

Indonesia Economic Briefing

APBNP 2017: An Inch from the Edge



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- **Revised State Budget 2017 has been approved**, with fiscal deficit set at 2.92% of GDP, just an inch from the constitutional limit at 3% of GDP. The government's outlook of fiscal deficit is lower though, at 2.67% of GDP this year, taking into accounts the historical rate of absorption that is usually below 100% (96-97%).
- **Revenue target was set lower than initial by Rp14tn. This is mostly due to the lower target of the non oil and gas tax revenue** that reflects the slow economic condition. Up to May-17, the realization of non oil-gas tax revenue only reached 32% of the initial target. However some of the declines were offset by a slight increase in the oil and gas sector due to the adjustment in the (higher) oil price assumption.
- **Spending target was set higher than initial by Rp53tn due to higher allocation in subsidy** particularly electricity and LPG. This is due to impact of changes in macro assumption (oil price), and postponement in some of the energy subsidy reduction program, which is quite explicable amid slowing private consumption. Changes in macro assumptions supposedly give positive impact to the overall budget, however with some of these programs being scaled back, the impact turns negative.
- **As expected, the additional issuance will be around Rp33tn, assuming the fiscal deficit turns out as the government expected at 2.67% of GDP.** If the realization is higher at 2.9% of GDP, the additional bonds issuance will be higher by Rp67tn, though this scenario is less likely (See our report "State Budget Review, July 2017).
- We see the approved state budget posture is still feasible, with the finance ministry will be tight in guarding the deficit not to exceed the constitutional limit. Overall macro assumption looks realistic, though growth target still seems a bit too optimistic for this year. The crucial thing for the government is to maintain positive perception (primarily domestic) as we approach general election seasons next year.

Chart 1. Revised State Budget 2017

Macro Assumption (Rp trillion)	APBN 2017	RAPBNP 2017	APBNP 2017	Outlook
Revenue & Grant	1,750	1,714	1,736	1,736
Domestic Revenue	1,749	1,712	1,733	1,711
Tax Revenue	1,499	1,451	1,428	1,451
Income Tax (Oil and Gas)	36	40	42	40
Income Tax (Non Oil and Gas)	752	722	742	722
VAT	494	476	476	476
Non Tax Revenue	250	260	260	260
Grant	1	3	3	3
Government Spending	2,080	2,111	2,133	2,098
Central Government Spending	1,316	1,352	1,367	1,343
Interest Payment	221	219	219	219
S: Energy	77	103	90	90
E: Fuel (BBM + LPG)	32	51	45	45
E: Electricity	45	52	45	45
Regional Transfer & Village Funds	765	760	766	756
Deficit or Surplus	(330)	(397)	(397)	(363)
% Surplus/Deficit	(2.41)	(2.92)	(2.92)	(2.67)
Bonds Issuance (net)	400	467	467	433

Chart 2. Macro Assumption

Macro Assumption	APBN 2017	RAPBNP 2017	APBNP 2017
Economic Growth (%)	5.1	5.2	5.2
Inflation (%)	4	4.3	4.3
Exchange Rate (Rp/\$)	13,300	13,400	13,400
Interest rate (3mo-SBN, %)	5.3	5.3	5.2
Oil Price (US\$/barrel)	45	48	48
Oil Lifting (mbpd)	815	815	815
Gas Lifting (mbpd)	1,150	1,150	1,150

Source: MoF

Indonesia: Selected Economic Indicators

	2013	2014	2015	2016	2017E
National Accounts					
Real GDP (% y-o-y)	5.6	5.0	4.9	5.0	5.0
Domestic demand ex. inventory (% y-o-y)	5.0	5.4	3.9	5.0	4.9
Real Consumption: Private (% y-o-y)	5.4	5.2	5.0	5.0	4.9
Real Gross Fixed Capital Formation (% y-o-y)	5.0	4.6	5.0	4.5	5.2
GDP (USD bn) — nominal	913	890	861	932	1,005
GDP per capita (USD) — nominal	3,648	3,529	3,371	3,604	3,838
Open Unemployment Rate (%)	6.3	5.9	6.2	5.6	5.5
External Sector					
Exports (% y-o-y, BoP Basis)	-2.8	-3.7	-15.4	-3.1	7.0
Imports (% y-o-y, BoP Basis)	-1.3	-4.5	-19.7	-4.5	6.6
Trade balance (USD bn, BoP Basis)	5.8	6.9	13.3	15.4	15.2
Current account (% of GDP)	-3.7	-3.2	-2.1	-1.8	-1.8
Central government debt (% of GDP)	21.3	23.5	26.6	27.7	30.2
International Reserves –IRFCL (USD bn)	99.4	111.9	105.9	116.4	114.0
Reserve Cover (Months of imports & ext. debt)	5.4	6.5	7.4	8.4	8.4
Currency/US\$ (Year-end)	12,189	12,440	13,795	13,436	13,430
Currency/US\$ (Average)	10,428	11,900	13,392	13,308	13,349
Other					
BI policy rate (% year end)	7.50	7.75	7.50	6.50*	N/A
BI 7-Day Reverse Repo rate (% year end)	N/A	N/A	6.25	4.75	5.00
Consumer prices (% year end)	8.08	8.36	3.35	3.02	4.57
Fiscal balance (% of GDP; FY)	-2.24	-2.26	-2.70	-2.46	-2.60
S&P's Rating – FCY	BB+	BB+	BB+	BB+	BBB-

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

Economic and Market Research

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