

INDONESIA MACRO UPDATE

4 January 2023

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The Strength of Fiscal Fundamentals Welcomes 2023

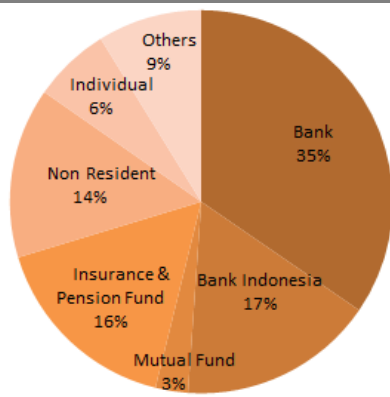
We are of the view that the realization of the 2022 Budget Deficit (2.38% of GDP) that came lower than the 2022 Government Budget (as stipulated in Presidential Decree No.9) (4.50% of GDP) as a very good fundamental to face the economic challenges in 2023. Especially the remaining budget surplus (Silpa) for 2022 which can be used in 2023 reaching IDR119.2Tn is expected to be a shock absorber to fund the budget at the beginning of 2023. This is especially to mitigate the risks of further increases in benchmark interest rates and rising cost-of-funds, particularly government bonds yield on both global and domestic.

From the perspective of Government revenue, we are concerned that the drop in commodity prices will be the main challenge in 2023. However, with the domestic-driven processing industry, especially the processing of commodities, such as the ban on bauxite exports by June 2023, we hope that this risk can be minimized. In addition, the intensification of taxes stipulated in Government Regulation Number 55 of 2022 concerning Adjustment of Regulations in the Field of Income Tax, we hope to be an additional boost for state revenue.

Meanwhile, in terms of government spending, absorption of goods spending remains the main challenge. However, with the beginning of the general election period (legislative and presidential) we hope it will become a boost to government spending in the second half of 2023. However, with the increase in government financing through the issuance of SBN originating from non-Rupiah denominations, especially USD, has driven the exchange rate risk exposure to become one of the challenges facing the State Budget in the future. In addition, we are concerned that energy subsidies will be a fiscal challenge in 2023.

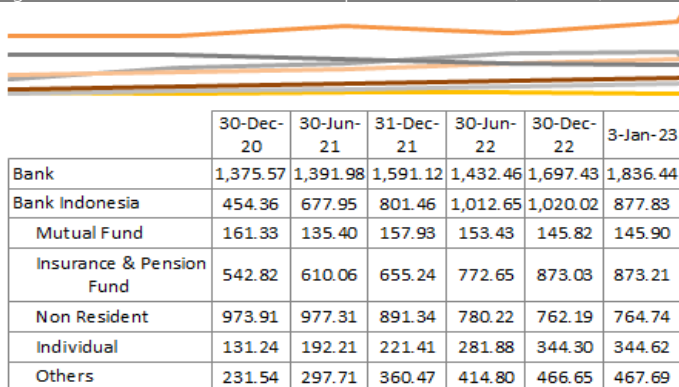
We anticipate that diversifying SBN issuance will be a rational move in the future. We expect this will be driven by bigger issuance portion for domestic investors (especially SBN retail) and diversifying into other currency denominations, besides USD, to lower the risk of dependency on USD in the future.

Fig 1. Share Ownership of IDR Tradable Government Securities (SBN), as of 3 Jan 2023



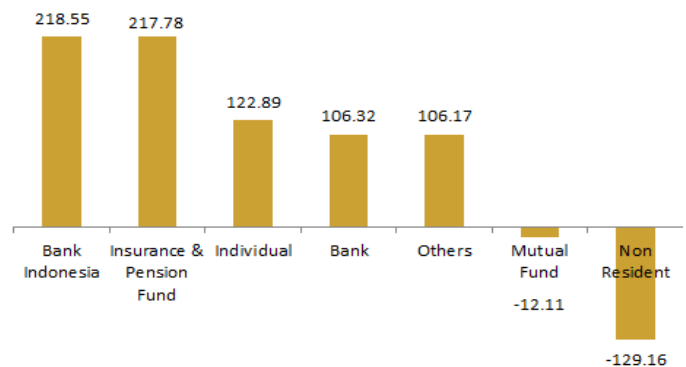
Source: Bloomberg, KBVS Research – treated 2022

Fig 3. Share of Non Resident Ownership in Tradable SBN (in IDR Tn)



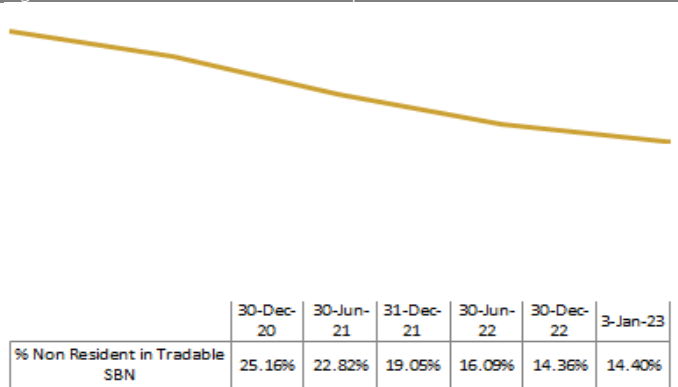
Source: Bloomberg, KBVS Research – treated 2022

Fig 2. Change of ownership of Tradable SBNs during 2022 (in IDR Tn)



Source: Bloomberg, KBVS Research – treated 2022

Fig 4. Share of Non Resident Ownership in Tradable SBN



Source: Bloomberg, KBVS Research – treated 2022

Table 1. Indonesia's Government Budget Realization

Budget Position (IDR Tn)	Target APBN 2023	2022			2021			2020		
		Target	Realization	% to APBN	Target	Realization	% to APBN	Target	Realization	% to APBN
I. Government Revenue	2,463.00	2,266.20	2,626.40	115.89%	1,743.65	2,011.30	115.35%	1,699.90	1,647.80	96.94%
1.1 Domestic Revenue	2,462.60	2,265.60	2,622.90	115.77%	1,742.75	2,006.30	115.12%	1,698.60	1,629.00	95.90%
1.1.1 Tax Receipts (incl. Customs & Excise)	2,021.20	1,784.00	2,034.60	114.05%	1,444.54	1,547.80	107.15%	1,404.50	1,285.10	91.50%
1.2 Non-Tax Revenue	441.40	481.60	588.30	122.16%	298.20	458.50	153.76%	294.10	343.90	116.93%
1.2 Grants	0.40	0.60	3.50	583.33%	0.90	5.00	555.56%	1.30	18.80	1446.15%
II. Government Expenditure	3,061.20	3,106.48	3,090.70	99.49%	2,750.03	2,786.76	101.34%	2,739.20	2,595.50	94.75%
2.1 Central Government Expenditure	2,246.50	2,301.70	2,274.50	98.82%	1,954.55	2,000.70	102.36%	1,975.20	1,833.00	92.80%
2.1.1 Ministry/Agency Expenditure	1,000.80	945.80	1,079.30	114.12%	1,031.96	1,190.80	115.39%	836.40	1,055.00	126.14%
2.1.2 Non-Ministry/Agency Expenditure	1,245.60	1,355.90	1,195.20	88.15%	922.59	809.90	87.79%	1,138.90	772.30	67.81%
2.2 Transfers to Regions and Village Funds	814.72	804.78	816.20	101.42%	795.48	785.71	98.77%	763.90	748.03	97.92%
2.2.1 Transfers to Regions	744.72	736.78	748.30	101.56%	723.48	713.85	98.67%	692.70	691.40	99.81%
2.2.2 Village Funds	70.00	68.00	67.90	99.85%	72.00	71.85	99.79%	71.19	71.10	99.87%
III. Primary Balance	(156.80)	(434.40)	(78.00)	17.96%	(633.12)	(431.60)	68.17%	(700.40)	(633.60)	90.46%
IV. Budget Surplus/(Deficit) (I-II)	(598.20)	(840.20)	(464.30)	55.26%	(1,006.38)	(775.10)	77.02%	(1,039.30)	(947.70)	91.19%
% Budget Surplus/(Deficit) to GDP	(2.85)	(4.50)	(2.38)		(5.70)	(4.57)		(6.14)	(5.78)	
V. Budget Financing	598.20	840.20	583.50	69.45%	1,006.38	868.63	86.31%	1,039.20	1,193.30	114.83%
SBN (Net Issuance)	712.90	961.40	658.80	68.53%	1,207.30	877.50	72.68%	1,173.70	1,177.20	100.30%

Table 2. Indonesia's Government Securities

Types of Government Securities (IDR Tn)	8-Dec-22	31-Dec-21	28-Dec-20
I. Tradable Govt Bond	6,578.10	5,947.96	5,068.74
1.1 Rupiah denominated	5,184.95	4,678.98	3,867.26
1.2 USD denominated	1,155.42	1,016.47	947.49
1.3 JPY denominated	56.93	74.80	80.80
1.4 EUR denominated	180.80	177.72	173.19
II. Non Tradable	142.93	143.89	165.36
Total Government Bond (I+II)	6,721.04	6,091.85	5,234.10

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