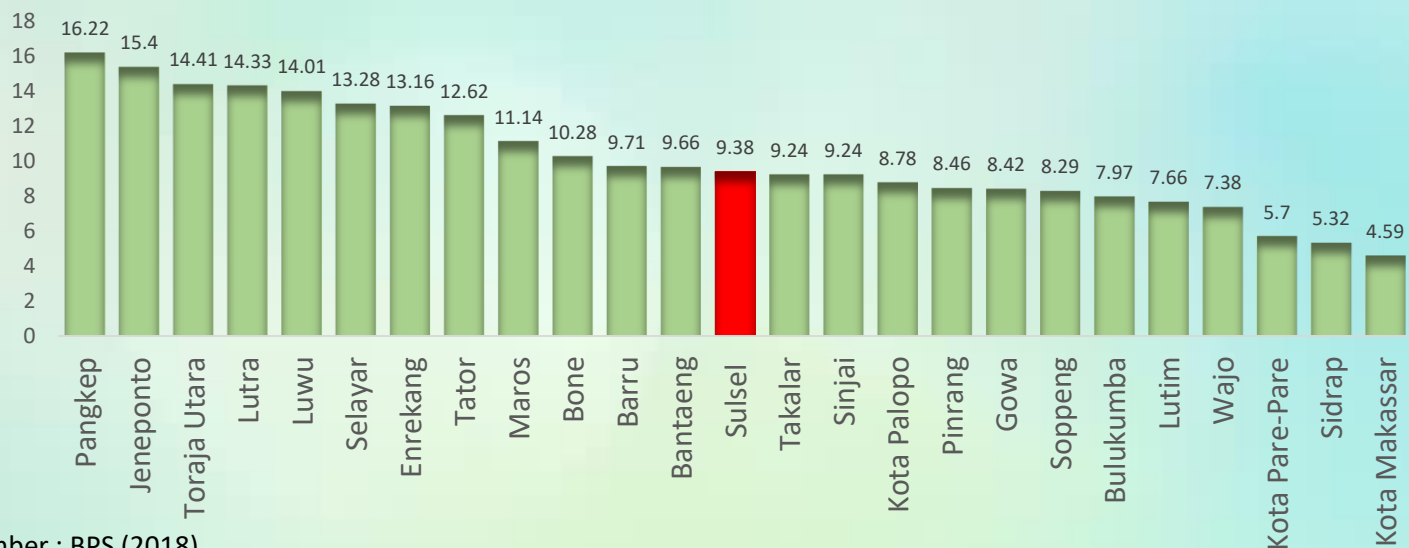
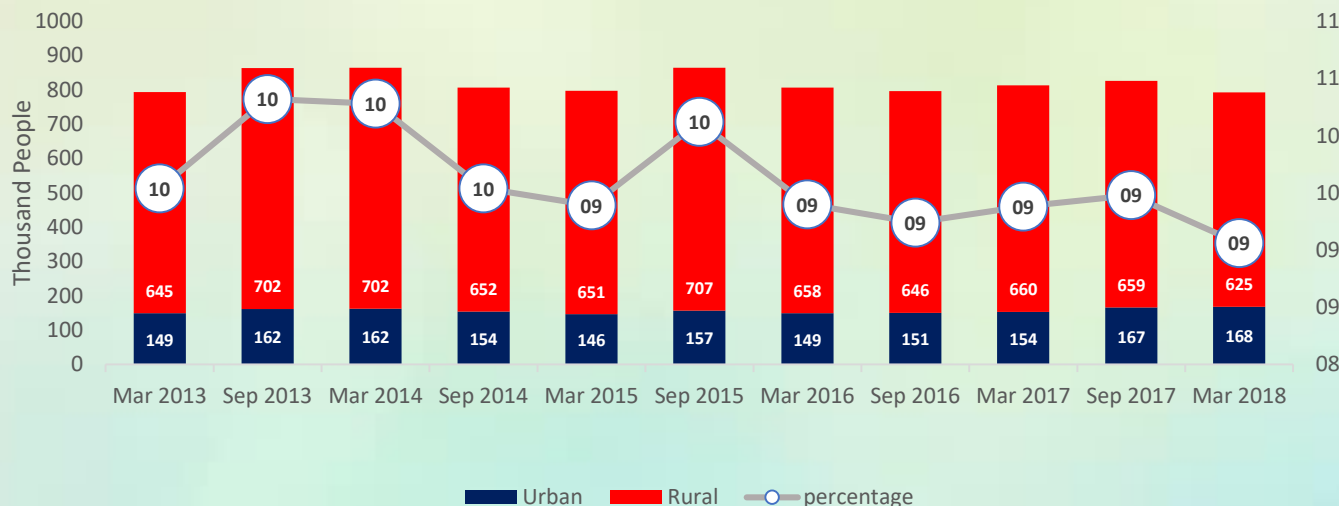
- Agriculture still the main sector of South Sulawesi, this can be seen from the highest economic growth and the sector contribution whose value is above 22% of economy structure in South Sulawesi.
- The second largest sub-sector comes from trade, the growth in this sector is due to the strategic nature of South Sulawesi as a goods distribution channel, especially this province is the gateway of East Indonesia.
- Overall, the economy of South Sulawesi is diversified where other sectors such as the manufacturing industries, Construction and Services are starting to show significant contribution.



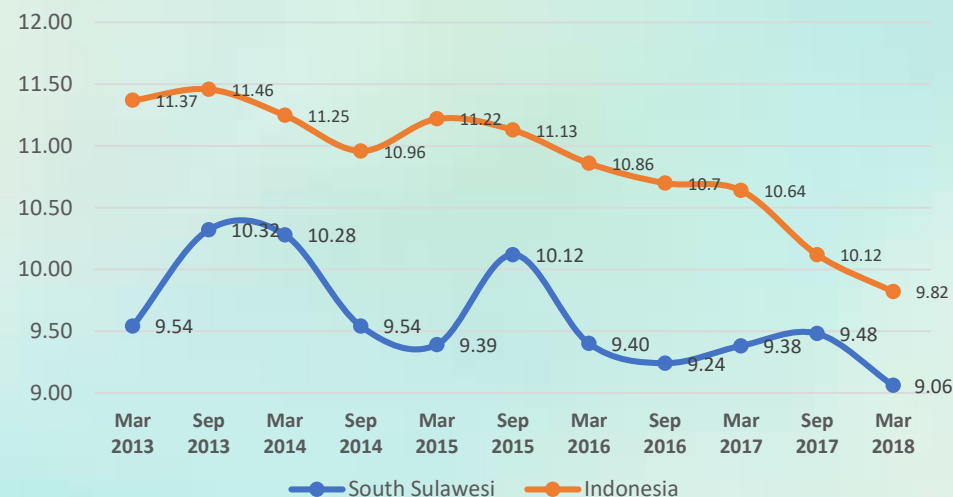


# Number of Poor People in South Sulawesi : Downward Trend and Below the National Average

Number of poor people in South Sulawesi



Indonesian and South Sulawesi Poverty Trends

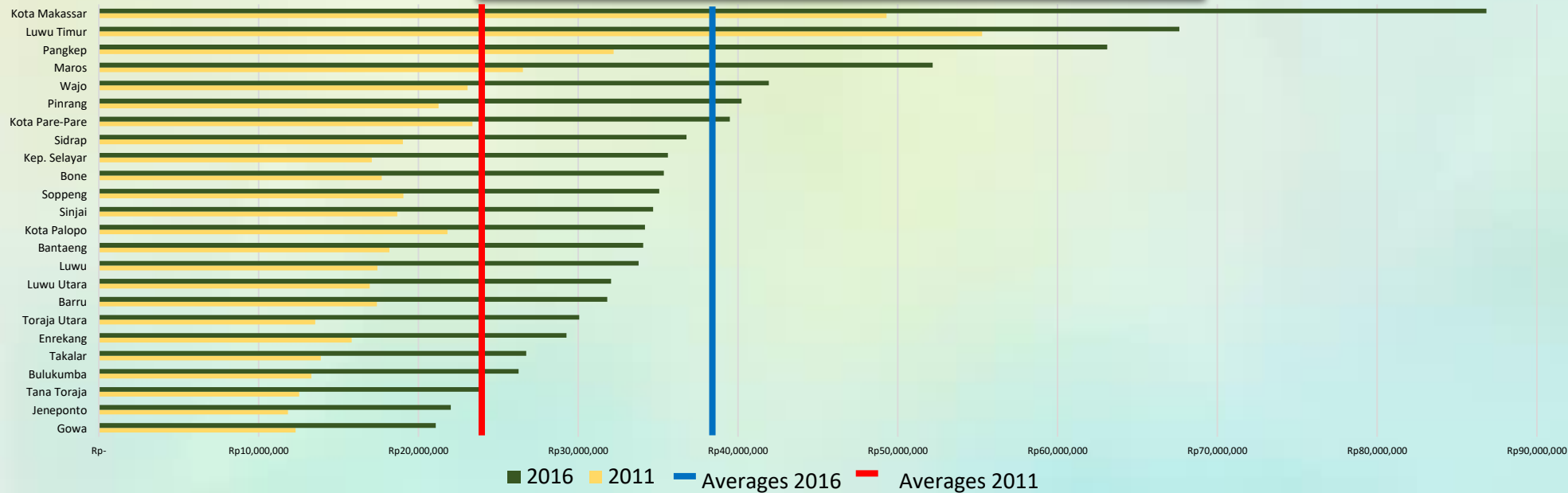


- The percentage of poor population in South Sulawesi is still below the National percentage.
- Seen from distribution, rural poverty higher than urban areas, but with a downward trend.
- There are 50% of districts in South Sulawesi that have a poor population above the provincial level. But, cities such as Makassar and Pare-Pare which is more developed was far below South Sulawesi.



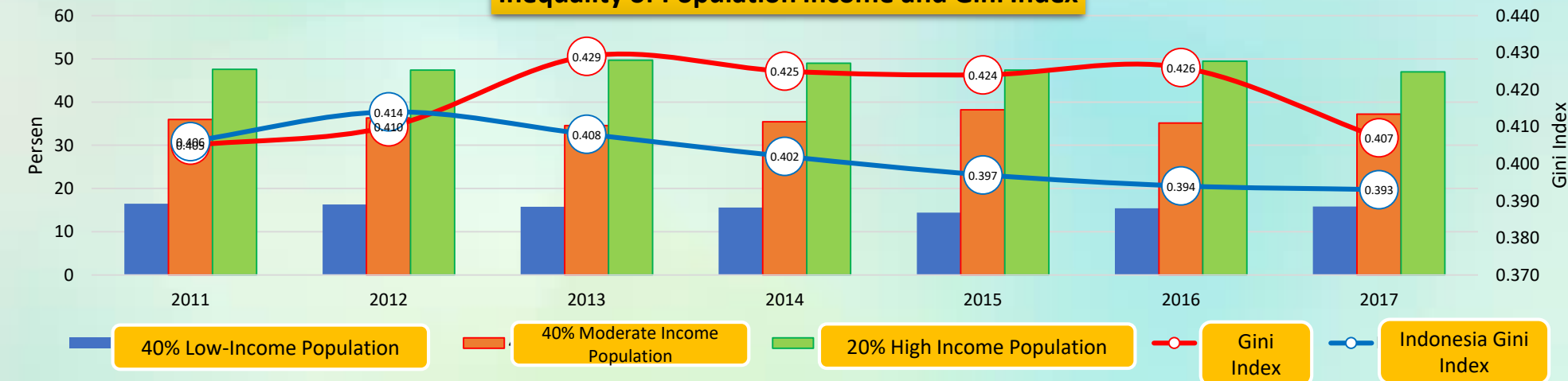
# GRDP/capita's Disparity between districts / cities and Gini Ratio in South Sulawesi is quite high

GRDP per capita between districts/cities in South Sulawesi



There was an income increasing between 2011 and 2016. Several cities in South Sulawesi had highest income than other districts.

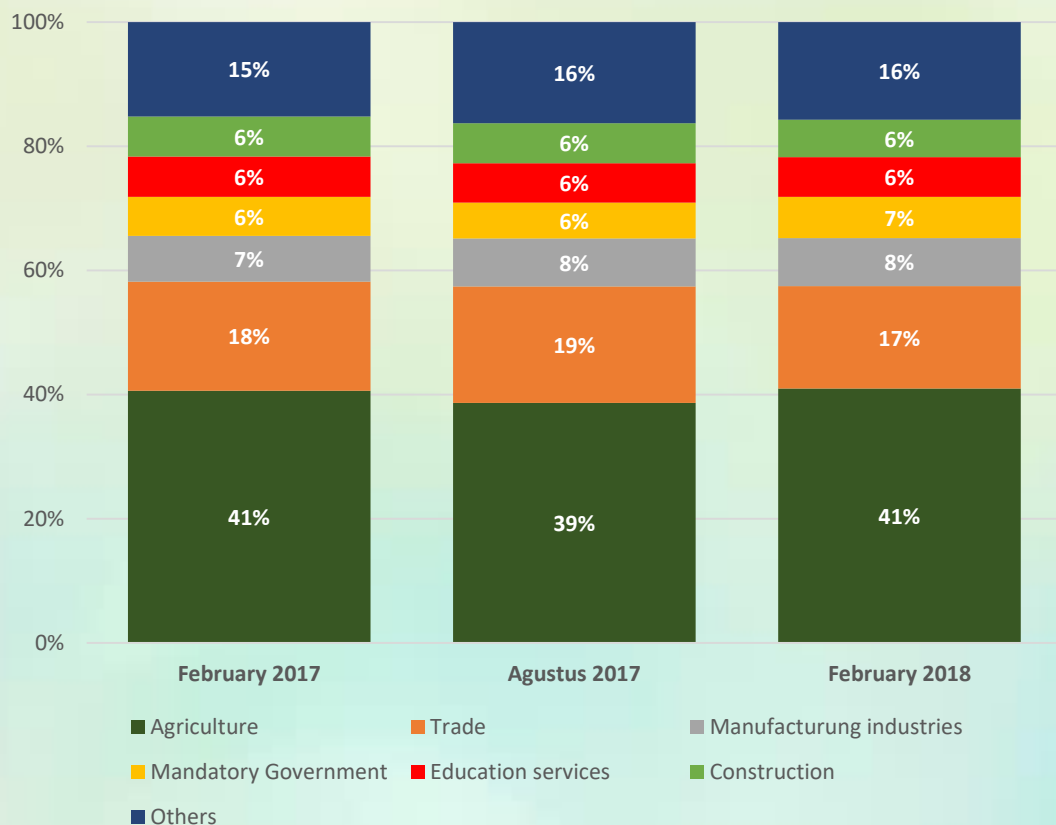
Inequality of Population Income and Gini Index



- Inequality of income in South Sulawesi is relatively higher than National level.
- The growth of income Group of 20% of the high income population is higher than the other group.



# Agriculture and Trade Sectors were the dominant sector to absorb Labor in South Sulawesi



Sector	February 2017	August 2017	Februaryy 2018
Agriculture	1.544.614	1.391.639	1.617.680
Trade	666.962	674.127	652.232
Manufacture	279.668	279.246	304.224
Adm. Government	239.782	206.819	262.878
Education Service	246.833	228.271	253.103
Construction	245.679	232.673	236.673
Others	577.869	585.888	622.506
Amount	3.801.407	3.598.663	3.949.296

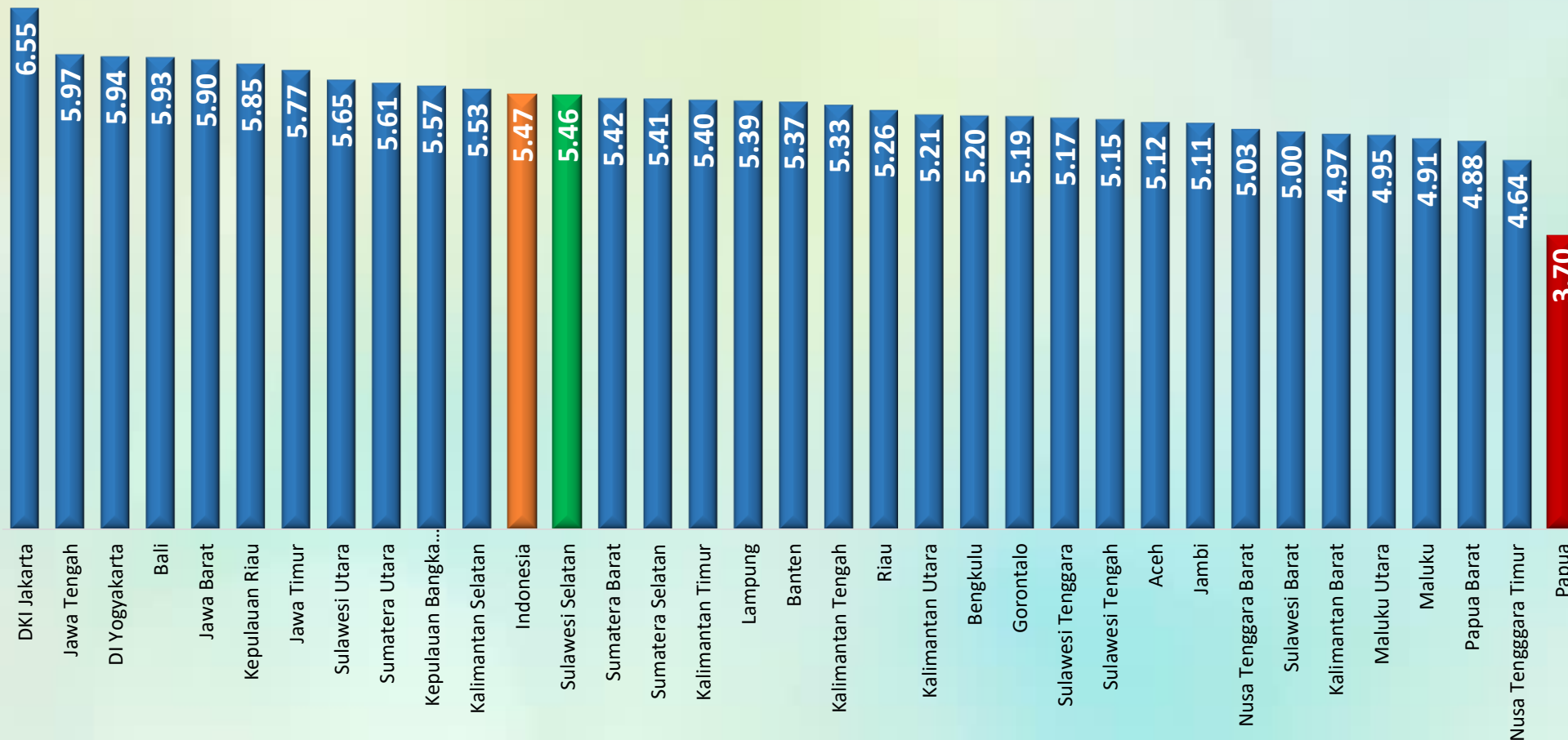


- The agriculture still the main sector to absorb labor in South Sulawesi Province. In February 2018, agricultural sector was able to absorb 1.62 million people, this number grew positively compared to February and August 2017.
- This increase was caused by the harvest in early 2018 so that the needs of worker in the harvest season had raised.
- Other sectors that contribute to absorb labor in South Sulawesi are Trade and followed by the Processing Industry.

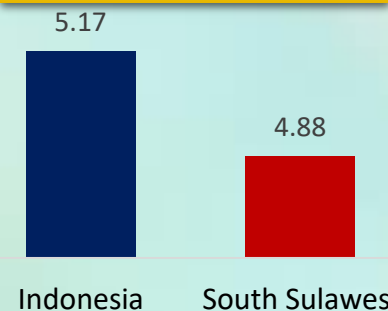


# The Inclusive Economy Index of South Sulawesi Province is 5.46

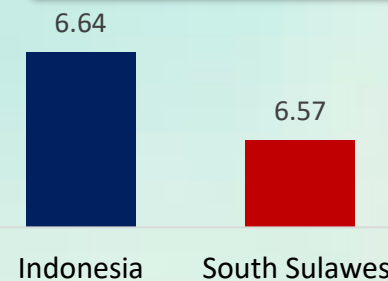
... The inclusive economic development index of South Sulawesi Province was still below the national level



## 1st Pillar : Economic Growth



## 2nd Pillar: Income Equality and Poverty Reduction



## 3rd Pillar: Improving Access and Opportunity



- Notes: values 1-3 are “unsatisfied” categories, values 4-7 are “satisfied” categories and values 8-10 are “very satisfied” categories. Calculation of the Inclusive Economic Development Index based on economic growth, income distribution and poverty reduction and expansion of access and opportunity
- The position of South Sulawesi is still below the National level due to the low index of economic growth pillars and pillars of equity and poverty alleviation.



# Problems in Economic Inclusive Index in South Sulawesi

## Share of Manufacturing Sector was still low to GRDP

- No sustainable supply of raw materials
- Sociologist/culture factor: Sulawesi people as “Trader”
- Policies related to the down streaming of the agricultural sector to the manufacture have not yet been optimal yet



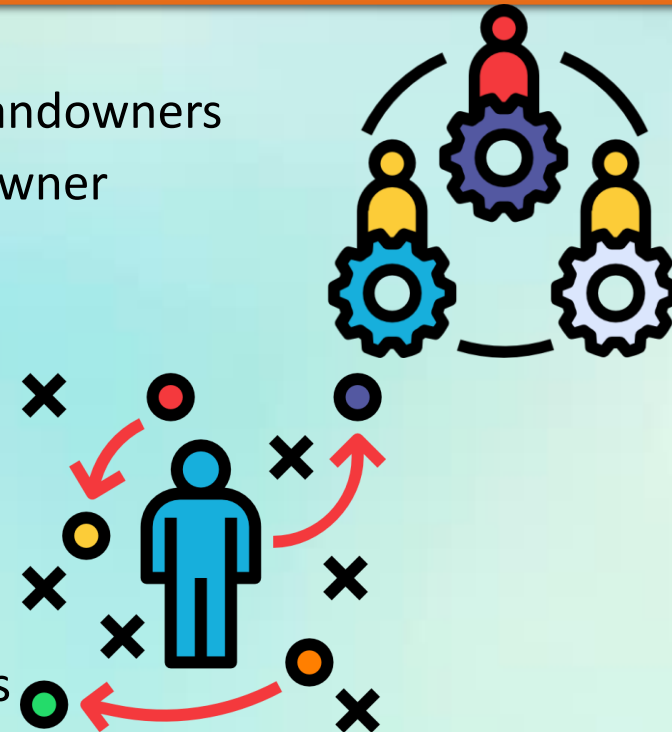
## High Level of Inequality

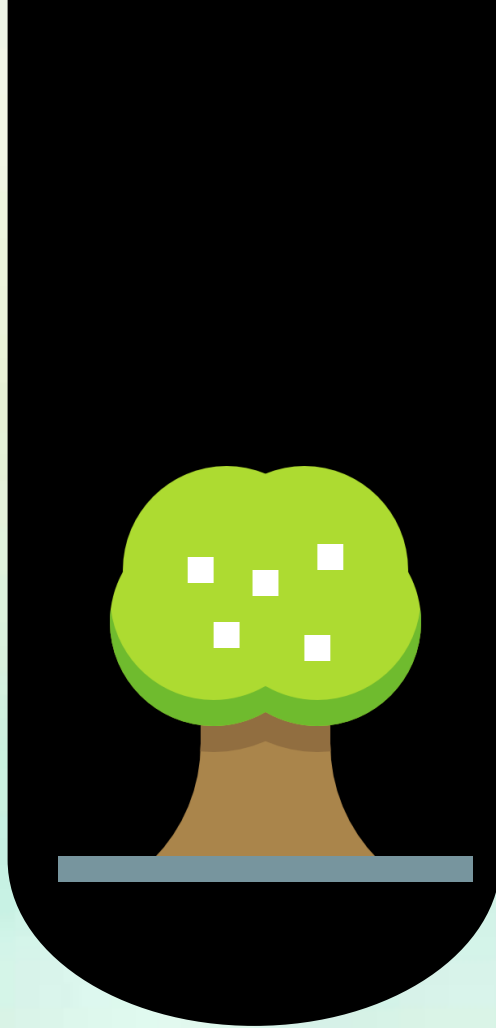
### Income

- The majority of farmers (70%) = sharecroppers, not landowners
- The majority of fishermen= fishermen workers, not owner
- *Wage Gap* between sectors
- Change in economics structure
- HRD disparity between income groups

### Region

- ❖ Infrastructure
- ❖ Excellent commodities that are already saturated
- ❖ Geographical-spatial and regional endowment factors





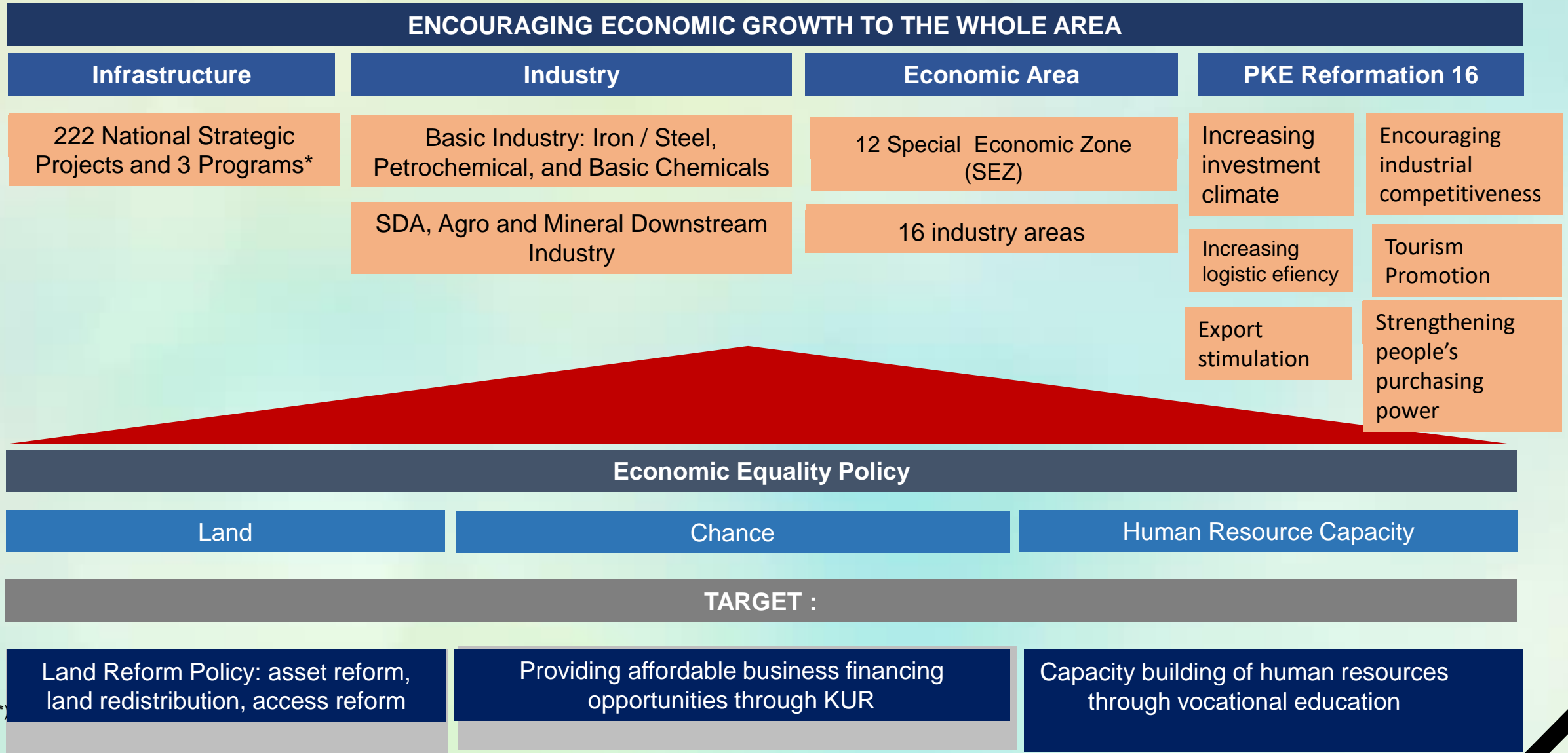
# Policy Direction





# Policy Strategy

The success of economic growth and the improvement of people's welfare cannot be separated from government policies. Government policy packages are in the form of infrastructure development, strengthening competitiveness, economic zones and building tourism areas in all parts of Indonesia which supported by economic equality policies.





# Encouraging the diversification of sources of growth : Development of Infrastructure through PSN (National Strategic Project)

## Bendungan Lausimeme

- Total investment sebesar **Rp 741 Billion**
- Operation Target: 2021

Lake Toba is one of the top 10 national destinations.

## KEK Sei Mangkei

- The main business is in the form of palm oil and rubber industries.
- Project impact on the economy Rp. 92,1 trillion
- Employment in 2017 : 3.672 person.
- Estimated Investment
  1. Infrastructure : Rp. 4,2 trillion
  2. Business investment : Rp 123,3 trillion
- Existing investor:
  1. PT. Unilever Oleochemical Indonesia (PT UOI)
  2. PT. Industri Nabati Lestari
  3. PT. Alternatif Protein Indonesia (on process)

## Kereta Api Tebing Tinggi – Kuala Tanjung

- As a means of supporting KEK Sei Mangkei and being part of KA Trans Sumatra Network
- Total investment sebesar **Rp 477 Billion**

## Industrial Zone of Kuala Tanjung

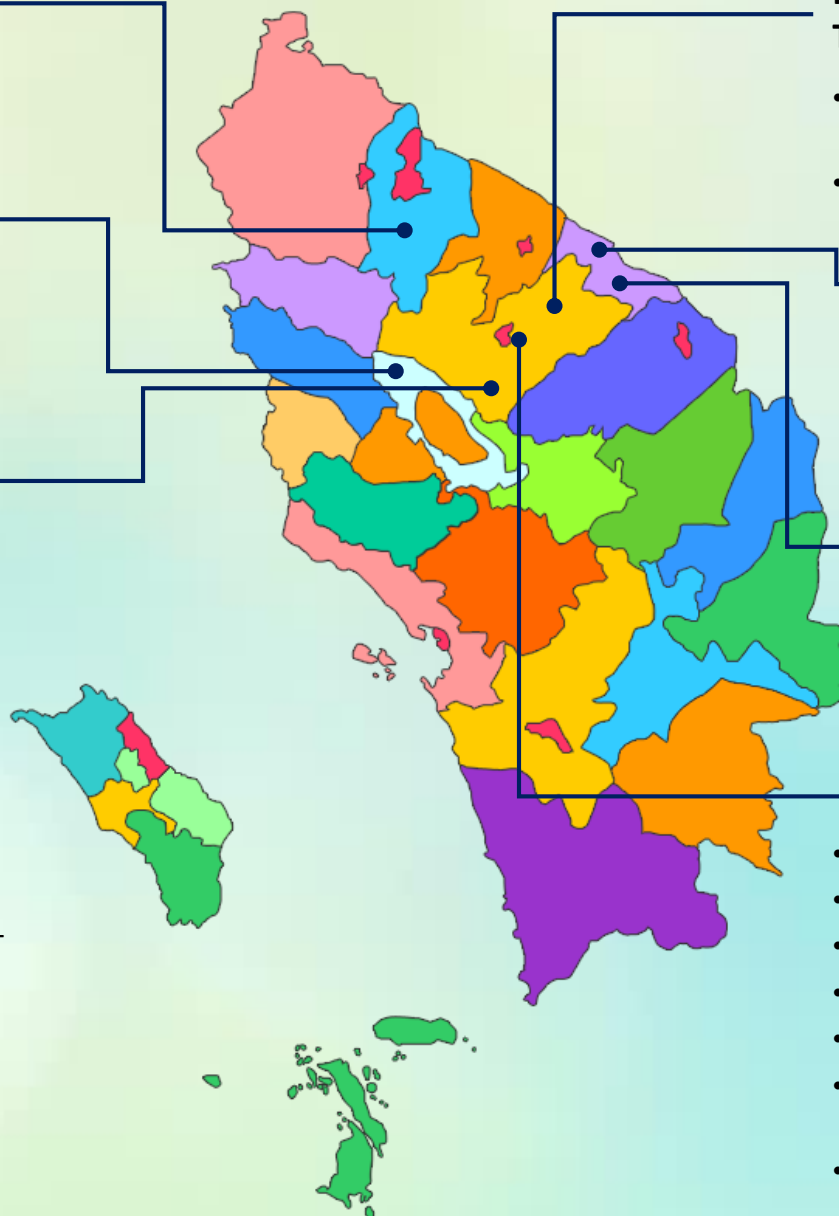
- Total investment **Rp 3.5 Trillion**
- Progress :
  1. Land acquisition until May 2018 amounting to 61 hectares (11%)

## Kuala Tanjung International Hub Seaport

- The Kuala Tanjung international hub port aims to create an entrance for logistic flow to the western region of Indonesia
- Support the development KEK Sei Mangkei
- Total investment **Rp 30 Trillion**

## Toll Road Project

- Medan – Binjai – Toll Road (16 km)
- Kisaran – Tebing Tinggi – Toll Road
- Medan – Kualanamu – Lubuk Pakam – Tebing Tinggi Toll Road (62 km)
- Binjai – Langsa Toll Road (110 km)
- Rantau Prapat – Kisaran Toll Road (100 km)
- Tebing Tinggi – Pematang Siantar – Prapat – Tarutung – Sibolga Toll Road (200 km)
- Dumai – Sp. Sigambal – Rantau Prapat Toll Road (175 km)





# Types and Characteristics of Regional Infrastructure Financing Instruments

.....Local governments need to be encouraged to develop regional infrastructure development innovations by adopting a portfolio approach

	Desirability criteria						
	Tenor	Interest Rate	Currency match	Risk profile	Complexity and transaction costs	Implementation	Amount available
<b>APBN/APBD</b>	Not applicable	Not applicable	Not applicable	Not applicable			Unlikely to increase significantly in the medium term
<b>PT SMI</b>	Up to 25 years	<10%	Debt issued in IDR	Government guarantee; Local government debt transfer if there is a default		Outstanding 1,21 Trillion Commitment 2,78 Trillion	SMI has sufficient funds in the medium term
<b>Regional Bonds</b>	10-15 years*	10% (rating AA+)	Debt issued in IDR	No government guarantee		Prov. Jateng for issuance planned 2019-2021	Limited by investor demand*
<b>Regional Loans through BPD</b>	<10 years*	>12%*	Debt issued in IDR	No government guarantee;		Rp1.204 billion Update per August 2018*	Loan ceiling size is likely to be small
<b>Public Private Partnerships (PPPs)</b>	10-30 years	16-18%*	Finance can be in any currency	Depends on risk allocation		Only two local government PPPs signed	Limited by pipeline of suitable projects

Undesirable
Somewhat undesirable
Neutral
Desirable
Very Desirable

Source: Prospera

\*the data is the number of loans proposed by the Regional Government to the BPD and has been approved by the Minister of Home Affairs in 2018



## Innovation of Financing Sources by Enhancing Investment Opportunity and Creditworthiness, through:

- Efficiency and Effectiveness of Financial Governance
- Transparency and Accountability in Local Government Execution



### Transparency and quality of financial reports

- Audit opinion for last 2 years
- Timeliness of publishing financial reports
- Public access to fiscal information (APBD, RKA and SKPD)



### Budget performance

- Aggregate expenditure outturn\*)
- Capital expenditure outturn\*)
- Proportion of capital to total expenditure\*)
- PAD outturn
- Proportion of PAD to total revenue
- SILPA balance proportion of expenditure
- Ratio of debt to revenue / assets



### Budget processes and governance

- Implementation of Medium Term Budget Finance (MTBF) and it's alignment with strategic plan
- Multi-year contracts expenditure as proportion of total expenditure
- Perda APBD passed on time
- Use of e-Government for PFM



### Infrastructure planning and management

- Economic analysis of investment proposals
- Investment project selection
- Investment project costing
- Investment project monitoring





Thank you



# Increasing the role of local governments to reduce inequality in their respective regions



## Reducing Expense (especially for the poor)

- **Monitoring and Evaluation**  
To ensure the right amount, on time and on target
- **Replicating National Program** increases the participation coverage
- **Regional Program Innovation**
- **Encouraging Synergy of National Priority**



## Increasing Income (especially for the poor and vulnerability)

- **Preparing Business Units** to be accessible by banks
- **Preparing Human Resources** to compete and could be more productive
- **Preparing Regulations** to improve the effectiveness of the implementation of the Village Law (Utilization of DD and ADD)
- **Regional Program Innovation**
- **Encouraging Synergy of National Priority**





# **GOVERNMENT POLICY**

**The government issued various policies to support investment climate and economic equality**

# 1 ONLINE SINGLE SUBMISSION (OSS)

**OSS is a system that integrates all business licensing services within the authorized authority (i.e Minister/Head of Institution, Regent, or Mayor) through single electronic platform.**

## Basic Principle



**TAX HOLIDAY**

1

**100% Corporate Income Tax Reduction  
(Tax Holiday) for pioneer industries, with  
concession period of :**

500B - <1T Investment value	5 years
1T - <5T Investment value	7 years
5T - <15T Investment value	10 years
15T - <30T Investment value	15 years
≥30T Investment value	20 years

2






**INCOME TAX REDUCTION  
FOR MSMEs**

**Reduction in final  
income tax rates from  
1% to **0.5%****





# Fiscal Incentives: New Tax Holiday Policy

PROVISION	BEFORE	AFTER						
 Taxpayer	<p>Pioneer Industry with minimum investment value of 1 trillion Rupiah (minimum investment value of 500bn Rupiah for telecommunication sector)</p> <p>Applied to 8 industry groups: (i) upstream basic metal industry; (ii) oil and gas refinery industry; (iii) organic basic chemicals industry; (iv) machinery industry; (v) plantation, forest, and fishery products processing industry; (vi) telecommunication, information and communication industry; (vii) marine transportation; and (viii) economic infrastructure</p>	<p>Pioneer Industry with minimum investment value of 500bn Rupiah</p> <p>Applied to 17 industry groups: (i) upstream base metal; (ii) oil and gas refinery; (iii) petrochemical (oil, gas, or coal based); (iv) non-organic base chemical; (v) organic base chemical; (vi) pharmaceutical materials; (vii) semiconductor and other components; (viii) communication devices components; (ix) medical devices components; (x) machine manufacturing for industry; (xi) machine main components manufacturing; (xii) robotic components manufacturing; (xiii) ship components manufacturing; (xiv) airplane components manufacturing; (xv) train components manufacturing; (xvi) power plants; and (xvii) economic infrastructure</p>						
 Corporate Income Tax (CIT) reduction rate	10 - 100%	100% (single rate)						
 Concession period	<ul style="list-style-type: none"><li>5 - 15 years; or</li><li>Can be extended to 20 years; subject to MoF discretion</li></ul>	<p>5 - 20 years depends on the investment value (in IDR):</p> <table><tr><td>1. 500Bn - 1Tn : 5 years</td><td>4. 15Tn - 30Tn : 15 years</td></tr><tr><td>2. 1Tn - 5Tn : 7 years</td><td>5. ≥ 5Tn : 20 years</td></tr><tr><td>3. 5Tn - 15Tn : 10 years</td><td></td></tr></table>	1. 500Bn - 1Tn : 5 years	4. 15Tn - 30Tn : 15 years	2. 1Tn - 5Tn : 7 years	5. ≥ 5Tn : 20 years	3. 5Tn - 15Tn : 10 years	
1. 500Bn - 1Tn : 5 years	4. 15Tn - 30Tn : 15 years							
2. 1Tn - 5Tn : 7 years	5. ≥ 5Tn : 20 years							
3. 5Tn - 15Tn : 10 years								
 Transition	Not available	50% CIT reduction for the next 2 years						
 After Tax Holiday	Tax allowance not provided	Tax allowance for business expansion can be provided with terms and conditions applied						

# Government Policy: Improvement of Human Resources Through Vocational School



## Internship

Internship program within the cooperation of Ministry of Manpower and KADIN

### 3.5 Years ACHIEVEMENT



- 7.710 People by 2017
- 2.000 People (By March 2018)



Link and Match between the Education and Business and Industry Sectors.

Building cooperation between the education and business and industry sectors.

### 3.5 Years ACHIEVEMENT



568 Companies



37.534 3-in-1 education and training Participants



1.537 vocational school



2.770 Cooperation Agreement

P.S until the launching of the 5<sup>th</sup> vocational industry in Banten

### 3.5 Years ACHIEVEMENT



64  
SKK  
2014

104  
SKK  
2015

107  
SKK  
2016

45  
SKK  
2017



421.927 Certificated manpower by 2017

### 3.5 Years ACHIEVEMENT



13.236 SMK



301 BLK



192 Politeknik



9.106 LPK Swasta



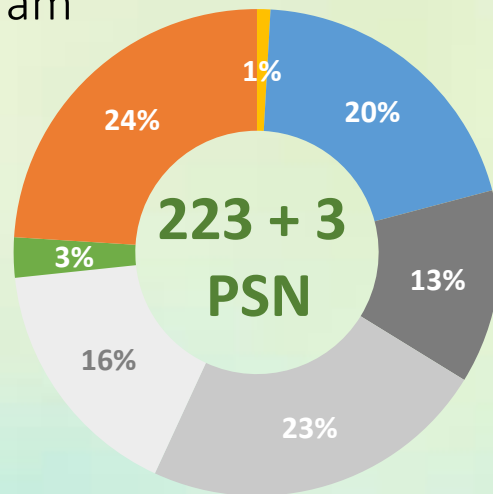
## Kelembagaan

Development of education institution and vocation training (BLK, SMK, and Poltek).

# Government Policy: Accelerate Infrastructure Development

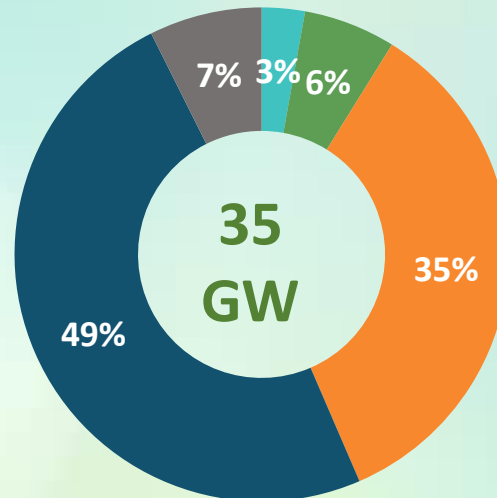
Progress Status of National Strategic Projects (PSN) and 35  
GW Electricity Program

Progress of PSN and  
Programs  
per June 2018<sup>1</sup>



- 2 projects already **completed**
- 44 projects and 1 Electricity Program in **construction and partial operation phase**
- 29 projects in **construction and will start operating in 2018**
- 52 projects in **construction and will start operating in 2019**
- 37 projects in **construction and will start operating after 2019**
- 6 projects in **transaction**
- 53 projects and 1 Airplane Industry Program in **preparation**

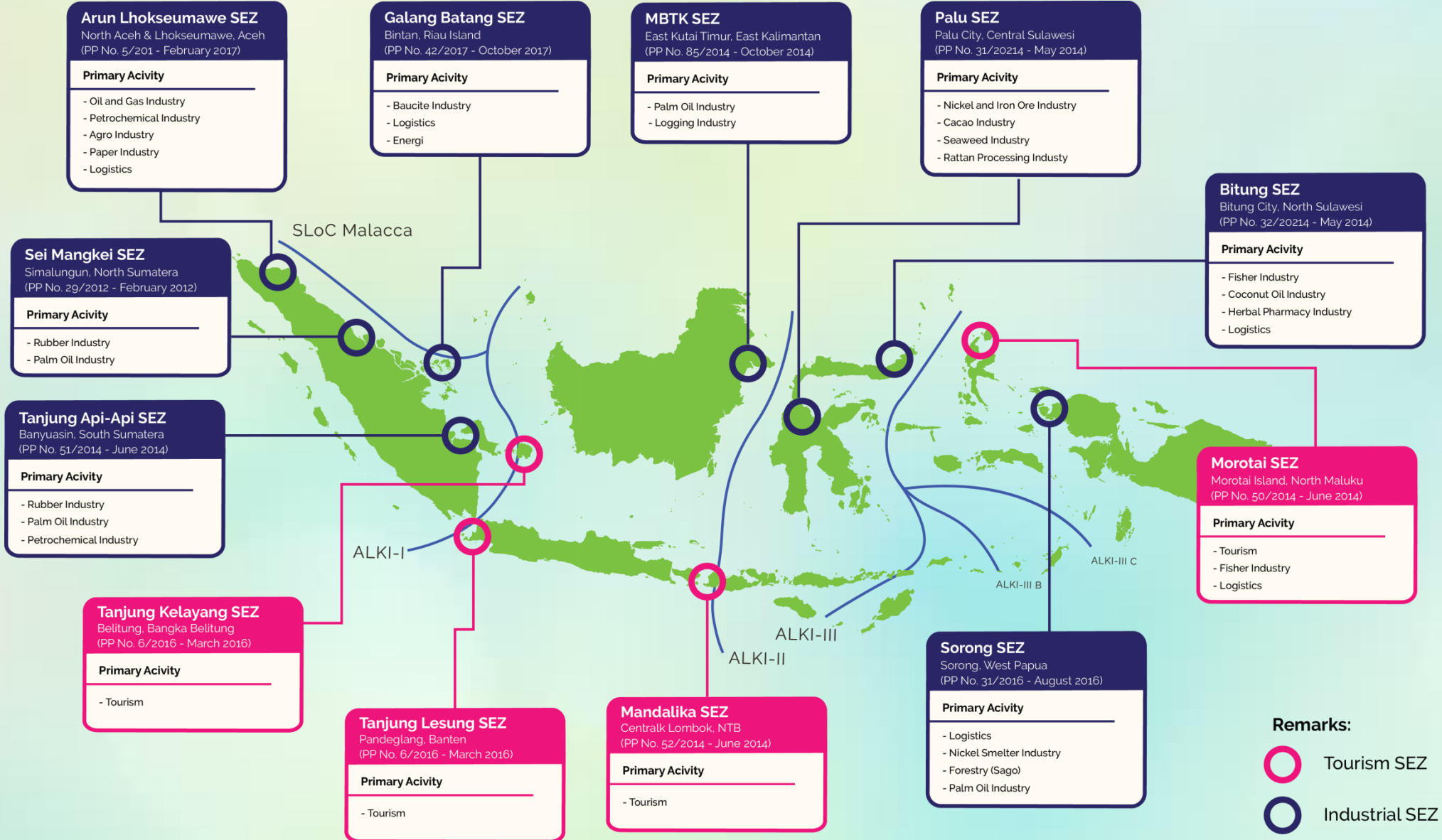
Progress of 35 GW  
Electricity Program  
per July 2018



- 2.614 MW are **operating**
- 17.403 MW are in **construction**
- 12.281 MW have **signed PPA** but have not reached financial close
- 2.135 MW are in **procurement**
- 1.002 MW are in **planning**

<sup>1</sup> Excluding the economic equality program that will be reported separately



**Investment incentives in SEZs**

- 100% foreign ownership
- Corporate Income Tax Holiday up to 25 years / local taxes in tourism SEZ
- \*for activities that comply with the main focus of the zones
- Tax allowance up to 10 years
- Competitive Capital Cost
- Online Single Submission and One Stop Shop for all relevant clearance
- 0% import duties for imported goods (negative list) entering SEZ
- 0% Value-Added Tax for transaction within SEZ
- Simplified immigration formalities

Total Output 12 SEZ  
USD 4,8 Billion

Expected Output (2025)  
USD 53 Billion

Expected Minimum PDB  
2025  
USD 1.908 Trillion  
Per Capita US\$ 6700/Capita

## 4.3

Government is Developing 14 Integrated Industrial Zones Across Indonesia Such as Aluminum, Food, Manufacturer, Furniture Industry, Etc.

Kuala Tanjung



Landak



Ketapang



Tanah Kuning



Jorong



Morowali



Buli, Halmahera Timur



Bintuni



Tanjung Buton



Tanggamus



Wilmar Serang



Kendal



Gresik



Batulicin



Bantaeng



Konawe



## 5 Expansion of KUR Receptient

# KUR Distribution Performance of 2017

### Stakeholders

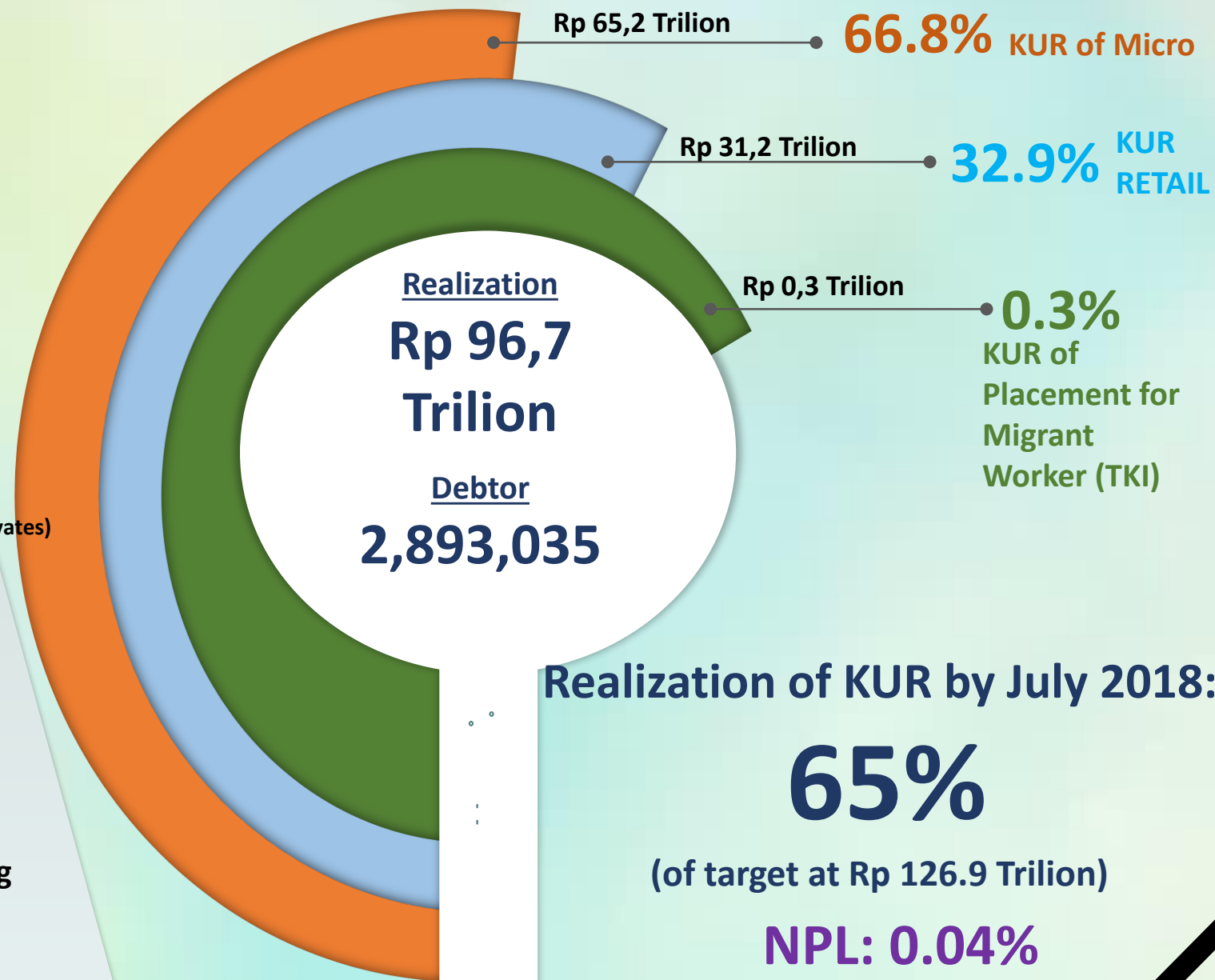


- 14 Central Government
- 2 Supervisor
- 34 Bank (State-owned Enterprises (BUMN) & Privates)
- 4 Non Bank Institutions
- 2 Cooperatives
- 2 Deposit Insurance Agency (LPS)
- Entire Regional Government (Province, Municipalities)

### Economic Sector



Fisheries, Hunting, Forestry, Processing Industry, Trade, Construction, and Services



Realization of KUR by July 2018:

**65%**

(of target at Rp 126.9 Trillion)

**NPL: 0.04%**

# AMENDMENT OF KUR 2018

Based of Permenko No.11 Thn 2017

To optimize the KUR program implementation and the accuracy increase of KUR distribution target, the Coordinating Ministry for Economic Affairs designated Regulation Number 11 of 2017 regarding the KUR Implementation Guidelines. The 12 KUR policy points are valid from January 1, 2018.

01

The Business Group  
Becoming The  
Recipient Of KUR



02

Special KUR Schemes  
(For Plantations,  
Livestock, And  
Fishery)



03

Interest Rate of KUR  
in 2018 to be 7%



04

Minimum Portion of  
Distribution to the  
Production Sector



05

Multisectoral KUR  
Scheme



06

Payment Mechanism  
for Bayar Panen  
(Yarnen) and Grace  
Period



07

Changing  
Terminology of Retail  
KUR to be Small KUR



08

Micro KUR Ceiling for Production  
sector is Rp 25 Million per  
production cycle, while outside  
the maximum production sector  
the ceiling accumulation is Rp  
100 million



09

Channel distribution in  
conjunction with other  
allowed credits (KUR, KPR,  
KKB, SSRG)



10

Cost Structure of  
Placement Migrants  
Worker's KUR



11

KUR for Border  
Inhabitans



12

KUR for the KUBE  
optimization





# FINANCIAL INCLUSION PROGRAM

In the last three years, government has taken some **strategic measures to improve financial inculsion:**

## 01

Issuance of regulation related to NSFI:



1. President Regulation No 82/2016 on NSFI
2. Decree of Coordinating Ministry for Economic Affairs No 93/2017 on Working Groups and the Secretariat of National Council of Financial Inclusion.
3. Coordinating Ministry for Economic Affairs Regulation No 6/2017 on Work Mechanism and Procedure of National Council of Financial Inclusion.

## 02

Implementation of Financial Inclusion program:



1. Non-cash allowance such as Non-cash Social Allowance, Non-cash Food Allowance, Farmer Card, Smart Indonesia Program.
2. Credit program for people business including People Business Credit (KUR) and Developing Prosperous Family's Economy (Mekaar)
3. Financial services program by agent namely Digital Financial Services and Laku Pandai where people can open bank account through agents

## 03

As the ecosystem of financial service sector has been developing in the last three years, Indonesia financial service and infrastructure sector regulator has succeeded to encourage some key aspects in improving financial service ecosystem such as:



1. National Non-Cash Movement has promoted Less Cash Society,
2. Development of regulation which facilitate the growth of financial technology,
3. Implementation of Palapa Ring and Base Transceiver Station have increased the internet coverage to 55% of villages in Indonesia
4. The launching of National Payment Gate in 4 December 2017 expands interoperability of financial service.

## 04

Acceleration of market access expansion of farmer/fisher/entrepreneur in village through food **e-commerce** application platform.



1. Market access expansion of farmer/fisher/entrepreneur in village through food **e-commerce** application platform.
2. Beside market access, the application allows expansion of farmer/fisher/entrepreneur's access to financial products especially financing and insurance. terutama pembiayaan dan asuransi.
3. The application already can be utilized in some pilot regions before it's national implementation date of 2019.



# GLOBAL FINDEX INDONESIA

**Referring to Global Findex 2017 survey result, Indonesia needs to add 54,388,751 adult residents who have accounts in formal financial institutions to achieve the target of 75% of financial inclusion in 2019**

Digital payment activity has increased, such as in making or receiving online payment system



2017

71%

Indonesia encourages the use of savings accounts: 42% of savings account holders are in formal financial institutions such as banks or microfinance institutions - 10% higher than the average of developing countries.

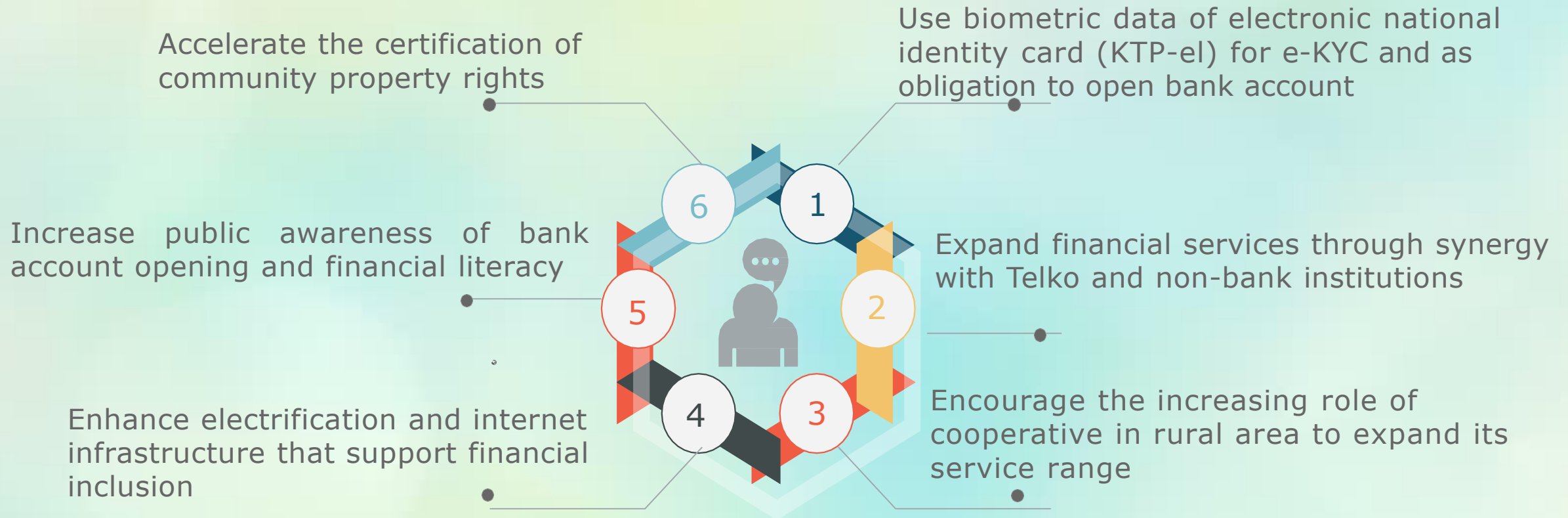






# STRATEGY TO ACCELERATE **FINANCIAL INCLUSION**

**To accelerate financial inclusion while achieving Indonesia financial inclusion target in 2019, Indonesia's National Council of Financial Inclusion has recommended strategic measures which will be executed by seven working groups.**



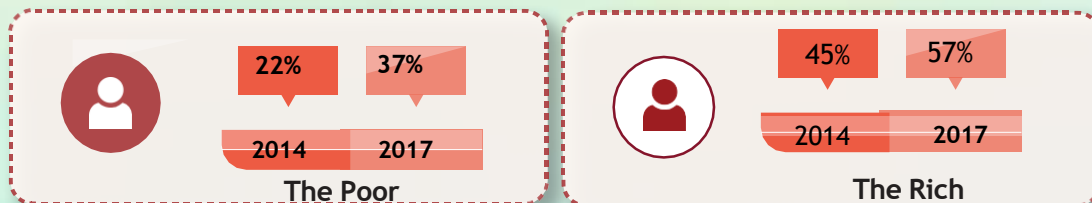


# FINANCIAL INCLUSION SEGMENTATION

## INDONESIA

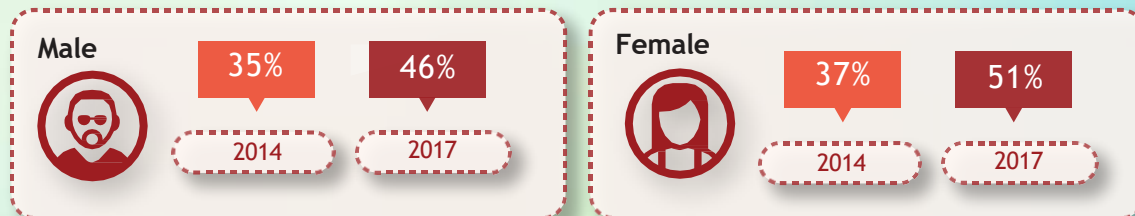
### 1 The Rich and The Poor

Indonesia has experienced a considerable growth in savings account holder for the poor between 2014 and 2017, from 22% to 37%. This growth is much higher than other countries in East Asia and the Pacific which below 10%.



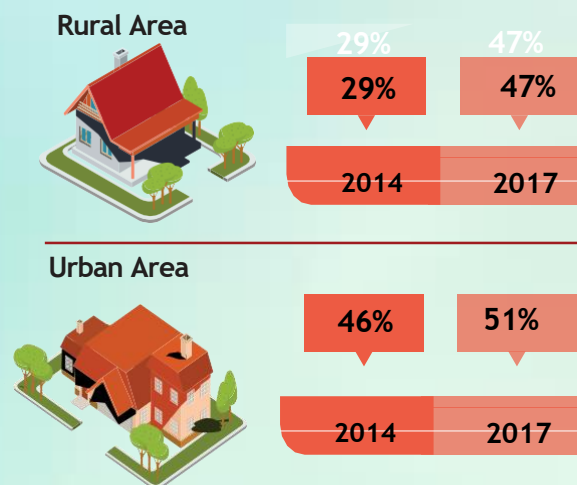
### 2 Financial Inclusion Rate Based on Gender

Indonesia is one of the countries experiencing gender equality in account ownership. The percentage of adult women holding savings account is greater than the percentage of adult males, which is 51% and 46%. Though, men have a higher percentage of account ownership than women globally.



### 3 Financial Inclusion Rate Based on Living Location

Ownership of savings account in rural areas increased sharply. By 2014, only 28% of rural adults have savings account in formal financial institutions. By 2017, the percentage increases to 47%. There is a 15% increase in ownership of saving accounts in rural areas. This increase in ownership of savings accounts is greater than that of East and Pacific (2%) and global (8%) countries.





# INDONESIA DIGITAL FINANCIAL DEVELOPMENT

**Indonesia has made rapid progress in digital financial transactions over a period of three years.**

As many as 35% of adult population has made or received payment digitally or increased 13% compared to the results of 2014. The amount of adult population who use digital transactions for certain purposes include:



12%

Use an account to pay bills



11%

Use the internet to  
buy product online



4%

Use the internet to  
pay bills



8%

Use the internet or  
mobile phone to access  
the account