

Indonesia Economic Briefing

2016 Revised Budget (Draft): Too Optimistic Leads to Risk



Macroeconomic Assumption	2015 Actual	2016 Budget	2016 Revised Budget
Economic growth (%)	4.79	5.30	5.30
Exchange Rate (IDR/USD)	13,392	13,900	13,500
Inflation (%)	3.35	4.70	4.00
3-Month T-Bills (%)	6.00	5.50	5.50
ICP (USD/barel)	49	50	35
Oil Lifting (Thousand bpd)	778	830	810
Gas Lifting (Thousand bpd)	1,195	1,155	1,115

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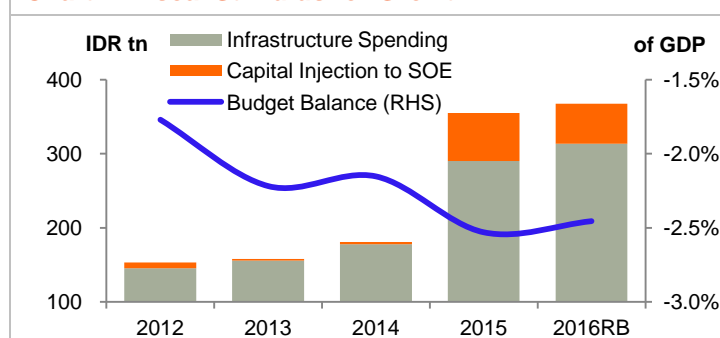
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Economic Highlights

- Late last week, the **2016 revised government budget has been submitted** for discussion with parliament. Key points of the draft include: 1) an aggressive target in revenue with tax amnesty priced in, 2) focus of infrastructure spending shifted towards electrification projects, and 3) widening budget deficit from 2.2% of GDP to 2.5% (realization as of Apr-16 at 1.2% deficit).
- The government expects **tax revenue to grow by 23%** vs the 8% average growth in the last 3 years. Our calculation indicates that the aim is for 12.0% tax ratio, quite aggressive compared to last year's figure of 10.7%. This translates to around IDR 150tn gap in collection. Note that 4M16 revenue realization is already 10% lower than year ago level, partly due to declining oil price. Meanwhile, proceed from the **tax amnesty program has been accounted through an increase of IDR 104tn** in non-oil and gas income tax.
- A more positive story lies in the shift of focus to electrification projects, primarily through the **additional IDR 14tn capital injection for State Owned Electricity Company (PLN)**. This is on top of the original IDR 10tn from initial budget, yet to be disbursed. We estimate that it could lead to 1,070MW of power generation, assuming a base line investment costs and that the IDR 24tn is not partially use for debt repayment or transmission maintenance.
- Bond issuance upsized by IDR 58tn this year.** We think this could be done mainly by pushing up global bond issuances close to its 30% limit, but should not rule-out LCY issuances given the downtrend in interest rates. However, if tax collection falters, then we can expect another spending cut in programs listed according to priority (infrastructure at the bottom).

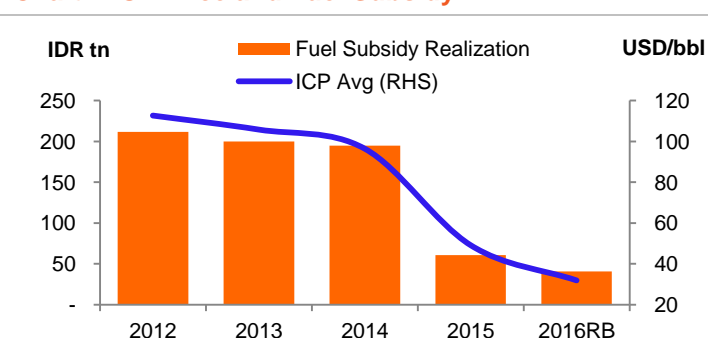
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Chart 1. Fiscal Stimulus for Growth



Source: MoF, Danamon Estimate

Chart 2. Oil Price and Fuel Subsidy



Source: MoF, BPS

Indonesia: Selected Economic Indicators

	2011	2012	2013	2014	2015	2016E
National Accounts						
Real GDP (% y-o-y)	6.2	6.0	5.6	5.0	4.8	5.0
Domestic demand ex. inventory (% y-o-y)	6.1	7.7	5.0	5.4	3.9	5.0
Real Consumption: Private (% y-o-y)	5.1	5.5	5.4	5.2	5.0	5.1
Real Gross Fixed Capital Formation (% y-o-y)	8.9	9.1	5.0	4.6	5.1	4.8
GDP (US\$bn) — nominal	893	918	915	890	862	893
GDP per capita (US\$) — nominal	3,688	3,741	3,668	3,530	3,374	3,453
Open Unemployment Rate (%)	6.6	6.1	6.3	5.9	6.2	6.0
External Sector						
Exports, fob (% y-o-y, US\$ bn)	29.0	-6.6	-3.9	-3.4	-14.8	-7.5
Imports, fob (% y-o-y, US\$ bn)	30.8	8.0	-2.6	-4.5	-19.9	-6.9
Trade balance (US\$ bn)	26.1	-1.7	-4.1	-1.9	7.6	6.1
Current account (% of GDP)	0.2	-2.7	-3.7	-3.2	-2.1	-2.3
Central government debt (% of GDP)	22.3	22.3	21.3	23.6	25.0	24.6
International Reserves –IRFCL (US\$ bn)	110.1	112.8	99.4	111.9	105.9	103.0
Reserve Cover (Months of imports & ext. debt)	6.3	6.1	5.4	6.5	7.4	7.0
Currency/US\$ (Year-end)	9,068	9,670	12,189	12,440	13,795	13,500
Currency/US\$ (Average)	8,779	9,380	10,428	11,900	13,392	13,390
Other						
BI policy rate (% year end)	6.00	5.75	7.50	7.75	7.50	6.75*
BI 7-Day Reverse Repo rate (% year end)	N/A	N/A	N/A	N/A	6.25	5.25
Consumer prices (% year end)	3.78	3.65	8.08	8.36	3.35	3.94
Fiscal balance (% of GDP; FY)	-1.14	-1.77	-2.24	-2.26	-2.70	-2.50
S&P's Rating – FCY	BB+	BB+	BB+	BB+	BB+	BB+

Source: CEIC, E = Danamon Estimates, *) Up to August 2016

Economic and Market Research

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