

28 May 2020

Macroeconomics Indicator

	2019	2020F
GDP growth (%YoY)	5.02	2.45
Inflation (%YoY)	2.72	2.50
BI rate (% Year-end)	5.00	4.00
Rp/US\$ (Year-end)	14,155	15,500
CA balance (% of GDP)	2.82	2.51
Fiscal balance (% of GDP)	2.21	5.07

Apr20 fiscal update: pick-up in financing realization

- State revenue grow slower at 3.5% yoy in Apr (7.7% yoy in Mar) due to further income tax contraction at 5.3% yoy (-6.0% yoy in Mar).
- State spending in total contracted by 1.2% yoy (+0.1% in Mar) due to lower material and subsidy spending at -18.5% and -13.6% yoy.
- State deficit narrowed to 0.3% of GDP (0.6% last year), though financing realization already grew by 54% yoy (Rp222tr) from last year (Rp144tr).

All revenue streams recorded contraction

State revenue remained sluggish at 3.5% yoy, mostly due to contraction on revenue from income tax at 5.3% yoy (vs +4.2% yoy last year). The lesser income tax realization was led by the drop in the oil & gas income tax at -32.3% yoy (vs +5.1% yoy last year) amid weak oil price. If the global oil price remains low, the fiscal deficit may have some downside risk as the income tax from oil & gas made-up around 45% of total revenue in the budget ([please see our report here](#)). In the meantime, excise tax was pretty robust at 25% yoy due to higher receipt from tobacco products.

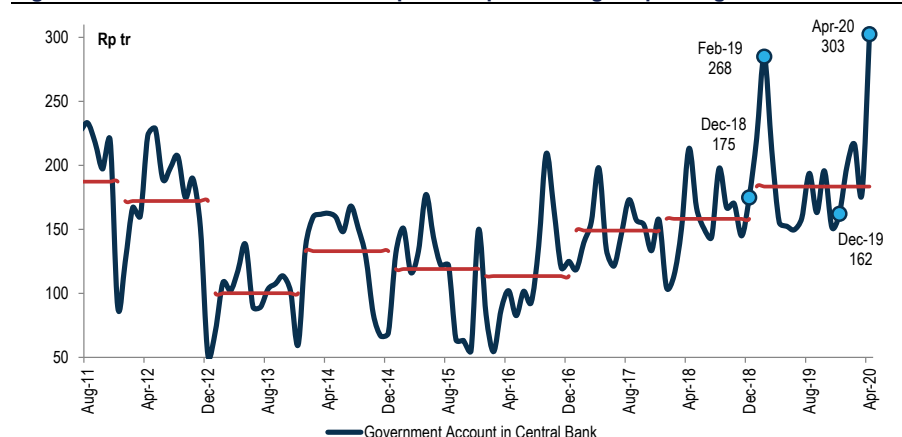
Spending is lower than last year

Government spending contracted by 1.2% yoy (vs +8.4% yoy last year), due to contraction in both material (goods) and subsidy spending each at 18.5% and 13.6% yoy (vs +9.8% and -6.8% yoy last year). In the meantime, as expected the spending for social aid continued to rise by 13.7% yoy despite a high base last year amidst political year (+75.9% yoy). The contraction in spending will likely widen as financing realization already went up by 54.2% yoy in Apr (vs -23.8% yoy in Apr19).

Finding the optimal equilibrium

The government absorbed the liquidity from the financial sector by roughly Rp148tr in Apr, and may only spend it in the subsequent months, in our view. With high budget financing realization but low spending realization, the government account in the central bank jump to Rp303tr in Apr, from Rp178tr in Mar. We are on the view that the optimal equilibrium between the pace of government spending and the financing realization may emerge soon (i.e. disbursement of economic recovery funds) which shall be the catalyst for the overall economy, in our view.

Fig. 1: Government account increase quite steep due to lag in spending



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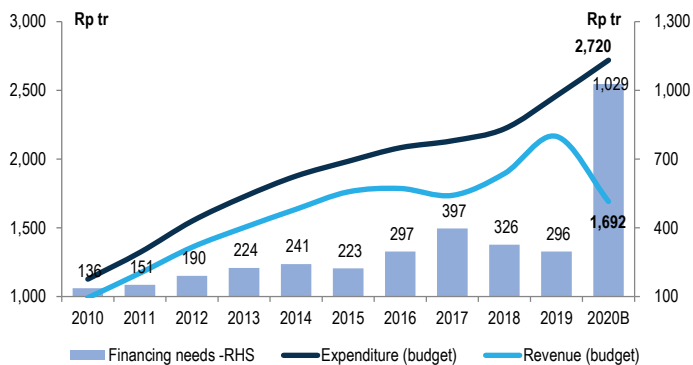
Source: BI, CEIC, Indo Premier

Finding the optimal balance

Without proper spending management, we estimate the fiscal deficit to be widened to 6.5% of GDP ([please see our report here](#)). However, too much spending rationalization would led to longer economic recovery process. We believe the optimal fiscal deficit figure should settle in around 6.5% of GDP range to be able to speed-up the economic recovery process, without burdening the fiscal deficit too much.

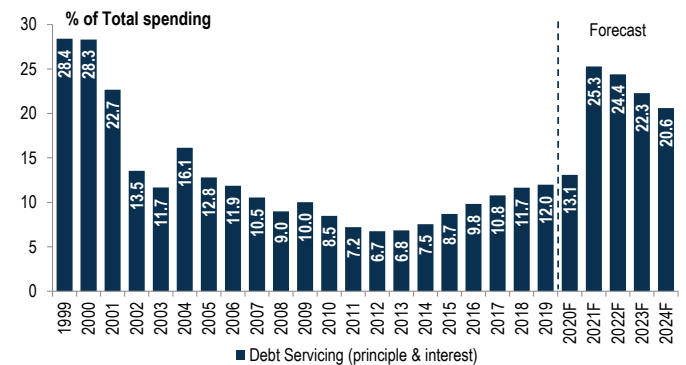
The below the line financing will be playing an important role as it is at the centre stage of the economic recovery stimulus and social safety net package. Recently, the government revised its deficit outlook from 5.07 % of GDP to 6.27% of GDP, due to lower revenue trajectory. This will impact to an additional financing needs of around Rp250tr. Should the below the line financing target at around 2% - 4% of GDP be successful, the future debt servicing will be more manageable at around 17% of total spending vis a vis 25% of total spending in 2021 without the below the line financing. Higher government debt servicing could cripple the central government's ability to conduct development agendas, in our view.

Fig. 2: Government's Fiscal deficit outlook widened to 6.3% of GDP



Source: MoF, CEIC, Indo Premier

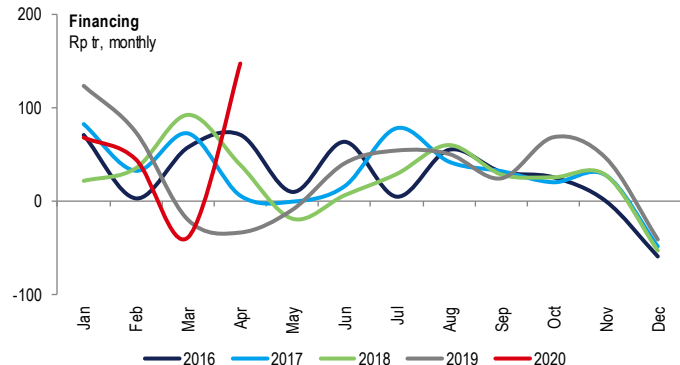
Fig. 3: without below the line financing, debt servicing surged



Source: MoF, CEIC, Indo Premier

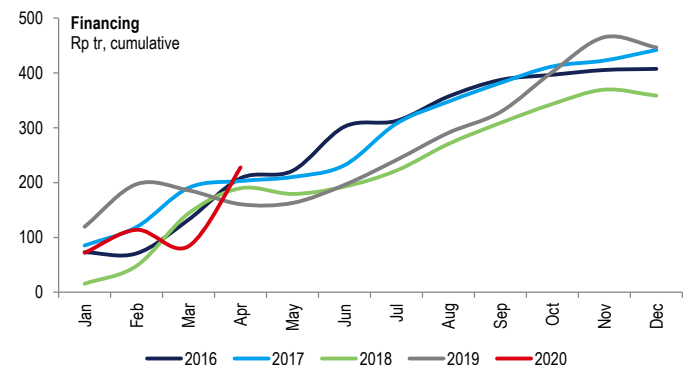
Already, the government collected Rp148tr of financing in Apr, mostly via above the line bonds issuance at Rp227.6tr net. The realization of the above the line government bond issuance is at 41.4 % of total targeted amount, roughly the same with last year achievement. In the meantime, the realization of below the line financing still yet to generate meaningful amount of liquidity.

Fig. 4: Budget financing starting to surged



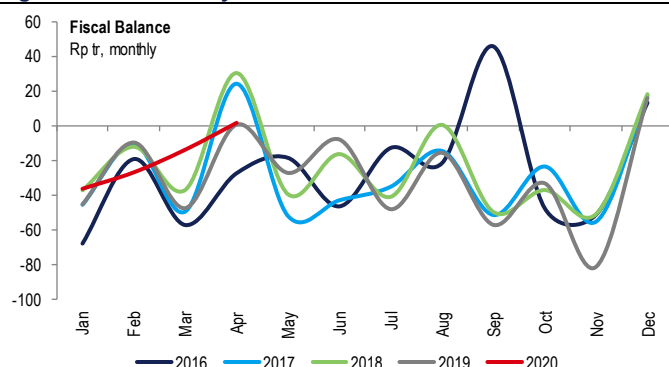
Source: MoF, CEIC, Indo Premier

Fig. 5: ...and already surpasses last-year number



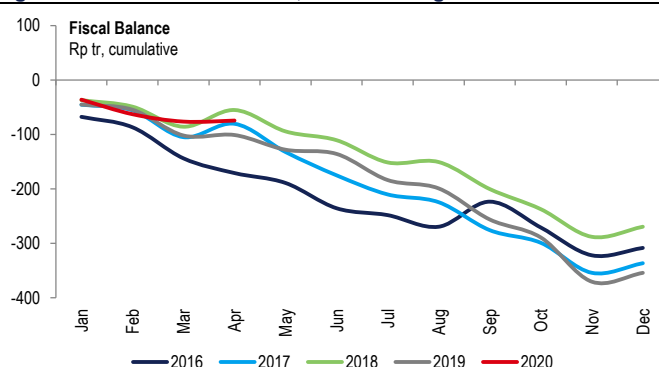
Source: MoF, CEIC, Indo Premier

Fig. 6: Fiscal balance yet to be widened



Source: MoF, CEIC, Indo Premier

Fig. 7: If reached 6.5% of GDP, will be the highest

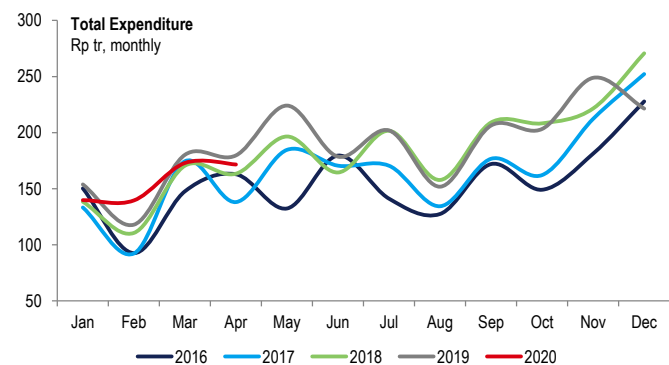


Source: MoF, CEIC, Indo Premier

Spending shall pick-up pace soon

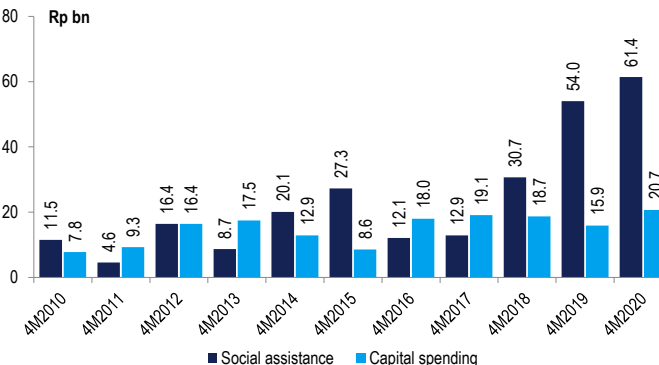
The low fiscal deficit realization is the result of lagged government spending realization. Total expenditure was contracting by 1.2% yoy in Apr, compared with +8.4% yoy last year. This was due mostly to material (goods) spending and subsidy spending each at 18.5% and 13.6% yoy, compared with +9.8% and -6.8% yoy last year. On the other hand, we believe the government's focus will be on health and social aid. The social aid reached an all-time high level at Rp61.4tr in Apr or 13.7% yoy increase from high base last year due to political year. This is ultimately to guard the bottom 30% of the population from the negative impact of the virus and from poverty circle.

Fig. 8: Total expenditure still soft



Source: MoF, CEIC, Indo Premier

Fig. 9: More emphasis on social aid instead of other spending

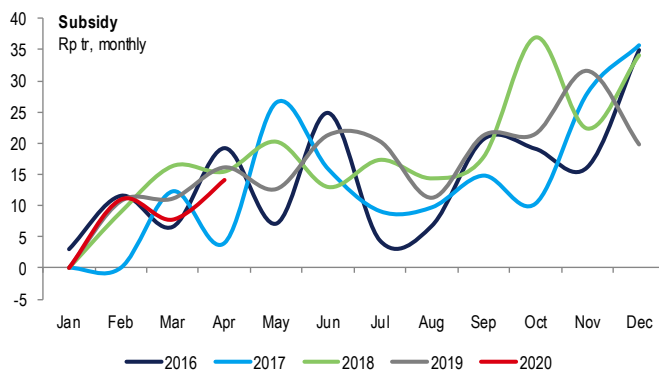


Source: MoF, CEIC, Indo Premier

The subsidy spending decline further as the global oil price continue to decline by around 50% yoy from the same period last year. We are on the view that weak global demand will make low oil price prolonged until year-end. This should make more fiscal room for the government, should the needs of stimulus be bigger than expected.

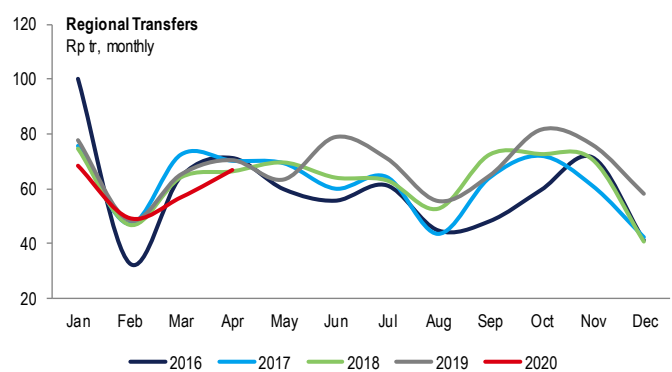
In the meantime, the regional transfer realization booked the lowest figure in the last 4-years at Rp241tr or a contraction of 7.8% yoy compared to last year figure of +3.9% yoy. The regional transfer in general is a function of the state revenue. Should total revenue be lower due to deviation of macro indicators such as economic growth, oil price, etc., the regional transfer will automatically adjust to the total revenue realization figures.

Fig. 10: Subsidy will be lower in accordance with oil price



Source: MoF, CEIC, Indo Premier

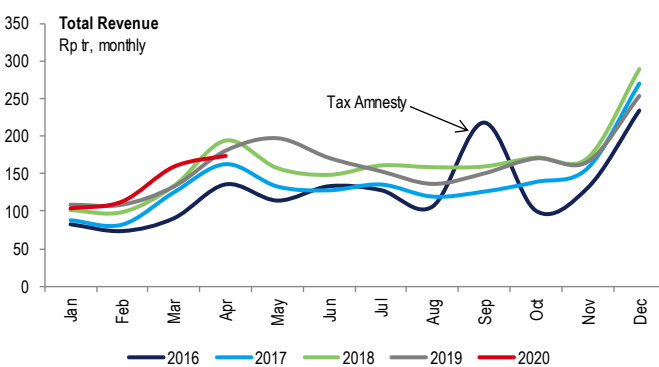
Fig. 11: also regional transfer, as state revenue will be lower



Source: MoF, CEIC, Indo Premier

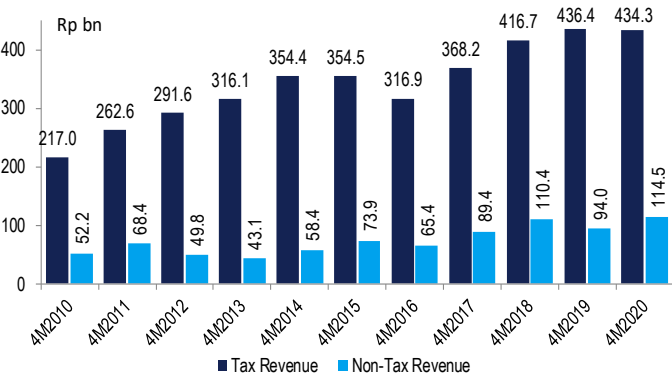
State total revenue continues to grow less at 3.5% yoy in Apr, from +7.4% yoy in Mar. The decline was due mostly to further contraction on income tax revenue at 5.3% yoy, from -6.0% yoy in Mar. The lesser income tax realization was led by contraction in the oil & gas income tax at 32.3% yoy, compared with +5.1% yoy last year. This is due mostly to further decline in global oil price. If the global oil price continues to be low, the fiscal deficit will have quite high downside risk potential as the income tax made-up around 45% of total revenue in the budget.

Fig. 12: State revenue very weak



Source: MoF, CEIC, Indo Premier

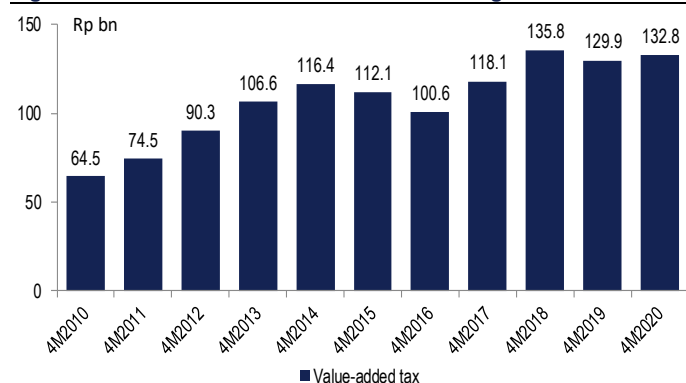
Fig. 13: Both tax and non-tax revenue will be contracting



Source: MoF, CEIC, Indo Premier

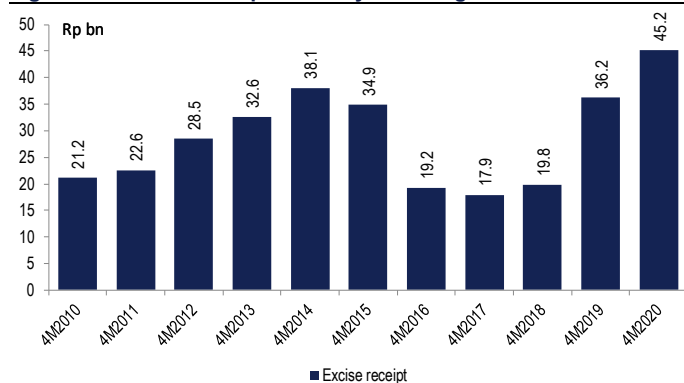
In the meantime, excise tax grew solid by 24.9% yoy in Apr, from a high base of +82.8% yoy last year, due to higher receipt from tobacco products. This indicates the inelasticity of the tobacco products consumption, as the tobacco excise increased roughly around 25% yoy. In addition, we see the VAT to be reversed soon as the slower economic activity start to takes its toll.

Fig. 14: VAT will be less due to lower economic growth



Source: MoF, CEIC, Indo Premier

Fig. 15: but excise receipt will likely be strong



Source: MoF, CEIC, Indo Premier

ANALYSTS CERTIFICATION

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