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*Fiscal Reform To Support Strong  
and Equitable Growth:  
Striking The Right Balance*

# Fiscal Policy: Aiming at Growth & Stability in Indonesia

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## Economic landscapes and risks facing ASEAN in 2016



- External backdrop: Sluggish foreign demand growth, less easy money, low but more stable commodity prices in 2016
  - Commodity price deflationary pressure dissipates
  - Global monetary conditions to stay relatively loose even as Fed policy diverges; EM policy (and in Europe and Japan) won't necessarily "follow the Fed", leading to further EM FX weakness vs USD
  - Sluggish growth outlooks in major economies (US, China, Japan and Europe)
- China's bumpy deceleration continues (need for more policy responses ) and RMB weakening
- Regional reform progress mixed and political uncertainties in the region
- In ASEAN (including Indonesia), growth to be driven by domestic demand
  - Exports to pick up, but only moderately
  - Fiscal policy to take front seat in supporting domestic demand
  - Monetary policy space diverges with spaces in Indonesia, Thailand and Philippines
  - Headline inflation to pick up, except in Indonesia

## Some pick-up in growth, but more robust momentum likely to come 2017 onwards



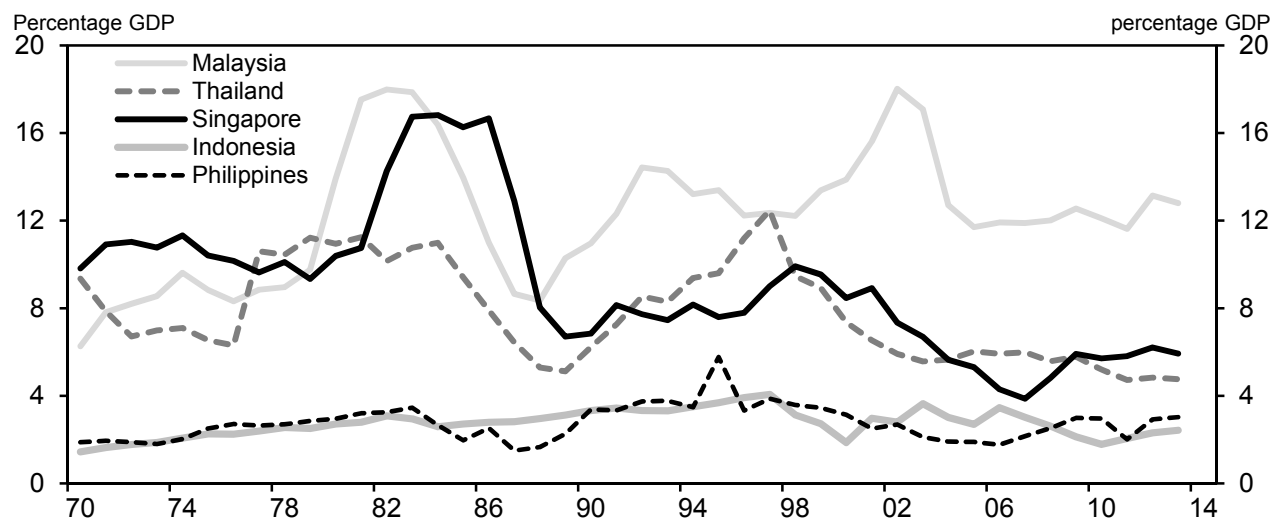
Real GDP growth (yoy%)		Annual forecasts and projections			
		2015	2016	2017	2018
Indonesia	<b>New</b>	<b>4.8</b>	<b>5.2</b>	<b>5.7</b>	<b>6.4</b>
	<i>Consensus</i>	4.7	4.9	5.1	5.4
Malaysia	<b>New</b>	<b>5.0</b>	<b>4.7</b>	<b>5.1</b>	<b>5.2</b>
	<i>Consensus</i>	4.8	4.6	4.8	5.0
Philippines	<b>New</b>	<b>5.6</b>	<b>6.1</b>	<b>6.0</b>	<b>6.3</b>
	<i>Consensus</i>	5.6	5.9	6.0	5.8
Singapore	<b>New</b>	<b>2.0</b>	<b>2.3</b>	<b>2.6</b>	<b>2.9</b>
	<i>Consensus</i>	1.8	2.2	3.1	3.7
Thailand	<b>New</b>	<b>2.8</b>	<b>2.9</b>	<b>3.2</b>	<b>3.6</b>
	<i>Consensus</i>	2.6	3.2	3.5	3.7

Source: Consensus Economics, Goldman Sachs Global Investment Research

# Public investment and infrastructure gaps



## Public investment has remained subdued post 1997 financial crisis



Source: IMF, Goldman Sachs Global Investment Research

## Infrastructure gaps in ASEAN

Indicator	Indonesia	Malaysia	Philippines	Thailand	Singapore	Middle-Income
Electricity consumption*	733	4313	668	2479	8690	<b>1804</b>
Telephone line**	12	15	3	8	36	<b>10</b>
Quality of Port Infrastructure***	4	6	4	5	7	<b>4</b>

Source: World Bank, Haver Analytics, Goldman Sachs Global Investment Research. \*/kwh per capita in 2011; \*\*/fixed telephone per 100 people in 2014; \*\*\*/for port quality in 2011, with level 1 suggesting extremely underdeveloped facilities and level 7 pointing to facilities that are well developed and efficient by international standards.

## Implications of Public Investment Booms: Lessons from the past



Continent	Country	Years above 3% threshold									
Asia	Singapore	1979	1980	1981	1982						
Asia	Taiwan	1974									
Africa	Algeria	1974	2003	2004	2005	2006					
Africa	Botswana	1992	1993	1994	1995	2006	2007	2008			
Africa	Cabo Verde	1995	2003	2004	2005	2006	2007	2008			
Africa	Congo	2008									
Africa	Egypt	1974	1975	1976	1977	1978					
Africa	Equatorial Guinea	2004	2005	2006	2007						
Africa	Gabon	1972	1973	2007	2008						
Africa	Libya	1986									
Africa	Mauritius	1973	1974								
Africa	Morocco	1971	1972	1973	1974	1975	1976				
Africa	Namibia	2008									
Africa	Seychelles	1979	1980	1981	1982	1983	1984	1991	1992	1993	1994
Africa	South Africa	1974									
America	Colombia	1976	1977	1978	1979	1980					
America	Ecuador	2004	2005	2006	2007	2008					
America	Mexico	1976	1977	1978	1979						
America	Panama	2006	2007	2008							
America	Paraguay	1972	1973	1974	1994						
America	Peru	1971	1972	1973	1974						
America	Trinidad and Tobago	1976	1977	2004	2005						
America	Uruguay	1973	1974	1975	1976	1977	1978				
America	Venezuela	1973	1974	1975	1976	2003	2004	2005	2006	2007	2008
Asia	China	1992									
Asia	Iran	1970	1971	1972	1973	1974	1975				
Asia	Jordan	1971	1972	1973	1974	1975	1976	1977	1978		
Asia	Malaysia	1976	1977	1978	1979	1980	1981	1990	1991		
Asia	Pakistan	1975									
Asia	Syrian Arab Republic	1971	1972	1973	1974	1975	1976				
Asia	Thailand	1976	1977	1991	1992	1993					
Oceania	Fiji	1974	1975	1976	1977	1978	2008				

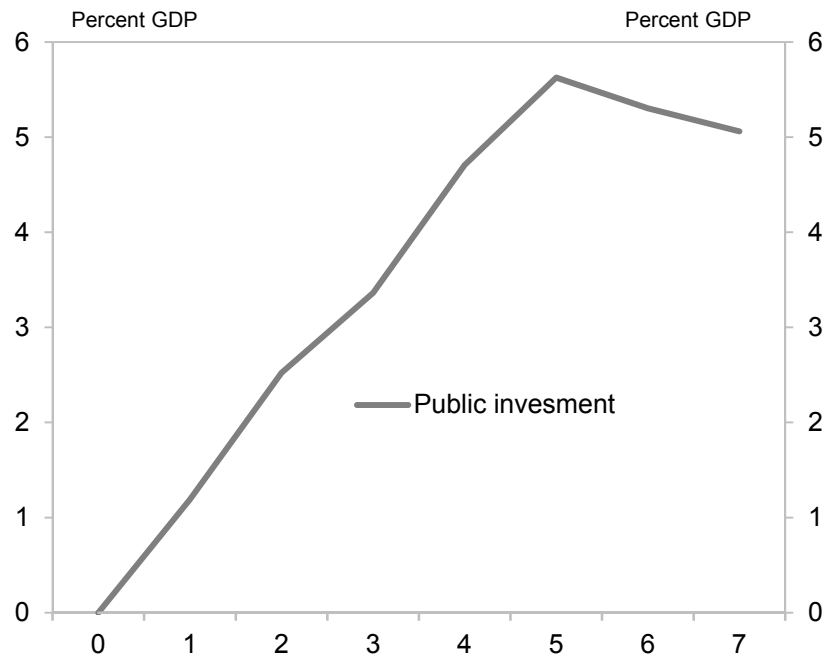
Source: IMF, Goldman Sachs Global Investment Research

# Public investment crowding-in private investment: Lessons from the past



## Public investment booms peak after 5 years but are long-lived

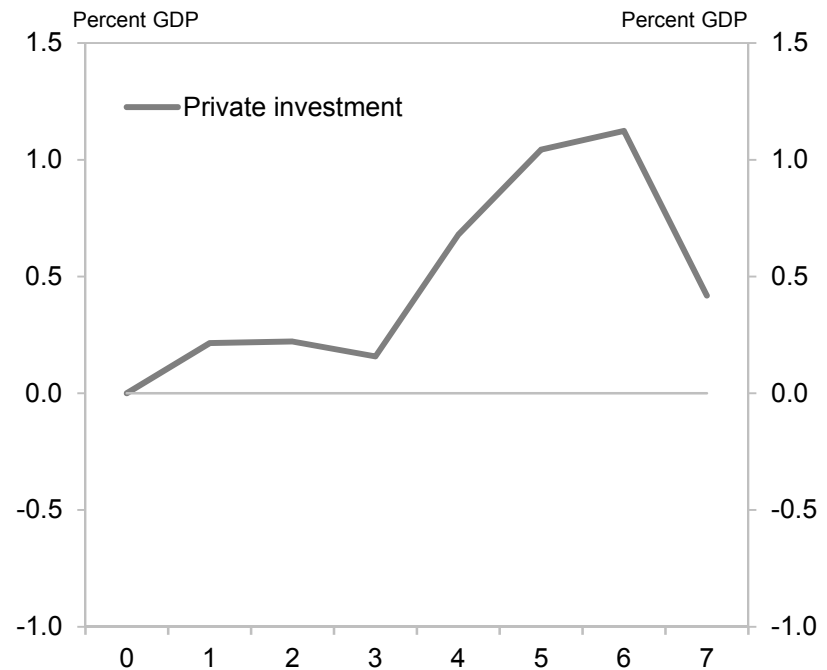
Average change in the ratio of public investment to GDP relative to its level at the start of the boom. Year 0 represents the starting year of the boom.



Source: IMF, Goldman Sachs Global Investment Research

## Crowding-in of private investment is the strongest between years 4 and 7

Average change in the ratio of private investment to GDP relative to its level at the start of the public investment boom. Year 0 represents the starting year of the boom.



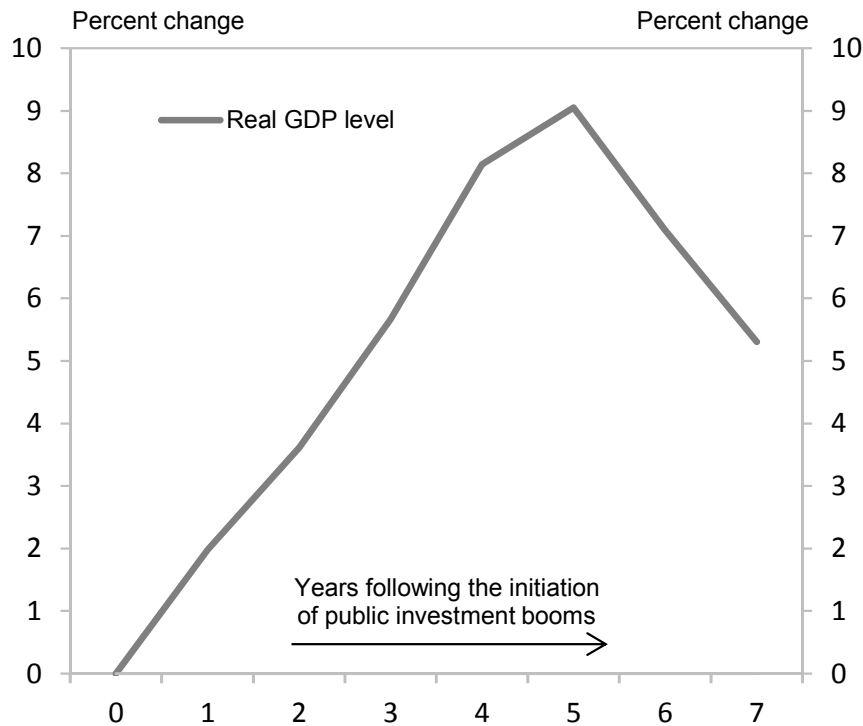
Source: IMF, Goldman Sachs Global Investment Research

# Growth pick-up and public debt implication



**Gains in output rise in the early years of booms, but lessen in the later stages**

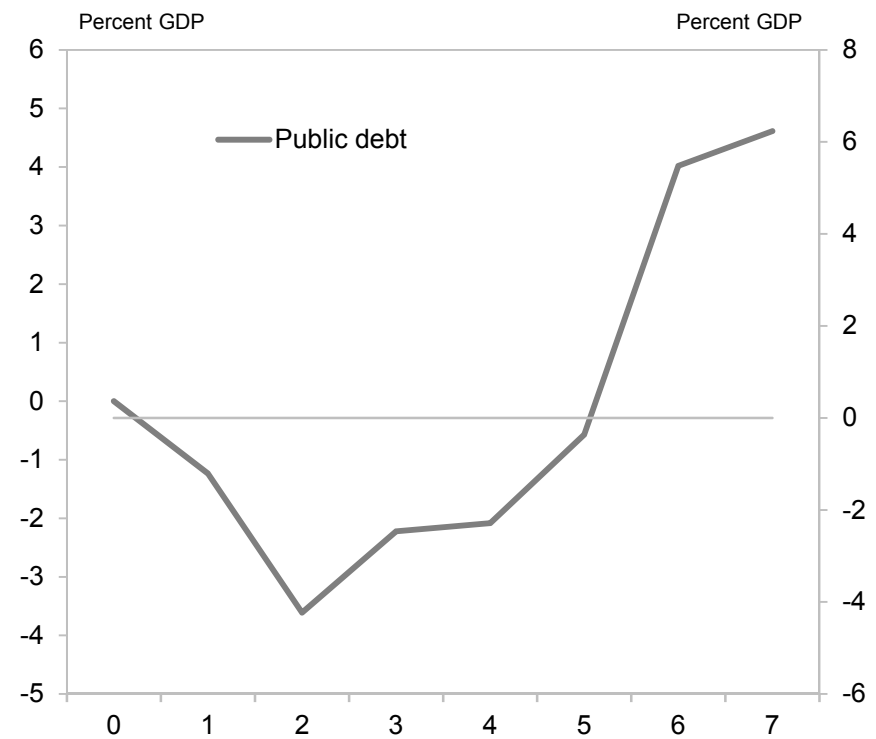
Average change in the level of real GDP to its level at the start of the public investment boom. Year 0 represents the starting year of the boom.



Source: IMF, Goldman Sachs Global Investment Research

**while public debt tends to fall in the early years of public investment booms**

Average change in the ratio of public debt to GDP relative to its level at the start of the public investment boom. Year 0 represents the starting year of the boom.



Source: IMF, Goldman Sachs Global Investment Research

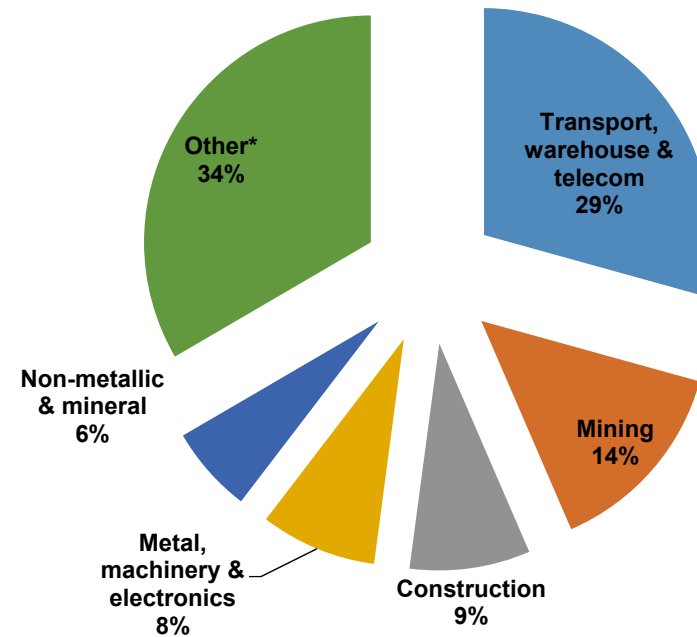
# Evidence of public investment crowding-in private investment in Indonesia



**Aiming at productive spending**

**.and crowding in foreign direct investment**

(in trillion IDR)	2014			2015		
	Budgeted	Realized H1	Share* (%)	Budgeted	Realized H1	Share* (%)
1. Ministry of Public Works & Public Housing	74.5	21.9	29.4	118.5	19.9	16.8
2. Ministry of Transport	36.0	5.6	15.6	65.0	7.0	10.8
3. Ministry of Education	76.6	20.4	26.6	53.3	15.2	28.5
4. Ministry of Health	47.5	17.2	36.2	51.3	19.9	38.8
5. Ministry of Agriculture	13.6	5.2	38.2	32.8	8.1	24.7
6. Ministry of Energy and Mineral Resources	14.34	1.5	10.1	15.1	1.4	9.0
<b>Total</b>	<b>262.5</b>	<b>71.8</b>	<b>27.3</b>	<b>336.0</b>	<b>71.5</b>	<b>21.3</b>



Source: Ministry of Finance, Indonesia and Goldman Sachs Global Investment Research

Source: Board of Investment, Indonesia and Goldman Sachs Global Investment Research



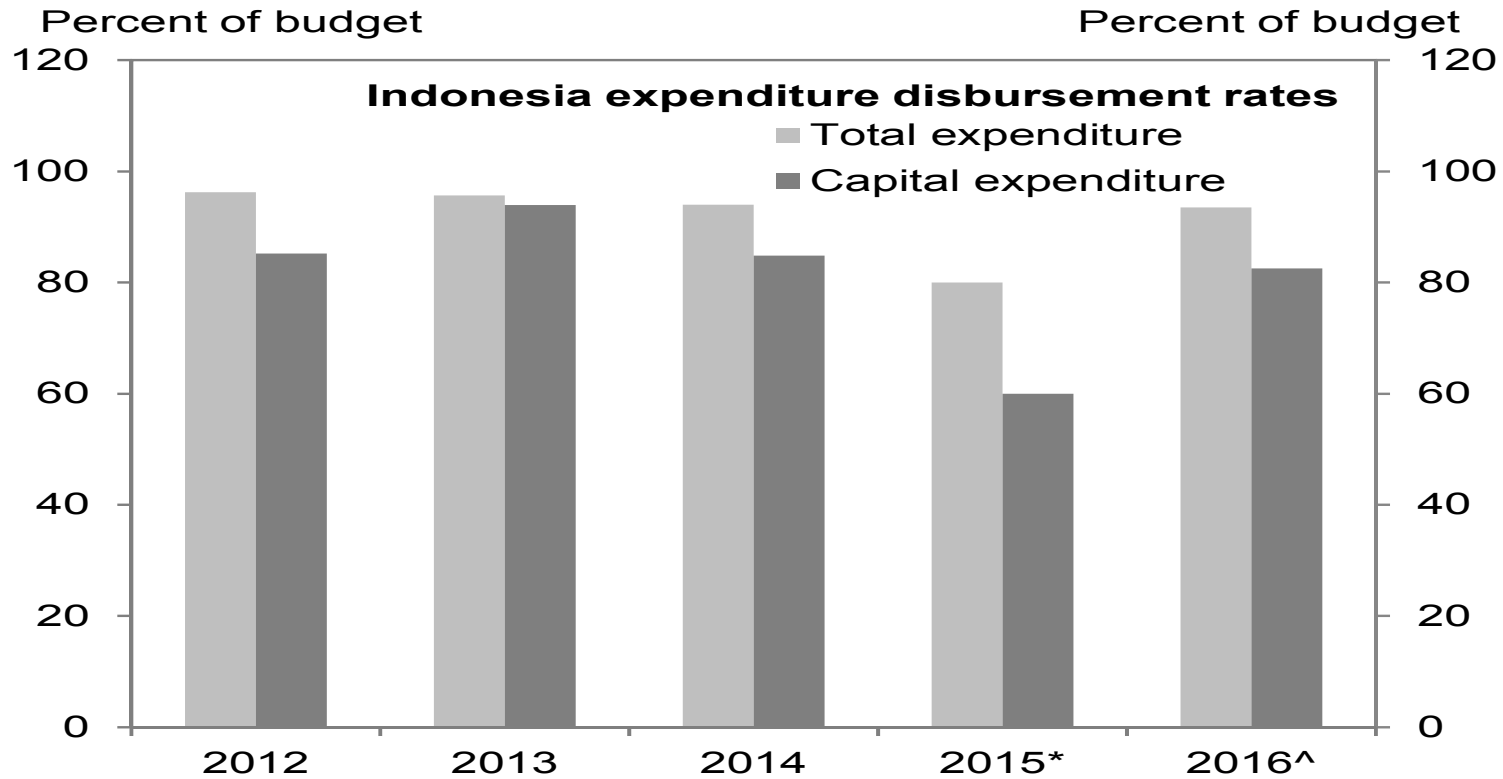
## Indonesia: Pushing Economic Stimulus Packages



First Package (September 2015)	<ul style="list-style-type: none"> <li>- Raised non-taxable income to Rp 3.6million from Rp 2.4 million previously</li> <li>- Cash forward for village funds to build roads, bridges and other infrastructure projects</li> <li>- Supporting national competitiveness through deregulation, reduced bureaucracy, better law enforcement and business certainty</li> <li>- Boosting investment in property sector</li> <li>- Simplifying licenses for spatial planning and land acquisition</li> </ul>
Second Package (September 2015)	<ul style="list-style-type: none"> <li>- Introducing 3 hour business permit issuance for companies in industrial parks</li> <li>- Scraping taxes for ship, train and aircraft makers</li> <li>- Merging 14 licenses into 6 for investment in forestry sector</li> </ul>
Third Package (October 2015)	<ul style="list-style-type: none"> <li>- Energy price reform including cuts in price of diesel, Pertamina, Peralite, aviation turbine fuel, solar diesel fuel and electricity</li> <li>- Land reforms including cutting red tape and simplifying land procurement</li> </ul>
Fourth Package (October 2015)	<ul style="list-style-type: none"> <li>- Introduction of a formula for the minimum wage annual increase</li> <li>- Expansion of sectors and borrowers eligible for government subsidized micro loans</li> <li>- Subsidized micro loans rates cut to 12 percent from 22 percent</li> <li>- Widening the capability of export financing agency</li> </ul>
Fifth Package (October 2015)	<ul style="list-style-type: none"> <li>- Tax cut for companies and individuals for asset revaluations aimed at incentivising it</li> <li>- Removal of double taxation on portfolio investors who invest in REITs</li> </ul>
Sixth Package (November 2015)	<ul style="list-style-type: none"> <li>- Tax discounts of 20-100 percent for companies operating in SEZs under certain conditions</li> <li>- Incentives also provided for companies using locally sourced natural resources and materials</li> </ul>

Source: Ministry of Finance, Indonesia, Goldman Sachs Global Investment Research

# Aiming at higher rates of fiscal disbursement/execution



\*2015 disbursement rates are forecasted based on Jan-Oct realised levels

^2016 disbursement rates are GS forecasts

Source: Ministry of Finance of Indonesia, Goldman Sachs Global Investment Research.

## Potential Headwinds to growth and stability



- Pace of US rate normalization and its impact on capital flows
  - ✓ A steady rate of 25 bps for each adjustment, with as many as 4 adjustments next year, should not derail growth outlook in the region.
  - ✓ But a sharper rise could trigger capital outflows and therefore place pressure on currencies.
- Slowing China growth and associated currency risk
- Weak commodity prices

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