

Indonesia Economic Briefing

APBN 2018: Optimistic yet Cautious



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- The 2018 state budget has been approved, with the size of Rp2,221tn (spending side), to boost the Rp12,407-trillion economy to go up and running. **The economic growth target is set at 5.4%yoy next year –an optimistic growth compared to this year- on the back of the recovering global growth.** With the recent structural softness of the consumption, growth may have to rely more on investment, government spending and exports as the drivers.
- **There are actual reasons to be optimistic.** Entering the end quarter, some economic data shows recovery, despite the remaining soft retail sales. Exports improving, capital goods imports rising and cement sales have picked up. Some of the corporate earnings have also shown a positive growth. But risks still linger next year especially on the threat of the dimming commodity price, rising geopolitics tension and global liquidity tightening.
- **We see some efforts to revive consumption through rising spending on energy subsidy and social transfer.** Electricity and fuel subsidy were set slightly higher (each by around Rp2-3tn) probably to give room for any upward pressure in prices. Therefore, we may safely assume there will be no further adjustment on the prices.
- **Infrastructure remains on the main theme**, though the incremental increase was relatively modest (+5.8% to Rp410.7tn). Around 53% of the total national projects are already in the construction phase. **The challenge will be to increase the involvement of the private sector to let a bigger trickle-down effect to the economy.**
- Allocation of budget for ministries does not look much different with the previous years. Highest allocations were awarded to Defense, Public Works, Police Department and Religious Affairs, **highlighting the importance of infrastructure and social stability spending ahead of election.**
- Despite an optimistic growth target, **the government were cautious enough to set the fiscal deficit relatively lower (by 10.2% compared to this year) at Rp325.9tn (2.19% of GDP).** This may be due to the risks factor next year, as we will prepare for presidential election amid rising global uncertainties. With fiscal deficit set relatively low, the government will have more room to maneuver should any of the assumptions deviate. **Caution were also reflected in the larger allocation for loan repayment** as the government aimed to reduced down the negative primary balance.
- **Financing will be challenging.** The low fiscal deficit will be translated to lower net bonds issuance (set at Rp399tn). However, the amount of debts maturing next year is quite large (at around Rp280tn), thus the gross issuance may reach around Rp680tn, which will be challenging especially considering the global risk factors.

Chart 1. Approved State Budget 2018

Budget (Rp trillion)	APBNP 2017	Outlook	APBN 2018	Diff
Revenue & Grant	1,736	1,736	1,895	159
Domestic Revenue	1,733	1,711	1,894	161
Tax Revenue	1,428	1,451	1,618	190
Non Tax Revenue	260	260	275	15
Grant	3	3	1	-2
Government Spending	2,133	2,098	2,221	87
Central Government Spending	1,367	1,343	1,455	88
Interest Payment	219	219	-	-
S: Energy	90	90	95	5
E: Fuel (BBM + LPG)	45	45	47	2
E: Electricity	45	45	48	2
Regional Transfer & Village Funds	766	756	766	0
Deficit	(397)	(363)	(326)	71
% Surplus/Deficit	(2.92)	(2.67)	(2.19)	1
Bonds Issuance (net)	467	433	399	-68

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	4.25
Consumer prices (% year end)	8.08	8.36	3.35	3.02	3.81
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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