



Program for Economic Resilience, Investment and Social Assistance in Indonesia (P130048)

EAST ASIA AND PACIFIC | Indonesia | Macro Economics & Fiscal Management Global Practice |
IBRD/IDA | Development Policy Lending | FY 2012 | Seq No: 5 | ARCHIVED on 18-Dec-2015 | ISR21701 |

Implementing Agencies:

Key Dates

Key Project Dates

Bank Approval Date:15-May-2012

Effectiveness Date:29-Jun-2012

Planned Mid Term Review Date:30-Apr-2015

Actual Mid-Term Review Date:17-Jun-2015

Original Closing Date:30-Jun-2014

Revised Closing Date:31-Dec-2015

Program Development Objectives

Program Development Objective (from Program Document)

The main objective of the proposed operation is to enhance the Government's crisis preparedness to address the potential adverse impact of ongoing volatility in financial markets on Government's ability to meet its gross fiscal financing needs from markets. Learning the lessons from the crisis of 1997/98 and more recently 2008/09, the Government would like to ensure that essential public expenditures are maintained and, if necessary, augmented to provide economic stimulus during this period of stress. Therefore, as part of its proactive response to the current global situation, the Government would like to put in place arrangements that would boost the confidence of international and domestic financial markets to enable the Government to raise necessary resources from them. These arrangements include a set of confidence-boosting policy measures as well as back-up financing arrangements—a part of which is the proposed loan—that would be available in the event that the worsening of global financial markets prevents Indonesia from accessing financing at reasonable rates.

Overall Ratings

Name	Previous Rating	Current Rating
Progress towards achievement of PDO	● Moderately Satisfactory	● Moderately Satisfactory
Overall Implementation Progress (IP)	● Satisfactory	● Satisfactory
Overall Risk Rating	● Moderate	● Moderate

Implementation Status and Key Decisions

The US\$2billion DPL-DDO was drawn in full by the government of Indonesia on 22 September 2015.

Earlier in the year, following a request from the Government of Indonesia, the closing date of the PERISAI DPL DDO was extended further to 31 December 2015, following a first extension from the original closing date of June 30, 2014 to June 29, 2015.

The program is on track and progress towards the program objectives continues in the following areas:

Maintaining financial system stability:

Financial system stability has been maintained against the backdrop of an ongoing slowdown in domestic deposit and credit growth. The overall banking system remains relatively sound. After a continuous decline since mid-2013, credit growth increased slightly to 10.9 percent yoy in



September, from 10.8 percent in August and 9.6 percent in July, driven by increases in both working capital and in investment loans. At the same time, deposit growth declined to 11.5 percent yoy, from 12.6 percent yoy in August, reducing excess interbank market liquidity. In August, the risk weighted capital adequacy ratio (CAR) was 20.6 percent (well above the statutory minimum of 8 percent) and non-performing loans were 2.8% of total loans, well below the 3.2% in the aftermath of the 2008/2009 Global Financial Crisis, but has been rising gradually from 1.8% nearly two years ago. Despite the overall soundness of the system, risks may come from stress or a failure of a smaller-sized bank that is initially non-systemic but could have systemic effects if not resolved quickly and effectively.

The authorities have been working to address several important gaps in the crisis framework. The Financial Services Authority (OJK) has been active since its establishment in 2014. Most recently, in a regulatory response to the equity market pressures, OJK eased companies' share buy-back regulations, allowing companies to purchase their own shares without a general shareholders meeting. Bank Indonesia kept its policy rate on hold at 7.5 percent on November 17, but cut the primary reserve requirement by 50bps, which will provide additional liquidity to banks. BI also maintained the deposit facility rate at 5.5 percent and the lending facility rate at 8.0 percent. BI noted the potential volatility stemming from the normalization of the Fed funds rate as the reason behind maintaining its monetary policy stance

Sustaining critical public expenditures:

The Government has continued to have access to financial markets at reasonable, albeit rising cost, in particular on IDR government bonds. Gross securities issuance in 2014 of IDR 428 trillion reached 100 percent of the revised Budget target. The gross securities issuance target under the revised 2015 Budget is IDR 452 trillion (3.9 percent of GDP against a fiscal deficit target of 1.9 percent of GDP) with 77 percent targeted from domestic securities and 23 percent from global bonds. Net financing needs of 2.4 percent of GDP are above the fiscal deficit due to a non-debt financing need for SOE equity injections. Strong progress has been made in 2015 towards meeting the original financing target in the revised budget. In November 2015, the government revised its forecast for revenue realisation down by US\$200 trillion, and its fiscal deficit forecast up to 2.6 percent of GDP. As of 6 November 2015, gross securities issuance had reached IDR 456.3 trillion. This represents 101 percent of the full-year target in the 2015 revised budget with the original deficit of 1.9% of GDP. It represents 95 percent of the expanded deficit of 2.6 percent of GDP later announced by government. As part of the front-loading of the fiscal financing strategy, USD 4 billion (IDR 50.4 trillion) in US dollar global bonds were issued in Q1 2015.

Indonesia's domestic 10-year government bond yield declined by 105 basis points between September 30 and November 20, after increasing by 145 basis points in the previous quarter in line with the general emerging market volatility. The currency has also moved in line with the general emerging market trend. Following a roughly 14 percent depreciation in August-September, the IDR appreciated 8.1 percent between October 2 and 9, and stabilized at its early-August level.

Under the revised 2015 Budget, the capital spending allocation is more than doubled relative to the realization in 2014. In addition, the revised Budget includes capital injections to a number of SOEs aimed at supporting infrastructure development.

After a slower start than in 2014, budget execution picked up in the second half of 2015, especially for capital spending, as part of the fiscal stimulus to support growth. The overall budget execution rate reached 70% by end-October, with all expenditure items, except energy subsidies, higher than 2014 levels. In particular, cumulative capital expenditure was 39 percent higher in nominal terms in October 2015 than in October 2014.

The 2016 Budget was approved on October 30 by Parliament and contains further improvements in the composition of spending in line with the government development priorities. Improvements include a higher budget allocation for health (for the first time meeting the 5 minimum target for health as a share of total spending), social assistance, and infrastructure, especially through transfers to subnational governments and capital injections to state own enterprises. The latter channel has been put on hold until a planned revision to the 2016 budget, likely in Q1 2016.

Improving the effectiveness of social protection programs to support the poor and vulnerable:

The government has pledged to further strengthen social protection. In the short-term, the improvements in coverage and benefits made under the previous administration to scholarships and the conditional cash transfer program have been kept intact and are set to develop further throughout 2016. The conditional cash transfer is set to expand to reach 6 million families in 2016, up from 3.2 million in 2015 along with an increase in benefits to improve program adequacy. Some other key programs, such as health insurance for the poor and scholarships for the poor, although renamed, are continuing, and further expansion is forthcoming. Scholarships for the poor has increased to reach 20 million school age children in 2015, up from 16.6 million in 2013 while health insurance for the poor increased to reach 86 million people in 2015, up from 76 over the same period. A temporary Unconditional Cash Transfer was deployed with the November 2014 fuel price increase, highlighting that the new administration is prepared to use social assistance in adverse times for the poor. The World Bank is continuing to provide support for the improvement and reform of existing social assistance programs, particularly in terms of a more integrated approach. Recent proposals to allow individuals to use old-age savings for unemployment insurance, and housing investments need to be carefully assessed in terms of the financial impact on the savings fund, and the impact on long term financial security of individuals.

Risks



Systematic Operations Risk-rating Tool

Risk Category	Rating at Approval	Previous Rating	Current Rating
Political and Governance	--	● Moderate	● Moderate
Macroeconomic	--	● Moderate	● Moderate
Sector Strategies and Policies	--	● Moderate	● Moderate
Technical Design of Project or Program	--	● Low	● Low
Institutional Capacity for Implementation and Sustainability	--	● Low	● Low
Fiduciary	--	● Moderate	● Moderate
Environment and Social	--	● Low	● Low
Stakeholders	--	● Low	● Low
Other	--	--	--
Overall	--	● Moderate	● Moderate

Results

Results Indicators

► OJK Preparation Team (Text, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	--	OJK now functioning	OJK now functioning	OJK functioning
Date	--	13-Mar-2015	13-Mar-2015	31-Dec-2015

► Stability of the Financial System (Yes/No, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Y	Y	Y	Y
Date	16-Apr-2012	13-Mar-2015	27-Nov-2015	31-Dec-2015



► Intervention by the Financial Sector Stability Coordination Forum (Yes/No, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	N	N	N	Y
Date	16-Apr-2012	13-Mar-2015	13-Mar-2015	31-Dec-2015

► Functioning of the Financial Sector Stability Coordination Forum (Text, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	--	FKSSK taking leading role in coordination and decision making and leading medium-term work on on important policy issues. FKSSK has taken efforts to strengthen inter-agency coordination and financial crisis management skills.	FKSSK taking leading role in coordination and decision making and leading medium-term work on on important policy issues. FKSSK has taken efforts to strengthen inter-agency coordination and financial crisis management skills.	Improved common understanding of the policy options and measures that can be used in the event of a financial institution failure
Date	--	13-Mar-2015	13-Mar-2015	31-Dec-2015

► Government access to financial markets (Percentage, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	26.00	100.00	100.00	100.00
Date	15-Mar-2012	31-Dec-2014	05-Dec-2015	31-Dec-2015

► Duration Budget Revision Process (Days, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	30.00	1.00	1.00	1.00
Date	30-Mar-2012	31-Jan-2015	31-Jan-2015	31-Dec-2015



▶ Capital Expenditures Disbursement (Percentage, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	16.00	15.00	70.00	80.00
Date	30-Jun-2011	30-Jun-2014	30-Oct-2015	31-Dec-2015

▶ Access to Household and Labor force survey data (Days, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	60.00	7.50	7.50	10.00
Date	16-Apr-2012	28-Feb-2015	28-Feb-2015	31-Dec-2015

▶ Improved performance social assistance programs in a crisis (Text, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	--	--	--	--
Date	--	31-Dec-2013	31-Dec-2013	--

▲ Better Targeting (exclusion error for the poorest 30% of HH) (Percentage, Custom Supplement)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	48.00	59.00	59.00	35.00



Time to disburse in a crisis (Months, Custom Supplement)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	5.00	1.00	1.00	3.00

Overall Comments

Data on Financial Performance

Disbursements (by loan)

Project	Loan/Credit/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	Disbursed
P130048	IBRD-81640	Effective	USD	2,000.00	2,000.00	0.00	2,000.00	0.00	100%

Key Dates (by loan)

Project	Loan/Credit/TF	Status	Approval Date	Signing Date	Effectiveness Date	Orig. Closing Date	Rev. Closing Date
P130048	IBRD-81640	Effective	15-May-2012	31-May-2012	29-Jun-2012	30-Jun-2014	31-Dec-2015

Tranches

Tranche 05

Description

Amount (USD)	Expected Release Date	Actual Release Date	Status
0			

Tranche Condition Description	Status	If Not Met	If Delayed

Restructuring History

There has been no restructuring to date.

Related Operations



There are no related projects.
