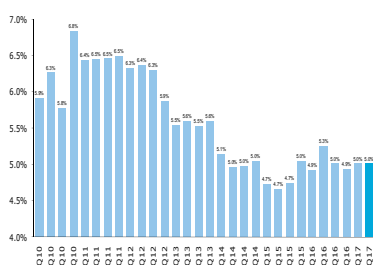


## Macroeconomics Indicator

	2016	2017F
GDP growth (% yoy)	5.0	5.1
Inflation (% yoy)	3.02	4.3-4.8
7DRRR (% year end)	4.75	4.75
IDR/USD (median)	13,251	13,450
CA balance (% of GDP)	-2.5	-2.5
Fiscal balance (% of GDP)	-1.8	-2.4

## GDP growth (% , yoy)



## Money &amp; Forex Reserves

	latest	% yoy
M1 – May17, Rptn	1275.9	14.0
M2 – May17, Rptn	5125.4	11.1
Reserves – Jul17, US\$bn	127.8	14.7

Source: BI, BPS, CEIC

## Budget of multiple arrows

- **2018 budget was launched with moderate expansion in general**
- **We observe growth next year will be highly dependent on govt stimulus**
- **Infrastructure will be a double-edged sword, to also narrow inequality gap**
- **...and revenue generation remains a concern, but AEOI will be a catalyst**

**Moderate budget expansion.** We believe the 2018 budget launched this week with 8% increase in revenue (against 2017's realisation outlook) and 5% spending is moderate, although the more aggressive expansion had been witnessed in 2017, which may explain as to why the increase this year was milder. We think the government aims to set a lower expectation and anticipates a better performance, as what 2017's outlook might suggest with expected higher spending absorption of 101% and minimal budget revision.

**Stimulus dependent.** With growth next year is expected to reach 5.4%, we believe it is fiscal stimulus that should play major part. To note, government consumption is expected to increase by 3.8% and investment of 6.3%. Despite the rather conservative growth level, to accomplish such targets will require a lot of things to be achieved, notably as government spending hardly reached an annual average of 1% within the last two years and the current regime where expenditure is directed toward quality spending. We believe the government would be key player in both spending and investment as 2018 will see some projects completion due to the hosting of Asian Games and joint regional elections in some 171 regions including provinces and sub-provinces (district or city); the success of government will determine growth performance next year.

**Narrowing inequality.** Infrastructure spending, which is earmarked at Rp409tn (up 5%), will be much to rely on as in addition to growth and connectivity issue, it is due to deliver another objective that is promoting equality. A set of projects such as procuring drinkable water, sanitation, housing development and handling of slum areas belong to the infrastructure focus in 2018, along with other national strategic project such as in maritime and connectivity, and are believed to help narrowing the inequality gap. Despite promising a good secular growth trend in the long run, we are cautious as to whether all objectives will be served, particularly as these projects might not bring quick spillover to the economy. The success of government in enacting all its aspirations will be an object of interest next year. In terms of means, a higher proportion of infrastructure funds will be disbursed through ministry (and line ministries) and infrastructure support, whereas there seems lower state injection, earmarked at Rp6tn. This should impact SOEs albeit in limited fashion as SOEs can still benefit from facilities provided by the government when procuring strategic projects (*read: Small steps of thousand miles*).

**Revenue generation still a concern.** We continue to remain vigilant on revenue generation next year on tax revenue concern, despite improvement in tax revenue this year and despite moderate target set (+9.3%). The reason would be a long and tedious way to reform in Directorate General of Tax, which is believed to boost the tax performance but has only seen small progress so far. A catalyst, however, would emerge from the Automated Exchange of Information regime that will commence next year, where Indonesia should partake. This regime would help the government to push for tax submission, provided other assumptions such as tax auditor capacity, IT availability, are available.

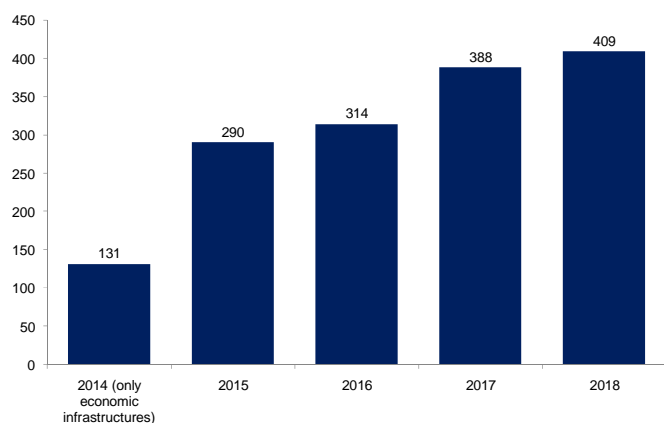
**Agnes HT Samosir**  
PT Indo Premier Sekuritas  
agnes.samosir@ipc.co.id  
+62 21 5793 1168

Fig. 1: Budget comparison 2017-18

	2017				2018 State budget	
	State Budget	Revised State Budget	Outlook realisation	% change	Rptn	% change
<b>A. REVENUE</b>	1750	1736	1736	12%	1878	8%
<b>A1. Domestic Revenue</b>	1749	1733	1733	12%	1877	8%
Tax revenue	1499	1473	1473	15%	1609	9%
Oil and gas tax revenue	36	42		16%	36	-14%
Non-oil and gas tax revenue	1272	1242		16%	1379	11%
Excise tax and other levies	191	189		6%	194	3%
Excise tax	157	153		7%	155	1%
<b>A2. Non-tax revenue</b>	250	260	260	-1%	268	3%
Grants	1	3	3	-66%	1	-61%
<b>B. EXPENDITURE</b>	2081	2133	2099	13%	2204	5%
Central govt	1316	1367	1343	16%	1443	7%
Ministries spending	764	799	769	12%	814	6%
Non-ministries spending	552	568	574	22%	629	10%
Local and regional transfer	765	766	756	6%	761	1%
<b>C. PRIMARY BALANCE</b>	-109	-178	-144	15%	-78	-46%
<b>D. % SURPLUS/ BUDGET DEFICIT</b>	2	3	3	7%	2	-18%
<b>E. FINANCING</b>	330	397	362	8%	326	-10%
Debt financing	385	461	427	6%	399	-7%
Bond emission	400	467	433	6%	415	-4%
Investment financing	-48	-60	-60	-33%	-66	10%
Loan	-6	-4	-4	-318%	-7	81%

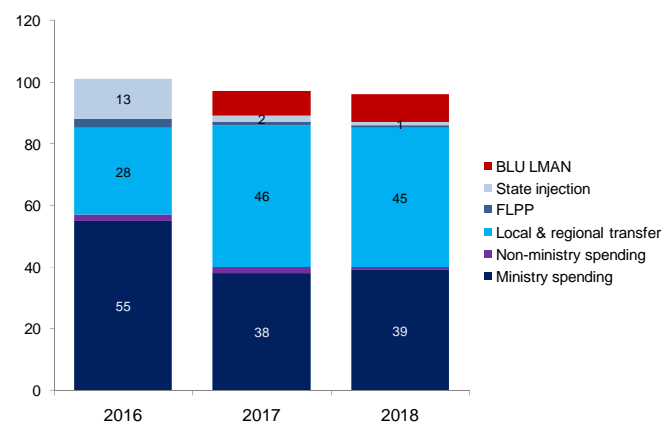
Source: MoF, Indo Premier

Fig. 2: Infrastructure spending (Rptn)



Source : MoF, IndoPremier

Fig. 3: Economic infrastructure spending (Rptn)



Source : MoF, IndoPremier

**Head Office****PT INDO PREMIER SEKURITAS**

Wisma GKBI 7/F Suite 718

Jl. Jend. Sudirman No.28

Jakarta 10210 - Indonesia

p +62.21.5793.1168

f +62.21.5793.1167

**INVESTMENT RATINGS**

BUY : Expected total return of 10% or more within a 12-month period  
HOLD : Expected total return between -10% and 10% within a 12-month period  
SELL : Expected total return of -10% or worse within a 12-month period

**ANALYSTS CERTIFICATION.**

The views expressed in this research report accurately reflect the analysts' personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

**DISCLAIMERS**

This research is based on information obtained from sources believed to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendations contained in this document do not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is not and should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell any securities. PT. Indo Premier Sekuritas or its affiliates may seek or will seek investment banking or other business relationships with the companies in this report.