

Indonesia

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On Strong Fiscal Footing

- The fiscal deficit for 2023 narrowed sharply to 1.65% of GDP from 2.35% in 2022. This was narrower than the budgeted 2023 deficit of 2.27% of GDP.
- The main reason for the lower fiscal deficit was revenue outperformance while expenditures improvements remained modest (as budgeted).
- A narrower 2023 fiscal deficit provides the government with more fiscal room to manoeuvre this year and is consistent with our forecast for more accommodative policies in 2024 to support economic growth.

Lavanya Venkateswaran
Senior ASEAN Economist

+65 6530 6875

lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist

+65 6530 6818

Ahmad.Enver@ocbc.com

Lower-than-expected 2023 fiscal deficit

The fiscal deficit narrowed sharply to 1.65% of GDP in 2023, according to the unaudited government figures. This was significantly below official estimates – the original budget had pegged the deficit at 2.84% of GDP and narrowed the target to 2.27% of GDP in the '*budget outlook*' issued in November 2023¹.

The main reason for the outperformance was higher-than-expected revenue collections. Total revenues grew by 5.3% YoY in 2023 versus 0.1% in the budget outlook. The government put this down to strong economic growth and the effectiveness of tax reforms. Indeed, the government has undertaken numerous tax reforms in recent years. This includes the Tax Harmonisation Law, which was passed in October 2021, and stipulated a higher VAT rate of 11% from April 2022 (and 12% from 1 January 2025). It also introduced carbon taxes and higher excise duties on cigarettes and tobacco products. Tax revenues, as a result, rose by 5.9% YoY in 2023 following growth of 31.4% in 2022.

Non-tax revenue growth also significantly outperformed expectations, rising 1.7% YoY versus the budget outlook of -13.4%. This increase was supported by dividends from SOEs and natural resources revenues, particularly licenses in the mining sector, which more than offset the continued weakness in commodity prices.

On the expenditure front, realisations were broadly consistent with the outlook. Total expenditures rose 0.8% YoY versus an outlook of 0.9%. Although central government expenditures were lower-than-budgeted, regional transfers picked up more significantly (8% YoY in 2023).

¹ The Presidential Decree 75/2023 which details the updated Budget Outlook was issued on 10 November 2023. Finance Minister Sri Mulyani provided the unaudited 2023 fiscal figures on 2 January 2024.

IDRtrn	2021	2022	2023 Outlook	2023 Unaudited	2024 BE	%YoY	2022	2023 Outlook	2023 Unaudited	2024 based on BE
Government Revenue and Grant	2011	2636	2637	2774	2802		31.0	0.1	5.3	1.0
Domestic Revenue	2006	2630	2634	2761	2801		31.1	0.2	5.0	1.4
Tax revenues	1548	2035	2118	2155	2309		31.4	4.1	5.9	7.1
Non Tax Revenues	458	596	516	606	492		29.9	-13.4	1.7	-18.8
Grants	5	6	3	13	0		13.6	-45.6	128.2	-96.7
Government Expenditure	2786	3096	3117	3122	3325		11.1	0.7	0.8	6.5
Central Government	2001	2280	2303	2241	2468		14.0	1.0	-1.7	10.1
Regional Transfer	714	816	815	881	858		4.8	-0.2	8.0	-2.7
Government Deficit or Surplus	-775	-460	-480	-347.6	-523					
%GDP	-4.57	-2.35	-2.27	-1.65	-2.29					

Source: Ministry of Finance; CEIC; OCBC

Source: Ministry of Finance; OCBC. Note: 2023 Outlook refers to numbers in the Presidential Decree 75/2023.

Some room to manoeuvre in 2024

For 2024, the fiscal deficit is pegged at a wider 2.29% of GDP. Revenues are expected to grow by 1.0% YoY, using the 2023 unaudited data, with tax revenues expected to rise by 7.1%. This will be broadly consistent with nominal GDP growth, by our estimates. Non-tax revenues are expected to fall by more than 18% YoY. Meanwhile, expenditures are forecasted to rise by 6.5% YoY, with current expenditures rising more than capex.

Our forecast was for the 2023 fiscal deficit to be ~2% of GDP. However, the undershoot in the 2023 deficit has provided the government with more fiscal room to manoeuvre this year. Given our baseline forecast of weaker 2024 GDP growth of 4.8% versus 5.0% in 2023, the additional fiscal buffers offer the government more room to pursue expansionary fiscal policies, if needed. We expect the government to meet its 2024 fiscal deficit target of 2.29% of GDP in 2024.

This remains consistent with our view that the broader policy stance (fiscal and monetary policies) will become more accommodative in 2024 to support economic growth. In terms of monetary policy, we expect Bank Indonesia (BI) to cut its policy rate by a cumulative 125bp this year starting in 2Q23, similar to our house view on when the US Federal Reserve will begin to cut its policy rate.

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau
cindyckeung@ocbcwh.com

Herbert Wong
Hong Kong & Macau
herbertwong@ocbcwh.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
Ahmad.Enver@ocbc.com

Jonathan Ng
ASEAN Economist
JonathanNg4@ocbc.com

Ong Shu Yi
ESG Analyst
ShuyiOng1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Chin Meng Tee
Credit Research Analyst
MengTeeChin@ocbc.com

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