

Macroeconomic Assumption	2023 Outlook	2024 RAPBN
GDP (% yoy)	5.1	5.2
Inflation (% ytd)	3.1	2.8
IDR/USD	15,100	15,000
10Y Government Yield (%)	6.8	6.7
ICP Price (USD/barrel)	78	80
Oil Lifting ('000 bpd)	614	625
Gas Lifting ('000 boepd)	985	1,033

Source: Ministry of Finance

Economic Indicators	2022	2023F
Real GDP (% yoy)	5.31	5.04
Inflation (% yoy, eoy)	5.51	3.60
Inflation (% yoy, avg)	4.21	4.62
IDR/USD (eoy)	15,568	14,864
IDR/USD (avg)	14,874	15,031
CA (% of GDP)	0.99	-0.65
BI 7-day RR Rate (%)	5.50	5.75

F = OCE BMRI forecast
yoy = year-on-year
eoy = end of year
avg = average

Key Rates (%)	Dec-22	Aug-23*
BI 7-day RR Rate	5.50	5.75
Deposit Facility Rate	4.75	5.00
Lending Facility Rate	6.25	6.50
IDR 10Y Bond Yield	6.92	6.46
Fed Funds Rate	4.50	5.50
ECB Rate	2.50	4.25
BoE Rate	3.50	5.25
BoJ Rate	-0.10	-0.10

*) as of 18-Aug-23

Source: Bloomberg

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2024 Draft State Budget (RAPBN): Accelerate the Inclusive and Sustainable Economic Transformation

*all growth mentioned is comparing 2024 RAPBN to 2023 APBN Outlook, unless stated otherwise

The President delivered independence and the state budget speech on August 16th, laying out the strategy and policy direction in 2024. The fiscal policy as stated in the State Budget (RAPBN) draft in 2024 will continue to focus on accelerating the economic transformation.

- In the short term, fiscal policy is focused to control inflation level, eradicate extreme poverty, reduce stunting rates, and to accelerate investment.
- While in the long term, the main policy will shift to increase the quality of human capital, accelerate physical capital, and to push high-added value economic output through downstreaming policies.

The macroeconomic assumptions were quite optimistic on domestic economic growth, but rather conservative on the market variables.

- The economic growth assumption is set to grow 5.2%, quite optimistic considering during the past election years economic growth tend to be flat due to rising uncertainties. Our nowcasting showed that economic growth this year may be in the range of 5.0-5.1%. The inflation target is also lower at 2.8% (also in line with Bank Indonesia target next year at 1.5-2.5%), which will support the domestic consumption.
- Yet, the government did note that global challenges may still exist, as the assumptions for market variables are quite conservative with the exchange rate set at IDR 15,000/USD and the 10-YR bond yield at 6.7%.
- Oil and gas lifting were projected higher (each at 80 thousand bpd and 625 thousand boepd), reflecting the continuing improvement projects in the oil and gas sector.

Fiscal deficit target is also relatively conservative and expected to slightly narrow in 2024.

- Fiscal deficit is targeted to reach -2.29% to GDP in 2024, slightly below the 2023 APBN Outlook of -2.30%. It is in line with higher uncertainties that may come next year, with the upcoming national election amid the tendency of flagging global growth. Government revenue is foreseen to grow faster by 5.5%. Meanwhile, government spending is also established to expand by 5.8%, boosted by stronger productivity-related spending.

Higher spending for education and personnel, expected to increase the education quality and higher productivity.

- Government spending is arranged at IDR 3,304.1 tn in 2024, increased by 5.8% compared to 2023 Budget Outlook. One of the main drivers was the higher allocation for education which significantly increase by 19.7%, as government aims to build and catch up the education quality due to the "learning loss" that students experience during COVID-19. Another notable increase was seen in government's personnel spending, growing 11.3%. Salary for civil servants (PNS), Indonesian National Army (TNI) and Indonesian National Police (POLRI) is set to increase by 8%, while payment for pension to increases by 12% (vs. previous salary regulated in Presidential Regulation (PERPRES) No. 16 of 2019 about the Adjustment of Basic Salary of Civil Servants According to Government Regulation Number 30 of 2015 into the Basic Salary of Civil Servants According to Government Regulation No. 15 of 2019).
- Social protection notably grows by 12.4% to improve the quality of human resources and improving welfare of the poor and vulnerable. It will be disbursed in the form of conditional direct cash assistance (BLT), basic food groceries, energy subsidies, Micro Credit Program (KUR) subsidies.

Strengthen the structural reform through infrastructure and downstreaming strategy, will likely support the capital formation and investment.

- Infrastructure spending grows by 5.8%, reaching IDR 422.7 tn. Next year, the government will be focused to accelerate infrastructure development to support the economy, to continue the National Strategic Project (PSN) and the establishment of New Capital City (IKN). Hence, connectivity and transportation facilities will be developed more by building roads, bridges, airports, and other public facilities. Also, government will continue the downstreaming strategy as an effort to increase Indonesia's competitiveness in international trade through high value-added exports. The massive development of smelters is also estimated to gain interest from investors.

Transfer to regions is set higher, growing by 3.9%, signify the government efforts to push for more growth equality.

- Government regional transfer and village funds in 2024 will be at IDR 857.6 tn, made to increase the synergy between the central and regional fiscal policy. Through this allocation, it is expected that regions will have more flexibility in using the budget to expand their economic transformation. Village funds allocation increases 1.5%, reaching IDR 71.0 tn in order to generate more growth equality across the smallest villages in Indonesia.

State revenue is set to grow faster by 5.5%, driven by tax revenues.

- The source of state revenue will mostly come from taxes, as taxes are foreseen to expand by 9.0%. Value added tax will be one of the main drivers, as it is set to expand by 9.2%, supported by the sound domestic economic activities and solid domestic demand. Oil & gas income tax is expected to grow by 1.9%, considering the volatility in the global oil price. Meanwhile, non oil & gas income tax is seen to expand by 10.1%.
- Moreover, government also sees that several main driver will potentially support the higher tax revenues; (1) The maintained investment activities which mostly come from capital investment, (2) The simplification administration of tax through Law on Harmonization of Tax Regulations (UU HPP) will add more tax ratios.

Albeit the better outlook of 2024 State Budget, we see that there are still several challenges that need to be anticipated.

- Despite the assumption of global recovery next year, there are still risks of a prolonged global slowdown particularly if global interest rate stays high for longer period. These factors may potentially continue to weigh on government's commodity based taxes.
- Spending target may also depend on the national (as well as regional) election stages. If result can be attained faster with only one stage of election, then spending can be disbursed faster. Yet, there is always a risk of a second stage of election which may prolong uncertainties and disturb the process of spending realization. Nonetheless, note that government spending usually realized faster during the months leading up to the election.

Overall, we think the 2024 Draft State Budget (RAPBN) is relatively attainable.

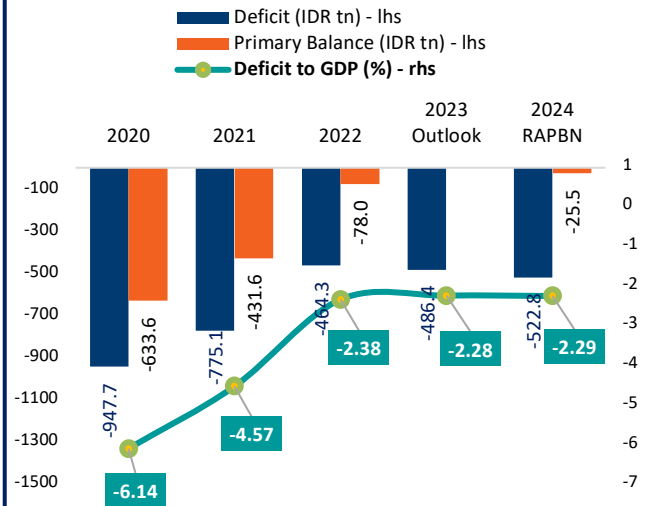
- In 2024, fiscal spending will increase to support economic reforms through acceleration of infrastructure and investment. Considering that this year, the government may have a better liquidity and a wider fiscal space, we see that the 2024 spending target will be quite achievable.
- Several macroeconomic indicators will also support governments revenue, i.e. the lowering of inflation level and a possibility of a rate cut will support robust domestic economic activities that may generate higher tax revenue. Yet note that commodity-based revenue side may continue to moderate, amidst the potential of prolonged global challenges.

State Budget

IDR tn	2020 Realization	2021 Realization	2022 Realization	2023 Outlook	2023 Growth (% vs 2022 Realization)	2024 RAPBN	2024 Growth (% vs 2023 Outlook)
A Government Revenue	1,647.8	2,011.3	2,626.4	2,637.2	0.4	2,781.3	5.5
Tax and Excise Duties Revenue	1,285.1	1,547.8	2,034.5	2,118.3	4.1	2,307.9	9.0
Non Tax Revenue	343.8	458.5	588.3	515.8	-12.3	473.0	-8.3
B Total Spending	2,595.5	2,786.4	3,090.8	3,123.7	1.1	3,304.1	5.8
Central Govt. Expenditure	1,833.0	2,000.7	2,274.5	2,298.2	1.0	2,446.5	6.5
I. Spending K/L	1,190.8	1,079.3	1,085.5	1,085.5	0.6	1,077.2	-0.8
II. Spending Non K/L	809.9	1,195.2	1,212.8	1,212.8	1.5	1,369.3	12.9
Regional Transfer and Village Funds	762.5	785.7	816.2	825.4	1.1	857.6	3.9
C Primary Balance		-431.6	-78.0	-49.0		-25.5	
D Surplus/Deficit	-947.8	-775.1	-464.3	-486.4		-522.8	
Surplus/Deficit (% to GDP)	-6.1	-4.6	-2.4	-2.3		-2.3	

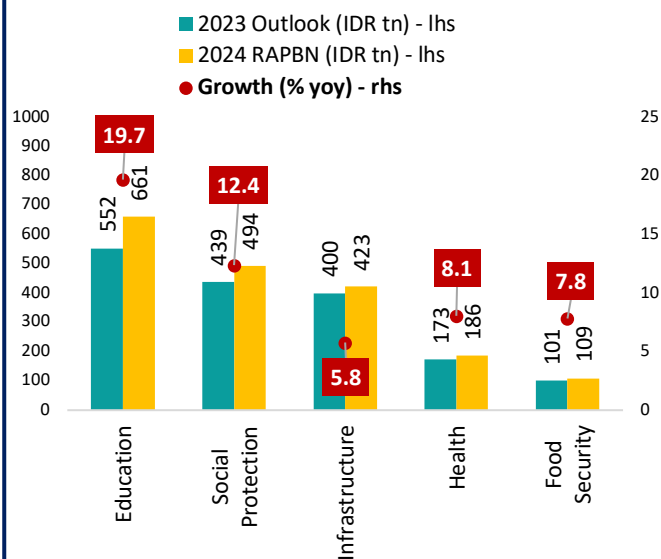
Source: Ministry of Finance

Deficit/Surplus State Budget



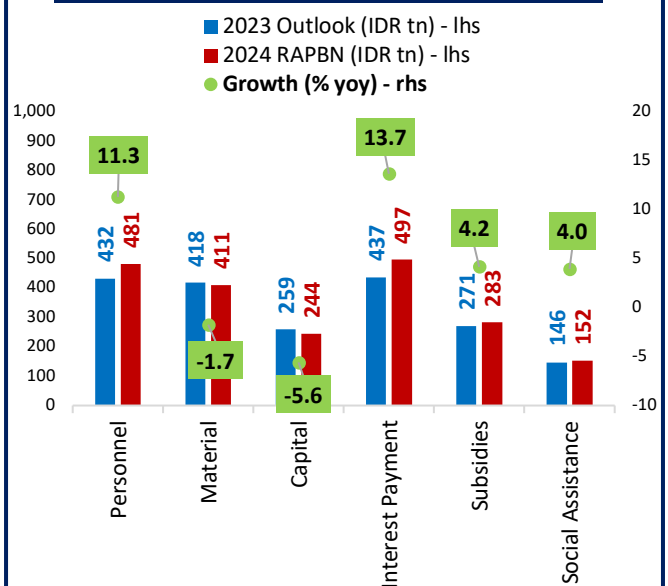
Source: Ministry of Finance

State Spending by Functions



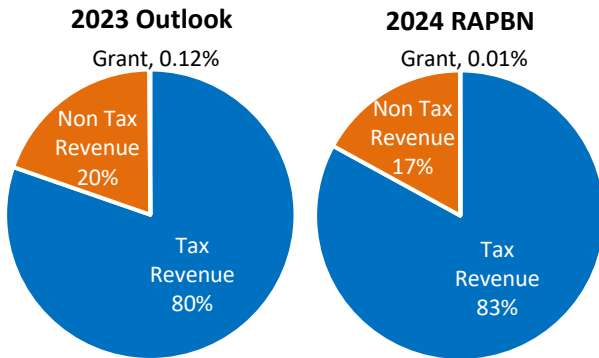
Source: Ministry of Finance

State Spending by Types



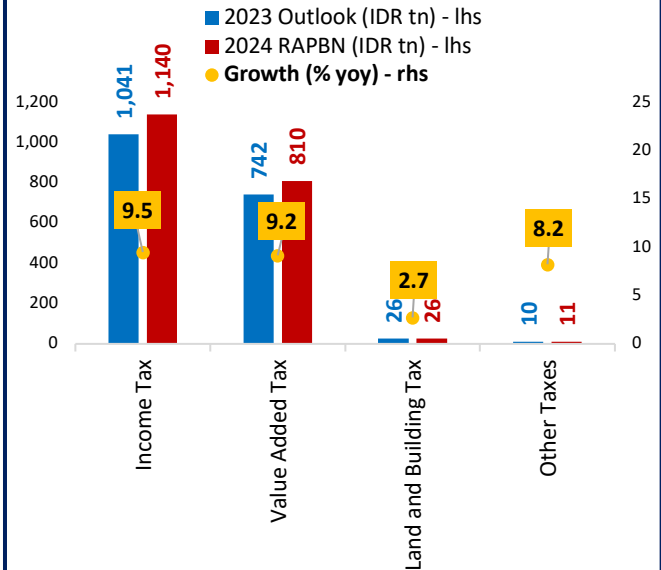
Source: Ministry of Finance

State Revenue Composition



Source: Ministry of Finance

Main Tax Revenue



Source: Ministry of Finance

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