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- The income gap *vis-à-vis* OECD economies has continued to narrow, reflecting strong factor accumulation. The remaining GDP per capita gap stems mainly from a productivity shortfall.
- Among priority areas, progress has been made to improve the quality of education and promote infrastructure. By contrast no significant action has been taken to reform stringent labour market regulations, and policy changes in the areas of foreign direct investment (FDI) and international trade as well as minimum wage determination have sometimes gone in the wrong direction.
- Easing barriers to entrepreneurship and investment and fostering infrastructure development are crucial to boosting long-term productivity growth. Reforming the labour code and resisting excessive increases in the minimum wage could encourage formalisation. Better access to high-quality education could raise the pool of qualified workers and enhance labour productivity.
- In addition to increasing productivity, removing energy subsidies could free resources to finance programmes in key development areas and help to move the economy toward a greener development path. Easier access to high-quality education would raise long-term growth and reduce income inequality.

Growth performance indicators

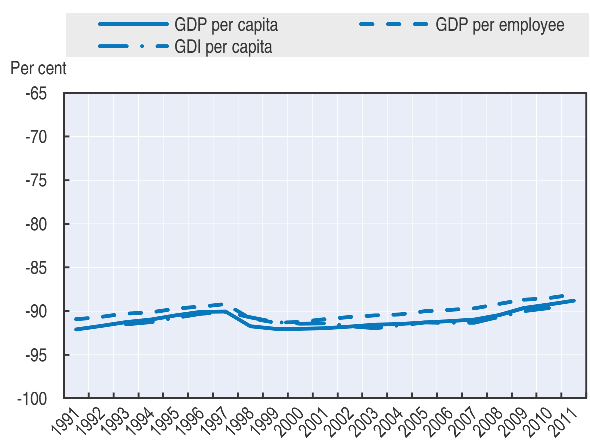
A. Average annual growth rates

Per cent

	2001-06	2006-11
GDP per capita	3.8	4.8
Labour utilisation[1]	0.1	1.2
Labour productivity	3.7	3.6

B. Gaps in GDP per capita have diminished rather slowly

Gap to the upper half of OECD countries[2]



1. Labour utilisation is defined as the ratio of total employment over population.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per employee and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases*; World Bank (2012), *World Development Indicators* (WDI) and ILO (2012), *Key Indicators of the Labour Market (KILM) Databases*.

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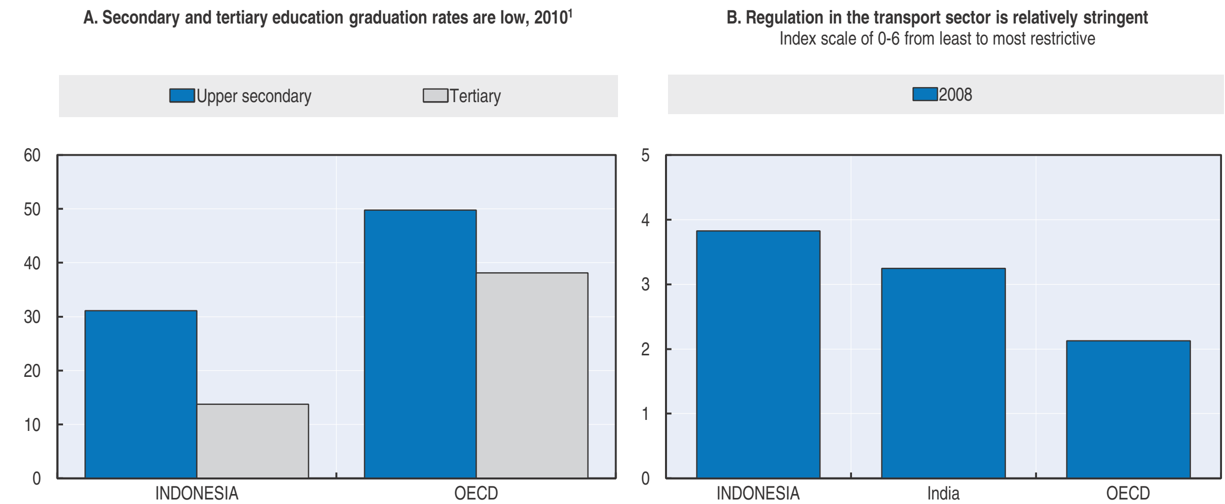
Policy indicators



1. Graduation rate at upper secondary level for typical age from the general programmes and graduation rate for typical age at tertiary-type A level (first degree).

Source: OECD, *Education at a Glance 2012: OECD Indicators*; OECD, *Product Market Regulation Database*.

StatLink http://dx.doi.org/10.1787/888932776884

Going for Growth 2013 priorities

Priorities supported by indicators

Enhance outcomes and equity in education. Public spending has risen markedly but is still relatively low at higher levels of education. Teaching quality is low.

Actions taken: Funds to ease poor students' access to education are channelled to provinces to improve disbursement. A Higher Education Bill has been passed that will increase university autonomy.

Recommendations: Make income transfer programmes conditional on children attending secondary school, and eliminate the secondary school enrolment fee for disadvantaged children in order to boost enrolment rates. To improve teaching quality, assess teachers' pedagogical skills regularly.

Improve the regulatory environment for infrastructure. Regulatory authorities' lack of independence and regulatory uncertainties, in particular on land acquisition processes, hinder investment.

Actions taken: The Master Plan, unveiled in May 2011, identifies priorities to develop infrastructure, relying mostly on private investors. The Land Acquisition Law, passed in December 2011, allows the government to take over land for development while owners are guaranteed compensation.

Recommendations: Grant independence to regulatory bodies and strengthen their public accountability. Increase public outlays on good-quality infrastructure projects.

Reform labour regulation and cap minimum wage increases to address the problem of informality. Onerous severance payments for permanent workers and restrictive dismissal procedures encourage informality. In certain provinces, rapid increases in minimum wages cannot be justified in terms of productivity catch-up.

Actions taken: No action taken.

Recommendations: Introduce unemployment benefits, initially at a low level, ease dismissal procedures and reduce severance payments. Limit increases in the inflation-adjusted minimum wage to labour-productivity gains in provinces where it is already at a decent level.

Other key priorities

Reduce energy subsidies. Energy subsidies are costly, inequitable and inconsistent with the government's green strategy.

Actions taken: Parliament has authorised an increase in the price of subsidised fuel in 2012 if the world oil price exceeds a certain level.

Recommendations: Follow through on the commitment to substantially reducing fossil-fuel subsidies and extend the commitment to electricity subsidies, while offering targeted compensation schemes to the poor.

Ease barriers to entrepreneurship and investment and strengthen institutions to fight corruption. Despite some progress, excessive administrative burdens, high FDI restrictions in some sectors and corruption hamper entrepreneurship.

Actions taken: Rules on FDI in mining have been made more restrictive. A new regulation restricts the range of products a general importer can import.

Recommendations: Simplify the business licensing system to lower compliance costs. Reconsider the recent cross-border restrictions related to mining and specific imports and reduce remaining FDI restrictions. Continue efforts to fight corruption, especially at the local level.

Previous *Going for Growth* recommendations no longer considered as a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

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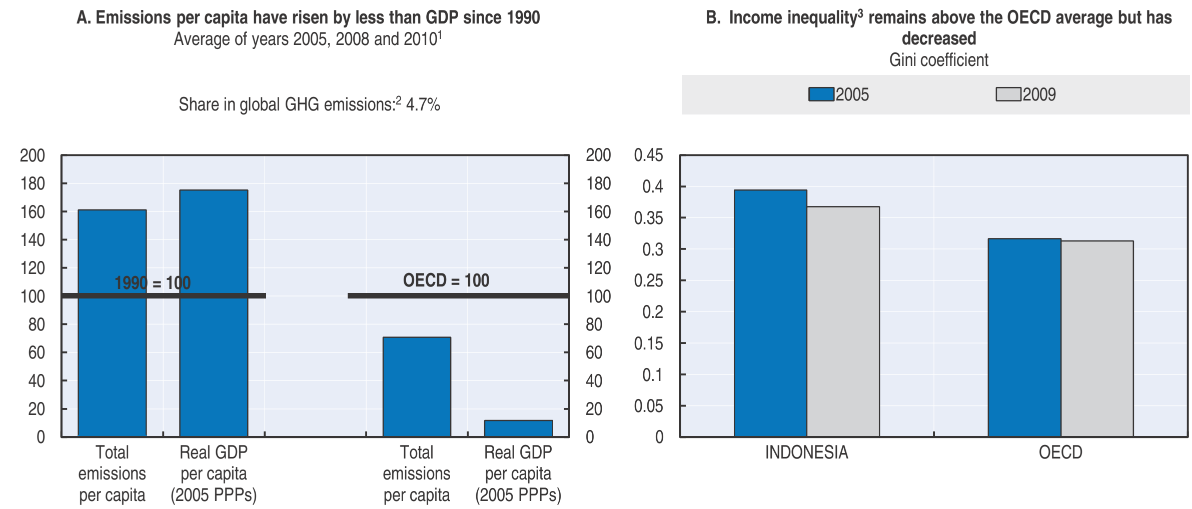
Other dimensions of well-being: Performance indicators



1. Total GHG emissions in CO_2 equivalents from the International Energy Agency (IEA) Database. These data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using IEA data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on per capita consumption for Indonesia.

Source: OECD, *Energy (IEA) Database*; OECD (2011), "Special Focus: Inequality in Emerging Economies", in *Divided We Stand: Why Inequality Keeps Rising*, OECD Publishing, and OECD *Income Distribution Database*, provisional data (*www.oecd.org/els/social/inequality*).

StatLink http://dx.doi.org/10.1787/888932776903