



KEMENTERIAN KEUANGAN
REPUBLIK INDONESIA

Laying The Groundwork for Sustainable Growth

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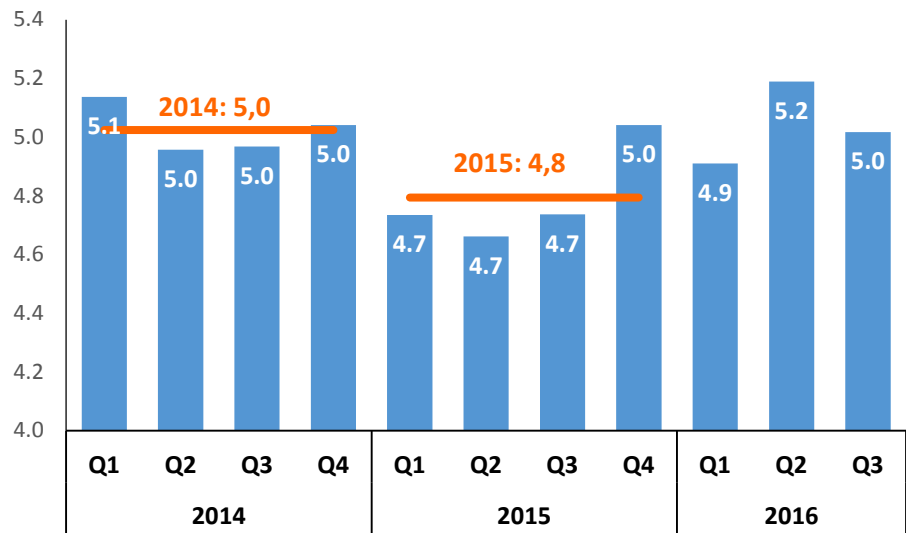
#KE2JA
#NYATA

Indonesia's GDP growth in the third quarter 2016 was 5,02% (yoy)

Household consumption and investment remain as the key drivers

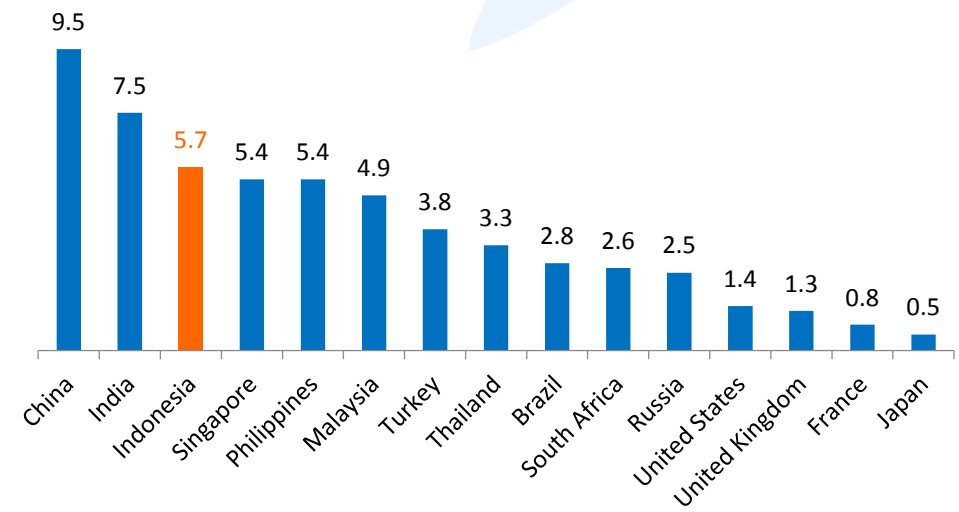
Indonesia quarterly growth (YoY)

Source: BPS



Countries average GDP growth 2006-2015 (%yoy)

Source: IMF & BPS

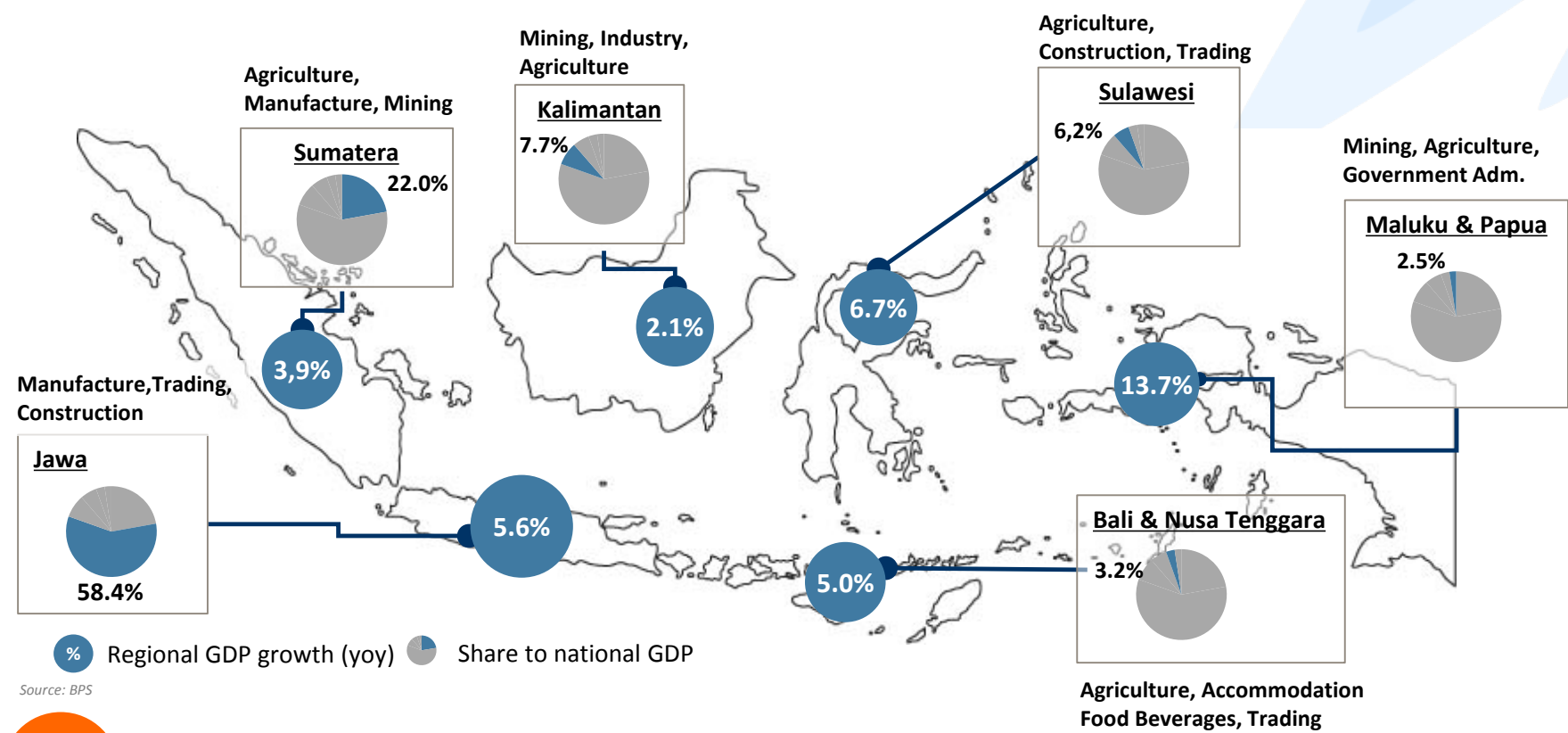


	2015						2016			
	Q1	Q2	Q3	Q4	Ytd Q3	Y	Q1	Q2	Q3	Ytd Q3
Household Consumption*	4.7	4.7	5.0	5.0	4.8	4.8	5.0	5.1	5.0	5.0
Government Consumption	2.9	2.6	7.1	7.3	4.4	5.4	3.5	6.2	-3.0	2.0
Investment	4.6	3.9	4.8	6.9	4.4	5.1	5.6	5.1	4.1	4.9
Export	-0.6	0.0	-0.6	-6.4	-0.4	-2.0	-3.5	-2.4	-6.0	-4.0
Import	-2.2	-7.0	-5.9	-8.1	-5.1	-5.8	-5.0	-2.9	-3.9	-3.9
GDP	4.73	4.66	4.74	5.04	4.71	4.79	4.91	5.19	5.02	5.04

*) including LNPRT

Growth in commodity based regions has improved

Java grew stably in line with manufacturing growth print



5.02% National GDP growth Q3 2016

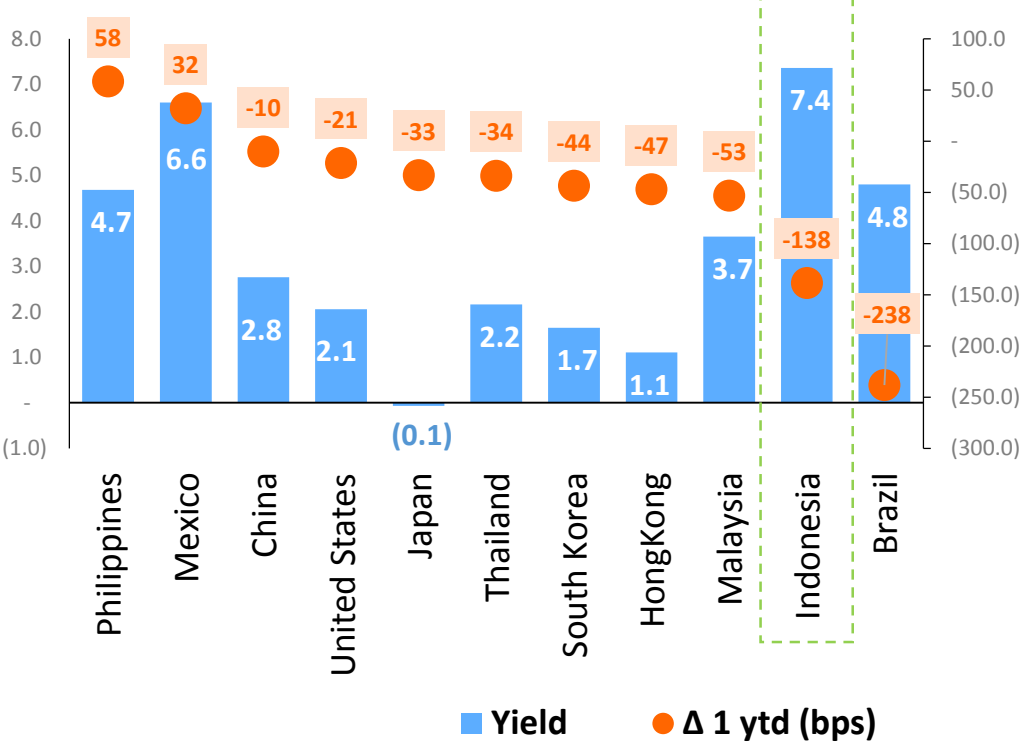
- Kalimantan, Papua and Maluku could grow higher than previous quarter as mining sector improved (Q2 2016 Growth YoY: Kalimantan 1.1%, Papua & Maluku -1.6%)
- Java as the biggest contributor to national growth and the center of manufacturing activity could grow stably of 5.6 percent
- Sulawesi and Bali Nusa Tenggara remained showing favorable growth even though slightly lower than previous quarter

Indonesia government debt securities profile remains manageable

Higher bond pricing, but longer maturity and much lower debt to GDP ratio

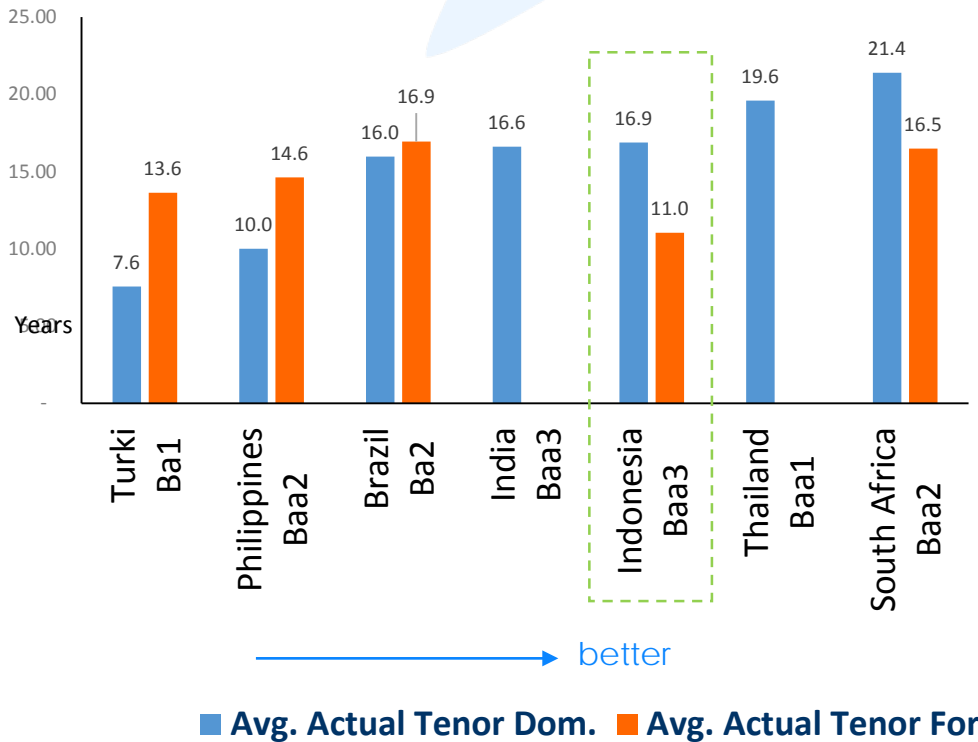
Indonesia's 10 Year Government Securities Yield is Higher, but In 2017 It Gets More Competitive

Source: IMF



Peers Comparison on Outstanding Government Debt Securities Profile (Domestic and Foreign Currency)

Per 28 October 2016; Source: Bloomberg, Staff Calculation; Rating by Moody's



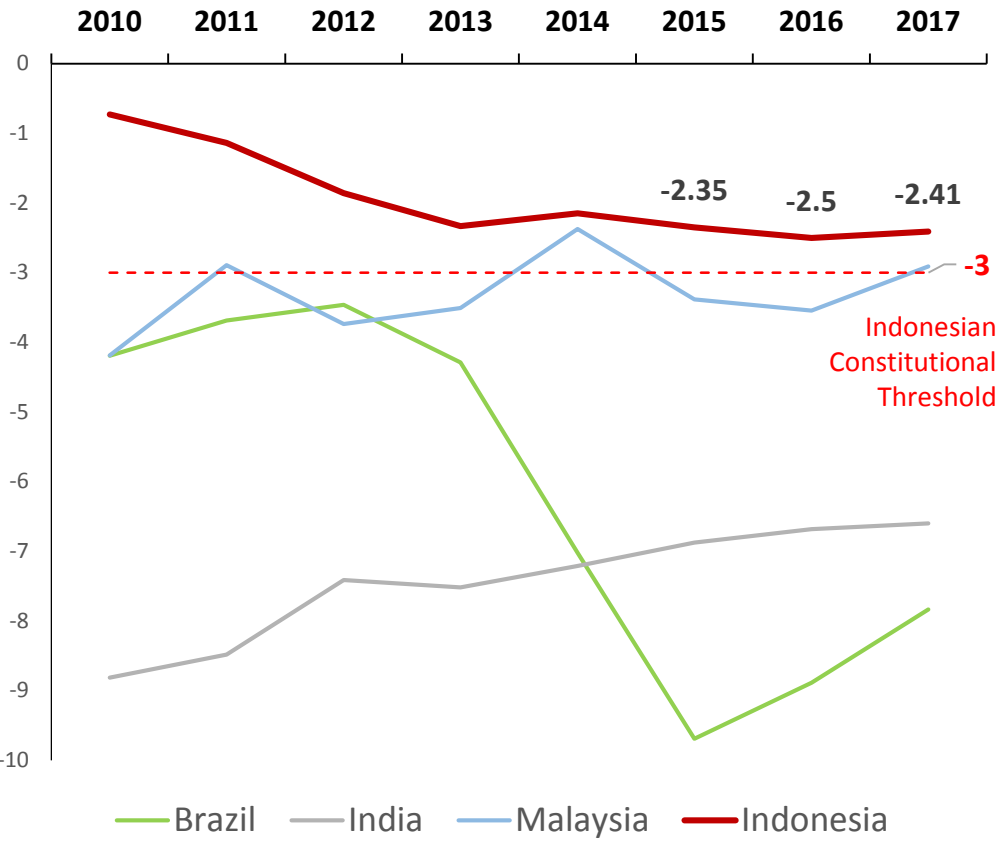
- In 2017, Indonesia is focusing to decrease bond pricing, lower or similar with market yield
- Growing external debt is the consequence in order to avoid the crowding out risk in domestic market
- However, considering the longer maturity date, Indonesia debt profile is healthy and sustainable.
- Debt to GDP ratio Indonesia is much lower than peers, provide large room for expansion

Preserving fiscal sustainability always at the top Govt priority

Through the compliance with fiscal rules and productive financing

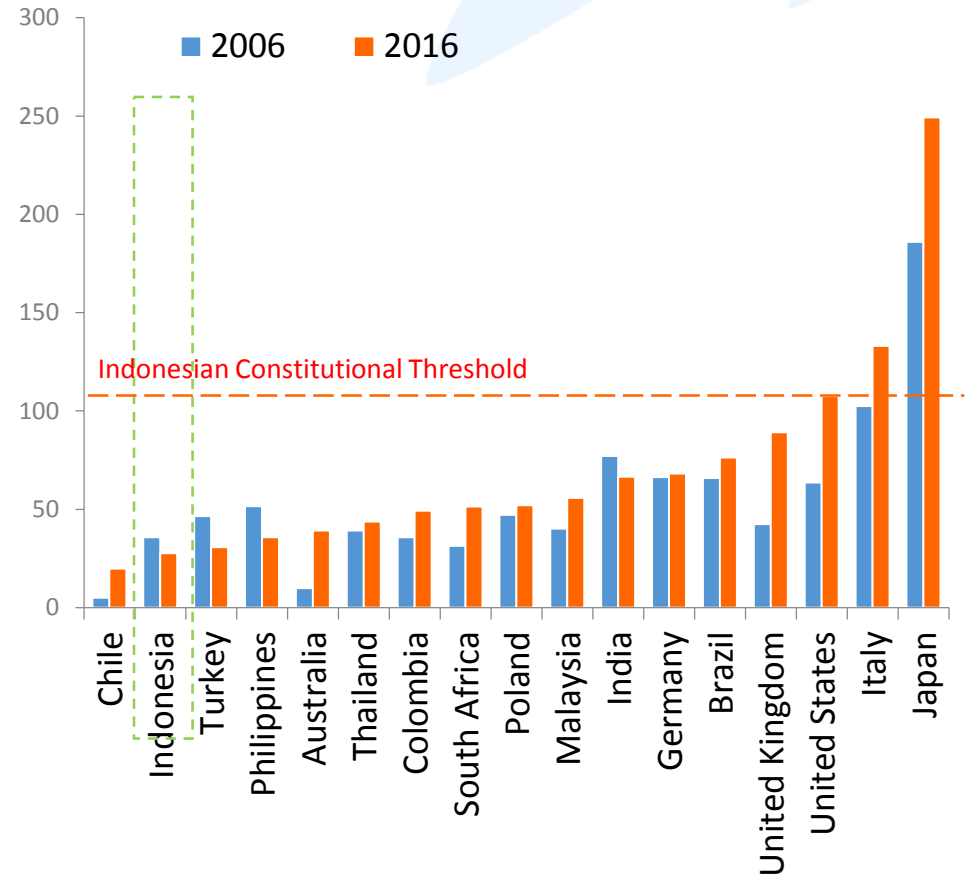
Indonesia's Fiscal Deficit (% of GDP)

Source: MoF



Debt to GDP Ratio (%)

Source: IMF



- Government commits to comply with the 3% budget deficit threshold, as regulated by law.
- Indonesia still has plenty room to expand the public debt until 60% of GDP

Main strategy to spur economic growth

Integrated policy framework through **INTEGRATED FISCAL, REAL SECTOR, AND MONETARY POLICY REFORM**



Budget

- Focusing on more sustainable revenue, esp. taxation
- More realistic revenue target calculation
- Increasing more productive spending, inc. infrastructure
- Budget efficiency on non-priority spending
- More sustainable financing
- Maintaining fiscal rule of 3% deficit to GDP

Incentives

- Investment friendly policies
- Regulation to stimulate the trade of high value added domestic products

By utilizing:

- Credible and realistic budget
- Incentives for strategic sectors
- Support for stable consumption



Conductive yet independent monetary policies

- Inflation Management
- Prudent monetary policy support for stabilization and growth
- Accommodative Macro-prudential Policy
- Effort to reduce volatility

SHORT –
MEDIUM
Term Policies

Budget

- Better targeted subsidy
- Social welfare spending
- Strengthening regional involvement through intergovernmental transfer

Incentives

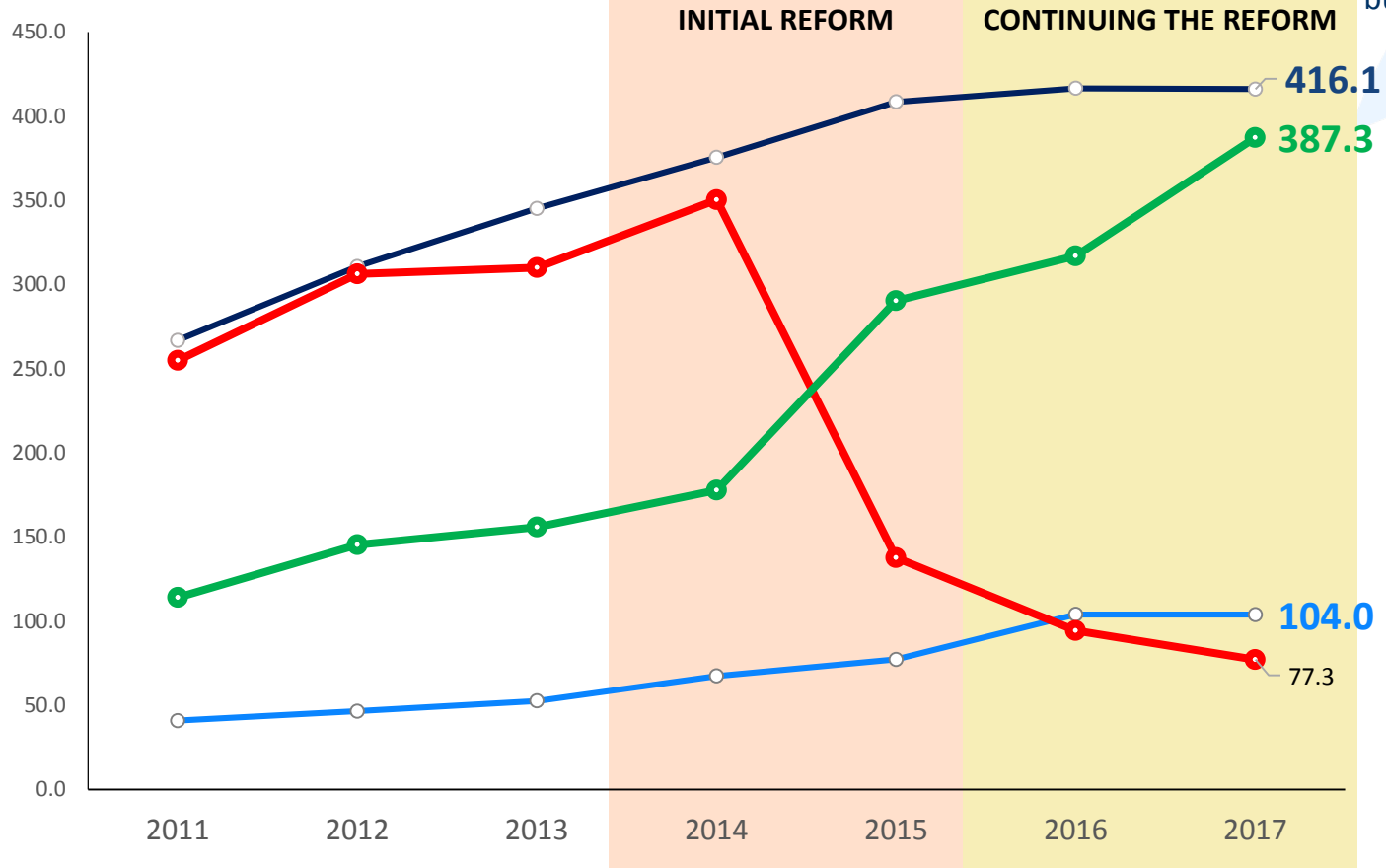
- Effort to maintain consumption growth
- Deregulations to ease business climate
- Increasing non taxable income threshold
- Improving the easiness in doing business

Commitment to continue strengthening productive spending

Budget allocation for education, infrastructure, and health significantly increase

Budget Allocation (trillion rupiah)

Source: MoF



Comparison between total 2011 – 2014 budget and total 2015 – 2017 budget

Education	↑ 27.4%
Infrastructure	↑ 123.4%
Health	↑ 83.2%
Energy Subsidy	↓ 66.2%

- Ensuring budget allocation is heavily on productive spending to support growth momentum and to improve basic services
- Preserving the infrastructure acceleration
- Social welfare spending to improve equality and maintain consumption growth
- Better and fairer subsidy scheme

Tax Amnesty as policy breakthrough

Expected to be strongly affecting the economy trajectory in both short and long run

Tax Amnesty as the milestone of tax reform



Accelerating Economic Growth through Asset Repatriation, via several transmissions:

- increase domestic liquidity;
- improve the stability of IDR currency;
- create lower interest rate;
- support investment growth.



Expanding Tax Base through more Reliable, Integrated and Comprehensive Database

More reliable calculation of tax revenue potential



Increasing More Sustainable Tax Collection in both Short and Long Term

Short Term : Collection from Amnesty Fee

Long Term : Better Tax Collection based on better and larger Tax Database

More reforms are coming

Tax Policy Reform

- Amendment of **General Provision and Administration of Taxation Law***
- Amendment of **VAT Law***
- Amendment of **Income Tax Law**
- Amendment of **Stamp Duty Law**

**currently, Ministry of Finance is working on the Academic Paper of these regulations*

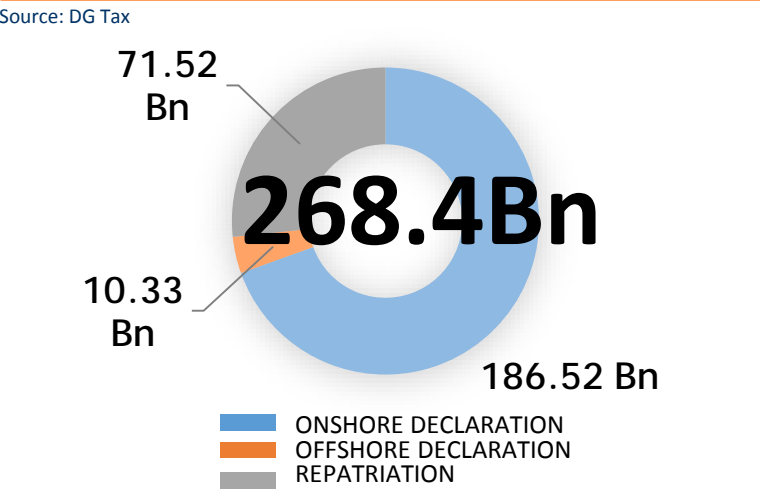
Tax Administration Reform

- More effective and better targeted **law enforcement**
- Improvement of **IT and communication system**
- Enhancement of **data management**
- Improvement of the **human resources capacity and capability**

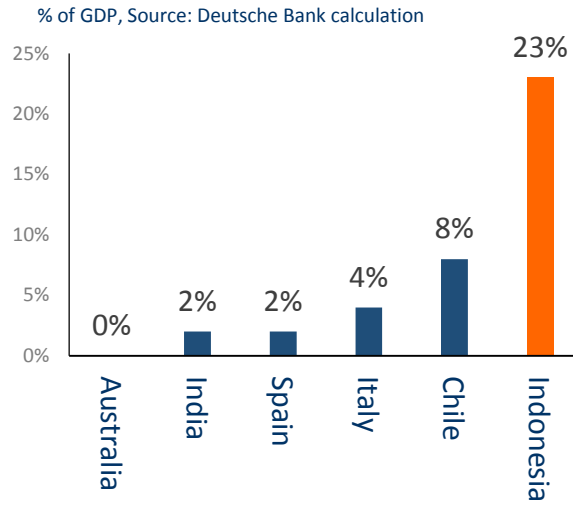
Indonesian Tax Amnesty is one of the most successful in the world

With more than 376,000 taxpayers has participated in the program

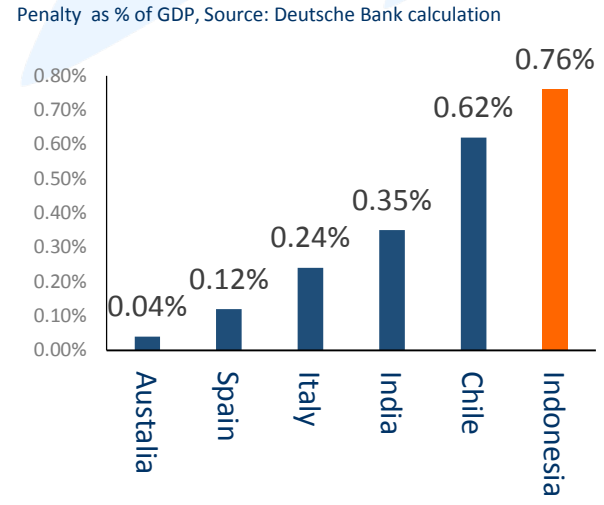
Realization of Asset Declaration from Tax Amnesty, In US\$



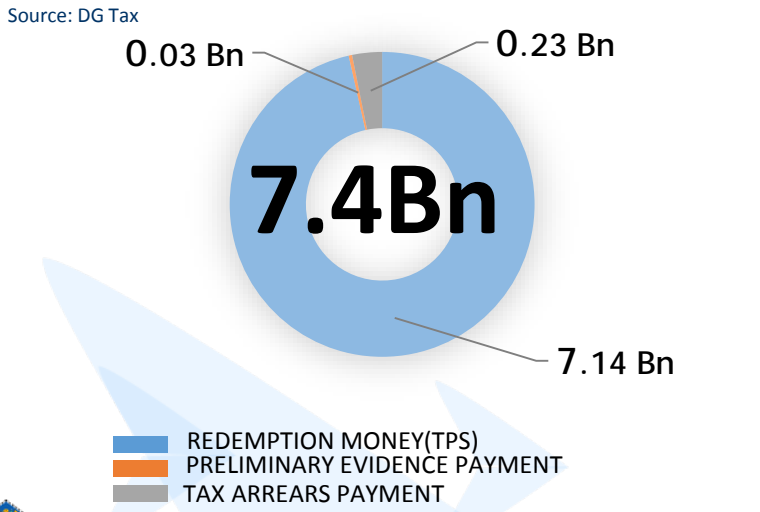
Declared Assets



Revenue From Tax Amnesty



Tax Amnesty Revenue Realization, In US\$(Based On Tax Payment Slip)



Repatriation/ Offshore Declaration by Country Origins

Repatriation			Offshore Declaration		
Singapore	77.41T	57.18%	Singapore	631.29T	67.36%
Cayman Islands	16.50T	12.19%	Virgin Islands	71.74T	7.66%
Hong Kong	13.98T	10.33%	Cayman Islands	52.53T	5.61%
China	3.56T	2.63%	Hong Kong	37.89T	4.04%
Virgin Islands	2.25T	1.66%	Australia	32.10T	3.43%

Source: DG Tax

Indonesia is open for investment

Supported by demographic structure, abundant natural resources, and stable macroeconomic

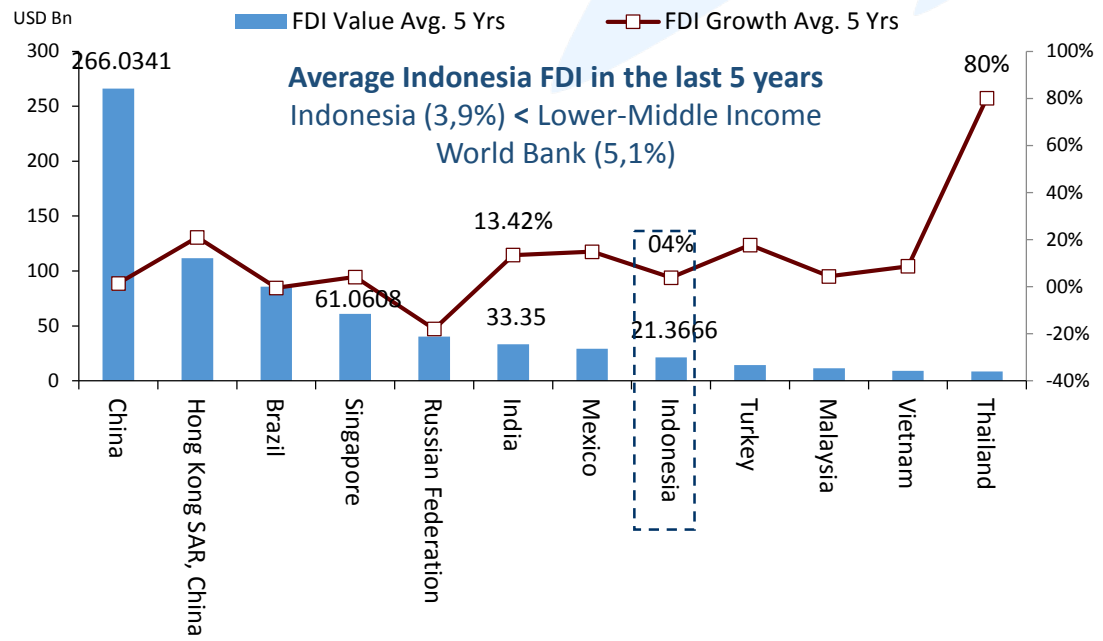
Global Competitiveness Ranking 2016 - 2017

From 138 countries; Source: GCI WEF 2016 - 2017

	2nd Pillar Infrastructur	Quality of Roads	Quality of Port	Quality of Electricity
ASEAN				
Singapore	2	2	2	2
Malaysia	24	20	17	39
Thailand	49	60	65	61
Indonesia	60	75	75	89
Philippines	95	106	113	94
BRICS				
Russia	35	123	72	62
China	42	39	43	56
South Africa	64	29	37	112
India	68	51	48	88
Brazil	72	111	114	91

Average of Foreign Direct Investment in 2011 - 2015

Source: World Bank, Processed



Indonesia ranked 3rd position after India and China as best investment destination in Asia

The Economist's Asia Business Outlook Survey 2016



For 2 consecutive years, Indonesia becomes one of The Most Prospecting Countries among the world economies.

JBIC Survey on Overseas Business Prospect FY 2015

(Public & Private) Investment is highly required to support the growth engine transition from consumption-led growth to investment-led growth

Government has implemented the structural reforms through a series of economic policy packages

To boost investment and maintain purchasing power

1 9 Sept 15

- Deregulation
- Strategic Project Acceleration
- Boost Low Income Housing

2 29 Sept 15

- 3- hour Permit Issuance Program
- Elimination of VAT for transport industries
- Integrated Logistics Facilities

3 7 Oct 15

- Lower Fuel and Electricity Prices
- Land Permit Simplification for Investment Activities
- Broadening of Small Business Credit Recipients

4 15 Oct 15

- Fair, Simplified and Projectable Wage System
- Ease and Affordability of Small Business Credit

5 23 Oct 15

- Lower Asset Revaluation Tax
- Eliminating Double Taxation for REITs

6 5 Nov 15

- Development of SEZs
- Ease of Water Supply
- Simplified Import Licensing for Pharmaceutical

7 4 Dec 15

- Acceleration of Land Certification Process
- Tax Incentive for Labor Intensive Industry

8 21 Dec 15

- One Map Policy
- Refinery Construction
- Incentive for Aviation Industry

9 27 Jan 16

- Acceleration Construction of Electricity Infrastructure
- Stabilization of Meat Prices
- Deregulation on Logistics Sector

10 11 Feb 16

- Easing of Investment Restriction

11 29 Mar 16

- Export-Oriented Business Credit REITs Incentive
- Indonesia Single Risk Mgmt (ISRM)
- Development of Pharmaceutical Industry

12 28 Apr 16

- Simplification of Licensing, Procedures, Duration and Cost of Starting Business in Indonesia

13 24 Aug 16

- Acceleration of the development of affordable houses, by reducing, integrating, and accelerating licensing process

14 10 Nov 16

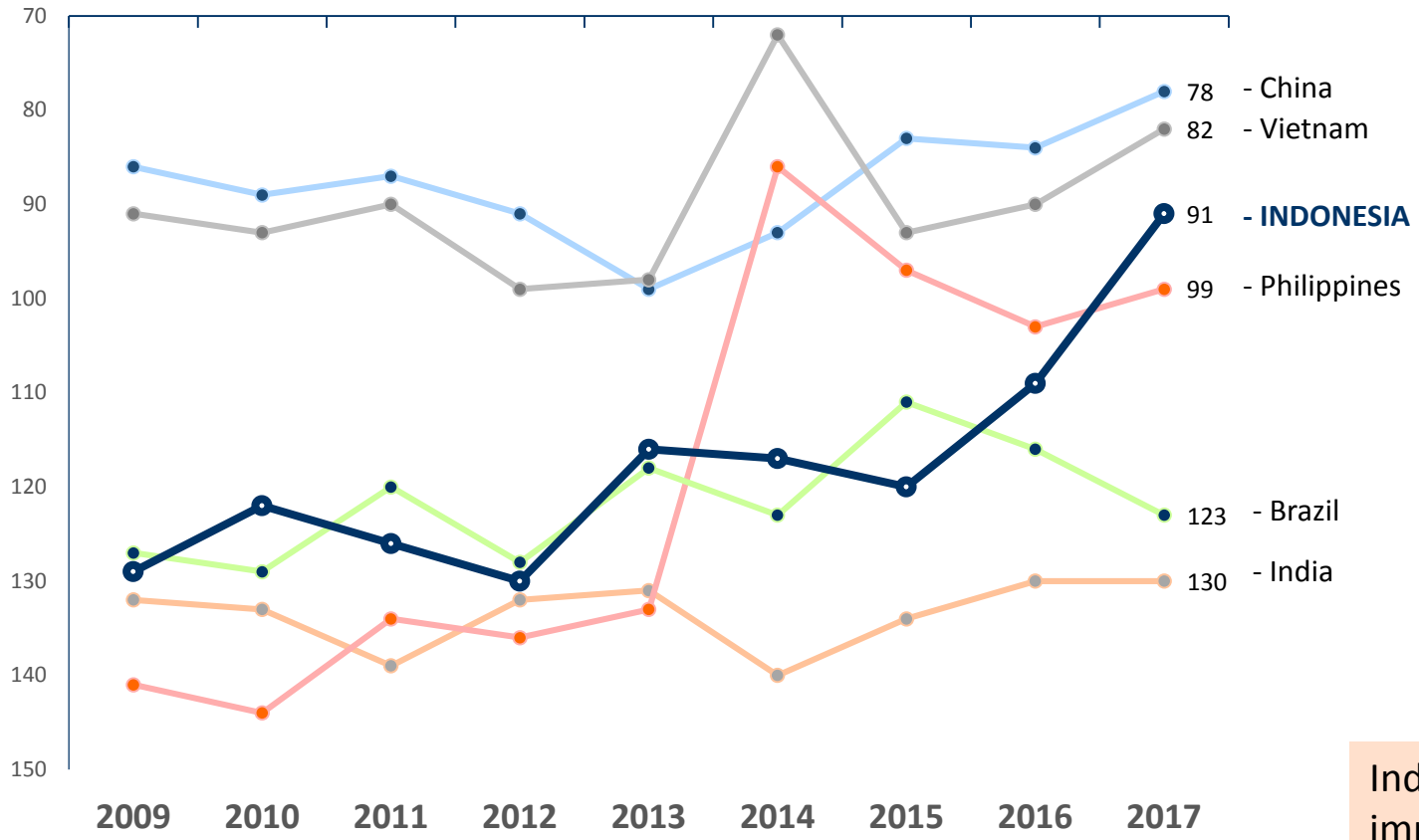
- E-commerce financing
- Tax incentive for domestic digital economy players
- Consumer protection
- Logistical improvement

Indonesia has shown strong improvement in Ease of Doing Business (EODB) Rank in 2017

Vigorous reform initiatives have led to a rank increase by 15 places from last year position

Significant EODB rank improvement

Source: World Bank Ease of Doing Business Report 2017



#91
 From 190 country surveyed
 Score: 61.52 (↑3.4)

Jumped 15 places

2016: #106
2015: #120

Indonesia is amongst the top 10 improvers in Doing Business 2017: Equal Opportunity for All

- World Bank Group, Press Release EODB 2017

- Indonesia's rank has surpassed Philippines and Brazil
- Indonesia is one of the most progressive reformists among EMs
- However, there are still works to be done and further reforms will be implemented



Key infrastructure projects are on track

Improving the nation's connectivity, efficiency and quality of life, funded by both budget and private sector

Roads



Trans Sumatra Highway



Solo Kertosono Highway

Dams



Raknamo Dam, NTT

Housing



Government Flats, Jakarta

Transportation



Jakarta MRT Project¹



Terminal 3 Ultimate Soekarno-Hatta¹



New Tanjung Priok Port Project¹



Komodo Airport, NTT



Matahora Airport, Southeast Sulawesi



Tual Airport, Maluku



Juwata Airport, Tarakan

¹ Not funded from national budget
Source: Ministry of Finance

2017 Macroeconomic assumptions

Projections are more realistic and reflecting the current situation as well as opportunities and challenges

INDICATOR	2016		2017
	R-BUDGET	OUTLOOK	BUDGET
Economic growth (%, <i>yoy</i>)	5.2	5.0	5.1
Inflation (%, <i>yoy</i>)	4.0	3.2	4.0
3-Month Treasury Bill (SPN) (%)	5.5	5.4	5.3
Exchange Rate (Rp/US\$)	13,500	13,300	13,300
ICP (US\$/barrel)	40	40	45
Oil Lifting (thousand barrel/day)	820	820	815
Gas Lifting (thousand barrel oil equivalent/day)	1,150	1,150	1,150

2017	2017
IEQ WB OCT 16	Bloomberg Consensus
5.3	5.3
4.4	4.5
n/a	n/a
13,300	13,300
51	n/a
n/a	n/a
n/a	n/a

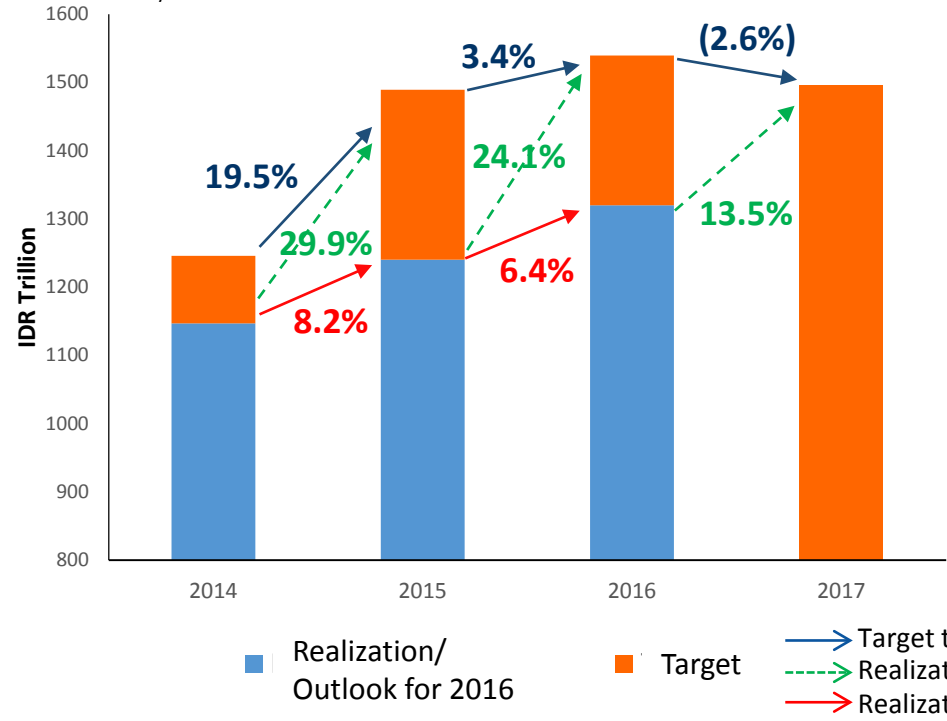
- More conservative macroeconomic assumptions to measure the recent economic development and the impact of government policies.

A more realistic 2017 tax revenue target

Taxation policies are directed at expanding the tax base and increasing compliance

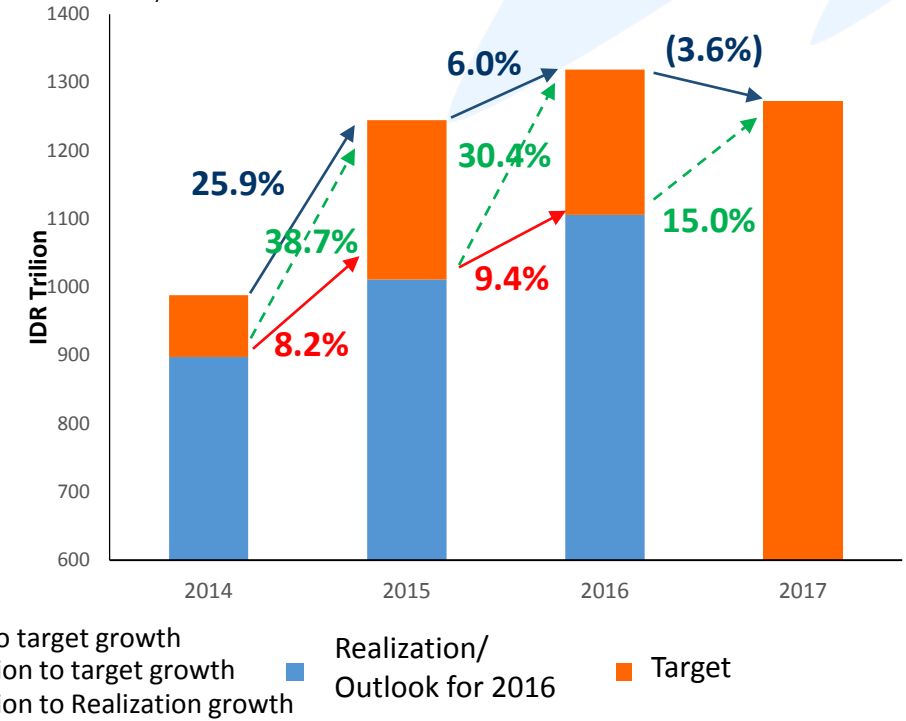
Tax Collection Target

Source: Ministry of Finance



Non Oil and Gas Tax Collection

Source: Ministry of Finance



2017 Main Taxation Policies

Increasing the tax base and compliance
i.e. through IT and database
improvement

Providing tax incentives to support
competitiveness and investment
climate

Improving tax regulation i.e.
through the amendment of
laws (KUP, VAT, Income Tax,
Stamp Duty Laws)

Optimizing international tax
arrangement to enforce
transparency

Using excises to control
consumption of certain goods and
minimize negative externality

Investment opportunity through 2017 Indonesian government securities

Offering the stability and certainty benefits

2017 Indonesia Financing Plan

Source: MoF

	2014	2015	2016	2017
	Audited	Audited	R-Budget	Budget
Government securities	255,7	380,9	371,6	384,7
Investment Financing	(8,9)	(59,7)	(94,0)	(47,5)
Lending	2,5	1,5	0,5	(6,4)
Liability Guarantee	1,0	-	(0,7)	(0,9)
Other Financing	0,5	0,3	19,3	0,3

Expansive Fiscal Deficit, but still be Prudent and Cautious with The Market Condition:

- Managing fiscal deficit below 3%
- Indonesia has implemented budget deficit regime for years but never once exceeded the constitutional threshold
- Financial inclusion and market deepening
- Debt issuance to finance productive activity
- Selective external loan (to finance infrastructure and energy sector)
- Loan as an alternative instrument for financing
- Active Debt Management and Assets and Liabilities Management
- Government sharia debt securities (SUKUK) as project-based financing for infrastructure projects, such as double track railway from Martapura – Baturaja (South Kalimantan), double track Purwokerto – Kroya and Madiun – Jombang (Eastern Java), and other road and bridge financing across the nation



Thank You

Ministry of Finance, Republic of Indonesia