



OPENING REMARKS

INTERNATIONAL FORUM ON ECONOMIC DEVELOPMENT AND PUBLIC POLICY

“FISCAL REFORM TO SUPPORT STRONG AND EQUITABLE GROWTH: STRIKING THE RIGHT BALANCE”

BALI, DECEMBER 10TH 2015

- ***Distinguished Speakers and Participants***
- ***Distinguished Guests, Ladies and Gentlemen***

Assalamualaikum Wr. Wb.

A very good morning.

- 1. Praise be to God Almighty, Allah S.W.T., by whose blessings, we are all able to gather here today.**
- 2. It is a great pleasure for me to be here today on the first day of this international forum. First of all, on behalf of the Indonesian Government, I would like to express our appreciation to the internationally recognized speakers that have taken time from their busy schedules to join us here in Bali. It is an honor to have you here to share your insights and thoughts on the topic of *“Fiscal Reform to Support***

Strong and Equitable Growth in Indonesia: Striking the Right Balance”.

- 3. I would also like to welcome the many participants that have joined this event and who, I am sure, will benefit from participating in the thought-provoking sessions that we will hear over the next two days.**
- 4. I am delighted to say that this is the 5th event in the Growth Series which has been a collaborative effort of the Ministry of Finance, Bank Indonesia, and the National Development Planning Agency/Bappenas. So, thank you to all the agencies involved.**
- 5. Let me also express my sincere appreciation to the Australian Department of Foreign Affairs and Trade through AIPEG, the Asian Development Bank, and the World Bank, who once again have supported us in organizing and hosting this annual conference.**
- 6. On last Monday, I understand that there was a very productive workshop in Jakarta discussing economic development in Indonesia and the fiscal reforms needed to support strong and equitable growth. The revenue challenges were explored, as well as the spending priorities and the financing strategies. We can look forward to hearing the outcomes of the workshop discussions in the next session.**

Distinguished Guests, Ladies and Gentlemen,

7. This year's program, *"Fiscal Reform to Support Strong and Equitable Growth: Striking The Right Balance"*, builds on the 2013 program, *"Avoiding the Middle-Income Trap"*, and the 2014 program, *"Growth Strategies for a Rising Indonesia"*, by drilling down to the fiscal foundations necessary for success.
8. The middle-income trap is generally defined as a slowdown in per capita income growth once a country reaches middle-income status. A country that has relied on low wages may lose its competitiveness because wages are on a rising trend. Avoiding the middle-income trap entails identifying strategies to introduce new processes and finding new markets to maintain export growth. To become more productive and competitive, a country should improve its skills and human capital formation, infrastructure, technology, and institutional development. Of course, all of these are dependent on sound fiscal policy foundations.
9. The main objective of this event is to provide a forum where academia, business sectors, and policy makers from across the globe can collaborate together to identify the appropriate revenue, expenditure, and financing policies needed, as well as the strategies and challenges, to support longer term growth for Indonesia, so that we can avoid the middle income trap.

10. In particular, the forum will focus on the themes of fiscal policy in fulfilling development objectives, which are:

- revenue reform to generate higher and sustainable income that does not sacrifice economic growth,**
- prioritization of productive spending to deliver on objectives, and**
- financing policies that recognize the real constraints, not only on government finances, but also on the whole sectors of economy.**

11. At the end of this forum, hopefully, we will have various strategic options and a policy agenda which might be useful to be implemented in the next few years.

Distinguished Guests, Ladies and Gentlemen,

12. In 2003, Indonesia regained the middle-income status. The economy performed well, subsequently averaging 5.6 percent annual growth through 2014. However, since then, Indonesia has been facing global headwinds, particularly declining global commodity prices, current account deficit, and vulnerability to volatile capital flows, including for budget finance.

13. This year, we have seen moderate growth. GDP is expected to be a little below 5 percent. Investment remains high, at slightly above 30 percent of GDP, but has not yet led to a significant broadening of the economic base.

- 14. As a means to stabilize the economy and stimulate economic growth, the government recently introduced seven policy packages. Some examples of fiscal incentive within the packages are elimination of value added tax for transportation industries, relaxation of tax allowance and tax holiday, subsidy on small business credits, lower asset revaluation tax, and elimination of double taxation for Real Estate Investment Trusts or REITs.**
- 15. Moreover, the government has identified priorities to realize higher GDP in the coming years, including widening the fiscal space for larger spending on development programs. One major fiscal reform taken to achieve this priority is the fuel and energy subsidies reform. This reform substantially increased fiscal space for productive infrastructure spending, sub national transfers, as well as health and social assistances. However, we understand that to attain the optimum level of these spending areas, greater resources with a stronger focus on improving the allocation of resources are required.**
- 16. Even though the government has already taken steps to reallocate savings from energy subsidies to a more productive development spending, an even larger fiscal capacity is still needed to deliver public goods. Raising revenues in an increasingly globalized economy requires strengthening broad-based taxes and improving tax compliance, particularly for personal income tax. The personal income tax base is still narrow; and furthermore,**

only a small share of registered taxpayers actually remits income tax. These continue to be a challenge for us.

Distinguished Guests, Ladies and Gentlemen,

- 17. We are very aware that there is no single strategy or policy that can overcome the complexity of economic growth and economic development issues. One challenge that Indonesia continues to face is the fiscal rule which caps budget deficit at 3 percent of GDP and total government debt at 60 percent of GDP. The government has continuously met this condition, and its debt level is an enviable 24 percent of GDP. However, this budget cap and limited fiscal space have become a significant concern for the government in setting budget priorities.**
- 18. To keep pace with the rapid changes of global and domestic environments, we need to adjust our fiscal strategies. In order to achieve higher economic growth, we need to reform our fiscal policy by focusing more on how to increase productive spending. With limited income, we need to introduce effective and efficient financing policies.**
- 19. There are many tools that can be used by the government to accommodate the economic acceleration plan associated with investment target. Nonetheless, the financing gap remains to be a challenge. Stronger commitments and innovative strategic initiatives from the government are required to boost investment, particularly by the private sector.**

20. Given that global liquidity and investors' appetites for the Asia region in general remain high, the government needs to explore ways to improve the investment environment through regulatory reform and financial deepening initiatives. Indonesia's fundamental macroeconomic outlook is still positive, and financial sector contribution to economic activities is still below its optimum level. Thus, there are many opportunities for further financial market development and deepening.

Distinguished Guests, Ladies and Gentlemen,

21. We recognize the importance of collaboration between people from various backgrounds. For that, once again, we welcome the collaboration of policy makers, academia, business sectors, and other stakeholders from various parts of the world to discuss appropriate fiscal reforms to support sustainable and equitable growth.

22. In developing policies, we also recognize that we cannot just focus on domestic situations. We must look globally. This forum is a small example of collaboration between domestic and foreign institutions, which has been mentioned before. The strategic partnership between various prominent institutions to hold this year seminar captures how domestic and foreign stakeholders converge for a better Indonesia in the future.

Distinguished Guests, Ladies and Gentlemen,

23. Before ending this remarks, I would like to thank all of the speakers and participants, once again, for sparing the time to attend this occasion. I wish each of you all the best, and may you find this two-day seminar productive, fruitful, and insightful.

24. Thank you for your kind attention.

Wassalamualaikum Wr. Wb.

Mardiasmo

Vice Minister of Finance of the Republic of Indonesia