

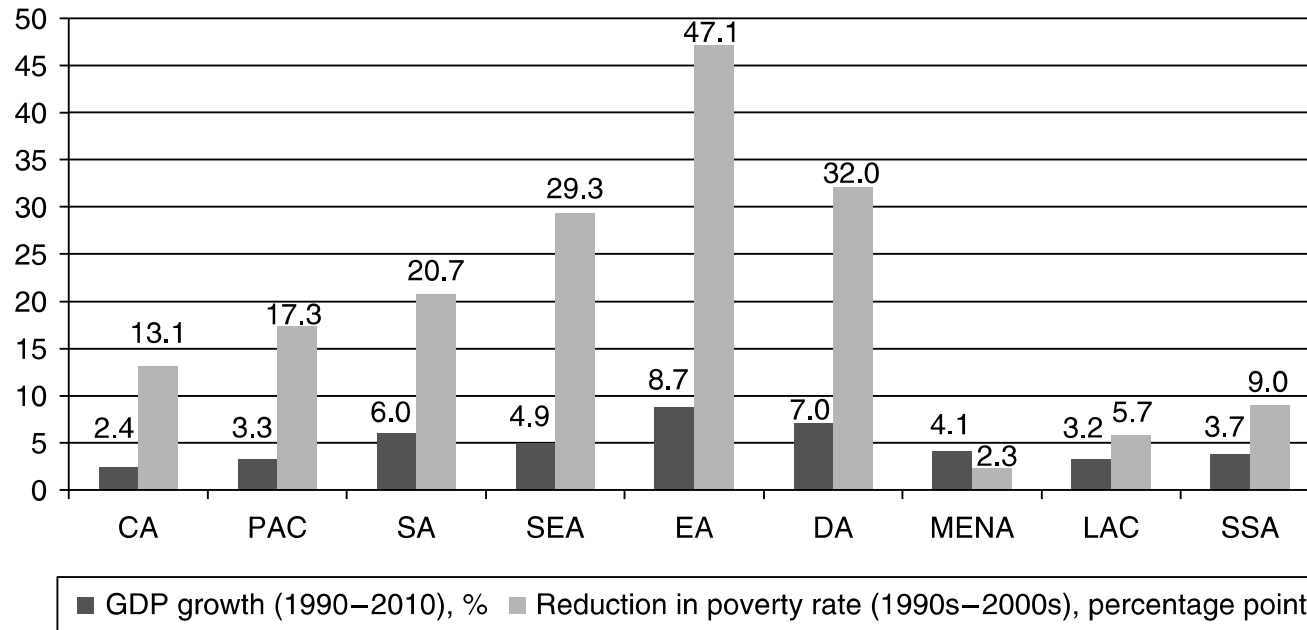


# Inclusive Growth an Indonesian Perspective

**Chatib Basri**

**University of Indonesia**

# Economic growth have positive impact on poverty reduction



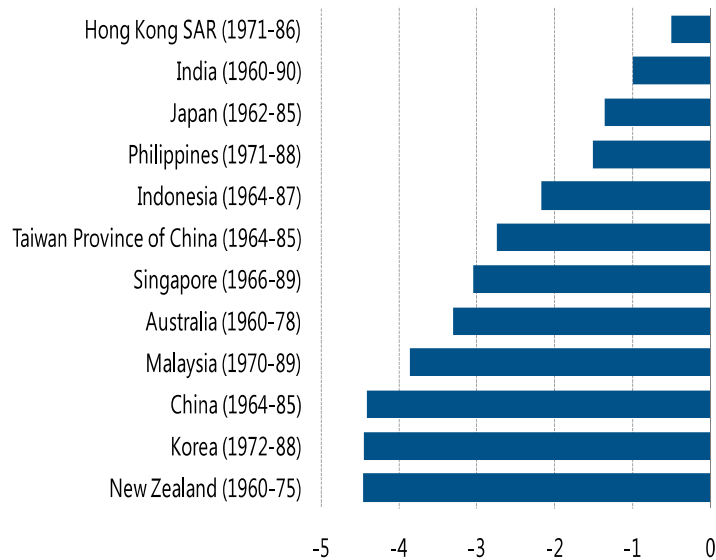
*Figure 1.1* Annual GDP growth (1990–2010) and cumulative poverty reduction (1990s–2000s).

CA = Central Asia; DA = Developing Asia; EA = East Asia; GDP = gross domestic product; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; PAC = Pacific; SA = South Asia; SEA = Southeast Asia; SSA = Sub-Saharan Africa.

# But inequality is rising

**Figure 1: Selected Asia: Income Inequality, Pre-1990**

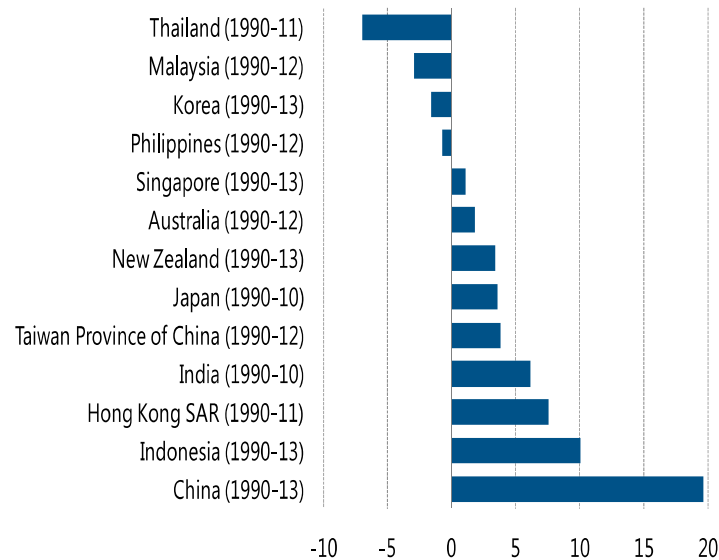
(Net Gini Index; in Gini points; change during the period indicated in parentheses)



Sources: SWIID Version 5.0; and IMF staff calculations.

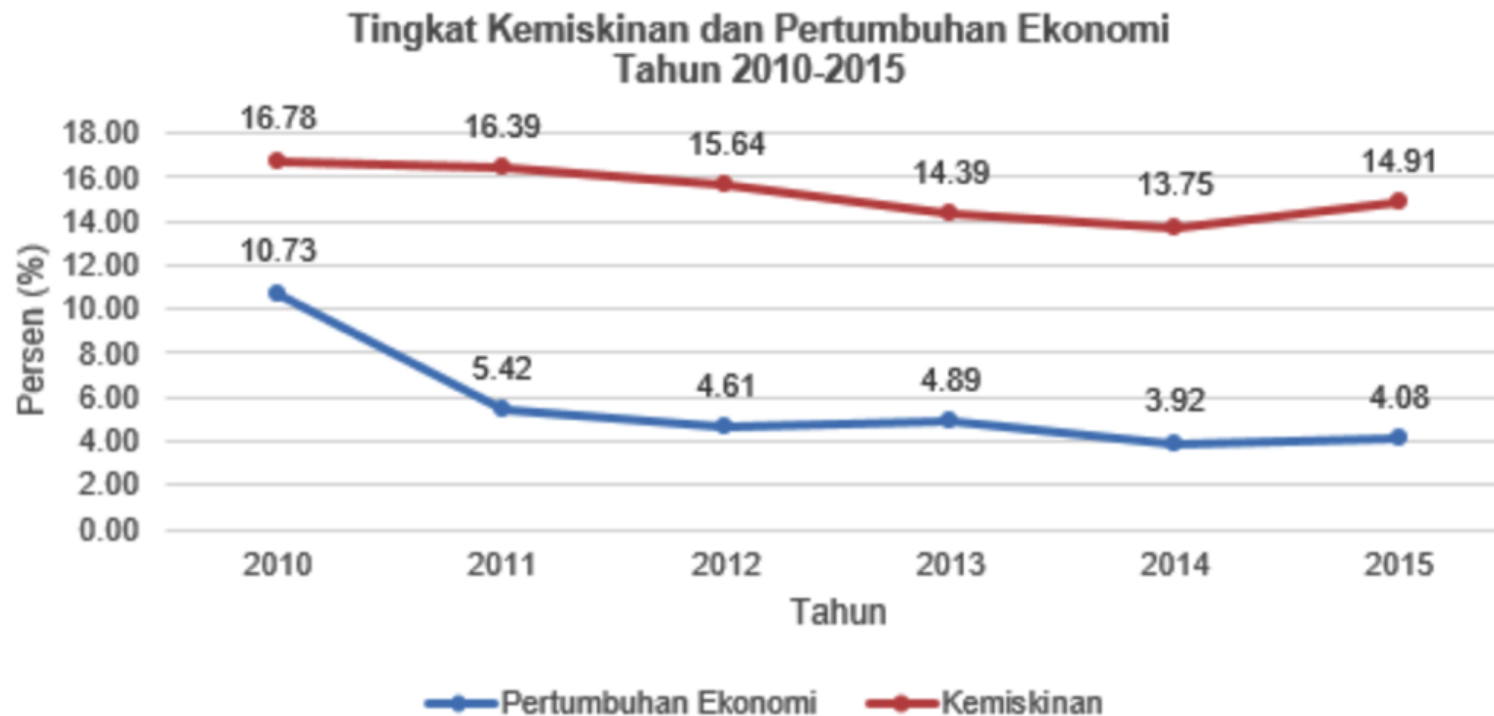
**Figure 2: Selected Asia: Income Inequality, 1990-Latest**

(Net Gini Index; in Gini points; change during the period indicated in parentheses)



Sources: SWIID Version 5.0; and IMF staff calculations.

# Indonesia: Growth and Poverty reduction



# Driving Forces behind rising inequality

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- Technology (labour saving), increasing skill premium (inequality in education, have an impact on rate of return) vs unskilled labour
- Rigidity in the labour market
- Financial market liberalization
- Commodity price; Dutch disease
- Inequality in access: education, health, financial services, infrastructure
- Poor quality of infrastructure
- Demography: aging population
- Corruption and high cost economy

# Policy response to promote growth and addressing inequality

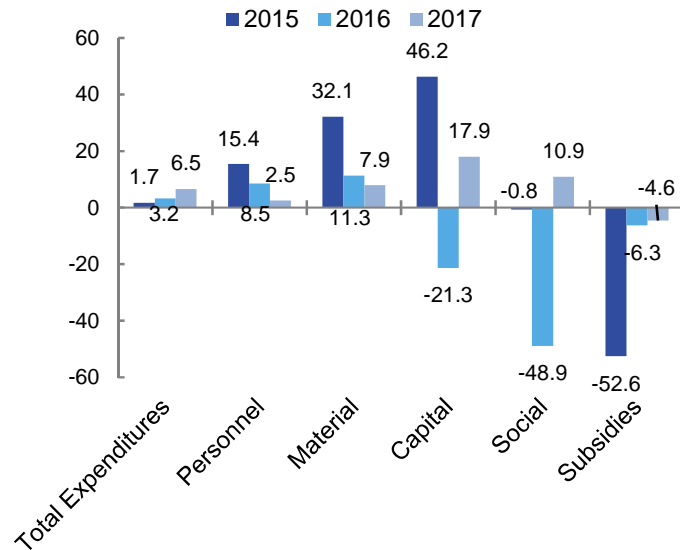
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- Promote more employment friendly economic growth
- Improve labour law
- Improve quality of human capital
- Effective fiscal policy: quality of spending
- Focus more on education, health, infrastructure:  
Case of case transfer, CCT and fuel price hike
- Mobilization of tax revenue
- Financial inclusion: digital technology
- Employment friendly policy
- Economic deregulation
- Inflation: opening up import for staple food

# Better quality of spending

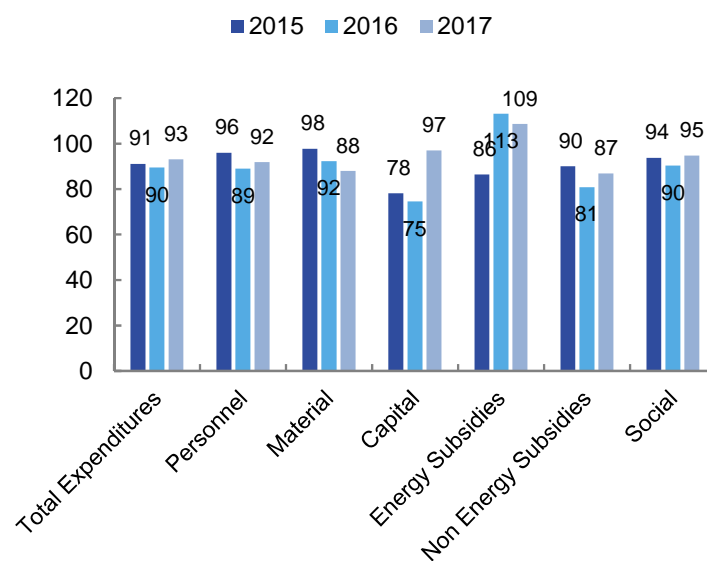
**Figure A.25: Higher capital and social spending drove overall spending growth in 2017**

(annual actual expenditure growth yoy, percent)



**Figure A.26: Disbursements improved overall, especially for capital and social spending...**

(actual expenditure as percent of revised budget)

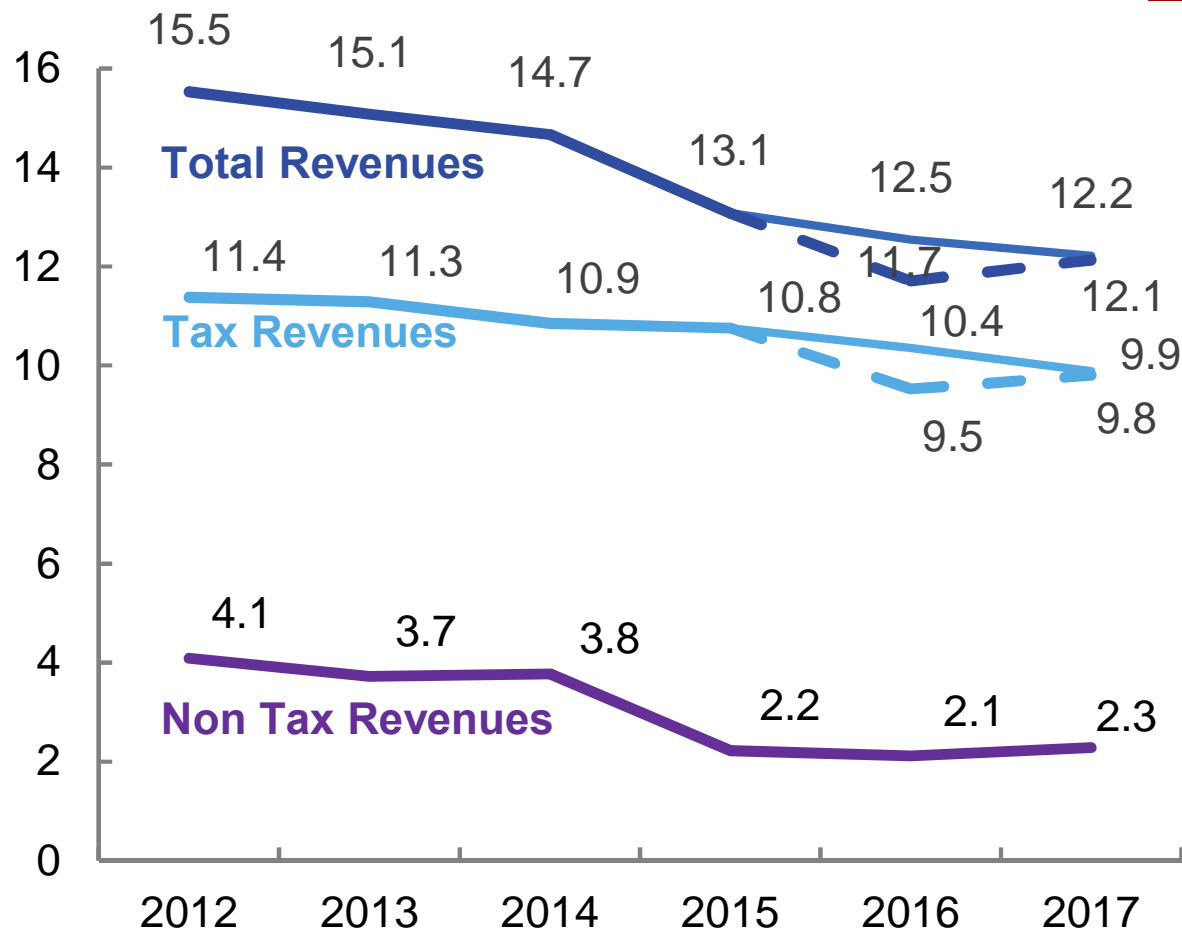


Source: Ministry of Finance, World Bank staff calculations

Note: Some social expenditures were reclassified into material spending in 2015. 2015-2016 are actual audited figures. 2017 are preliminary figures as of February 9, 2018.

# Yet, tax ratio to GDP remains low and steadily decline

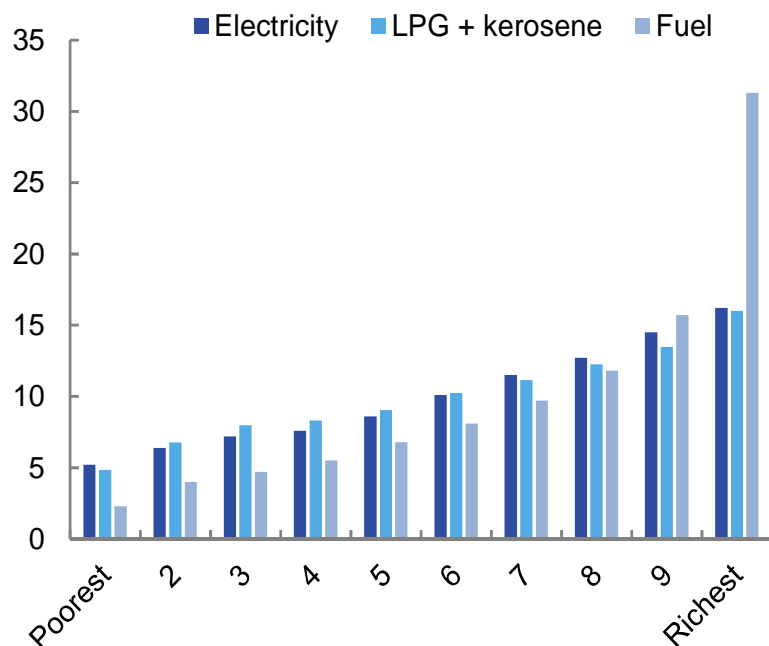
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Source: Ministry of Finance; World Bank staff calculations.

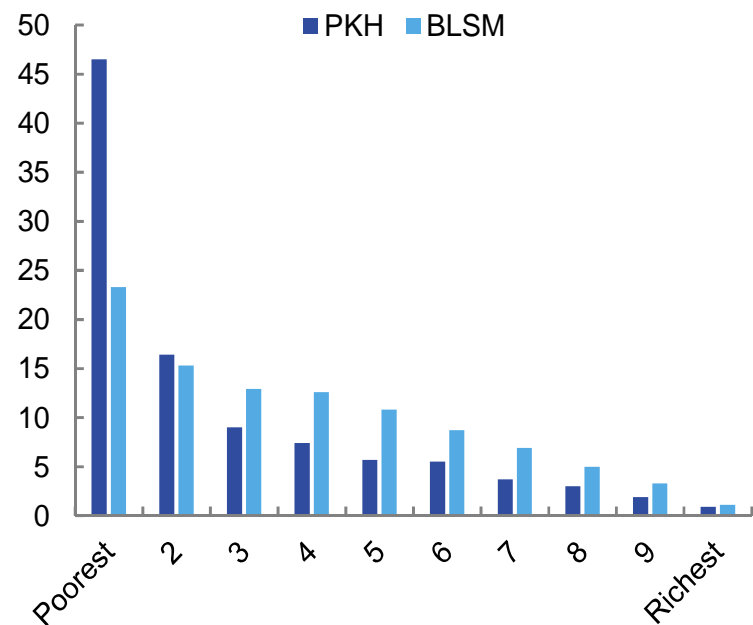
# Budget was spent on regressive energy subsidies

**Figure B.8: Up until recently, about a fifth of the budget was spent on regressive energy subsidies...**  
*(share of benefits received by consumption decile)*



Source: Susenas 2015, World Bank staff calculations

**Figure B.9: ...rather than on progressive direct transfers for social assistance**  
*(share of benefits received by consumption decile)*



Source: Susenas 2015, World Bank staff calculations

# The case of fuel subsidies and cash transfer

- Fuel subsidy is a regressive subsidy
- Cash Transfer and conditional cash transfer
- Targeting the poor and let the poor to identify themselves

Thank you