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INDONESIA

Indonesia: Are state budget and growth targets achievable?

President Jokowi's 2019 budget targets of 5.3% GDP growth and a fiscal deficit of -1.84% of GDP are indeed achievable in our view. But the assumption of a stronger Indonesian rupiah (IDR) is a reason for caution



5.3% GDP growth target for 2019

In line with current consensus forecast

Assumptions for the targets are generally reasonable

President Jokowi's budget for 2019 with GDP growth of 5.3% and a fiscal deficit at -1.84% of GDP looks attainable to us. The 2019 GDP target is in line with the current consensus forecast and lower than the initial proposal of 5.4% to 5.8%.

- The projected moderate pace of economic activity takes into account the difficult external operating environment and includes more realistic expectations.
- The 2019 budget also assumes a more realistic oil price assumption of \$70/bl. This is in contrast to the quite optimistic initial 2018 oil price assumption of around \$40-\$50/bl. The current average oil price is around \$65-70/bl. With a more realistic oil assumption,

the fiscal challenge of 2018 of increasing the energy subsidy could be minimised in 2019.

There is reason to think that the performance of the government in 2019 will not deviate much from the proposed 2019 fiscal deficit of -1.84% of GDP.

- The 2019 budget proposal estimates that revenues will increase by 12.6%, which would support 10% expenditure growth. Recent government performance supports this target.
- The government's seven-month 2018 fiscal performance of -1.02% deficit to GDP is below the operating 2018 fiscal deficit target of 2.12%. Government revenues for the seven month period increased due to a 23% rise in non-tax revenue collection and a 16% increase in the collection of customs and excise tax.
- A cause for concern is the possible IDR assumption of IDR14400, which is around 1.6% stronger than current levels. This could be difficult unless the government and central bank are successful in reducing the current account deficit from -3% of GDP in 2Q to closer to -2.5% of GDP. The consensus forecast is -2.3% of GDP in 2019. A deteriorating current account deficit would keep the IDR on the defensive in 2019 and thus could frustrate economic planners.

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