

Indonesia Economic Briefing

RAPBNP 2017: A More Careful Approach in Subsidy



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- The government announced the revision points in the new plan of Revised State Budget 2017 (RAPBNP 2017) to be discussed with the parliament. **Budget deficit is targeted inconveniently higher at Rp397.2tn or at 2.9% of GDP** approaching the 3% official constitutional limit. This is higher by Rp67tn of the initial target.
- However the government plans to do some spending cut (in the forms of i.e. operational spending, interest payment, and loans subsidy), that could slash the incremental by Rp34tn, **thus the outlook for the fiscal deficit this year is at 2.67% of GDP**. Regional fiscal deficit has been set at maximum 0.3%, which would bring the overall deficit outlook to reach 3% this year just barely reach the constitutional limit.
- **The shortfall in the tax revenue target was one of the main causes to the swelling of deficit**. Despite the relatively success tax amnesty program, the receipt of non oil and gas income tax and the VAT were targeted lower, each by Rp29.6tn and Rp18.4tn as the economy remains in the sluggish territory. By June 2017, the government received Rp571.9tn on tax revenue, only 34% of the overall year target.
- **On the spending side, energy subsidy is higher by Rp25.8tn as the oil price was set at USD50 per barrel, higher than initial assumption (USD45 per barrel)**. This adjustment led to higher subsidy in LPG and electricity. The postponement of price adjustment and also limitation policy on LPG 3kg distribution led to an increase of Rp10tn in LPG subsidy. Furthermore the government seems to take a more careful approach on reducing subsidy. The electricity subsidy reduction program for the lowest income class (450 VA) was annulled that led to a higher subsidy. The government has also postponed the fuel price adjustment for now in the face of slowing private consumption.
- If the fiscal deficit does reach 2.9% of GDP, the government will need additional Rp67.3tn net bonds issuance. By July 5, the government has issued Rp396.8tn or about 57.9% of the initial gross issuance target this year at Rp684tn. **By our calculation the government would need to issue another Rp355tn (gross) this year to finance the 2.9% fiscal deficit, which is not impossible as long as the market sentiments stay conducive**. Meanwhile if the fiscal deficit can be contained at the level forecasted by the government at 2.67%, the additional gross issuance would only be at Rp321tn.
- However bear in mind that the pull factors may not be as many as in the first semester (dovish Fed, S&P rating upgrade, low inflation), **thus it may not be easy to attract more capital inflows**. Not to mention this semester already started with some volatility as central banks in the developed countries turns hawkish on the outlook of the economy and drove currencies weakens and yields rising across global bond market including Indonesia. From domestic, expectation of bigger auction target (due to wider fiscal deficit) may also contribute to the pressure in the bonds market. The benchmark 10-yr bond yield has climbed by 10-20bps in the past week.

Chart 1. Revised State Budget Plan 2017

Macro Assumption (<i>Rp trillion</i>)	APBN 2016	APBN 2017	RAPBNP 2017	Outlook	Diff
Revenue & Grant	1,786	1,750	1,714	1,714	-36
Domestic Revenue	1,784	1,749	1,712	1,711	-37
Tax Revenue	1,539	1,499	1,451	1,451	-48
Income Tax (Oil and Gas)	36	36	40	40	4
Income Tax (Non Oil and Gas)	820	752	722	722	-30
VAT	474	494	476	476	-18
Non Tax Revenue	245	250	260	260	10
Grant	2	1	3	3	2
Government Spending	2,083	2,080	2,111	2,077	31
Central Government Spending	1,307	1,316	1,352	1,328	36
Interest Payment	191	221	219	219	-2
Subsidies	178	160	182	182	22
S: Energy	94	77	103	103	26
E: Fuel (BBM + LPG)	44	32	51	51	19
E: Electricity	51	45	52	52	7
S: Non Energy	83	83	79	79	-4
Regional Transfer & Village Funds	776	765	760	749	-5
Deficit or Surplus	(297)	(330)	(397)	(363)	-67
% Surplus/Deficit	(2.46)	(2.41)	(2.92)	(2.67)	-1
Bonds Issuance (net)	400	400	467	433	67

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	13,555
Currency/US\$ (Average)	10,428	11,900	13,392	13,308	13,504
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

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