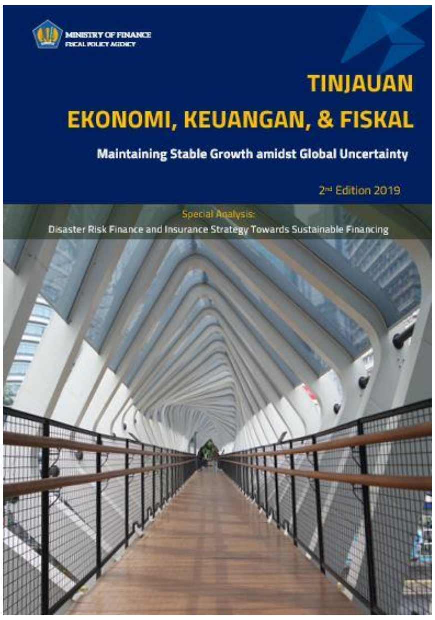
MINISTRY OF FINANCE
FISCAL POLICY AGENCY

TINJAUAN EKONOMI, KEUANGAN, & FISKAL

Maintaining Stable Growth amidst Global Uncertainty

2nd Edition 2019

Special Analysis:
Disaster Risk Finance and Insurance Strategy Towards Sustainable Financing



2nd Edition 2019
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INDONESIA ECONOMIC, FINANCE, AND FISCAL REVIEW

Maintaining Stable Growth amidst Global Uncertainty

2nd Edition 2019

MINISTRY OF FINANCE
FISCAL POLICY AGENCY

VISION

"Become a trusted unit in the formulation of anticipatory and responsive fiscal and financial sector policy to create a prosperous Indonesian society"

PREFACE

The pressures in the global economy have intensified, particularly since the trade tensions between the US and China have re-heated. The tensions provide an additional burden on global economic activity which had already weakened. Based on that situation, Indonesia will need to rely on domestic economic activity to support economic growth and development. Indonesia continues to record solid macroeconomic performances, indicated by stable GDP growth, benign inflation, and adequate foreign exchange reserves. Furthermore, the recent credit rating upgrade by Standard & Poor's and a competitiveness ranking increase by the IMD World Competitiveness Center confirms Indonesia's solid economic development and bright prospects.

Despite the soundness of its domestic economy, Indonesia remains vigilant to the dynamics of the global economy. Hence, the Government will optimize fiscal policy and the state budget as the main instruments to protect economic stability. The latest budget realization data shows that both revenue and spending have performed well and the deficit has remained at a safe level. Furthermore, the Government policies will be directed to achieve higher and better quality economic growth, as proposed in the Kerangka Ekonomi Makro dan Pokok-Pokok Kebijakan Fiskal (KEM-PPKF) 2020.

The theme of this 2nd edition of Tinjauan Ekonomi, Keuangan, dan Fiskal (TEKF) in 2019 is Maintaining Stable Growth amidst Global Uncertainty, which highlights Indonesia's sound economic performance in the midst of increasing global risk. There is a special chapter in this edition that describes the approach the government is taking to address disaster risk finance and insurance as a breakthrough policy to support sustainable development. The report also includes two boxes that discuss the recent rating upgrade and the adoption of international fiscal transparency standards in the reporting of tax expenditures.

TEKF is a quarterly economic report that provides recent data and information of the macro economy, financial sector, and fiscal policy. TEKF is expected to be a reference for stakeholders to review recent developments in Indonesia's economic performance and fiscal policies.

In conclusion, we would like to extend our high appreciation and gratitude to all contributors to the TEKF. We also welcome constructive advice from readers to assist us in continuing to improve the TEKF for the future.

Best regards,

June 2019

Suahasil Nazara
Chairman of Fiscal Policy Agency

CONTENTS

ABBREVIATIONS

AI	:	Artificial Intelligence
APBN	:	Anggaran Pendapatan dan Belanja Negara
APEC	:	Asia-Pacific Economic Cooperation
AR	:	Augmented Reality
BI	:	Bank of Indonesia
BLK	:	Balai Latihan Kerja
BLU	:	Badan Layanan Umum
BMD	:	Barang Milik Daerah
BMN	:	Barang Milik Negara
BNPB	:	Badan Nasional Penanggulangan Bencana
BoE	:	Bank of England
BoJ	:	Bank of Japan
BOPO	:	Belanja Operasional terhadap Pendapatan Operasional
BPBD	:	Badan Penanggulangan Bencana Daerah
BPNT	:	Bantuan Pangan Non-Tunai
CAR	:	Capital Adequacy Ratio
CAT	:	Catastrophe
CFA	:	Capital and Financial Accounts
CHT	:	Cukai Hasil Tembakau
CNCA	:	China National Coal Association
CPO	:	Crude Palm Oil
DAU	:	Dana Alokasi Umum
DPK	:	Dana Pihak Ketiga
DRFI	:	Disaster Risk Financing and Insurance
DTU	:	Dana Transfer Umum
ECB	:	European Central Bank
ESDM	:	Energi dan Sumber Daya Mineral
EU	:	European Union
fob	:	free on board
FDI	:	Foreign Direct Investment
FTC	:	Fiscal Transparency Code

GDP	:	Growth Domestic Product
GFCF	:	Gross Fixed Capital Formation
ICMA	:	Indonesian Coal Mining Association
IMD	:	Institute for Management Development
IMF	:	International Monetary Fund
JCI	:	Jakarta Composite Index
JCR	:	Japan Credit Rating
JKN	:	Jaminan Kesehatan Nasional
KPR	:	Kredit Pemilikan Rumah Tinggal
KPSH	:	Ketersediaan Pasokan dan Stabilisasi Harga
KSEI	:	Kustodian Sentral Efek Indonesia
LDR	:	Loan to Deposit Ratio
LNPRT	:	Lembaga Non Profit yang melayani Rumah Tangga
MODI	:	Minerba One Data Indonesia
MOMI	:	Minerba One Map Indonesia
MOMS	:	Minerba Online Monitoring System
mtd	:	month-to-date
NIM	:	Net Interest Margin
NPL	:	Non-Performing Loan
OJK	:	Otoritas Jasa Keuangan
OPEC	:	Organization of the Petroleum Exporting Countries
PBI	:	Penerima Bantuan Iuran
PKH	:	Program Keluarga Harapan
PMK	:	Peraturan Menteri Keuangan
PMI	:	Purchasing Managers' Index
PNBP	:	Pendapatan Negara Bukan Pajak
pp	:	percentage point
PPP	:	Public Private Partnership
qtq	:	quarter-to-quarter
Rastra	:	Beras Sejahtera
RKP	:	Rencana Kerja Pemerintah

ROA	:	Return on Asset
SAL	:	Saldo Anggaran Lebih
SBN	:	Surat Berharga Negara
SEADRIF	:	South East Asia Disaster Risk Insurance Facility
SML	:	Special Mention Loan
SPN	:	Surat Perbendaharaan Negara
SPT	:	Surat Pemberitahuan Tahunan
TER	:	Tax Expenditure Report
THR	:	Tunjangan Hari Raya
TKDD	:	Transfer ke Daerah dan Dana Desa
UAE	:	United Arab Emirates
USD	:	United States Dollar
WBG	:	World Bank Group
WEO	:	World Economic Outlook
yoy	:	year-on-year
ytd	:	year-to-date

SNAPSHOT OF INDONESIA ECONOMY 2019

3.32% Inflation in May (yoy)	**5.07%** GDP growth in Q1 (yoy)
6,209 JCI as of 31st May	**5.25%** Consumption growth in Q1 (yoy)
IDR14,385 Exchange rate as of 31st May	**5.03%** Gross fixed capital formation growth in Q1 (yoy)
6.5% BI 7 *Days Reverse Repo Rate* (DRR) as of 31st May	**9.8%** Spending growth in May
-8.8% Export growth in April (ytd)	**-7.2%** Import growth in April (ytd)
IDR0.4trillion Primary balance deficit in May	**0.79%** Budget deficit to GDP in May
2.60% Current account deficit to GDP in Q1	**USD124.54 billion** Foreign reserves in Q1

EXECUTIVE SUMMARY

The global economy in 2019 is still faced with various challenges that put pressure on growth and market sentiment. The trade war between the US and China, which has returned to heat since May, has become one of the biggest risks to global economic growth, leading to the decline in global economic activities. Besides, the growth of international trade and manufacturing activities has shown a widespread slowdown in various countries. Due to the high pressure that facing global economy, IMF predicts global economic growth in 2019 will slow to 3.3 percent.

Sentiment on trade war has also affected the movement of Indonesia's financial markets since May, although overall (January-May) financial markets still recorded positive growth. Recorded capital inflows into the Indonesian financial market reached IDR113.3 trillion, or much better compared with the realization of the same period in 2018 which recorded net foreign sales of IDR42.7 trillion. With financial market conditions still maintained, the movement of the Rupiah was relatively stable and appreciated by 0.66 percent cumulatively. Banking liquidity was also maintained with stable interest rate and 7DRR benchmark interest rate which remained at 6 percent.

Subdued global demand and trade wars have affected national export performance. As of April 2019, Indonesia's exports were recorded a negative growth of 8.8 percent (ytd). In addition to the demand factor, the price level of some Indonesia's main export commodities, such as coal, CPO and rubber, which are decreasing also put a burden on export performance. Besides, import growth also showed a contraction of 7.2 percent (ytd), among others, partly as a result of policies to maintain current account on a healthier level. Therefore, the trade balance from January to April 2019 still recorded a deficit of USD 2.5 billion.

The decline in imports also helped narrow down the current account deficit, which amounted to USD7.0 billion in the first quarter of 2019 (2.60 percent of GDP). Maintained investors sentiment towards Indonesia is also helpful for sustaining a surplus in capital and financial transactions at the level of USD10.1 billion. On the side of direct investment, an increase in capital flows reached USD5.2 billion, showing optimism in Indonesia's growth prospects.

Overall, the balance sheet recorded a surplus of USD2.4 billion with adequate foreign exchange reserves. Even though Indonesia's external position is still maintained, some future risks needs to be taken into account, such as the impact of global trade tension on exports and Indonesia's increasing foreign debt ratio.

In the middle of various external challenges, Indonesia's economic stability is still maintained, showed by economic growth in the first quarter of 2019 which was at the level of 5.07 percent (ytd). Consumption is still a pillar of growth which also gets a boost from election activities. Gross Fixed Capital Formation shows a slowdown amid a decline in imports of capital goods. Future investment performance is expected to improve as the election cycle will end as well as an increase in investor perceptions of Indonesia as indicated by the S&P upgrade rating and increase in competitiveness ratings by the IMD World Competitiveness Center. In addition, the trend of bank lending that is consistent with the double digit trend and the accumulation of Third Party Funds (DPK) which shows an increase are some indications of an increase in economic activity going forward.

Price stability is also in control with an inflation at the level of 1.48 percent (ytd) or 3.32 percent (yoy) as of May 2019. Although there was an increase in April-May due to weather disruptions and the period of Ramadhan and Eid al-Fitr, the inflation rate is still within the target range reflecting the sustained public purchasing power and the balance of demand and supply in general. This is also supported by the maintenance of public inflation expectations and policy synergies between the Government and BI, at both the central and regional levels, in implementing inflation control strategies.

On the fiscal side, the performance of the State Budget as of May 2019 itself still shows a healthy trend, although the growth is not as high as the previous year. State revenue as of May 2019 was still be able to grow by 6.2% (yoy), amidst the challenging global economic conditions. Meanwhile, government spending also continued to grow high and budget financing continued to decline. This shows that the performance of realization remains optimum and debt management maintained properly, so that the State Budget is still very healthy and credible.

The government will continue to encourage optimal fiscal performance in supporting sustainable macro development. In the medium-term, the government will pursue expansive, targeted and measurable fiscal policies to increase production capacity and competitiveness. The budget deficit and the level of debt are being kept within safe limits but still be able to stimulate the economy optimally. In addition, the government will encourage and increase the tax ratio through various policies while still providing fiscal incentives for competitiveness and investment. Furthermore, the primary balance will be running towards positive in 2020 and will be kept positive in the medium term.

To maintain a sustainable economic development, Indonesia also needs to have a "Policy Breakthrough" about natural disaster risk management. This risk management must adaptive and preventive to reduce and mitigate risks, including the risk of economic losses and financial risks due to the impact of natural disasters. One improvement that has been made by the government is to change the paradigm in managing disaster risk financing, from reactive management to more proactive along investment approach to achieve financing sustainability. This change in paradigm is further will be documented in the Disaster Risk Financing and Insurance Strategy (DRFI), which is specifically discussed in Part 3 of this TEKF.

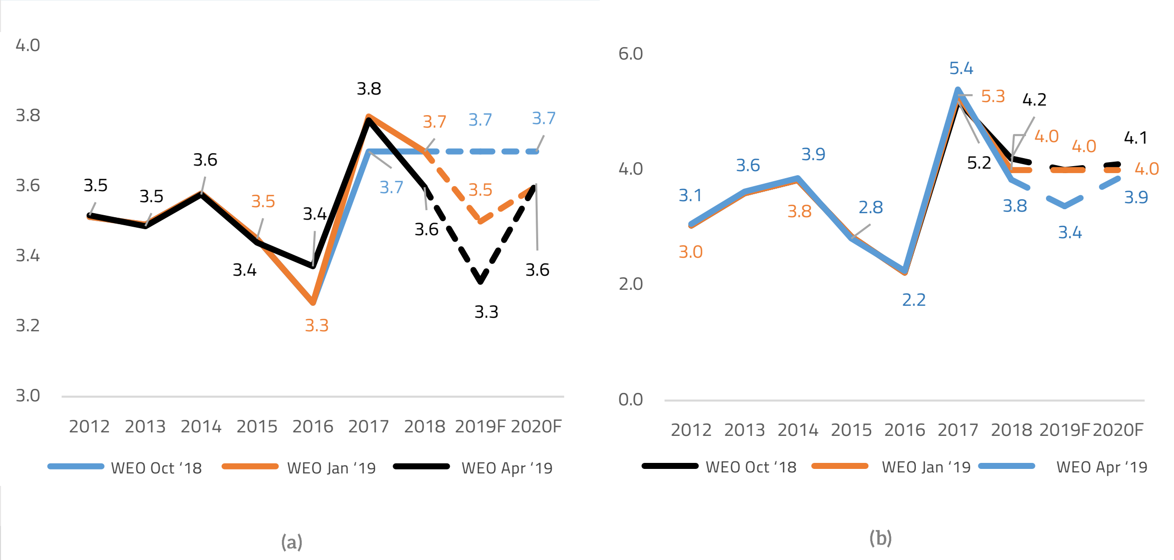
PART I

MACROECONOMIC DEVELOPMENT ANALYSIS

A. GLOBAL ECONOMIC DEVELOPMENT

The IMF cut its global economic growth projection to 3.3 percent in 2019. Growth is expected to pick-up slightly to 3.6 percent in 2020. This is the third time that the projection has been revised over the last six months, indicating the increase in short-term risks facing the global economy. The slowdown in 2019 has been largely influenced by uncertainties that continued on from 2018. These include trade tensions, the rebalancing of China's economy, and geopolitical instability in several regions, such as the Middle East and Europe.

Figure 1. (a) Global Economic Growth (%, yoy) (b) Volume of Global Trade Growth (%, yoy)



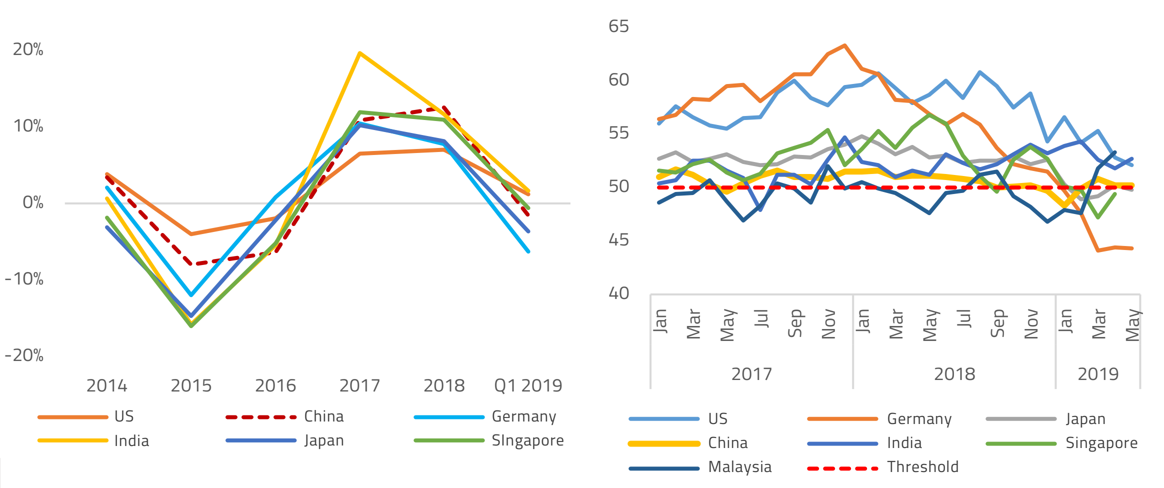
Source: Bloomberg

The trade tensions between the United States and China and rising protectionism in major economies have created uncertainty regarding trade policies in various countries. These have had a negative short-term impact on global economic activity. Growth in global trade volumes is predicted to slow down to 3.4 percent in 2019, after growing by 3.8 percent in 2018.

Based on the latest real indicators, both developed and developing countries generally have been on a slowing trend since 2017. In particular, China encountered a significant slowing in 2018 and this trend continued into 2019 due to the trade war with the US that has not yet reached a conclusion. China's trade growth in the first quarter of 2019 declined by -1.6 percent (yoy), after previously recording a positive performance with 13 percent (yoy) growth in 2018.

Global manufacturing activity is expected to remain weak, mainly due to weakening demand in developed countries. In 2018, various countries recorded a major slow down in their manufacturing activity, especially in developed countries, such as the US, Germany, Japan, and Singapore. This trend is expected to continue, especially for Germany which is facing challenges to their manufacturing sector due to new regulations regarding fuel emissions, as well as the declining demand from abroad. This was reflected in their PMI manufacturing index which fell into contraction territory (below 50).

Figure 2. (a) Total Trade Growth (%, yoy), (b) PMI Manufacturing Index, Table 1. Economic Growth Projections In Various Countries (in %, yoy)



(a) (b)

	2017	2018	IMF's Projections	
			2019	2020
Developed Countries	2.4	2.2	1.8 ↓	1.7 ↓
- United States	2.2	2.9	2.3 ↓	1.9 ↓
- European Union	2.4	1.8	1.3 ↓	1.5 ↑
- Japan	1.9	0.8	1.0 ↑	0.5 ↓
- United Kingdom	1.8	1.4	1.2 ↓	1.4 ↑
Developing Countries	4.8	4.5	4.4 ↓	4.8 ↑
- China	6.8	6.6	6.3 ↓	6.1 ↓
- India	7.2	7.1	7.3 ↑	7.5 ↑
- ASEAN-5	5.4	5.2	5.1 ↓	5.2 ↑

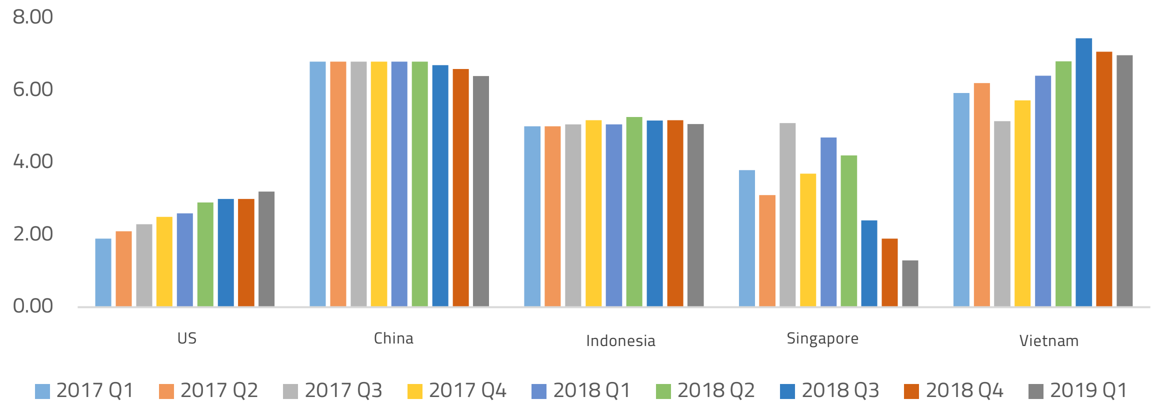
(c)

Source: Bloomberg, WEO April 2019

Italy's financial problems and France's political issues also affected the economic performance in the Eurozone. According to the WEO April 2019, these pressures contributed to downward revisions to growth to 1.3 percent in 2019, before going up 1.5 percent in 2020. These projections are 0.3 pp and 0.2 pp lower compared to the WEO January 2019. Meanwhile, US PMI manufacturing remains at an expansionary level, but with a downward trend since mid-2018. Although US economic growth remained strong in the first quarter of 2019, due to strong consumption, it is expected to decline over the next few quarters, caused by reduced stimulus and trade war pressures. Some countries, such as China and Singapore, have started to feel the pressure of the trade war, shown by slower economic growth in the first quarter of 2019 compared to the same period in the previous year.

The PMI index in developing countries also shows a weakening trend. China's manufacturing activity fell below 50 in December 2018, impacted by trade tensions with the US and China's economic rebalancing policy to maintain stability and avoid crisis. The investment-led growth policy that had driven strong economic growth in China over the last decade has resulted in high levels of debt. The Chinese government is redirecting its growth policies to consumption and services-led growth that is considered more capable to produce more sustainable growth.

Figure 3. Economic Growth In Various Countries 2014Q1-2019Q1



Source: Bloomberg

The consumption and services-led growth policy has succeeded in reducing the vulnerability in the financial sector. It was reflected in the significant reduction of the credit-to-GDP gap to below the threshold of crisis-prone levels (4 percent). However, this economic rebalancing and trade war pressures are expected to lead to a slowing in China's economic growth into 6.3 percent in 2019 and 6.1 percent in 2020.

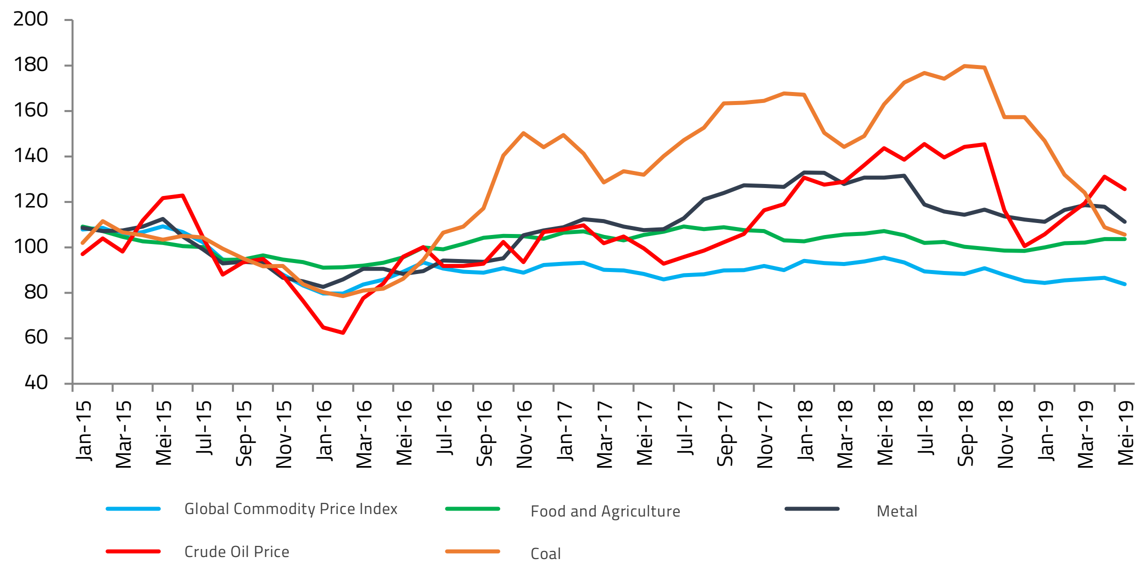
Figure 4. Credit-to-GDP Gap (%)

Source: Bloomberg

Meanwhile, India continued its strong performance in manufacturing activity, supported by structural reforms and strong demand. Although India encountered a slowdown in March 2019 due to the elections and industrial competition, India's economic activity is predicted to remain strong and could potentially achieve 7.3 percent growth in 2019 and 7.5 percent in 2020.

Global commodity price movements are expected to be stable. However, some commodities such as metals, coal and crude oil are predicted to weaken. Metal has had a declining trend since the second half of 2018, partly due to the import tariff policy on steel and aluminum by the US. On the other hand, coal prices continued their downward trend driven by a transition to renewable energy in several major countries such as China and India.

Figure 5. The Movements of Commodities Price



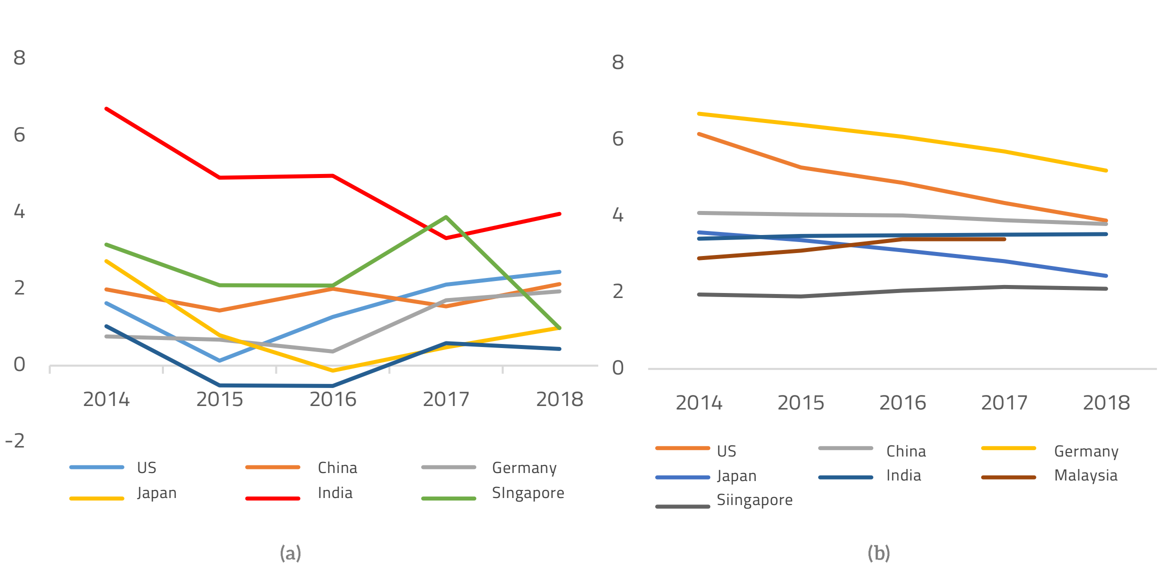
Source: Bloomberg

Oil prices decreased sharply in October to December 2018, before rising again in early 2019. Oil production cuts by OPEC and several Non-OPEC countries, the US embargo on Venezuelan oil, US sanctions against Iran, and the Libyan conflict are several factors that have affected world oil supply recently. However, the IMF predicts that the average oil price (Average Oil Prices of UK Brent, Dubai Fate and WTI) will fall to USD59.16 per barrel in 2019 and USD59.02 per barrel in 2020 due to weakening in world economic activity and the possibility of OPEC members not complying to the oil supply cut agreement. Meanwhile, the coal price is predicted to continue its weakening trend in 2019 and 2020 due to coal-use policies related to environmental sustainability issues.

Global inflation is predicted to remain at a benign level due to weakening commodity prices and falling demand. The unemployment rate has also consistently decreased, both in developed and developing countries. However, various major central banks in the world have given a signal that they would adopt more accommodative monetary policies in the midst of expectations that global activity will weaken.

The Fed gave a signal that it would hold its policy rate, at least during 2019, which was followed by the European Central Bank (ECB). Meanwhile, the Bank of England (BoE) and the Bank of Japan (BoJ) started to be more accommodative in their monetary policy settings due to the uncertainties in the global economy. As a result, 10-year bond yields for developed countries, such as the US, Eurozone, Germany, France and Japan have been decreasing compared to 2018.

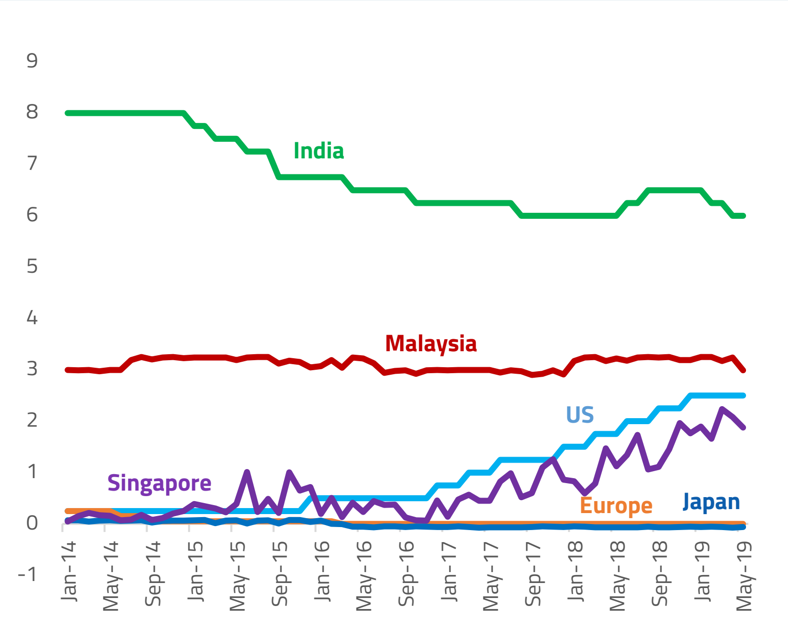
Figure 6. (a) Inflation (%, yoy) (b) Unemployment Rate (%, yoy)



Source: Bloomberg

More accommodative monetary policies also contributed to improved financial market conditions, especially in developing countries. Investment flows have started to return to emerging markets, as indicated by the positive performance of stock indexes in 2019. In addition, the positive sentiment also contributed currencies in a number of emerging markets appreciating against the US Dollar compared to 2018, notably in markets, such as Russia, Indonesia, China, South Africa, Thailand, Malaysia and Brazil.

Figure 7. Interest Rate (%)



Source: Bloomberg

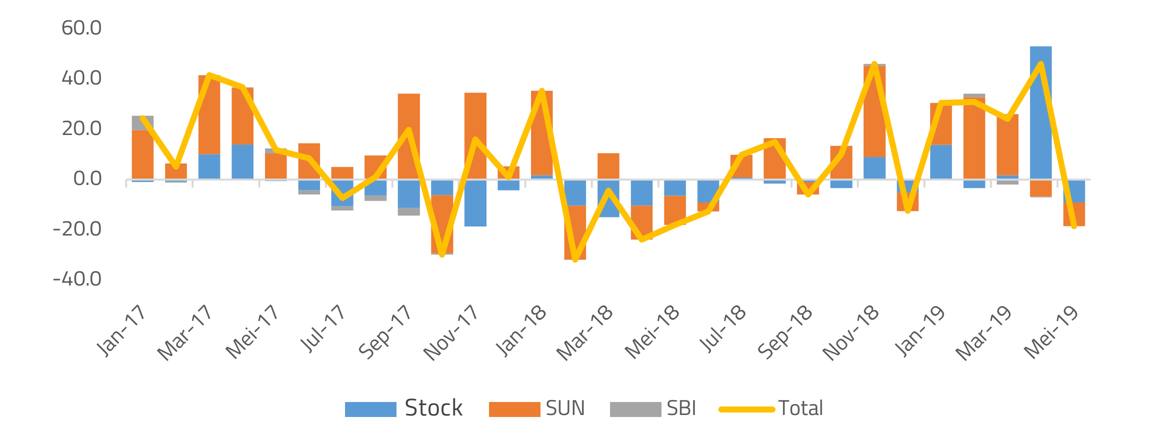
However, geopolitical problems in Europe and the Middle East have added to the uncertainty in the global economy. Brexit remains a tough challenge for the UK and the Eurozone and has affected investor sentiment and UK economic activity. The UK economy is predicted to grow 1.2 percent in 2019 and 1.4 percent in 2020 (0.3 pp and 0.2 pp lower compared to WEO projections in January 2019). Meanwhile, the ongoing trade dispute between the US and China can be expected to be a significant factor influencing the direction of global financial markets and would lead to a negative impact on the global economy.

B. FINANCIAL AND MONETARY SECTOR DEVELOPMENTS IN INDONESIA

Indonesia's financial market performance has been very positive with the support of better global sentiment. The Indonesia Composite Index (IDX Index) during 2019 (up to 30 April 2019) has shown a positive trend, rising by 4.21 percent. Meanwhile, 10 year Government Bond yields decreased by 19 bps. After showing positive signs during the January-April 2019 period, foreign portfolio investment came under pressure in May 2019 with net foreign sales of IDR18.2 Trillion. Net foreign sales in capital markets in May reached IDR9,1 trillion (per May 28) and in the Government Bond market recorded as IDR9.3 trillion (as at May 24). The net inbound investment cumulatively over January to May 2019 reached IDR113,3 trillion, in contrast to last year's realization which reached IDR42.7 trillion in net foreign sales.

Market sentiment impacts from the US-China trade dispute should be monitored closely. Throughout 2019, capital market sentiment has been impacted by the US-China trade dispute, central bank monetary policies, such as by the Fed and ECB, which has affected global monetary liquidity, European Union geopolitics around Brexit, various economic data releases around the globe in various stock markets as well as Indonesia and India's public elections.

Figure 8. Government Securities (SUN), Stocks, and Certificate of Bank of Indonesia (SBI) Net Foreign Buy

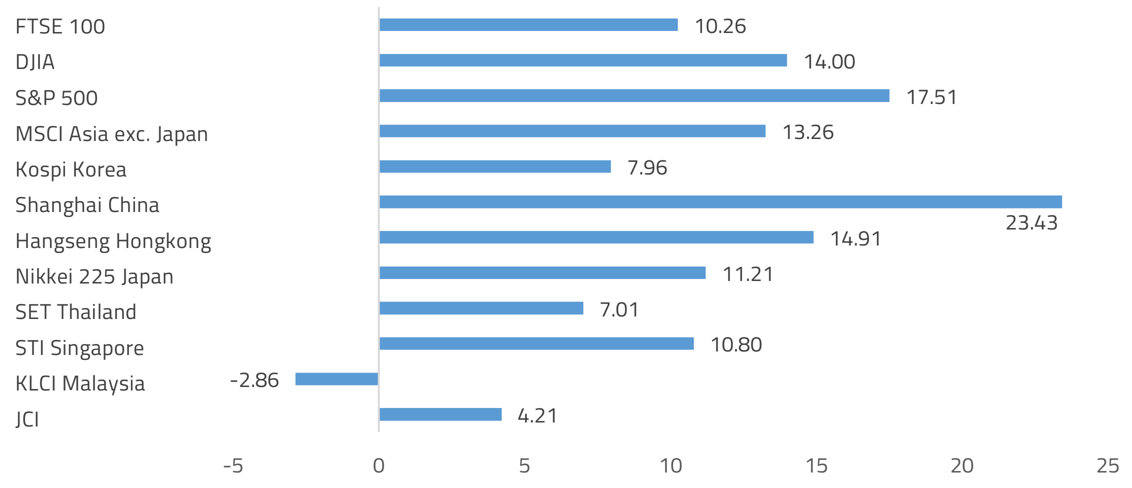


Source: Bloomberg

Jakarta Composite Index and Global Stock Exchange Performance

Since the beginning of 2019, the majority of stock markets around the globe strengthened, led by China's Shanghai index that rose by 23.43 percent. On the other hand, the Malaysian stock market weakened in early 2019. The JCI rose by 4.21 percent to IDR6,455 until the end of April 2019, supported by ample capital inflows. The positive performance of global stocks in general has been driven by the optimism a possible trade agreement between the US and China at the beginning of the year. When trade tensions between the two countries re-escalated in May, the global stock performance started to reverse.

Figure 9. Global Stock Market Performance in 2019* (in %, ytd)



Source: Bloomberg, processed; Notes: *as of end of April 2019

JCI's Sectoral Development

Table 2. Stock Performance by Sectors in 2019* (%)

Sectors	Jan	Feb	Mar	Apr	Ytd.*
JCI	5.46	-1.37	0.39	-0.21	4.21
Financial	6.04	-1.33	3.21	2.76	10.98
Consumer Goods	3.56	-0.90	-1.39	-3.33	-2.17
Infrastructure	9.97	2.91	-2.36	-0.42	10.03
Trade	1.77	3.42	-0.20	0.48	5.56
Basic Industry	6.70	-3.27	-1.15	-6.30	-4.41
Construction and Property	4.06	-2.61	2.43	4.68	8.67
Various Industries	3.67	-11.91	1.25	2.52	-5.21
Mining	8.25	-2.52	-1.33	-3.80	0.16
Agriculture	6.23	-8.40	-3.86	-1.54	-7.88
Manufacture	4.40	-3.32	-0.93	-3.25	-3.25

Source: Bloomberg, processed; Notes: * as of end of April 2019

The majority of JCI sectors recorded positive performances during 2019, notably the financial and infrastructure sectors. This follows a strong start to the year for all sectors, due in part to what is known as the January effect. Some other sectors that supported the positive performance of JCI were trade, construction, property, and mining. On the downside consumption goods, primary industry, other industry, agriculture, and manufacturing have been under pressure so far in 2019.

Financial sector

Aligned with JCI, the financial sector index recorded a positive performance and rose by 10.98 percent up to April 2019. This was reflected in financial institution performance which was positive in March 2019. Bank credit grew by 11.55 percent (yoy), driven by growth in working capital loans. In terms of fund accumulation, bank deposits grew by 7.18 percent (yoy). Financial service institutions were also able to maintain their risk profile as reflected in the gross NPL ratio of 2.51 percent.

Consumer Goods Sector

The consumption goods sector weakened by 2.17 percent during 2019. Throughout April, this sector weakened by 3.33 percent. This sector has weakened for three consecutive months since February following a strong January when it rose by 3.56 percent. Nevertheless, retail sales growth throughout March 2019 increased compared to the previous month. The Real Sales Index in March 2019 was recorded as 230.1, an increase of 10.1 percent (yoy) driven by the Clothing sub-group and the Spare-parts and Accessories sub-group. With the Government targeting economic growth of 5.2 percent this year, consumption goods and retail sales are expected to increase.

Infrastructure Sector

The Infrastructure sector index recorded growth of 10.03 throughout January-April 2019. This performance was influenced by the positive news that PT. Smartfren (FREN) will merge with another telecommunications operator, PT Indosat Tbk (ISAT). The merger is expected to create a telecommunication company that can offer a more effective and provide better service quality. The telecommunications sector is also expected to grow in line with infrastructure projects. Going forward, all regions in Indonesia are expected to have the benefit of the broader and faster internet access.

Construction and Property Sector

Construction and property sector indices posted gains of 8.67 percent during 2019. The data was supported by the BI Residential Property Price Survey result which indicated growth of residential property prices in primary markets. Residential Property Price Index in the first quarter of 2019 was 0.49 percent (qtq), higher than the previous quarter growth of 0.35 percent (qtq). In the first quarter of 2019, sales of residential property increased by 23.77 percent (qtq), this is higher compared to sales in the previous quarter which was -5.78 percent (qtq). The plan to relocate the capital city from Jakarta to outside Java, if and when, it proceeds is expected to boost this sector’s stock movement as the relocation will require massive office and housing construction.

Mining Sector

Until April 2019, this sector recorded an increase of 0.16 percent despite the pressure in the last three months. The sector's performance was affected by the fluctuations in global commodity prices such as crude oil and coal. Domestically, the Government has taken several steps to improve the production of minerals and coal, among others through the implementation of an Information Technology system as a solution to improve governance of mining. The Ministry of Energy and Mineral Resources (ESDM) has also implemented several other measures such as the Mining One Map Indonesia (MOMI), Mining One Data Indonesia (MODI), and Mining Online Monitoring System (MOMS). ESDM has also undertaken some deregulations through the removal or amendment of 32 laws and 64 certifications or licenses.

Looking ahead, the Indonesian Coal Mining Association (ICMA) will establish a partnership with the China National Coal Association (CNCA) to enhance investment in the coal sector.

Agriculture/Horticulture Sector

This Agriculture/Horticulture sector weakened by 7.88 percent during January to April 2019. This was partly affected by the decision of the European Union (EU) to announce that biofuels which are made from Crude Palm Oil (CPO) are unsustainable. EU laws on sustainable energy provide that unsustainable food and crops usage shall be restricted from 2019 and will be banned completely in 2030. This decision was taken after the EU Commission concluded that palm oil plantations, which mostly take place in Indonesia and Malaysia, has caused deforestation. To date, the government of Indonesia and Malaysia are still pursuing mediation with EU to revoke the policy. On the other hand, Malaysia's palm oil production increased due to good weather and expansion which could lead to price reductions and affect stock movements in this sector.

Manufacturing Sector

Manufacturing sector index fell by 3.25 percent up to April 2019. This was in line with the weakening of Indonesian manufacturing PMI index that dropped to 50.4 in April 2019, from March’s position at 51.2. This slowdown happened due to declining demand, though BPS data showed that output of medium and large industries in the first quarter of 2019 rose by 4.45 percent (yoy). The manufacturing industry in 2019 is expected to improve compared to the previous year with negative global sentiment predicted to ease and manufacturing activity in the country increase. Indonesia is also considered to be able to take advantage of the possibility of China’s manufacturers relocating amid the trade tensions with the US.

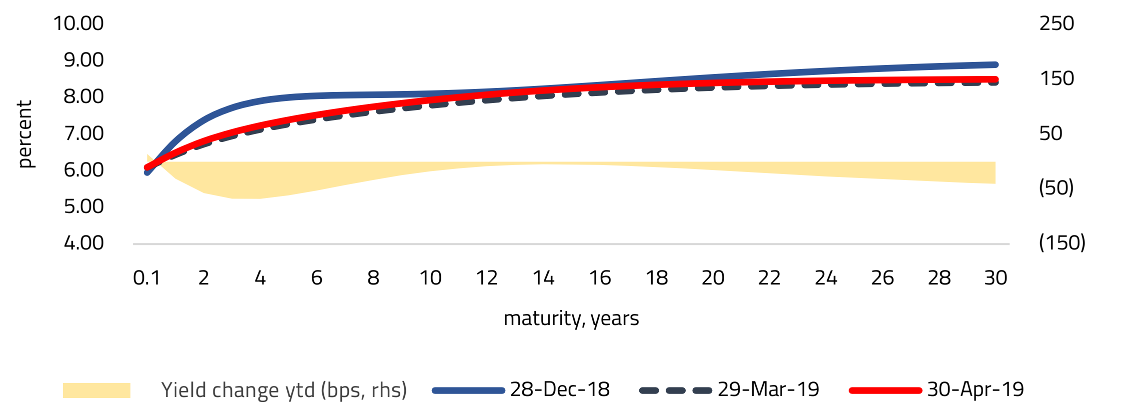
The Government Bonds Market Development

In the government bonds (SBN) market, the yield of 10 year securities fell by 32 bps during the first quarter of 2019, before increasing by 14 bps in April 2019. After growing in the fourth quarter of 2018, foreign capital flows continued to come into the SBN market from January to April 2019, as much as IDR67.09 trillion. With such developments, non-resident investors' holdings of SBN were recorded at IDR960.34 trillion, or equal to 38.38 percent of total traded securities (SBN) worth of IDR2,502.01 trillion at the end of April 2019.

In terms of trading volume, compared to the end of April 2018, there was a IDR2,502.01 trillion increase in the total amount of outstanding SBN at the end of April 2019. This amount was absorbed by banks as much as IDR606.51 trillion or 24.24 percent, and the remaining IDR1,742.50 trillion or 69.64 percent was purchased by non-banks, such as mutual funds, insurance companies, non-resident companies, pension funds, and others. Non-resident investors' holdings increased by IDR302.94 trillion at the end of April 2019 compared to the same period last year. The central bank at the end of the first quarter of 2019 bought IDR132.03

trillion worth of SBN, supplemented by another purchase of IDR59.49 trillion at the end of April 2019 for monetary operations purpose. This action was taken to stabilize the exchange rate.

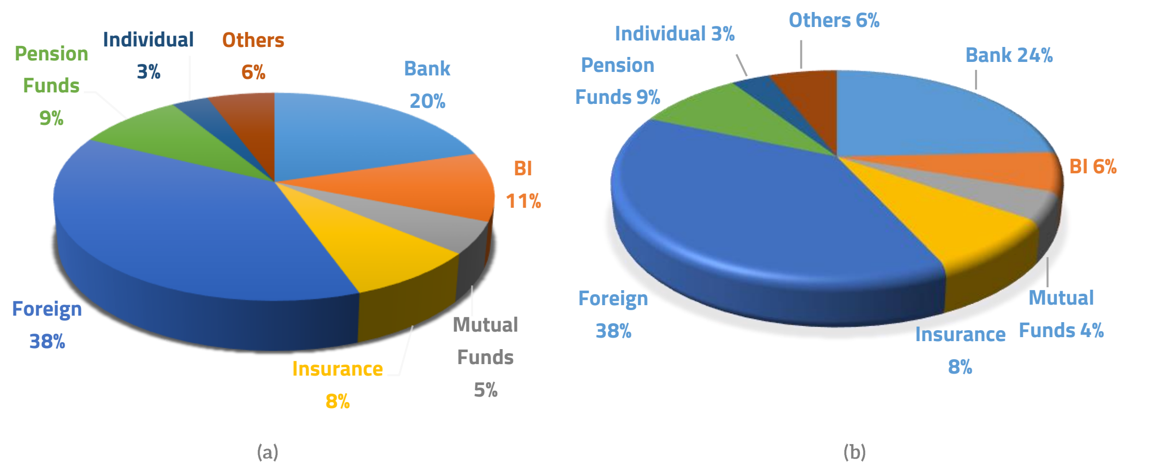
Figure 10. Yield Curve of Government Bond 2019 (ytd)



Source: DG of Budget Financing and Risk Management, CEIC (processed)

In the primary market, the average incoming bid in 2019 was IDR37.65 trillion. This amount was higher than last year's first quarter which was IDR27.87 trillion. The average awarded bid fell from IDR3.50 trillion in January to April 2018 to IDR3.11 trillion in 2019, with the bid to cover ratio rising from 1.79 to 3.16. The highest incoming bid recorded in 2019 was IDR93.93 trillion, which occurred at the fourth auction in February 2019, while the highest incoming bid in 2018 was IDR86.21 trillion on January 5, 2018. Throughout April 2019, the highest incoming bid recorded at IDR56.11 trillion at a weighted average yield of 5.80 percent for 3 months T-bill (SPN) 8.77 percent in PBS022. The bid to cover ratio in April 2019 was in the range of 1.00 to 13.27.

Figure 11. Ownership of government securities (a) as of December 2018; (b) as of April 2019

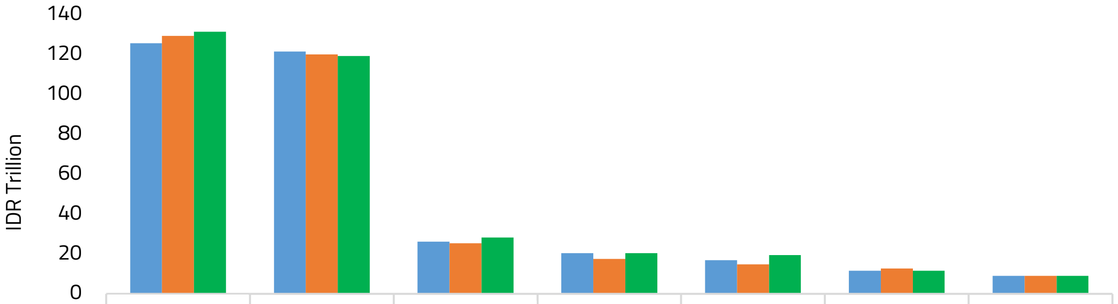


Source: DG of Budget Financing and Risk

Beside the increase of non-resident investors, the largest holders of SBN are banks, insurance companies, and pension funds. Bank's holdings showed a rise from 20.32 percent at the end of 2018 to 24.24 percent at the end of April 2019. Meanwhile, BI's ownership decreased from 10.70

percent to 6.12 percent in the same period. This was affected by the central bank's monetary operations to maintain the exchange rate by controlling the supply of Rupiah in the market.

Figure 12. Total Amount of Corporate Bonds Outstanding - as of April 2019 (IDR trillion)



	Non-bank financial institutions	Bank	Telecommunication	Building Construction	Energy	Metal and Mining	Basic Chemical Industry
Dec 18	125.62	121.47	26.17	20.31	16.87	11.64	9.08
Apr 18	129.30	119.98	25.30	17.46	14.83	12.66	9.08
Apr 19	131.40	119.17	28.31	20.31	19.44	11.64	9.08

Source: Indonesia Central Securities Depository (KSEI) (processed)

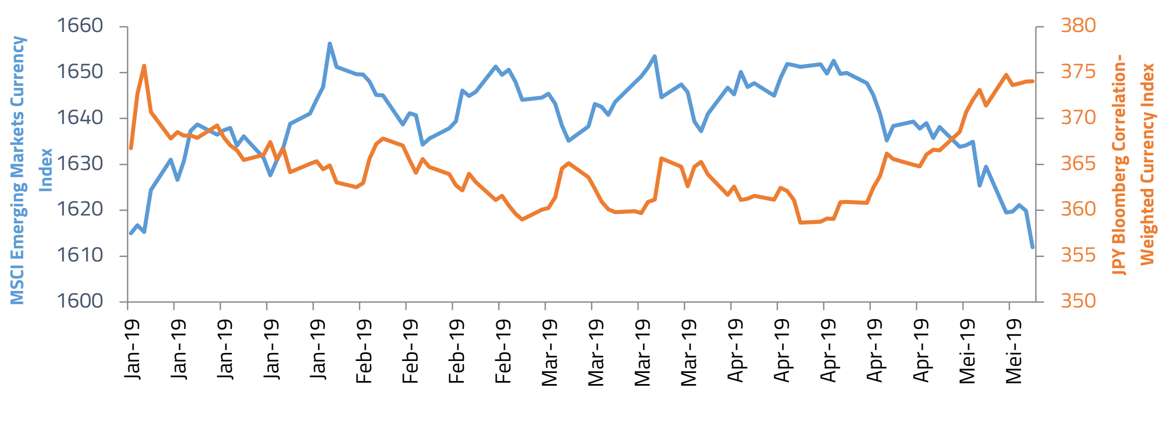
Meanwhile, the fundraising activities of the public through debt securities issuance by corporations grew at a slower pace during 2019. At the end of April 2019, the total outstanding corporate bonds reached IDR408.07 trillion, an increase of 2.51 percent (yoy) from IDR398.09 trillion at the end of April 2018, and an increase of 1.52 percent compared to the end of December 2018, IDR401.95 trillion. It implies that there were additional bonds issuance by the private sector worth IDR9.98 trillion during 2019. By sector, the top five issuers of corporate bonds were still dominated by non-bank financial institutions (32.20 percent), banks (29.20 percent), telecommunications (6.94 percent), construction (4.98 percent), and the energy sector (4.76 percent).

Rupiah and Monetary Developments

Along with the increase in capital inflows, the Rupiah appreciated to IDR14,215 per USD at the end of April. The positive sentiment in the global economy coming from the Fed's dovish policy and optimism for the trade agreement between the US and China became a factor that supported the strengthening of the Rupiah. However, the US Government's decision to re-impose import tariff increases on Chinese products created a shock that resulted in a flight to quality, especially from developing countries to safe-haven assets.

After strengthening modestly during the first quarter of 2019 to April 2019, the rupiah depreciated against the US Dollar in May 2019. The weakening of the rupiah was mainly influenced by external factors, such as the re-escalation of the trade war between US and China. The Rupiah depreciation was also affected by seasonal factors such as increased demand for the US Dollar to be used for dividend payments. The average exchange rate in May 2019 was IDR14,393 per USD, or a depreciation of 1.25 percent compared to the average of April 2019.

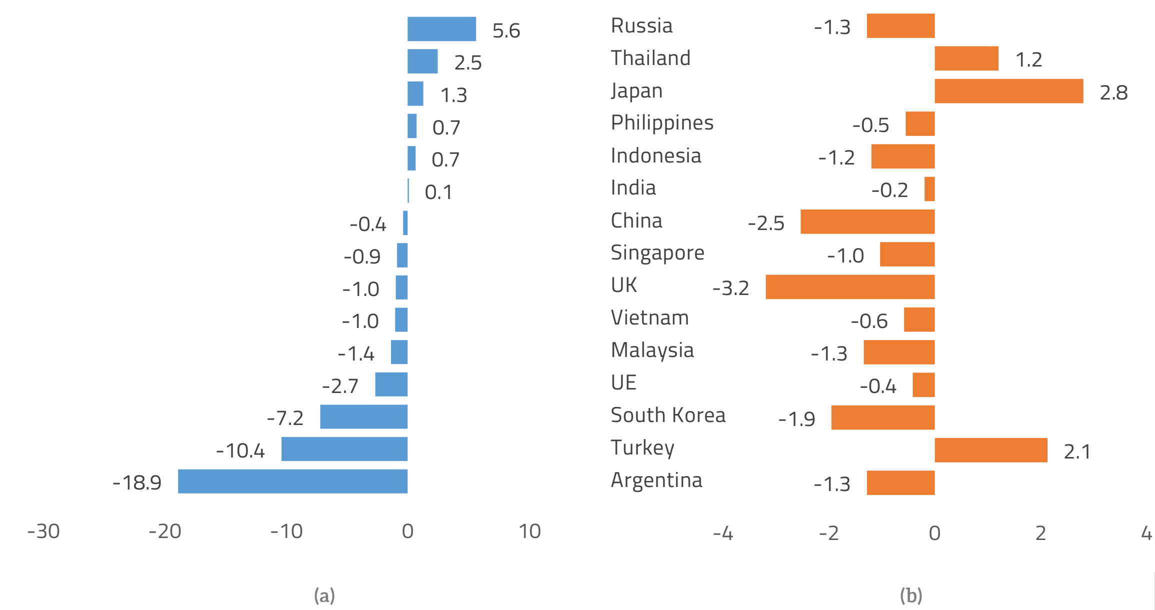
Figure 13. Emerging Markets Exchange Rate and Save Haven Assets Index



Source: Bloomberg

Increasing global uncertainty has influenced the development of monetary policy in Indonesia. In May 2019 the central bank kept its benchmark rate (7 Days Reverse Repo) at the level of 6 percent. Meanwhile, the interbank interest rate in the period April-May 2019 was stable with a slight spread indicating that liquidity is sufficient. From the liquidity point of view, money supply growth was still in line with economic activity. The growth of broad money supply (M2) in March 2019 stood at 6.5 percent (yoy), higher than the realization in January and February 2019, which grew by 5.51 percent and 5.98 percent respectively.

Figure 14. Exchange Rate Performance (a) % ytd May 31, 2019; (b) %, mtd May 31, 2019



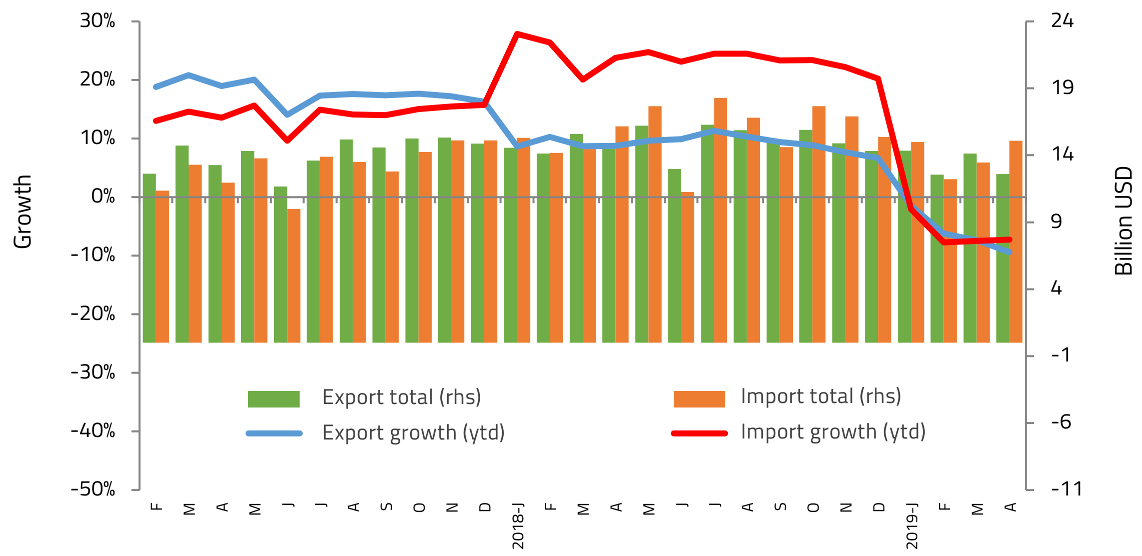
Notes: Depreciation Appreciation

Source: DG of Budget Financing and Risk Management (processed)

C. INDONESIA'S TRADE

The declining demand in the global economy and trade war sentiment have affected Indonesia's international trade performance. As of April 2019, Indonesia's exports had declined 8.8 percent (ytd), influenced by demand from major trading partner countries and seasonal patterns. Declining global demand was main factor affecting the contraction in exports, with pricing of Indonesia's main export commodities (coal, palm kernel oil, and rubber) show a downward trend in the first few months of 2019. This was also reflected in the deceleration of non-oil and gas export performance.

Figure 15. Indonesia's Export and Import Growth



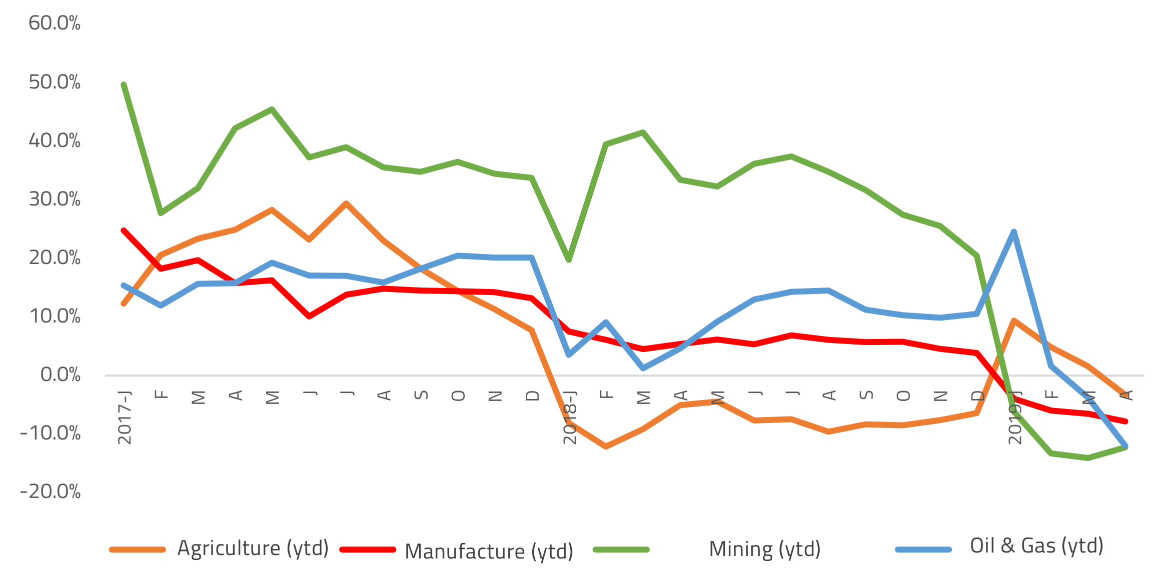
Source: Central Bureau of Statistics

By sector, exports from the agricultural sector declined, driven by declining exports of corn commodities. Two other sectors, namely manufacturing and mining also recorded a contraction compared to the growth in the same period in the previous year when they were growing positively. The mining sector, which had recorded high rates of growth in the second half of 2018, was pressured in 2019 with declining prices of mining commodities such as coal and iron ore as global demand eased.

The contraction in the manufacturing sector since the beginning of 2019 has made a significant contribution to the decline of overall export performance. Manufacturing sector exports recorded declined by 7.3 percent (ytd) in April 2019. This negative performance was caused by declining iron and steel demand, on the back of positive growth last year. During the same period, several main commodities in the manufacturing sector, such as exports of electrical machinery/equipment (HS85), jewelery/gems (HS71) and rubber (HS40) also recorded deeper contractions.

The decline in coal exports in early 2019 was triggered by a weaker demand in the global market. Export volumes to China has dropped significantly due to the implementation of import quotas and energy mix policies by the Chinese Government. During this period, there was also a decline in exports of animal/vegetable fats/oils, dominated by palm oil commodities and its derivatives, in line with the palm oil commodity prices that contracted more deeply. The decline of palm oil exports was heavily influenced by declining export volumes to China and a negative campaign against palm oil products in some European countries.

Figure 16 Growth Contribution of Export Component (%, ytd)

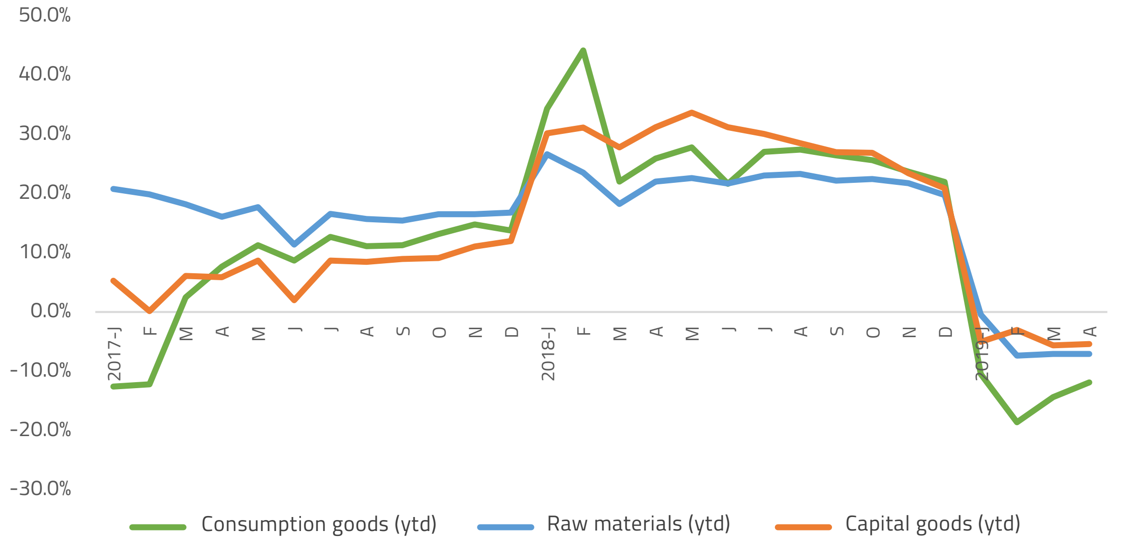


Source: Central Bureau of Statistics

On the other hand, import growth also contracted, although slightly lower than the contraction in exports. As of April 2019, imports contracted by 7.24 percent (ytd), while in the same period of 2018 imports had grown positively by 23.79 percent (ytd). All types of import goods, consumption, raw materials/auxiliary and capital goods, grew negatively. Consumption goods was recorded growing by 11.87 percent (ytd), while raw materials/auxiliary grew 6.72 percent (ytd) and capital goods grew by 7.04 percent (ytd). The surge in consumption import goods, which are fuel and half-durable consumption goods, in order to anticipate domestic demand for Religious and National Holidays only occurred in April 2019. Cumulatively, imports of consumption goods have not shown positive growth according to their seasonal patterns. Meanwhile, increases in raw materials/auxiliary and capital goods were a signal of the growth of industry and other domestic economic activities.

From January to April 2019, the trade balance recorded a deficit of USD2.56 billion, consisting of a non-oil and gas surplus of USD204.7 million and oil and gas deficit of USD2.77 billion. This year, the non-oil and gas trade balance provided a slightly lower surplus than the previous year, at USD2.49 billion. The surplus mainly came from manufacturing export commodities which reached USD39.39 billion, and contributed 74.03 percent of total exports. Meanwhile, the mining and agriculture sectors contributed 16.07 percent and 1.95 percent of total exports, respectively. On the oil and gas trade balance side, the deficit was lower by USD1.13 billion compared to the same period last year due to the trend of relatively lower oil prices since the end of 2018 and effective import control policies on oil and gas.

Figure 17. Growth Contribution of Import Component (%, ytd)



Source: Central Bureau of Statistics

In the first four months of 2019, Indonesia's main export commodities have not achieved a significant shift compared to the previous year. Exports were still dominated by categories of mineral fuels (coal and oil and gas), animal/vegetable fats and oils (CPO and derivatives), vehicles and parts and machinery/electrical equipment. Limited production capacity and low competitiveness continue to hinder significant changes in Indonesia's export product diversification policy.

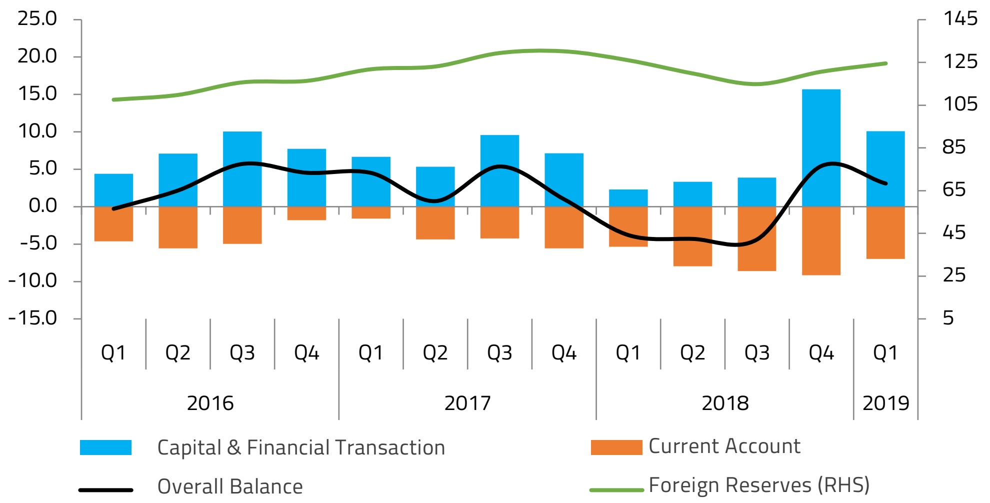
D. INDONESIA'S BALANCE OF PAYMENTS

In line with the improvement of trade balance performance, the Current Account Deficit declined in the first quarter of 2019 compared to the previous quarter. In the first quarter of 2019, the deficit was USD7.0 billion (2.60 percent of GDP), a narrowing compared to the deficit in the previous quarter which reached USD9.2 billion (3.59 percent of GDP). The surplus in goods and secondary income balance was able to offset the pressure from a widening deficit of services and primary income.

The trade balance of goods had a surplus, after recording a deficit in the previous two quarters. Based on the free on board method (fob), in the first quarter of 2019, the non-oil and gas surplus increased to USD2.5 billion from USD117 million in the previous quarter. The surplus was driven by the increased surplus in the non oil and gas trade balance and declining deficit in the oil and gas trade balance.

On the other hand, the service account deficit has been widening along with the decline in service exports. The services exports performance, which largely relies on travel services (tourism), declined in the first quarter of 2019. After recording an increase in the number of foreign tourist visits (driven by the Asian Games and Annual Meeting of IMF-WB events), foreign tourist visits declined to 9.6 percent (qtq) in the first quarter of 2019. The decline in exports and imports of goods also caused a decline in the import of transportation services (freight). However, other services components recorded higher import growth thus overall the decline in service imports was not as deep as the decline in service exports.

Figure 18. Indonesia's Balance of Payments (USD billion)



Source: Central Bureau of Statistics

The primary income deficit widened due to the drop in investment income to 50.3 percent (qtq), after surging in the previous quarter. The decline was driven by the slowdown in Direct Investment returns, particularly in the form of property. On the other hand, investment income payments was indicating an increase in interest payments on bonds, especially Government bonds. Despite that, at the same time there was a decrease in the realization of dividend payments on foreign-owned equity. The decline was in line with the performance of the mining sector and mining-based manufacturing sector. Secondary income recorded a decreased surplus due to low government grants at the beginning of the year, although the revenue from personal transfers in the form of Indonesian Migrant Workers remittances has increased. The highest remittances come from Indonesian Migrant Workers in the Asia Pacific Region, followed by the Middle East region such as Saudi Arabia, UAE, and Jordan.

After being impacted by global financial market turbulence in 2018, the performance of the Capital and Financial Accounts (CFA) continued to record a surplus in the first quarter of 2019, as in the previous quarter. The CFA surplus in the first quarter of 2019, reached USD10.1 billion, still quite high, but lower than the surplus in the fourth quarter of 2018, when it reached USD15.9 billion. The decline was due to a decrease in the portfolio investment surplus and a deficit in other investments, countered by an increase in the direct investment surplus. The

CFA surplus in the first quarter of 2019 helped to reduce the volatility of the Rupiah at the beginning of 2019.

E. INDONESIA'S ECONOMIC GROWTH QUARTER I 2019

Indonesia's economy has remained stable amidst the heightened global uncertainty of the last six months, continuing to record healthy rates of economic growth. Indonesia's economy grew by 5.07 percent (yoy) in quarter I 2019, slightly higher than the growth performance in quarter I 2018 (5.06 percent), but slowed compared to the fourth quarter of 2018 (5.18 percent). The domestic economy is sgrowing well, although investment, as measured by growth in Gross Fixed Capital Formation (GFCF), is slower compared to the first quarter of 2018. This slowing is mainly due to the slowdown of foreign direct investment (FDI), thus contributing to the decline in imports of capital goods and raw materials. In addition, the export performance also declined, mainly due to the decrease in coal prices, which was only partially offset by a volume increase in CPO and metal ore production.

Economic performance in quarter I 2019 of the expenditure components (table 3) was supported by domestic economic activity, namely solid growth of household consumption as well as increased activity of non-profit household agencies (LNPRT) related to a series of activities ahead of the national elections. Household consumption was relatively stable, growing above 5 percent, in line with an inflation rate maintained below 3 percent. The significant growth of social assistance also supported consumption, especially for low-income communities. Meanwhile, campaign activities ahead of the national elections gave a boost to the consumption of LNPRT which grew by 16.93 percent. In total, the growth of household and LNPRT consumption was 5.25 percent.

Government consumption was also able to grow by 5.21 percent, higher than the quarter I of 2018. The improving pattern of expenditure disbursement in personnel, goods, and social assistance underpinned the improved growth performance. It also indicates that countercyclical government policy has played an important role in supporting the national economy.

Table 3. GDP Growth by Expenditures (%, yoy)

GDP Components	2017					2018					2019
	Q1	Q2	Q3	Q4	Y	Q1	Q2	Q3	Q4	Y	Q1
Total consumption	5.00	5.03	4.93	4.98	4.98	5.01	5.23	5.07	5.20	5.13	5.25
Household consumption	4.94	4.95	4.91	4.98	4.94	4.94	5.16	5.00	5.08	5.05	5.01
LNPRT	8.08	8.53	6.04	5.26	6.93	8.10	8.75	8.59	10.79	9.08	16.93
Government consumption	2.69	-1.94	3.46	3.80	2.13	2.71	5.20	6.27	4.56	4.80	5.21
GFCF	4.77	5.34	7.08	7.26	6.15	7.49	5.85	6.96	6.01	6.67	5.03
Exports	8.36	2.73	16.48	8.42	8.91	5.94	7.65	8.08	4.33	6.48	-2.08
Imports	4.78	0.18	15.40	11.91	8.06	12.64	15.17	14.02	7.10	12.04	-7.75
GDP	**5.01**	**5.01**	**5.06**	**5.19**	**5.07**	**5.06**	**5.27**	**5.17**	**5.18**	**5.17**	**5.07**

Source: Central Bureau of Statistics

However, GFCF, or investment, components grew slower at 5.03 percent, in line with the trend of decreasing global investment and also the tendency for foreign investors to take a wait and see position in relation to the electoral process in Indonesia. The deceleration of GFCF in this period was the weakest performance since quarter II 2017 and occurred across on components of machinery, equipment, vehicles and other equipment. Investment in buildings strengthened slightly and supported growth of GFCF in this quarter, although not strong enough to offset the considerable decline in other components.

The deceleration of GFCF was also impacted by relatively low FDI realization. The realization of total direct investment in quarter I 2019 reached IDR107.9 trillion, growth of 5.29 percent (yoy), significantly slower compared to the same period last year when it grew by 11.76 percent (yoy). FDI itself contracted by -0.92 percent, the weakest since quarter II 2018. Nevertheless, in quarterly terms FDI performance has shown recovery by growing 8.99 percent compared to the the previous quarter. The highest growth of FDI occurred in sectors such as transportation, warehouse and telecommunications, followed by electricity, water and gas, leather industry, and the non-metallic mineral industry.

The dynamics of the global economy has affected international trade growth performance. Exports and imports both contracted, with deeper contraction experienced by imports and, thus, a narrowing in the trade deficit. Export growth of -2.08 percent is mainly due to the decrease in mining commodity prices, especially coal and CPO, and a decline in manufacturing performance. It was also reflected in the contraction of sales growth by mining companies in quarter I 2019. From the import side, the biggest decline occurred with consumer goods in accordance with the implementation of an import control policy since the end of 2018. This negative growth did not only occur in consumer goods, but also on raw materials for auxiliary and capital goods, in line with the decline in exports and manufacturing performance.

From the production side (table 4), the performance of all sectors were positive, which was also reflected in the sales growth by companies listed on the Indonesia Stock Exchange and in line with tax revenues. The performance of the productive sectors was primarily driven by trading activities related to the digital economy. Trading services were able to grow by 5.26 percent, higher than quarter I of the previous year. However, activity in the trading sector was not followed by the growth of tax revenues from the trade sector, while positive, grew far below the same period of 2018. In addition, the sales by large companies in trade sectors in the quarter I 2019 also experienced a slowdown. With the number of trading businesses dominated by retail traders reaching nearly 11 million businesses, it seems that more GDP from the trade sector is driven by retail trading firms.

Information and communication services became one of the fastest growing sectors, growing by 9.03 percent, driven by high e-commerce and digital economy activities. Other services sectors that supported community activities were the financial services and insurance sectors as well as company services that also showed the improvement of performance with each growing by 7.33 percent and 10.36 percent respectively. Positive performance was also demonstrated from tax revenues throughout the same period from some of the services sectors, such as the trading sector which grew by 1.3 percent as well as the financial services sector which grew by 11.3 percent.

Table 4. GDP Growth by Sectors (%, yoy)

Sectors	2017					2018					2019
	Q1	Q2	Q3	Q4	Y	Q1	Q2	Q3	Q4	Y	Q1
Agriculture, Forestry, and Fisheries	7.11	3.32	2.83	2.39	3.87	3.34	4.72	3.66	3.87	3.91	1.81
Mining and Quarrying	-1.30	2.11	1.83	0.04	0.66	1.06	2.65	2.67	2.25	2.16	2.23
Manufacturing	4.28	3.50	4.88	4.51	4.29	4.60	3.88	4.35	4.25	4.27	3.86
Construction	5.96	6.95	6.98	7.24	6.80	7.35	5.73	5.79	5.58	6.09	5.91
Trade	4.61	3.47	5.22	4.53	4.46	4.99	5.22	5.28	4.39	4.97	5.26
Transportation and Warehousing	8.06	8.80	8.88	8.21	8.49	8.56	8.70	5.65	5.34	7.01	5.25
Accomodation, Food, and Beverage	5.35	5.60	5.52	5.11	5.39	5.17	5.60	5.91	5.95	5.66	5.87
Information and Communication	10.48	11.06	8.82	8.27	9.63	7.76	5.11	8.14	7.17	7.04	9.03
Financial Services and Insurance	6.01	5.93	6.13	3.82	5.47	4.23	3.06	3.14	6.27	4.17	7.33
Other Services	4.32	3.89	4.78	6.26	4.83	5.56	6.17	6.79	6.45	6.25	6.96
GDP	**5.01**	**5.01**	**5.06**	**5.19**	**5.07**	**5.06**	**5.27**	**5.17**	**5.18**	**5.17**	**5.07**

Source: Central Bureau of Statistics

The processing industry sector (manufacturing) still grew below expectations at only 3.86 percent, a slowing compared to the performance in the same period of the previous year. This was largely due to the decline in the performance of the oil and gas refining industries, and the transportation industry, as well as slowing of the food-beverage industry (influenced by slowing CPO production). Meanwhile, some other non-oil and gas industry groups grew relatively well, such as the textile and apparel sectors and base metals, as well as chemistry and pharmaceuticals. A slowdown in the manufacturing sector was also reflected in the taxation revenues from this sector which fell by 8.8 percent.

The primary sector grew positively in the quarter; the mining sector grew by 2.32 percent, sustained by coal performance due to an increase in production and exports, while the performance of oil and gas and metal ore mining decreased. Although growth was slightly improved compared to quarter I 2018, the sales growth of the mining companies showed a slowdown, and tax revenues from the mining sector contracted in quarter I 2019.

Geographically, Indonesia's economic structure in the quarter I 2019 was still dominated by Java Island with a contribution of 59.03 percent. Areas outside Java that grew above the national rate were Kalimantan and Sulawesi. Sumatra, Bali and Nusa Tenggara, as well as, Maluku and Papua recorded growth below the national rate. The slowdown in the Sumatran region was caused by its economic structures that rely on coal and oil palm commodities, while the Maluku and Papua regions contracted due to the decline in gold and copper production of PT Freeport.

F. INDONESIA'S INFLATION

The stability of the domestic economy is reflected by the maintained price movement at the consumer level. The inflation rate until May 2019 was recorded at 1.48 percent (ytd) or 3.32 percent (yoy), still within the target range of 3.5 percent ± 1 percent (yoy). Throughout the first quarter of 2019, the inflation rate was still under 3 percent, but inflation began to increase in April – May as weather disruptions affecting horticultural products and demand over Ramadan and Eid Al-Fitr period increasing. Stable inflation was backed by the subdued price pressures in all components reflecting preserved purchasing power as well as the balance of demand and supply in general. It is also supported by well anchored inflation expectations as well as the synergy of policies between the government and the Central Bank (BI) both at the central and regional level in controlling inflation.

Having been maintained under 2 percent during the first quarter of 2019, the volatile food inflation components began to increase influenced by the pressure of horticultural products due to weather factors and increasing demand in the Ramadan and Eid Al-Fitr in May. Horticultural commodities provided considerable pressure, mainly sourced from the price increase of shallots and garlic. Other horticultural commodities such as chilli peppers and some vegetables and fruits also contributed to increased price pressures. This was affected by weather conditions thus reducing the storability and causing distribution interference.

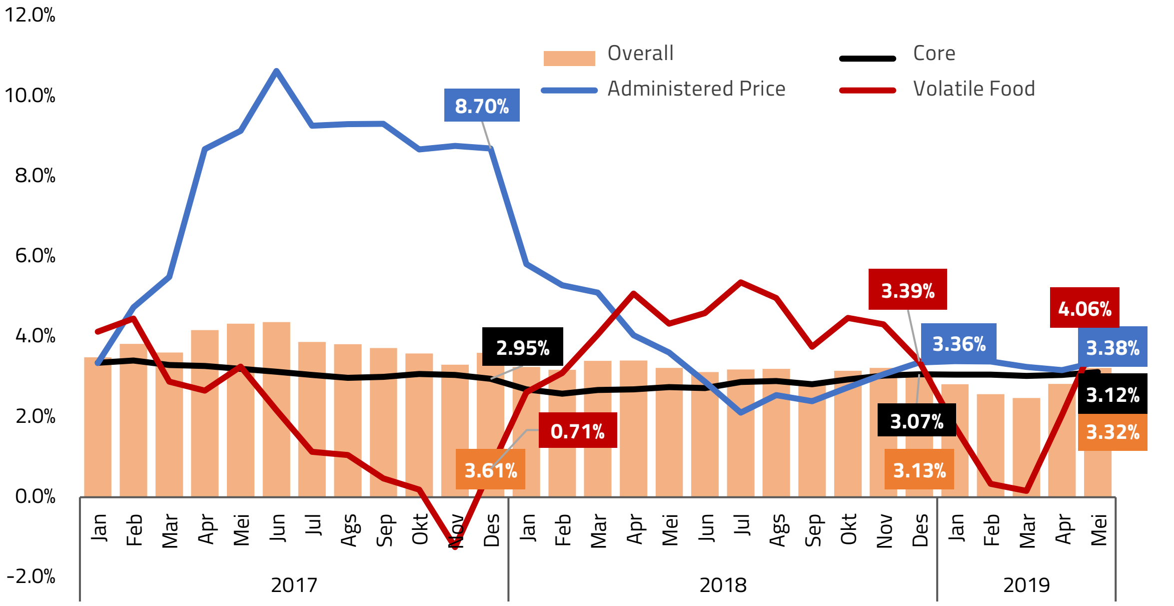
On the other hand, the commencement of the rice-harvesting season and sufficient supply supported the control of rice inflation, and maintained overall volatile food inflation. The increase of rice prices that occurred in early 2019 was lower than in 2018, helped by the program conducted by Bulog, namely supply availability and price stabilization (KPSH), as a step in anticipating rice price volatility. Since March 2019, the price of rice has been declining as harvest season began, and the trend continued until May with several regions continue to enjoy the harvest period.

Other than rice, deflation also occurred in meat and eggs in quarter I because of abundant supply. This was influenced by the decline in feed prices and weather factors that supported livestock productivity. However, the price of meat and eggs started to increase in May due to

Ramadan and Eid Al-Fitr factors. Cumulatively, the inflation of volatile food components until May 2019 increased but was still relatively maintained, recording a rise of 4.08 percent (yoy), lower than the May 2018 rise of 4.33 percent (yoy).

Meanwhile, inflation of the administered price component until May 2019 was relatively stable in the range of 3.2 percent to -3.4 percent (yoy), influenced by the price reduction of non-subsidized gasoline and the granting of electricity tariff discounts, but still somewhat pressured by the increase of transportation tariff. The decline in world crude oil prices at the end of 2018 encouraged Pertamina to make a domestic fuel price adjustment by lowering the price of non-subsidized gasoline in the early part of 2019. In addition, the provision of a tariff discount by IDR52/kwH for the 900VA household customers on 1 March 2019 also contributed to the lower price pressures of the administered price component.

Figure 19. Indonesia Inflation Rate (%, yoy)

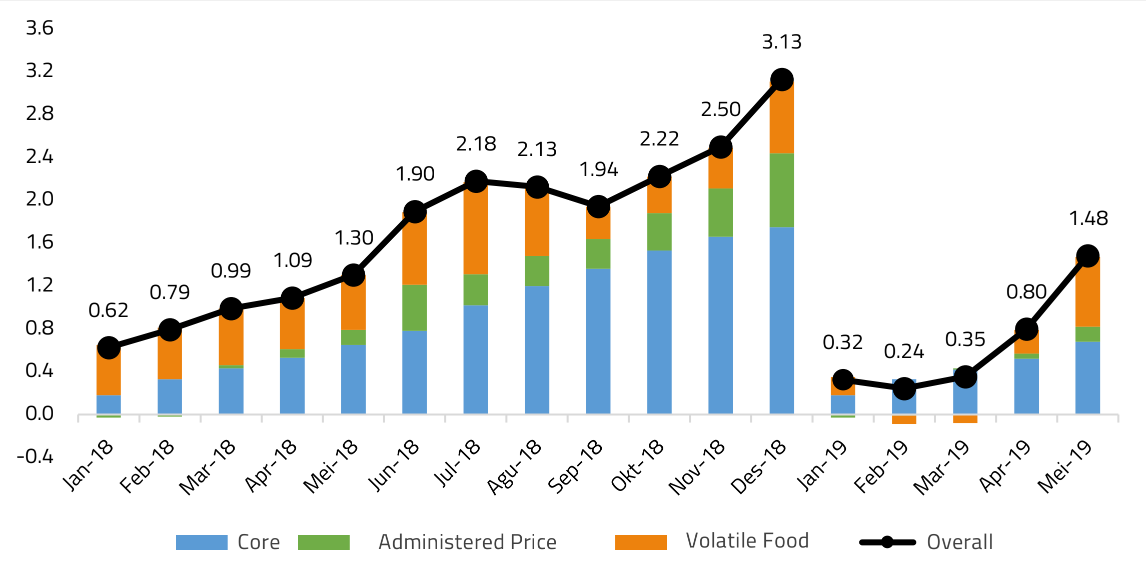


Source: Central Bureau of Statistics

On the other hand, one of the administered price components that provided upward pressure was the increase of the air transportation tariff over the last five months. The increase in the air transportation tariff was different from its historical pattern which recorded deflation in the low season period (first quarter). This rise was influenced by the increase in costs incurred by airlines, such as fuel costs (Avtur), aircraft rental, maintenance costs, and airport services, as well as the impact of the Rupiah depreciation in mid-2018. The increase in air transportation tariff since the end of 2018 until now has been affecting tourism activities as well as the logistics and retail sectors. This should be well monitored because it can have a negative impact on the local economy, especially on tourism destinations.

Core inflation component showed a slight increase in May 2019, but was still within a range of 3 percent. This core inflation movement reflected the well-maintained balance of demand and supply as well as purchasing power. Meanwhile, the increase of core inflation in May was largely influenced by the increase in the prices of goods in general before Ramadan and Eid Al-Fitr. During January–May 2019, pressure of core inflation component was driven by the increase in home rents that were influenced by the increase in maintenance costs and the price of construction materials, such as bricks, cement, sand, and asbestos. In addition, the wages of housekeepers and builders also contributed to inflation during the first quarter of 2019.

Figure 20. Inflation Rate by Component (%, ytd)



Source: Central Bureau of Statistics

G. INDONESIA'S BANKING SECTOR PERFORMANCE

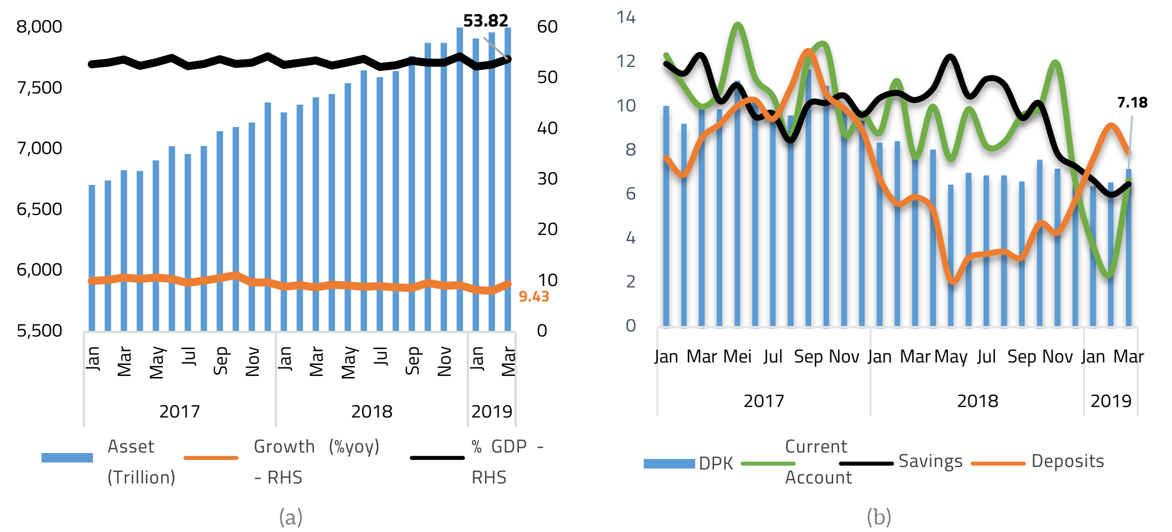
With the easing in the domestic financial market volatility during Q1 2019, Indonesia's banking sector stabilised, supported by strong capital and solid asset growth, supporting the banking sector's intermediation role. Banking credit distribution showed a consistent double-digit trend, while the accumulation of third-party funds showed strong growth, indicating adequate banking liquidity. Efficiency and profitability in the banking industry also improved, although credit risk was slightly increased compared to Q4 2018, with rising NPL's in the sectors with large credit positions.

Assets and Source of Funds

Banking assets were higher in Q1 2019 was compared to the previous quarter, along with higher growth of third-party funds, supporting stable credit distribution. In the last Q1 2018, banking assets reached IDR8,130 trillion or 9.43 percent (yoy), the highest growth rate since January 2017. As for the composition, the biggest market share was owned by BUKU IV bank category, with 52.6 percent market share. This was followed by banks of BUKU III, BUKU II, and BUKU I with each share amounted to, respectively, 33.4 percent, 13.0 percent and 1.1 percent of total market share. The asset growth of BUKU IV bank was reached 17.0 percent in Q1 2019, as Panin Bank joined the BUKU IV group. However, asPanin Bank moved to BUKU IV group, the asset growth in BUKU III group slowed down to around 1 percent (yoy) in Q1 2019, compared with previous growth of around 11 percent.

Based on type, most Indonesia third-party funds are time deposits with a 44 percent share, followed by savings accounts (31 percent) and giro accounts (25 percent). Based on the currency, 90 percent of third-party funds at the end of 2018 were deposited in Rupiah, while the remainder was deposited in foreign currency. From mid-2018, the growth of third-party funds deposited in foreign currency surpassed the third-party funds in Rupiah currency. This growth was driven by an increase in checking account deposits to 34.31 percent amid rising average interest rates in commercial banks and the weakening of the Rupiah. However, by the end of 2018, the growth of third-party funds deposited in foreign currency was slowing down as the Rupiah and financial market conditions stabilised.

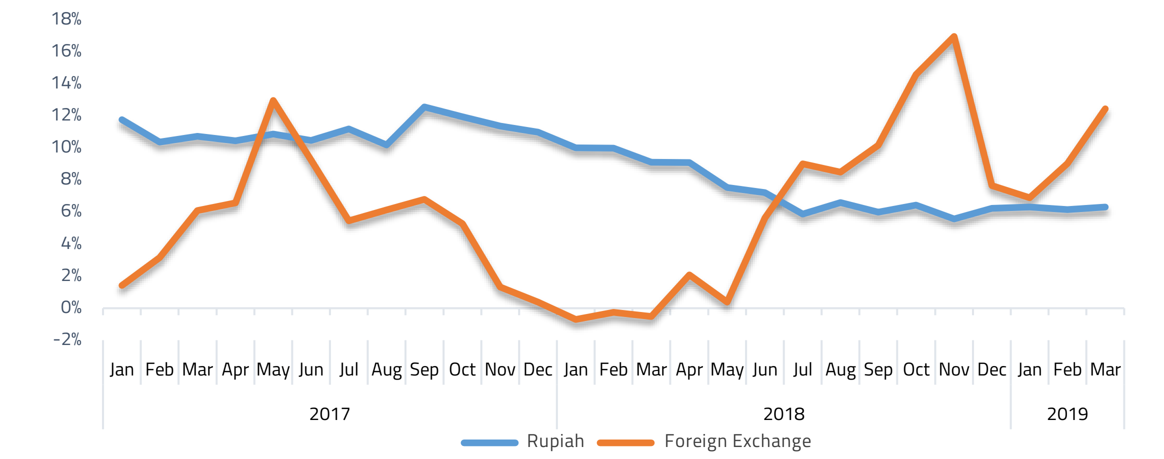
Figure 21. (a) Asset dan Source of Funds (b) DPK Growth by Component (%, yoy)



Source: Indonesia Banking Statistics, processed

The growth of third-party funds at the end of Q1 2019 was higher than in Q4 2018. Third-party funds in Q1 2019 was recorded at IDR5,672.9 trillion, growth of 7.18 percent (yoy), higher than Q4 2018 growth of 6.45 percent. The growth of third-party funds in Q1 2019 was mainly driven by 7.91 percent (yoy) growth of time deposits, which were higher as compared to growth of 5.75 percent (yoy) in December 2018.

Figure 22. DPK Growth by Currency (%, ytd)

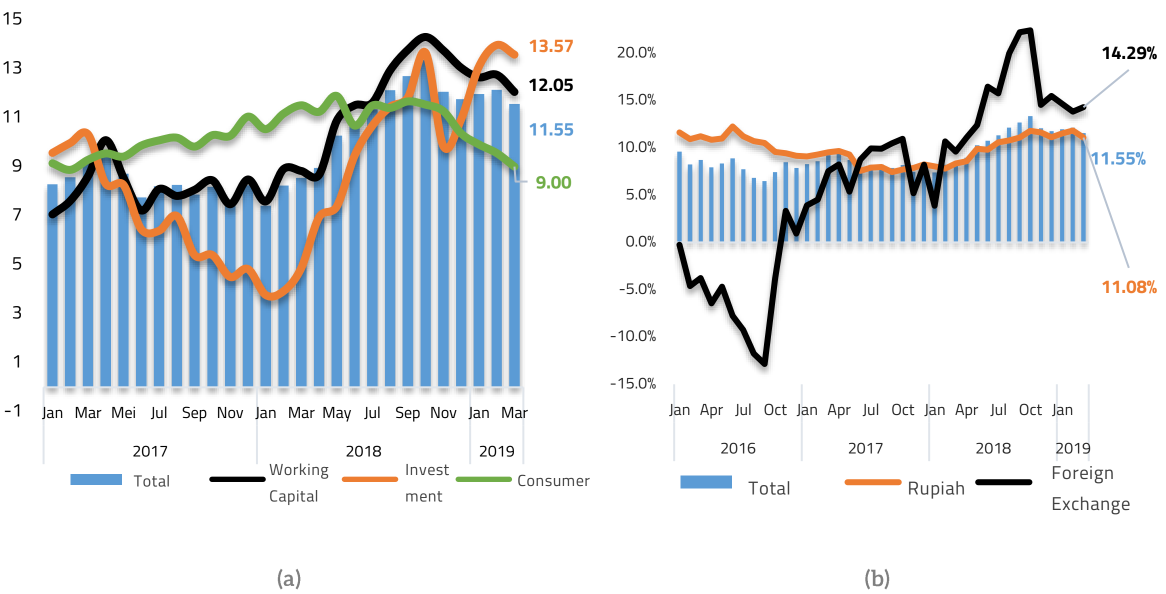


Source: Indonesia Banking Statistics

The Use of Funds

In general, banking credit distribution has been growing at a strong pace since 2018. In Q1 2019, banking credit distributed to non-bank third parties reached IDR5,291.3 trillion, growth of around 11.55 percent (yoy). The strong credit growth in March (ytd) was supported by high credit growth in mining and construction sectors, which was recorded at 31.5 percent (yoy) and 27.1 percent (yoy), respectively. The strong credit growth in the mining sector was supported by the expansion of coal companies after the pressure of low coal prices in 2014-2019 and also rising credit for smelter construction.

Figure 23. (a) Banking Credit Growth (%, yoy) and (b) Credit Growth by Currency (%, yoy)

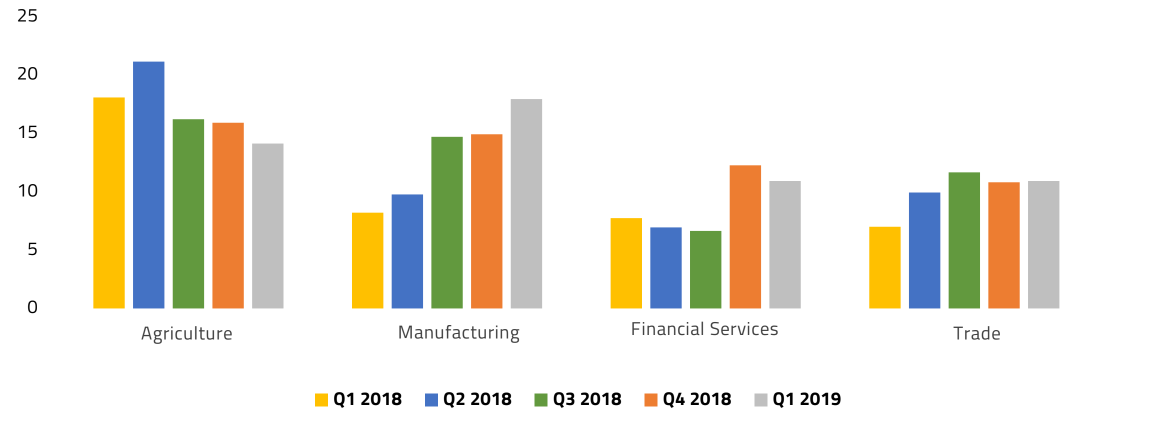


Source: Indonesia Banking Statistics, processed

On the other hand, the high growth in construction credit was due to higher credit for infrastructure such as housing and industry development. The manufacturing industry was one of the sectors with the largest banking credit (16.4 percent), recording growth at 9.5 percent (yoy), reflecting an expanding business amid the global economic uncertainty and election year. Based on currency, about 85 percent of total bank credit was distributed in local currency, with the remaining 15 percent distributed in foreign currencies. Rupiah credit growth in Q1 2019 was recorded at 11.08 percent (yoy), slightly lower compared to Q4 2018 which recorded 11.12 percent (yoy) growth. Cumulatively (ytd), credit growth in Rupiah fell by 0.08 percent from IDR4,494.4 trillion in Q4 2018 to IDR4,490.9 trillion in Q1 2019.

Based on utilization, working capital credit, consumer credit, and investment credit recorded solid growth despite a trend shift where the growth of investment credit was higher compared to both working capital and consumer credit. Similar to previous years, the biggest share of credit was given to working capital credit, followed by consumer credit and investment credit, with the share of total credit recorded at 46.3 percent, 28.1 percent, and 25.6 percent, respectively. Until the end of Q1 2019, working capital credit amounted to IDR2,448.24 trillion, 12.0 percent growth, slightly lower than 13.0 percent growth at the end of December 2018. Based on sector, the largest working capital credit was given to the manufacturing sector and the trade sector, which cumulatively accounted for more than 60 percent of working capital credit with both sectors consistently being engines for economic growth.

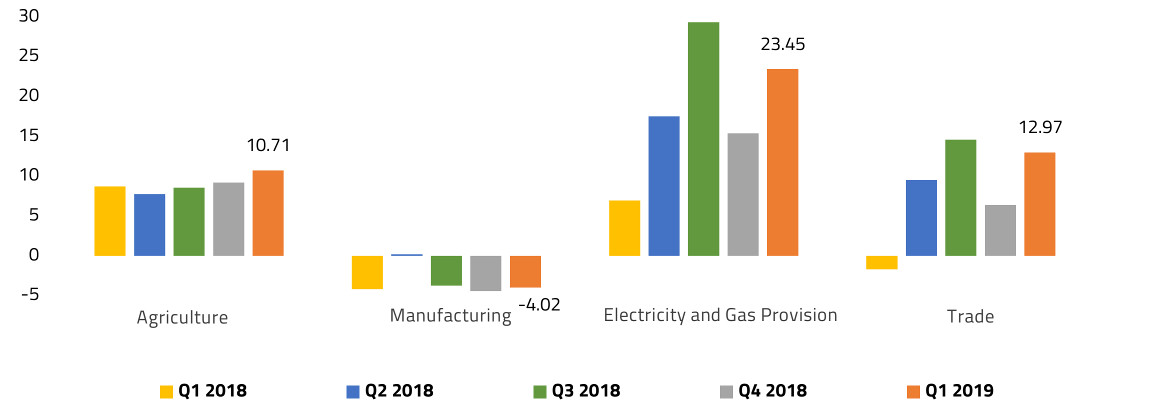
Figure 24. Working Capital Credit by Sectors (%, ytd)



Source: Indonesian Economic and Financial Statistics, Bank of Indonesia

By the end of Q1 2019 consumer credit was recorded at IDR1,487.48, growth of 9.0 percent (yoy), slower than consumer credit growth in 2018 which reached 11.8 percent. The slowdown in consumer credit growth was mainly affected by the slowdown in multipurpose loans, residential mortgages (KPR), and motor vehicle loans, which grew 9.3 percent, 12.9 percent, and 9.5 percent, respectively. In addition, the decline in property and motor vehicles demand also caused a slowdown in consumer credit growth, indicated by a 13 percent decline in car sales in Q1 2019.

Figure 25. Investment Credit Growth by Sectors (%, ytd)



Source: Indonesian Economic and Financial Statistics, Bank of Indonesia

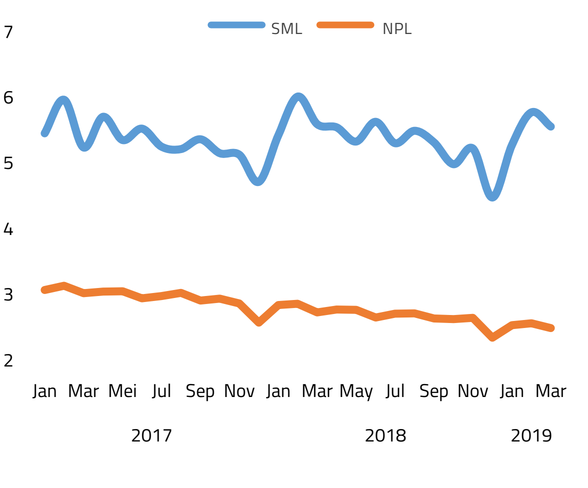
As for investment credit, the banking sector recorded IDR1,355.51 trillion in loans for this category in Q1 2019, growth of 13.6 percent (yoy), higher than growth of 9.8 percent and 4.8 percent in 2018 and 2017. Robust growth in investment credit was primarily driven by lending in key sectors such as agriculture, electricity and gas provision, construction, and trade. Investment credit for the agricultural sector grew by 10.7 percent (yoy), higher than 9.2 percent in 2018 and reflects the high investment in oil palm plantation revitalization and procurement of agricultural inputs. In addition, the Government's priority to infrastructure development has encouraged banks to lend to the construction sector and to the provision of electricity and gas, so that each of these sectors grew by 43.1 percent and 23.5 percent, respectively. This was mainly to finance highways, oil and gas, ports, and airport developments.

In general, it can be concluded that the upward trend in bank intermediation performance is expected to continue in 2019 with credit distribution projected to grow around 12-13 percent and third-party funds to grow around 10 percent. The bank's business plan in 2019 shows the banks' target is to reach more than 12 percent credit growth with third-party funds expected to grow 11.4 percent. On the other hand, the Financial Service Authority expects credit to grow around 12-14 percent, while Bank Indonesia expects credit to grow around 10-12 percent.

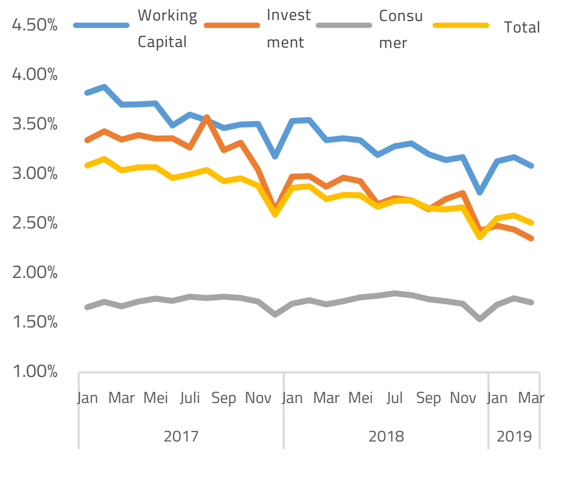
Banking Credit Risk

Along with a positive credit growth and a more conducive domestic financial market, bank credit risk profiles are at manageable levels, reflected by the NPL ratio which fell in Q1 2019. Gross NPLs in Q1 2019 was 2.51 percent, higher as compared to Q4 2018 which was recorded at 2.37 percent, but lower as compared to previous month of 2.59 percent. The decline in NPLs was mainly supported by banks' efforts to strengthen their risk management such as a more stringent monitoring to debtors with payment problems, stronger analysis in terms of legal and compliance officers, and successful shifting of bank loan portfolios.

Figure 26. (a) SML and NPL Ratio (%) and (b) Breakdown of NPL (%)



(a)



(b)

Source: Indonesia Banking Statistics, processed

Decreased non-performing loan risk is also in line with other risk indicators such as Special Mention Loans (SML) or credit under special surveillance which declined in Q1 2019 to 5.80 percent from 5.58 percent in the previous month. The decline of SML and NPL indicators in Q1 2019 was reflecting an improvement in credit quality. Based on the type of use of credit, credit for working capital has the highest NPLs, followed by investment credit and consumption credit.

Table 5. NPL Profile in Various Sectors

Sectors	Credit Share (%)	Growth NPL Nominal (%)		NPL (%)			Delta NPL (%)
		mtm	ytd	Dec-18	Feb-19	Mar-19	mtm
Large and Retail Trade	18.38	-2.76	4.15	3.62	3.94	3.78	-0.16
Manufacture	16.42	0.41	6.32	2.53	2.76	2.78	0.03
Agriculture and Forestry	6.69	-0.50	1.36	1.32	1.35	1.34	-0.01
Construction	6.12	2.51	19.86	3.14	3.69	3.67	-0.02
Real Estate, Rent, and Company Services	4.80	-4.71	0.49	1.86	1.96	1.82	-0.14
Financial Intermediary	4.39	-4.22	-2.25	1.17	1.29	1.21	-0.08
Transportation, Warehousing, Communication	4.04	-9.49	-13.68	2.68	2.62	2.35	-0.27
Electricity, Gas, and Water	3.53	-4.35	-14.67	1.33	1.14	1.03	-0.11
Mining and Quarrying	2.60	-5.53	-6.94	4.66	4.64	4.34	-0.30
Accomodation and Food & Beverage Services	1.90	2.77	11.33	5.53	6.05	6.12	0.06

Source: Indonesia Banking Statistics

Banking Performance

Until Q1 2019, Indonesian banking performance was generally improved with increased bank capital ratios, positive intermediation, and improving banking efficiency. Capital Adequacy Ratio (CAR) in Q1 2019 stood at 23.42 percent, well above the minimum requirement of 14 percent. As for the composition, banking capital is still dominated by core capital (tier 1) with a stable market share around 92 percent. Meanwhile, the performance of banking intermediation in Q1 2019 was still positive despite a slight slowdown in credit growth as compared to Q4 2018. Bank credit growth was recorded at 1.55 percent (yoy) in Q1 2019, down from the previous month which grew at 12.13 percent or 11.75 percent in the Q4 2018. Meanwhile, in terms of credit risk, NPLs were improved compared to the previous month. Banking efficiency was also improved, as shown by declining Operational Efficiency Ratio (BOPO ratio) to 82.92 percent in Q1 2019, from 85.33 percent in February 2019.

Table 6. Banking Performance Summary (Conventional Commercial Banks)

Indicators	Units	2018				2019		
		Mar	Jun	Sep	Dec	Jan	Feb	Mar
Asset	(IDR T)	7,430	7,651	7,769	8,068	7,913	7,965	8,131
DPK	(IDR T)	5,293	5,399	5,482	5,630	5,563	5,600	5,673
DPK (*yoy*)	(%)	7.66	6.99	6.60	6.45	6.39	6.57	7.18
Credit	(IDR T)	4,743	4,974	5,120	5,295	5,187	5,228	5,291
Credit (*yoy*)	(%)	8.54	10.75	12.69	11.75	11.97	12.13	11.55
LDR	(%)	90.19	92.76	94.09	94.78	93.23	93.35	93.27
NPL	(%)	2.75	2.67	2.66	2.37	2.56	2.59	2.51
CAR	(%)	22.65	22.01	22.91	22.97	23.22	23.45	23.42
BOPO	(%)	78.76	79.46	79.13	77.86	87.79	85.33	82.92
NIM	(%)	5.07	5.11	5.14	5.14	4.92	4.81	4.86
ROA	(%)	2.55	2.43	2.50	2.55	2.59	2.45	2.60

Source: Indonesia Banking Statistics, processed

Box 1. Development of Indonesia's Credit Rating (Sovereign Rating): Shining in the midst of Global Economic Weakness

2017 became an historical year for Indonesia in terms of its credit rating. Five international rating agencies (Fitch, Moody's, Standard and Poor's, Japan Credit Rating (JCR) Agency and Rating and Investment (R&I) raised Indonesia's credit rating to investment grade. It was a big achievement for Indonesia since it was considered a recognition of Indonesia's economy improvement.

Indonesia has managed to maintain its credit rating in the midst of the global economy weakening. On February 12, 2019, Moody's confirmed Indonesia's credit rating remains in Baa2 position with stable outlook, then on March 14, 2019, Fitch gave a BBB rating to Indonesia with a stable outlook as well as JCR and R&I. It indicates that Indonesia's economy remains strong despite the current global economic situation.

The good trend continues as Indonesia's credit rating went up to 'BBB' with a stable outlook from the previous 'BBB-' outlook stable by S&P Global Ratings. That was a good achievement for Indonesia as the rating rose two levels at once (from 'BBB' - / stable went up directly to 'BBB' / stable without going through 'BBB -' / positive). S&P Global Ratings assessed that Indonesia's economy was consistently better than its peer countries with similar income levels as well as reflected the effective Government policies in promoting sustainable public finance and economic growth.

There are six areas that determine the credit rating position based on S&P Global Ratings. The first area to be assessed is "Institutional Assessment" which Indonesia gets a score of '3'. It indicates that Indonesia has effective policies in promoting balanced economic growth and sustainable public finance. S&P Global Ratings also assessed that Indonesia has succeeded in increasing its "Doing Business" position in recent years. The second area is "Economic Assessment" which Indonesia gets a score of '4'. Assessment in this area is based on GDP per capita and the growth trend indicators and S&P Global Ratings sees Indonesia's weighted average of real GDP growth per capita's trend over a 10-year period has been well above that of other countries with a similar GDP category.

The next area is "External Assessment", which Indonesia gets a score of '3'. The score is based on low net foreign debt and gross foreign financing needs. Moreover, in the "Fiscal Assessment" area, there are two sides that are considered by S&P Global Ratings, those are "Flexibility and Performance" with a score of '3', based on changes in net government debt (% of GDP) and "Debt Burden" with a score of '2', based on net government debt (% of GDP) and debt interest payments (% of income). The last area is "Monetary Assessment" which Indonesia gets a score of '3'. This score is obtained by looking at the currency policy, which is designated as "free-floating currency". However, the central bank remains ready to undertake regular intervention in the foreign exchange market in order to keep the Rupiah stable.

The increase in Indonesia's credit rating has had a positive impact on Indonesia's economy. According to Bloomberg data as of May 29, 2019, the yield on 10-year government bonds stood at 8.049%, but after S & P Global Ratings announced an increase in Indonesia's credit rating, the yield on 10-year government bonds decreased to 7.962%. A similar thing happened to the JCI movement, which on May 31's market closing, the index was going up 1.72% or increased 105.01 points from the previous day. The Government will continue with its commitment to continue structural reforms to achieve strong economic growth and maintain its current credit rating.

PART II

BUDGET PERFORMANCE ANALYSIS & FISCAL POLICY

A. STATE BUDGET PERFORMANCE AS OF MAY 2019

Given slower global economic growth and uncertainty in the global economy, the role of state budget has become more important in supporting optimal economic growth. The Government continues its commitment to manage the budget prudently in order to maintain a healthy and sustainable budget. The Government has undertaken some efforts through revenue optimization, focused on tax and non tax revenue (PNBP), expenditure quality improvement, as well as financing enhancements.

Budget Performance as of May 2019 remained on a good trend supported by ample economic growth and private consumption. In terms of its components, revenue was able to grow at 6.2 percent (yoy), despite the unfavorable global situation, expenditure realization also recorded strong growth and there was a downward trend in financing. It indicates that the budget realization performed more optimally and debt management remained at a decent level.

Table 7. Budget Realization as of May 2019 (IDR Trillion)

	2017		2018				2019			
	Real 31 May	Growth (%)	Budget	Real 31 May	%to Budget	Growth (%)	Budget	Real 31 May	%to Budget	Growth (%)
A. Revenue	**594.0**	**34.2**	**1,894.7**	**686.0**	**36.2**	**15.5**	**2,165.1**	**728.5**	**33.6**	**6.2**
I. Domestic Revenue	**593.8**	**34.3**	**1,893.5**	**684.5**	**36.2**	**15.3**	**2,164.7**	**727.7**	**33.6**	**6.3**
1. Tax Revenue	470.3	31.9	1,618.1	538.7	33.3	14.5	1,786.4	569.3	31.9	5.7
2. Non-tax Revenue	123.5	47.5	275.4	145.9	53.0	18.1	378.3	158.4	41.9	8.6
II. Grant	**0.2**	**6.8**	**1.2**	**1.4**	**120.8**	**580.5**	**0.4**	**0.7**	**162.3**	**(51.1)**
B. Expenditure	**722.8**	**33.9**	**2,220.7**	**779.5**	**35.1**	**7.9**	**2,461.1**	**855.9**	**34.8**	**9.8**
I. Central Government	**388.0**	**28.4**	**1,454.5**	**458.0**	**31.5**	**18.0**	**1,634.3**	**530.8**	**32.5**	**15.9**
A. Line Ministries	193.0	24.2	847.4	231.5	27.3	19.9	855.4	288.2	33.7	24.5
B. Non-line Ministries	195.0	34.3	607.1	226.5	37.3	16.2	778.9	242.6	31.1	7.1
II. Transfer to Region and Village Fund	**334.7**	**43.7**	**766.2**	**321.5**	**42.0**	**(4.0)**	**826.8**	**325.1**	**39.3**	**1.1**
1 Transfer to Region	306.5	43.4	706.2	300.8	42.6	(1.9)	756.8	304.7	40.3	1.3
2 Village Fund	28.2	-	60.0	20.7	34.4	-	70.0	20.4	29.2	(1.1)
C. Primary Balance	**(29.9)**	**16.8**	**(87.3)**	**19.0**	**(21.7)**	**(163.5)**	**(20.1)**	**(0.4)**	**1.9**	**(102.0)**
D. Deficit	**(128.7)**	**32.4**	**(325.9)**	**(93.5)**	**28.7**	**(27.3)**	**(296.0)**	**(127.5)**	**43.1**	**36.3**
% Surplus/Deficit to GDP	(0.94)		(2.19)	(0.63)			**(1.84)**	**(0.79)**		
E. Financing	**195.6**	**49.3**	**325.9**	**179.4**	**55.0**	**(8.3)**	**296.0**	**157.9**	**53.3**	**(12.0)**
Surplus/Deficit Financing	**66.9**			**85.9**				**30.4**		

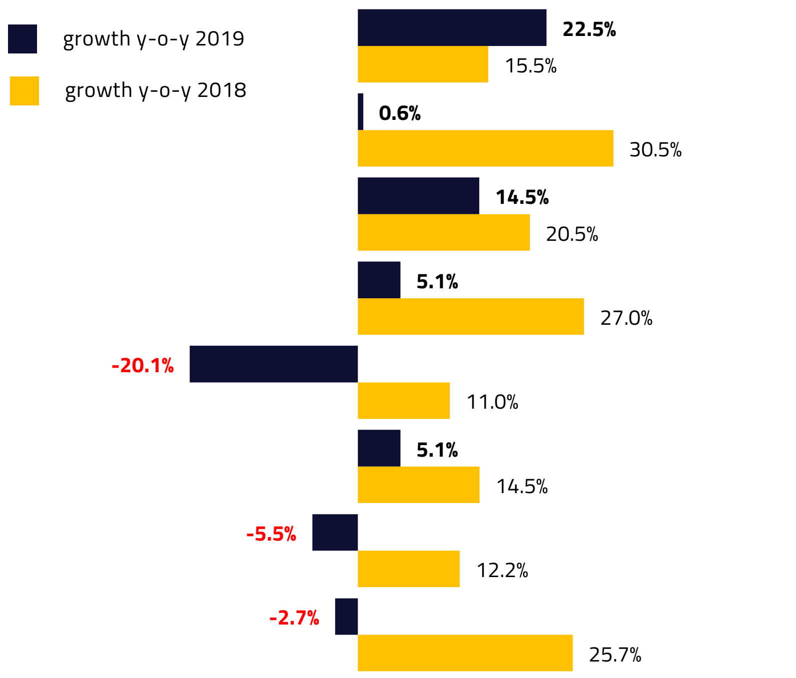
Source: Ministry of Finance

Revenue realization as of May 2019 recorded IDR728.5 trillion, growth of 6.2 percent (yoy). The growth in this period was driven by non-tax revenue realization (PNBP), which recorded IDR158.4 trillion (8.6 percent growth) and the growth of tax revenue of 5.7 percent. Good performance on non-tax revenue was driven by BI's non-tax payments, which was the surplus revenue from separated state assets.

Tax revenue as of May 2019 recorded IDR569.3 trillion, 5.7 percent growth. The positive performance of tax revenue was due to ample income tax revenue, particularly personal income tax, indicating that business activities were operating well. Moreover, the growth realization of annual tax return (SPT) by taxpayers in 2019 also helped income tax revenue. However, the income tax for non-resident taxpayers and domestic value-added tax had negative growth as they were affected by government policies in accelerating tax refunds to support business activities.

Table 8. Tax Revenue Realization; Figure 27. Tax Revenue Growth

Income Tax Art.21	IDR	65.22	T
		13.1	%
Import Income Tax	IDR	23.86	T
		4.8	%
Personal Income Tax	IDR	7.62	T
		1.5	%
Corporate Income Tax	IDR	109.68	T
		22.1	%
Income Tax Art. 26	IDR	15.47	T
		3.1	%
Final Income Tax	IDR	47.59	T
		9.6	%
Domestic VAT	IDR	96.64	T
		19.5	%
Import VAT	IDR	71.13	T
		14.3	%



Source: Ministry of Finance

Customs and excise realization also indicated good performance, recording IDR72.7 trillion or 35.1 percent growth. It was driven by Tobacco Excise receipts (CHT) that grew significantly as a result of the Finance Minister Regulation (PMK) Number 57 of 2017. This regulation allowed the postponement of excise payments for manufacturers and goods importers of excisable goods to support their production activities in good condition. However, compared to February and March, the CHT's revenue growth showed a slowing trend. It indicated that the impact of the PMK's enforcement has decreased.

Realization of Central Government expenditure as of May 2019 recorded 9.8 percent growth (yoy). In terms of the realization percentage to 2019's budget target, the expenditure contributed 15.9 percent, slightly down as compared to previous year realization (18.0 percent). The growth was reflected in personnel expenditure which was driven by Holiday Allowance (THR) for Idul Fitr. However, growth in material and capital expenditure in May was lower than the previous year's growth.

Social assistance realization indicated a significant improvement which contributed 59.1 percent to 2019's budget target. It was higher than the contribution in 2018 (48.3 percent growth). It reflected that Government commitment to assist the poor and vulnerable communities through the social assistance program that has been undertaken since early 2019, such as: (1) the distribution of conditional cash transfer (PKH) which has reached 60 percent of the allocation; (2) advance withdrawal until October for recipients of National Health Insurance (PBI JKN); (3) food aid distribution which has reached 36 percent; and (4) the implementation of disaster management operations (BNPB).

Table 9. Central Government Expenditure Realization (IDR Trillion)

	2017		2018		2019			
	Real 31 May	%Growth	Real 31 May	%Growth	Budget	Real 31 May	%to Budget	Growth(%)
Central Government Expenditure	**388.0**	**8.6**	**458.0**	**18.0**	**1,634.3**	**530.8**	**32.5**	**15.9**
1. Personnel Spending	121.6	1.4	128.9	6.0	381.6	163.5	42.9	26.8
2. Material Spending	69.6	8.0	84.9	21.9	345.2	99.3	28.8	16.9
3. Capital Expenditure	31.1	14.5	30.9	(0.8)	189.3	29.1	15.3	(5.9)
4. Debt Interest Payment	98.9	25.5	112.5	13.8	275.9	127.1	46.1	13.0
5. Subsidy	42.9	(9.6)	61.0	42.2	224.3	50.6	22.6	(17.0)
6. Grant	0.5	198.3	0.0	(100.0)	1.9	0.0	0.2	-
7. Social Assistance	20.3	20.9	39.2	93.2	102.1	60.3	59.1	53.7
8. Others	3.1	22.4	0.6	(79.7)	114.0	1.0	0.8	53.0

Source: Ministry of Finance

Expenditure slowed down in capital expenditures, debt interest payments, and subsidies. Capital expenditure recorded -5.9 percent slowdown compared to the previous year, with its largest in infrastructure development and national defense. Meanwhile, interest payments also indicated a slight slowing, at 46.1 percent of 2019's target. It was driven by a slowdown trend of Government Bond yields as well as the dynamic in government's monthly interest payments after a change in the payment schedule of Government securities. Moreover, subsidies also indicated a slowdown in performance, only reaching 22.6 of 2019's target, lower than 2018 (39.0 percent). The slowdown was caused by subsidy calculations in 2019 that took into account the previous year debt subsidy payment.

Transfers to region and village funds (TKDD) indicated an increasing realization, with 1.12 percent nominal growth. It reflected the government commitment for equitable growth across regions. However, the performance slightly slowed down as reflected in the 2019 May's realization (39.3 percent to 2019's target), as compared to the previous year (42.0 percent). The increase in TKDD's realization was driven by the increase in General Fund Transfer (DTU), which was caused by an increase in the ceiling of the General Allocation Fund (DAU).

Although affected by the pressure on state revenues, the deficit and primary balance realization as of May 2019 remained controllable. The deficit recorded 0.79 percent of GDP, while the primary balance reached negative 0.4 trillion Rupiah. The decrease in tax and non-tax revenues can be attributable to external pressure as the main factor.

Financing continues to be managed through a prudent and sustainable approach in order to keep Government debt at a safe level at 29.72 percent of the GDP as of May 2019. Financing realization recorded 157.9 trillion 53.3 percent of the budget target. THe frontloading strategy remained an option to fulfil the financing needs to address global economic uncertainty and financial market volatility. This strategy has been used by the Government considering both global and domestic situation. As of May 2019, the Government has issued IDR186.0 trillion in government securities or 47.8 percent of the target. The Government continues to optimize domestic sources of financing, including retail investors. The government has issued retail securities five times as of May 2019 (SBR005, SBR006, ST003, SR011, and ST004) with IDR33.14 trillion total nominal issuance. More options of SBN and utilization of the technology platform in marketing SBN are expected to expand the market and attract millennials.

Table 10. Transfer to Region and Village Funds Realization (IDR Trillion)

	2017		2018			2019		
	Real 31 May	%to R-Budget	Real 31 May	%to Budget	Budget	Real 31 May	%to Budget	Growth(%)
Transfer to Region and Village Fund	**334.7**	**43.7**	**321.5**	**42.0**	**826.8**	**325.1**	**39.3**	**1.12**
1. Transfer to Region	**306.5**	**43.4**	**300.8**	**42.6**	**756.8**	**304.7**	**40.3**	**1.27**
a.. Balance Funds	295.6	43.6	289.8	42.8	724.6	297.3	41.0	2.61
i. General Transfer Funds	230.2	46.6	233.4	47.6	524.2	242.1	46.2	3.70
ii. Special Transfer Funds	65.3	35.4	56.3	30.3	200.4	55.3	27.6	(1.9)
b. Regional Incentive Funds	4.5	59.7	8.5	50.0	10.0	5.2	51.8	-
c. Special Autonomy Funds and Adjustment	6.5	32.1	6.8	32.4	22.2	2.1	9.7	(68.55)
2. Village Funds	**28.2**	**0.0**	**20.7**	**34.4**	**70.0**	**20.4**	**29.2**	**(1.09)**

Source: Ministry of Finance

Global fluctuations have affected yields of government securities (SBN). The 5-year bond yield reached 7.54 percent, while the 10 years reached 7.96 percent at the end of May 2019. However, the market remains confident in the credibility of the Indonesian government, as indicated by high demand for Government debt that can be seen through a bid to cover ratio that remained above 1. The bid-to-cover ratio for SBSN SPNS01122019 series issuance on May 28, 2019 reached 4.12, while PBS014 series reached 1.65. The increase in young Indonesian's interest to invest in bond instruments and the approaching demographic bonus will support domestic financial deepening.

Table 11. Financing Realization (IDR Trillion)

	2017		2018			2019		
	Real 31 May	%to R-Budget	Real 31 May	%to Budget	Budget	Real 31 May	%to Budget	Growth(%)
Financing	**195.6**	**49.3**	**325.9**	**55.0**	**296.0**	**157.9**	**53.3**	**(11.98)**
1. Debt Financing	**193.9**	**42.0**	**399.2**	**44.7**	**359.3**	**159.6**	**44.4**	**(10.58)**
a.. Government Securities (Net)	210.6	45.1	414.5	45.3	389.0	186.0	47.8	(0.99)
b. Loan (Net)	(16.8)	280.7	(15.3)	61.4	(29.7)	(26.4)	88.9	181.30
2. Investment Financing	**0.0**	**0.0**	**(65.7)**	**-**	**(75.9)**	**(3.0)**	**4.0**	**-**
3. Lending	**1.6**	**(43.6)**	**(6.7)**	**(11.7)**	**(2.4)**	**1.3**	**(53.2)**	**59.59**
4. Guaranteed Debts	**0.0**	**0.0**	**(1.1)**	**-**	**-**	**-**	**-**	**-**
5. Others	**0.2**	**50.6**	**0.2**	**53.4**	**15.0**	**0.0**	**0.1**	**(86.71)**

Source: Ministry of Finance

B. MACRO FISCAL STRATEGY 2020

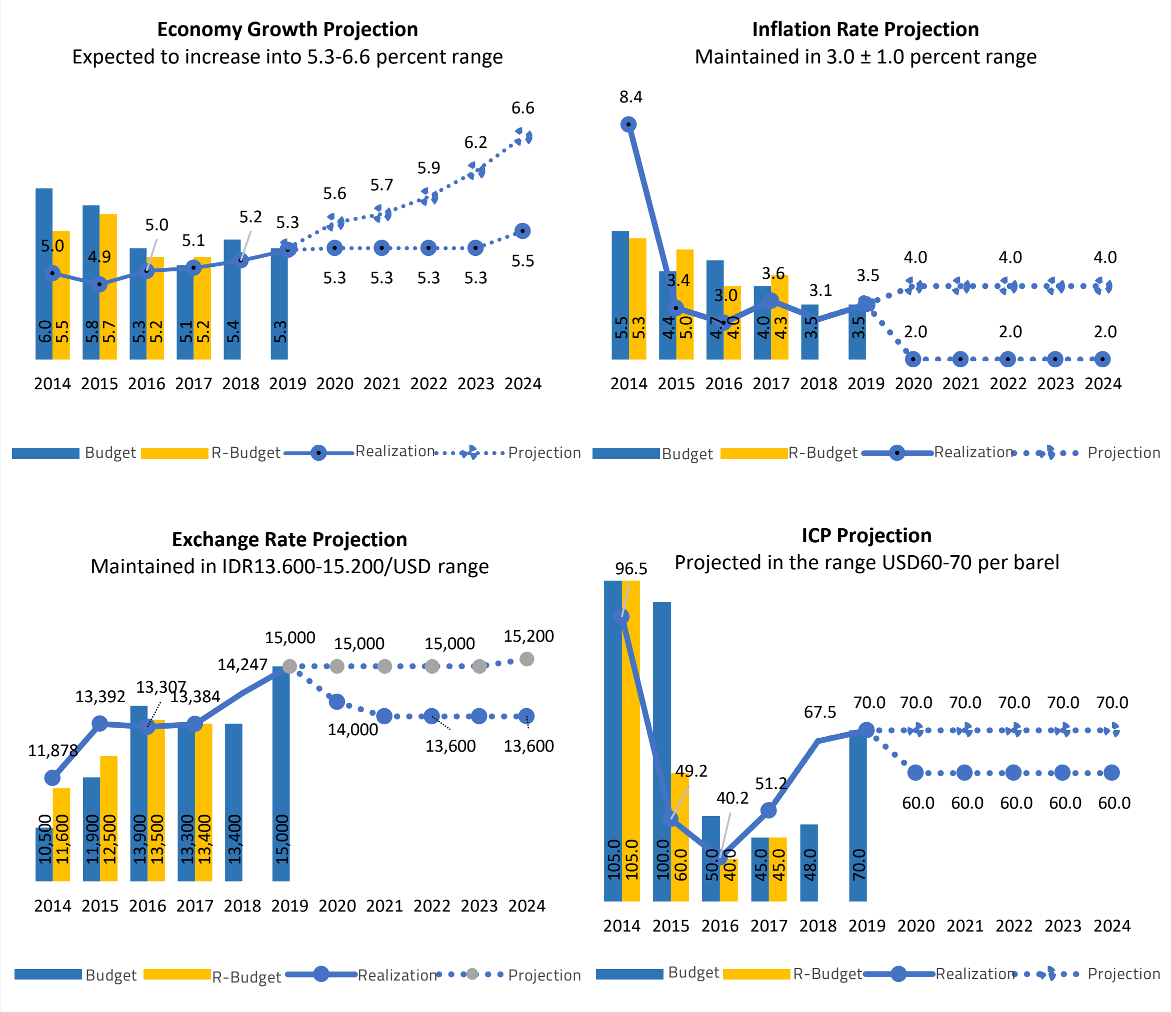
The Indonesian economy has maintained a robust rate of growth over the past few years, despite external pressure from the global economy. Healthy economic fundamentals are critical to create better quality and inclusive economic growth. The Indonesian economy is expected to continue to expand at robust rates and weather crises and challenges as it moves forward on its development path. The government has mapped out its long-term goals in Indonesia's Vision 2045, This manifesto is an attempt to set out the vision for a sovereign, advanced, equitable, and prosperous Indonesia, when the country will be one of the world's largest economies by its 100th anniversary of independence.

Numerous challenges and risks can be predicted to remain lingering around the global economy going forward and impact Indonesia's growth path. Global economic growth in the medium term is expected to remain positive, but moderate. Based on IMF projections contained in the WEO April 2019, global economic growth will be in the range of 3.6-3.7 percent over the period 2019-2024. Factors hindering the global economic outlook is slowing growth in developed economies, while developing economies will grow steadily. China and India in the short term are predicted to be able to sustain global economic growth because their economic size and pace of growth. However, in the medium term, the pace of China's economic moderation will still be a major determinant of the economic slowdown for developing countries. On the other hand, ASEAN-5's stable growth is expected pick up. The US-China trade war will provide opportunities for ASEAN-5 countries to benefit from China's product market diversion. However, some ASEAN-5 economies that rely on commodity exports, like Malaysia and Indonesia, should be aware of commodity price dynamics affecting commodities such as palm oil and coal related to the environmental sustainability issues.

Even though the global economy has been weakening, Indonesia's economic growth is projected to gradually increase up to an average of 6 percent during 2020-2024 period. The infrastructure development of recent years is expected to boost economic development five years ahead. Economic growth is expected to be underpinned by productive sectors such as investment and exports and supported by sustained rates of household consumption. The improvement of infrastructure, an improved investment climate, and technological advances, as well as human resource quality is expected to increase productivity in the medium-term. In addition, strengthening household consumption as the middle class grows is expected to spur the economy and provide for improved economic prospects for business.

To keep domestic demand at a high level, the inflation rate will be maintained at a low level. Through the inflation targeting framework, inflation target is set to anchor inflation expectations at a stable and low level. Targeting such low levels of inflation is a shared exercise within the government at both central and local levels, as well as in synergy with Bank Indonesia in maintaining people's cost of living and inflation expectations. The inflation targeting strategy is stated in The Inflation Control Road Map, both at national and provincial level. Moreover, controlling inflation in the medium-term is supported by the impact that infrastructure development has on enhancing regional economic capacity and connectivity. The development and restoration of infrastructure for agriculture encourages agricultural productivity to ensure the availability of supply. The completion of infrastructure projects are also expected to improve the efficiency of logistic systems and thereby support price stability at the regional level. The inflation rate is expected to be stable and moderate in line with the inflation targeted rate in order to improve people's purchasing power, sustain economic growth, and improve public welfare. In addition, the government will also carry out its administered price policy by taking into account its impact on society and economic development.

Figure 28. Projection of Macroeconomy Indicators in Medium Term 2020-2024

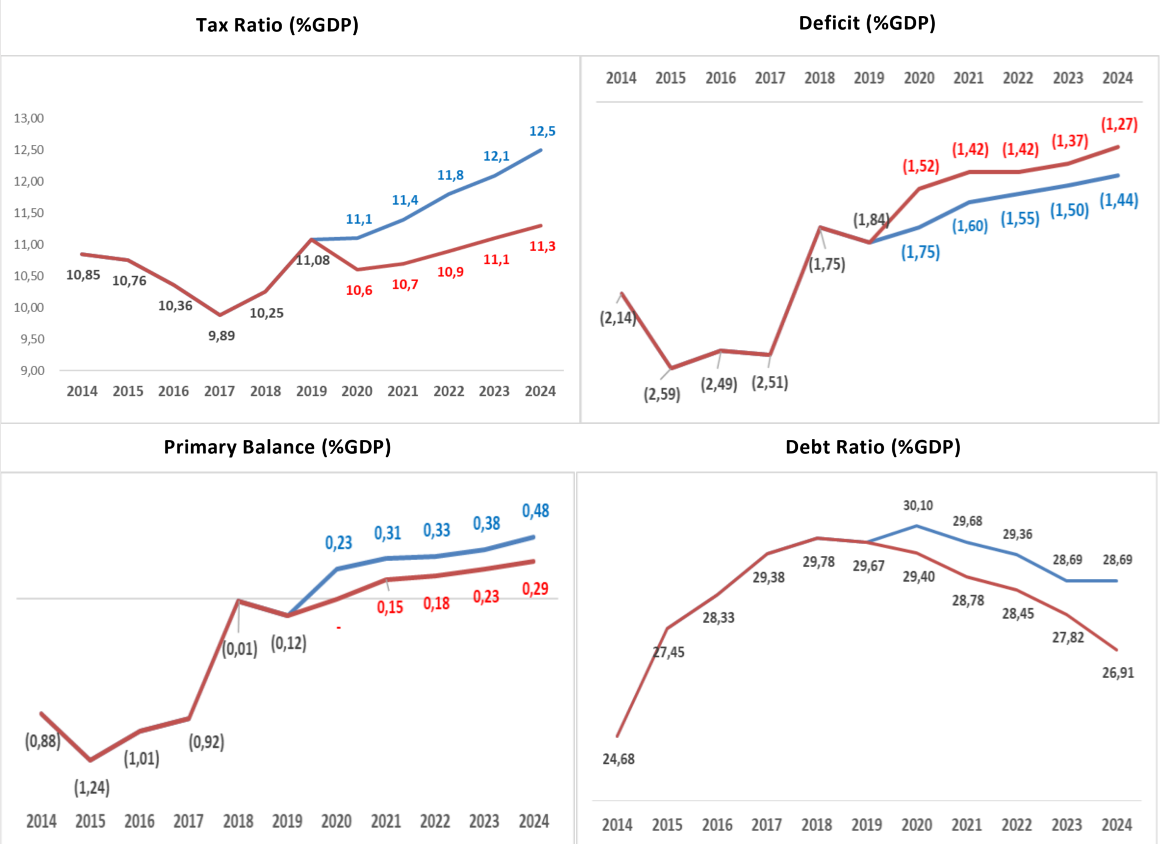


Source: Ministry of Finance

The Government will continue to deepen the financial market in order to maintain financial system stability as well as the source of funding for real sector activities and needed investment. These improvements will ultimately enhance economic efficiency and improve the productivity chain. The improvement can also be perceived on export and trade balance performance. However, the Government should be aware of the strengthening exchange rate due to improving exports and capital inflows. Excessive strengthening of the exchange rate may reduce the competitiveness of Indonesian exports itself and put more pressure on the trade balance. Therefore, the Government needs to continue managing exchange rate movements to secure the competitiveness of export products and prevent trade deficit reescalation in the future.

In line with economic developments, medium-term fiscal management is geared to promote healthy and sustainable fiscal management to improve wellbeing. The measures that need to be taken are as follows: first, keep taking expansive, direct, and measurable policies to increase productive capacity and competitiveness. Budget deficits are maintained within a safe boundary, but are able to optimally stimulate the economy. Second, control debt by maintaining the debt-to-GDP ratio within a safe limit and with a decreasing trend over the medium term. Third, encourage an increase in the tax ratio through various policy innovations while providing fiscal incentives for competitiveness and investment. Fourth, push the primary balance to positive from 2020 and keep it positive in the medium-term.

Figure 29. Medium Term Macro Fiscal Policy Direction 2020-2024



Source: Ministry of Finance

In the medium term, there are several strategic issues that need to be responded to in a timely and precise manner, among others: improving productivity, deepening the domestic financial market, institutional reform and transforming the economy in order to strengthen domestic economic stability while reducing the pressure on the current account deficit. In a fiscal perspective, the policy strategy that will be pursued covers strengthening the spending quality, widening the fiscal space, and controlling risks. Strengthening the spending quality will be achieved by focusing public expenditure on human resource improvement to boost productivity and innovation as well as to respond to the advanced 4.0 industry. This will be accomplished by upgrading education and health quality as well as mastering information technology.

State expenditure also focuses on accelerating infrastructure development to boost productivity, capacity and competitiveness and support industry transformation while also responding to the advanced 4.0 industry. In addition, the Government seeks to improve the effectiveness of social protection programs and subsidies. To encourage regions to be self-sufficient fiscal decentralization will also be strengthened. Meanwhile, in order to reduce the pressure on the current account deficit, a policy to spur i investment and exports is encouraged. Institutional reform efforts will be carried out by strengthening bureaucratic reform to be more effective and efficient to produce quality public services.

Table 12. Implementation of Medium-Term Macro Fiscal Strategy 2020-2024

Strengthening the Quality of Expenditure	Widening the Fiscal Space	Managing Sound and Sustainable Budget
1. Strengthening Human Resources quality (productivity and innovation)	1. Increasing tax ratio	1. Managing deficit and debt ratio
2. Acceleration of infrastructure development (productivity and competitiveness data)	2. Providing fiscal incentives to improve competitiveness and innovation	2. Primary balance towards positive
3. Increasing the effectiveness of social protection and subsidies	3. Optimizing asset management	3. Strengthening fiscal resilience
4. Strengthening fiscal decentralization	4. Increasing spending efficiency	
5. Strengthening bureaucratic reform as part of institutional reform	5. Developing creative and innovative financing	
6. Increasing investment and exports	6. Deepening financial market	

Source: Ministry of Finance

To support quality expenditure, the fiscal space must be widened from both the revenue and expenditure sides. On the revenue side, the widening of fiscal space is undertaken by increasing the tax ratio, and improving business climate as well as optimizing natural resources and state asset revenue management. Meanwhile for expenditure, the widening of fiscal space is pursued by increasing the efficiency of non-priority spending. In addition, the Government will also develop creative and innovative financing and deepen the domestic financial market. The strategy to strengthen the quality of expenditure and the expansion of fiscal space is conducted while considering the fiscal risk to keep the APBN (State Budget) healthy and sustainable. The risk management is performed by maintaining the deficit and debt ratio at safe levels, directing the primary balance towards positive, and strengthening fiscal resilience through the provision of fiscal buffers, increased flexibility, and utilization of the accumulated surplus of financing (SAL) to anticipate economic uncertainty.

The direction and strategy of macro-fiscal policy in 2020 is an inseparable part of the mid and long-term direction and strategy. The intention is for short-term policy to remain consistent with the medium and long term policy direction. 2020 Macro-fiscal policy should be able to be a strategic document that ensures the direction of achieving the target of economic development both short, medium and long-term. Macroeconomic conditions are expected to maintain the momentum of accelerated economic growth needed to improve public welfare, encourage competitiveness and boost investment. This condition is unlikely to be achieved in the short term, but the direction and strategy must already commence.

Table 13. Medium-Term Macro Fiscal Strategy 2020-2024

Description (%GDP)	KEM-PPKF 2020	2021 projections	2022 Projections	2023 Projections	2024 Projections
State Revenues and Grants	12.7 – 13.9	13.0 – 14.0	13.1 – 14.3	13.3 – 14.6	13.5 – 15.0
Tax Revenue	10.6 – 11.2	10.7 – 11.4	10.9 – 11.8	11.1 – 12.1	11.3 – 12.5
Tax Ratio	11.8 – 12.4	11.9 – 12.6	12.1 – 13.0	12.3 – 13.3	12.5 – 13.7
State Expenditure	14.4 – 15.4	14.6 – 15.4	14.6 – 15.7	14.8 – 15.9	14.9 – 16.2
Capital Expenditure	1.5 – 1.6	1.6 -1.7	1.6 – 1.7	1.7 – 1.9	1.6 – 2.0
Primary Balance	(0.00) – 0.23	0.15 – 0.31	0.18 – 0.33	0.23 – 0.38	0.29 – 0.48
Surplus/Deficit	(1.75) – (1.52)	(1.60) – (1.42)	(1.55) – (1.42)	(1.50) – (1.42)	(1.44) – (1.27)
Debt Ratio	30.10 – 29.40	29.68 – 28.78	29.36 – 28.45	29.21 – 27.82	28.69 – 26.91

Source: Ministry of Finance

To maintain sustainable development, fiscal policy in the form of state budget design should also be more productive and efficient to encourage economic growth for public welfare and to be able to contribute to the central government balance sheet improvement so that state finance can be more credible and accountable. Therefore, the formulation of fiscal policy direction uses three approaches. First, fiscal policy is geared towards stimulating the economy to grow at a quite high level, spurring the real sector, bolstering investments and increasing competitiveness. Meanwhile, the second approach is geared towards encouraging fiscal management to be reflected in the optimal revenue, quality expenditure and efficient and sustainable financing. Subsequently, a third approach is aimed at encouraging the improvement of the government's balance sheet marked with increased assets, controlled liabilities, and increased equity.

By examining recent economic developments both globally and domestically, as well as prospects for the economy going forward, the 2020 Macro-Fiscal policy is aimed at maintaining macroeconomic stability required to improve public welfare, maintain fiscal sustainability, and improve the financial credibility and accountability of the country. This macroeconomic stability will occur by securing the increasing economic growth momentum, encouraging competitiveness through improved quality and productivity of human resources as well as increasing the required investment to promote industrialization. Various programs in State Budget should not only be adequate, but also designed optimally to improve human resource quality and to increase investment to boost the country's competitiveness.

To push the macroeconomic stability direction, stimulus from a healthier and more productive State Budget is required through three fiscal soundness improvement strategies, namely revenue mobilization, better spending and creative financing. The revenue mobilization is carried out through tax reform, including regulatory and administrative reforms to increase the tax base and compliance. Revenue mobilization is also conducted through non-tax revenue (PNBP) in line with various reform measures according to the mandate of Law number 9 of 2018 toward better asset management and administrative services. The revenue mobilization also continues to provide fiscal incentives to attract investment and drive competitiveness that leads to an increase in economic activity that is the basis for increasing state revenue.

In addition, fiscal soundness improvement is achieved through expenditure quality improvement. Quality spending means that state expenditure is spent efficiently, but with the optimal output or impact on the economy, known by the concept of "value for money". Spending better is not enough by just carrying out a reallocation process of expenditure from the consumptive to the productive, but also needs to be done through efficiency measures of material expenditure, increased capital expenditure, strengthening spending for bureaucratic reform, synergy of subsidy expenditure and social assistance (bansos) to be better targeted, and increase the quality of fiscal decentralization. Fiscal soundness improvement strategies, also need to be supplemented by encouraging the development of creative financing schemes and mitigating risks to maintain deficit and debt.

With these three fiscal soundness improvement strategies, the budget is not only more sound but also more effective as an instrument to promote macroeconomic stability and economic growth for public welfare. Furthermore, the State Budget will also improve the central government's balance sheet that will be useful to promote credibility and accountability of long-term fiscal policies. The revenue mobilization will be able to increase fiscal space for increasingly productive spending, so that it can contribute to the increase in productive assets. Improving the quality of expenditure ensures high quality expenditure that will generate a greater impact from economic stimulus while controlling the deficit level and central government liabilities. Consequently, central government equity will increase, which demonstrates the better quality of state financial management and sustainability in the long-term. Through these three approaches macro-fiscal policy is expected to be more solid and effective at maintaining macroeconomic stability, improving public welfare, and fiscal sustainability as well as a more credible and accountable central government balance sheet.

With this fiscal policy direction and strategy as well as the economic challenges that Indonesia faces today, the theme of fiscal policy in 2020 is "APBN (State Budget) for Competitiveness Acceleration Through Innovation and Quality Strengthening of Human

Resources". The theme is also aligned with the Government Work Plan (RKP) theme, "Human resources improvement for quality growth". In line with this, fiscal policy is directed to improve innovation and strengthen human resources to lift productivity and to push the competitiveness acceleration to strengthen investment and exports. Furthermore, fiscal policy is also directed to accommodate the adoption of technology, information, and communication development, such as digitization, e-commerce, Internet of Things, artificial intelligence (AI), and augmented Reality (AR), as well as supporting the transformation of industrialization. All these things will be carried out by consistently maintaining fiscal soundness to remain effective, flexible and sustainable.

In accordance with this, the 2020 macro-fiscal policy remains expansive and targeted to optimally stimulate the economy and support priority programs, namely infrastructure, education, health, and poverty reduction, while keeping the fiscal risk under control within a secure limit. For that, 2020 fiscal policy strategy will raise the tax ratio to 11.8-12.4 percent of GDP, maintain the budget deficit within (1.52-1.75) percent of GDP, maintain the primary balance at 0.00-0.23 percent of GDP, and maintain the debt ratio at 29.40-30.1 percent of GDP.

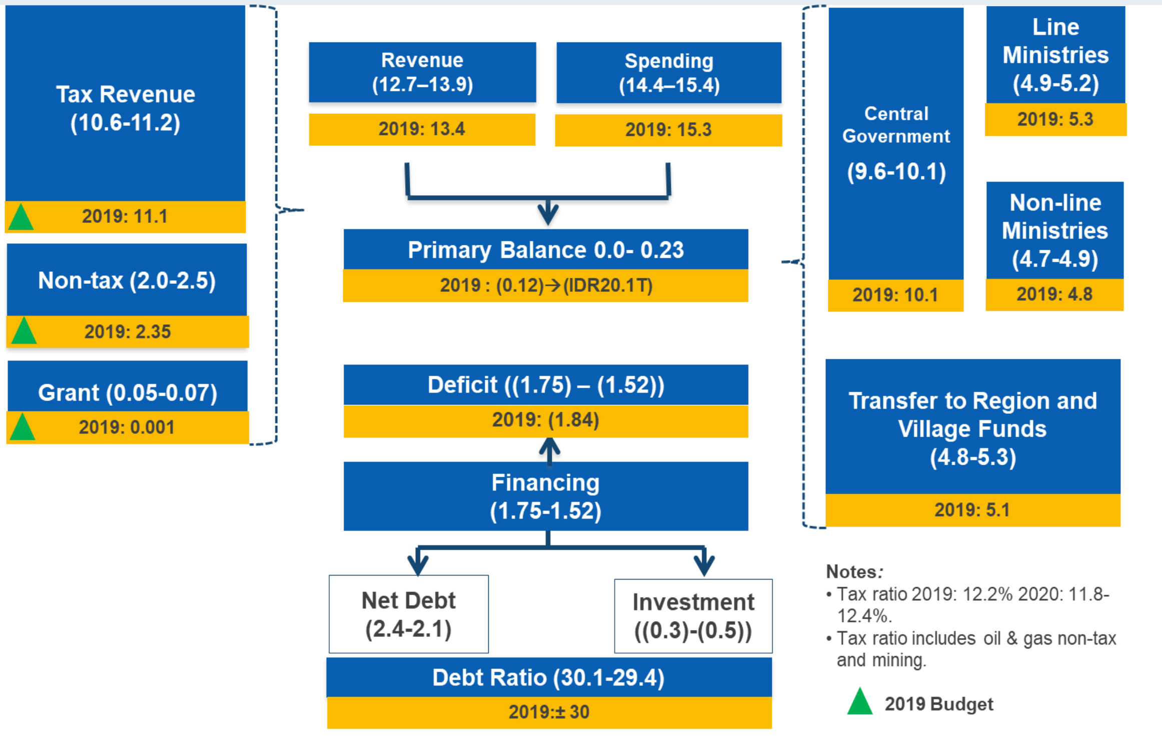
In upgrading the quality of human resources, the policy is to build healthy, skilled, innovative and prosperous, human resources. Building healthy human resources is carried out by strengthening health promotion and preventative programs and increasing the effectiveness of the JKN program. Building skilled human resources is done by encouraging international standard higher education, improving the quality of vocational education, link-and-match, revitalization of the Work Training Center (BLK) and strengthening of pre-employment, and affirmative policy for poor students by the expansion of university scholarship (Bidik Misi) to an Indonesian Smart Card for University (KIP Kuliah). Innovative human resources are built by encouraging research activities, among others through the research endowment fund (Dana Abadi Penelitian) and providing incentives for research. Meanwhile, building prosperous human resources, among others, is taken by maintaining people's purchasing power for basic needs and accelerating poverty alleviation through the integration and synergy of the social assistance/subsidy program (PKH and BPNT/Rastra) to be more effective. Healthy, smart, skilled and prosperous human resources with integrity can be expected to bolster productive, innovative, and competitive, skilled human resources compatible with the advanced 4.0 industry.

Furthermore, in order to accelerate infrastructure development, some policies will be implemented. For example, promoting the development of infrastructure to support the transformation of industrialization, especially regarding food, energy, water and connectivity. Infrastructure development will also focus on anticipating social issues in urban areas such as clean water, sanitation, waste management and mass transportation. To accelerate the development of such infrastructure, line ministries are encouraged to proactively implement creative and innovative financing schemes by involving private sectors, SSOEs and Public Service Agencies (BLU).

The attempt to improve the quality of fiscal decentralization are carried out in order to promote centers of regional economic growth, improve the quality of regional public services and reduce gaps between central and local governments. Local governments are encouraged to be more proactive in developing PPP schemes to accelerate development, strengthening mandatory spending in the region is also needed to meet the basic needs of people and support the attainment of national development targets. The Government continues to encourage more effective village funds to have them directed to empowering and alleviating poverty, supplemented by improved management accountability.

In order to promote a more effective and efficient bureaucracy, among others, employee expenditure reform is accompanied by the implementation of an objective of reward and punishment to promote civil services' productivity and integrity, improving public services, and improving civil services welfare. The bureaucratic system also needs to be aligned with ICT development so that it is expected to be more effective and efficient. Through expenditure reform, employees are expected to make the bureaucracy more effective so that it will contribute positively to better public service quality and also to the success of fiscal reform. Based on the direction and strategy, as well as the focus of fiscal policy that has been formulated, the macro-fiscal strategy 2020 in general will remain expansive and measurable fiscal policy by: (i) controlling deficits in the range of 1.75-1.52 percent of GDP, (ii) State revenues and grants at 12.7-13.9 percent of GDP, and (iii) state expenditure maintained at a range of 14.4-15.4 percent of GDP.

Figure 30. Macro Fiscal Posture 2020



Source: Ministry of Finance

Box 2. Get to Know International Standard on Fiscal Transparency for Tax Expenditure Aspects

In August 2018, the Indonesian Government for the first time published an official report on the estimated amount of tax expenditures undertaken, namely Tax Expenditure Report (TER) 2016-2017. The TER publication was a way to improve fiscal transparency in Indonesia. Fiscal transparency is an important component in maintaining the effectiveness of fiscal management. The information that was presented through fiscal transparency implementation will greatly help people or stakeholders in supervising government decisions and keeping it accountable, for example on the fiscal performance and the utilization of various public resources. Eventually, fiscal transparency plays an important role in maintaining public trust and good governance.

To provide for sustainability of accessible public information, the Government has committed to publish a Tax Expenditure Report annually. This commitment was listed in several state documents, which are Tax Expenditure Report 2016-2017 and the Financial Note 2019. Conceptually, tax expenditures are defined as the estimation of tax revenue foregone/not collected by the Government due to special taxation policies that differ from the general requirements (tax benchmarks), for example tax incentive policies. Information regarding the estimated tax expenditure reflects indirect support from the Government for businesses and households, which are given through the taxation system in Indonesia.

The information in Indonesia's Tax Expenditure Report was in line with international standards related to fiscal transparency. The international standard that is commonly used by many countries, including Indonesia, is the International Monetary Fund Fiscal Transparency Code (IMF FTC). IMF FTC was introduced in 1998 under the name Code of Good Practices on Fiscal Transparency. The issuance of the IMF FTC was part of the response to the Asian Financial Crisis at the end of 1990s. At that time, one of the aspects that was identified as the cause of the Asian Financial Crisis was the weakness in financial reporting system in public sectors, private sectors, and the relationship between the two. Thus, the IMF FTC was established to provide guidance for countries to recover and improve the function of their financial systems. During the process, the IMF FTC has undergone several refinements. To bolster public understanding about the principles inside, IMF published its Transparency Handbook in 2018.

In the IMF FTC, the disclosure of tax expenditure estimates is one element of the Pillar 1 (Fiscal Reporting) Implementation Principle. The IMF FTC consists of 4 pillars. Pillar 1 (Fiscal Reporting) focuses on fiscal reporting activities, which requires the availability of relevant, comprehensive, timely, and reliable information regarding a government's fiscal performance and operations. Pillar 2 (Fiscal Forecasting and Budgeting) focuses on forecasting and budgeting activities, which among others requires an explicit statement about the purpose and direction of budgeting policies. Pillar 3 (Fiscal Risk Analysis and Management) focuses on the analysis and fiscal risk management activities, which among others requiring disclosure, analysis and management of public financial risks. Furthermore, governments are also expected to have an effective coordination mechanism in fiscal decision making across the public sector. Pillar 4 (Resource Revenue Management) requires the availability of a transparent framework regarding ownership, contracting, taxation, and the utilization of natural resources. Table 15 presents the four pillars of IMF FTC architecture.

Each of those pillars is then described in 3-4 dimensions, in which each dimension consists of 2-4 principles, which are the aspects that become the focus of the implementation. There are 4 dimensions and 12 principles in Pillar 1 implementation. The four pillars comprise coverage, frequency and timeliness, quality, and integrity. Table 16 shows 4 dimension components and 12 principles that are listed in Pillar 1 (Fiscal Reporting). Tax expenditure estimation is part of the fourth principle of coverage dimension in Pillar 1 (1.1.4. Coverage Tax Expenditure), stating that the Government needs

Table 14. Pillars and Dimensions on IMF Transparency Code Architecture

I. Fiscal Reporting	II. Fiscal Forecasting & Budgeting	III. Fiscal Risk Analysis & Management	IV. Resource Revenue Management
1. Coverage	1. Comprehensiveness	1. Risk Analysis and Disclosure	1. Legal and Fiscal Regime
2. Frequency and Timeliness	2. Orderliness	2. Risk Management	2. Allocation of Rights and Collection of Revenue
3. Quality	3. Policy Orientation	3. Fiscal Coordination	3. Company Reporting
4. Integrity	4. Credibility		4. Resource Revenue Management

Source: IMF Transparency Code Handbook 2018

to regularly disclose and manage the revenue foregone from tax expenditures.

The implementation of fiscal transparency in each country requires infrastructure support, information availability, commitment and adequate human resources availability. Countries that are trying to provide fiscal transparency do not usually have all these prerequisites at once, even developed countries.

The gap in readiness will affect the quality of fiscal transparency among countries. To accommodate different levels of understanding and to maintain the consistency of fiscal transparency implementation in various countries, in 2014 the IMF introduced three stages of achievement in implementing each of the IMF's FTC principles, which are basic, good, and advanced.

For example, to meet the basic qualification, the principle of 1.1.4 Coverage of Tax Expenditure IMF FTC requires the disclosure of tax expenditure estimation at least once a year. To meet the "good" qualification, besides having to fulfill the minimum frequency of disclosure once a year, the tax expenditure estimation also needs to be presented by sector or policy area. Then, to meet the "advanced" qualification, in addition to fulfilling

Table 15. Dimensions and Principles on Pillar 1 (Fiscal Reporting) IMF FTC

Pillar I. Fiscal Reporting

Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance

Dimension 1.1. Coverage: Fiscal reports should provide a comprehensive overview of the fiscal activities of the public sector and its subsectors, according to international standards.

Principle 1.1.1. Coverage of Institutions: Fiscal reports cover all entities engaged in public activity according to international standards.

Principle 1.1.2. Coverage of Stocks: Fiscal reports include a balance sheet of public assets, liabilities, and net worth.

Principle 1.1.3. Coverage of Flows: Fiscal reports cover all public revenues, expenditures, and financing.

Principle 1.1.4. Coverage of Tax Expenditures: The government regularly discloses and manages revenue loss from tax expenditure.

Dimension 1.2. Frequency and Timeliness: Fiscal reports should be published in a frequent, regular, and timely manner.

Principle 1.2.1. Frequency of In-Year Reporting: In-year fiscal reports are published on a frequent and regular basis.

Principle 1.2.2. Timeliness of Annual Financial Statements: Audited or final annual financial statements are published in timely manner.

Dimension 1.3. Quality: Information in fiscal reports should be relevant, internationally comparable, and internationally and historically consistent.
Principle 1.3.1. Classification: Fiscal reports classify information in ways that make clear the use of public resources and facilitate international comparisons.
Principle 1.3.2. Internal Consistency: Fiscal reports are internally consistent and include reconciliations between alternative measures of summary fiscal aggregates.
Principle 1.3.3. Historical Revisions: Major revisions to historical fiscal statistics are disclosed and explained.
Dimension 1.4. Integrity: Fiscal statistics and financial statements should be reliable, subject to external scrutiny, and facilitate accountability.
Principle 1.4.1. Statistical Integrity: Fiscal statistics are compiled and disseminated in accordance with international standards.
Principle 1.4.2. External Audit: Annual financial statements are subject to a published audit by an independent supreme audit institution which validates their reliability.
Principle 1.4.3. Comparability of Fiscal Data: Fiscal forecasts, budgets, and fiscal reports are presented on a comparable basis, with any deviations explained.

Source: IMF Fiscal Transparency Handbook 2018

the requirements of the basic and good levels, a country must have a control mechanism, or budgeting objectives, for the amount of the tax expenditure published.

During the implementation, IMF FTC can be combined with other supporting and relevant tools, such as the Government Finance Statistics Manual (GFSM), Public Investment Management Assessment (PIMA), Public-Private Partnerships Fiscal Risks Assessment Model (PFRAM), Public Expenditure and Financial Accountability (PEFA), and Tax Administration Diagnostic Assessment Tool (TADAT).

Table 16. Criteria of Basic, Good, and Advanced in Implementing Principle 1.1.4. Coverage of Tax Expenditure

#	Dimension	Principle	Practices		
			Basic	Good	Advanced
1	**FISCAL REPORTING**	**Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance.**			
1.1	**Coverage**	**Fiscal reports should provide a comprehensive overview of the fiscal activities of the public sector and its subsectors, according to international standards.**			
1.1.4	Coverage of tax expenditures	The government regularly discloses and manages revenue loss from tax expenditure.	The estimated revenue loss from tax expenditures is published at least annually.	The revenue loss from tax expenditures is estimated by sector or policy area, and is published at least annually.	The revenue loss from tax expenditures is estimated by sector or policy area, and is published at least annually. There is control on, or budgetary objectives for, the size of tax expenditures.

Sumber: IMF Transparency Code Handbook 2018

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PART III

SPECIAL ANALYSIS:

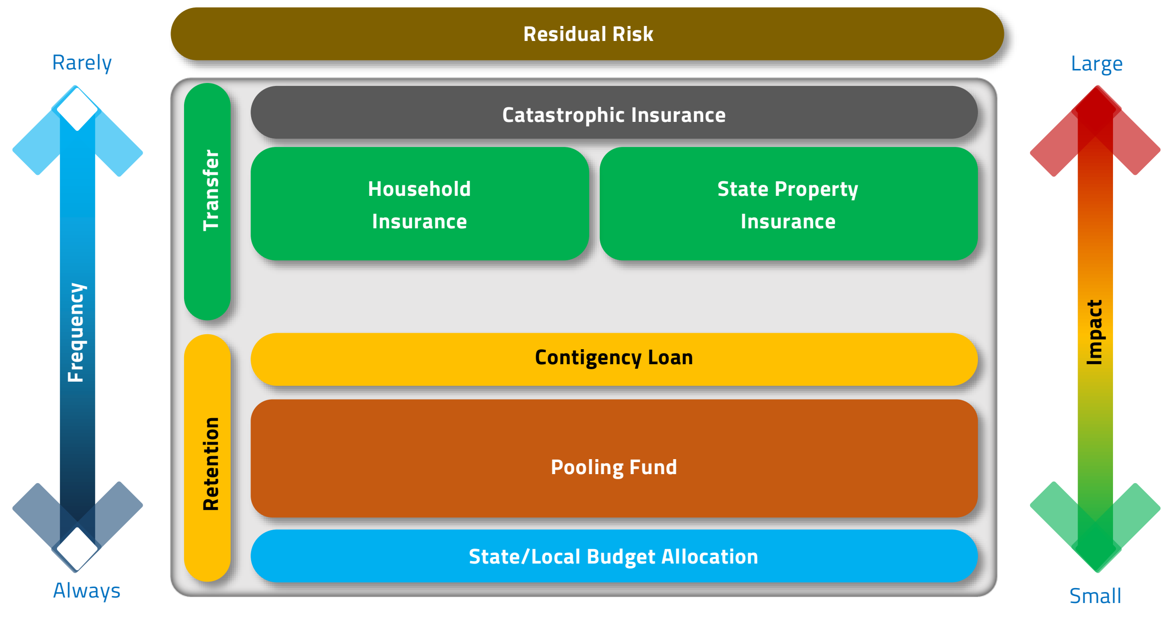
DISASTER RISK FINANCING AND INSURANCE STRATEGY TOWARDS SUSTAINABLE FINANCING

A. THE IMPORTANCE OF DISASTER RISK FINANCING AND INSURANCE (DRFI)

Indonesia is a country that has a high risk of casualties, economic losses and physical losses due to natural disasters. The Indonesian government continues to improve its ability to manage these risks. An ability to manage risk properly is needed in order to create a strong nation and society against the impact of disasters. Strong in the sense of being able to adapt, prevent and prepare to mitigate the risks, including the risk of economic and fiscal losses due to natural disasters that are frequently occurring.

One manifestation of government reform is to change the paradigm in managing disaster risk financing, from reactive management to a more proactive paradigm with an investment approach to sustainable financing. This change in paradigm is further documented in the Disaster Risk Financing and Insurance (DRFI) strategy. The DRFI strategy was launched by Vice President Jusuf Kalla on the sidelines of the IMF-WB annual meeting in October 2018 in Bali.

Figure 31. Disaster Risk Financing and Insurance Strategy



Source: Ministry of Finance

The paradigm shift in managing disaster financing is needed even though Indonesia has always been able to recover after natural disasters. The impact of economic losses due to natural disasters on Indonesia's GDP is significant but not insurmountable, the average ranges around 0.3 percent of Indonesia's GDP each year in the past decade, but a proactive approach is required to mitigate further losses.

Unlike countries with small economies such as Haiti, shocks from natural disasters to the economy and fiscal management in Indonesia have been manageable. Both state and regional budgets, with the support of development partners, have been able to pay for emergency response, rehabilitation and reconstruction activities. Disaster financing by the government, has occurred both through the usual budget mechanisms and through special schemes. These include the Aceh and Nias Rehabilitation and Reconstruction Agency and the Java Reconstruction Fund that were established in response to the earthquake and Mount Merapi eruption in the special areas of Yogyakarta and its surrounding areas in 2006 and 2010, and were able to finance disaster management activities.

Although on a national scale, natural disasters have not caused major economic and fiscal turmoil, natural disasters have proven to disrupt the local economy for local governments, including hampering post-disaster recovery efforts. The earthquake and tsunami in Aceh and its surroundings in 2004, only led to a decline in Indonesian GDP growth of around 0.1-0.4 percent in 2005. On the contrary, for Nanggroe Aceh Darussalam itself, the impact of the disaster on regional GDP turned out to be very large, reaching 97 percent of its GDP. Natural disasters also require extra work to be undertaken by the central and regional governments, because disaster-related reconstruction often makes planned development programs unable to be executed because they are not included in the priority scale during the annual budget allocation or development process. Not surprisingly, in some areas such as West Sumatra, there are still some government buildings that are unreconstructed after the natural disasters.

B. THE BACKGROUND OF THE CHANGES IN DISASTER RISK FINANCING MANAGEMENT

The change of the paradigm in disaster risk financing management needs to be done along with Indonesia's transformation into a country with clean and efficient governance, and as the country evolves towards a more civilized and developed society. This requires the impact of natural disaster management to be well planned and put forward as a sustainable prevention approach. Furthermore, the government is looking for some considerations regarding basic paradigm needs for a change in disaster risk financing management, as follows:

1. **The financing that has been carried out by the Government is the kind of financing that treats the risk of disaster with a reactive approach in response to disasters.** The law number 24 year 2007 concerning Disaster Management provided that disaster management, including its financing, can be used for both non-disaster periods and potential disaster periods, during the disaster period and post-disaster period. But in its implementation, the pre-disaster financing policy has not been formulated and applied comprehensively or supported by clear regulations. The reactive financing approach was applied during the emergency response, rehabilitation and reconstruction phases, with the funding coming from the State Budget.
2. **Furthermore, financing with a reactive approach through the State Budget cycle has several challenges:**
    a. Limited State Budget capacity, where the amount and projection of compulsory expenditures create a challenge for the Government in allocating funds for disaster risk financing. Meanwhile, disaster financing needs are generally greater than budget funds allocated for programs that are related to natural disasters.

b. The State Expenditure approach generally has different characteristics from the disaster management expenditure needs. The State Expenditure approach is an annual government operational plan, that is relatively rigid because it goes through the technical, political and administrative stages and must go through the stages of valuing performance based budgeting with regulatory limits. Meanwhile, the location and the impact of massive and sudden disasters are not limited to boundaries of an administrative area that requires the involvement of many parties in all phases of disaster risk management.
c. The involvement of many related parties in disaster financing management may create challenges and risks in the distribution of funds during and after a disaster. These risks are in the form of authority limitation, responsibility limitation, coordination challenges, less timely and targeted distribution and transparency. These risks can also happen during the non-disaster period in financing the mitigation and preparedness activities that are integrated with national disaster management. An example of which is the relationship coordination between the National Disaster Management Agency (BNPB) and Regional Disaster Management Agency (BPBD).

3. **The involvement of many related parties in disaster management has to be followed by the issuance of regulations that provide a legal basis for those parties' main tasks and functions in disaster management activities.** The large number of these regulations raises the risk of overlapping authority and administrative barriers, which can cause delays in the distribution of disaster funds and its transparency.

C. THE PRINCIPLES OF DRFI STRATEGY

Based on the above discussion, the Indonesian Government made a paradigm shift in disaster financing risks that is reflected in the DRFI principles strategy. First, the punctuality and amount of funds. So far, when natural disasters occur, timely of funds distribution is considered the most important principle. However, if observed, the speed of funds distribution would only be very important during the emergency response period to finance evacuation activities, supply of food, emergency shelters, medicines and other necessities during that period. The faster the resources are channeled during the emergency response period, the more people will be saved and the less cost that may arise from the slower distribution of funds. However, when entering the rehabilitation and reconstruction phase, the need for speed decreases and shifts to the need for the right amount of funding.

The second principle is risk layering or risk sharing based on the frequency of occurrence of disasters and the magnitude of the impact caused by disasters. As an example, frequent natural disasters often occur with less economic losses caused. The layering approach is used as a basis for selecting an efficient financing instrument and in accordance with the characteristics of each layer.

The third principle is the mechanism of efficient and well-targeted distribution of funds. This principle is important based on lessons learnt from experiences of several countries that are able to provide adequate disaster management funds, but face challenges in determining timely, well-targeted, transparent, and efficient funding schemes and channels. Funds for disaster financing are often not distributed on time or well-targeted, among others due to long bureaucratic processes, inaccurate population databases, and a misuse of funds. The process of channeling and receiving disaster funds must be carried out with good and accountable governance to the community. The choice of mechanism for the distribution of funds will be determined by the scale of the disaster, the socio-economic conditions of the affected area, and the policy choices agreed upon by the government.

The last principle is an accurate database and information. Data, including large data, is needed as a basis for policy making, selecting appropriate and efficient financial instruments, and reliable disaster risk modeling. Accuracy of data and information will have a direct impact on financing efficiency. The database and information related to potential hazards, exposure and loss impacts, including claim history, and data on infrastructure damaged by disasters needs to be managed properly and updated periodically so that it can be beneficial for improving the efficiency of disaster risk financing.

By following these principles, the Government has developed the DRFI Strategy. In this Strategy, the Government combines disaster risk financing instruments to obtain efficient financing schemes in accordance with the characteristics of natural disaster risk. The combination is in the form of:

1. State Budget and/or Regional Budget are used for disaster financing that occurs frequently or has a small economic loss. This instrument is a tool used by the government to bear or absorb disaster risks.
2. Contingent financing as a complementary to the state budget in bearing disaster risks with moderate to high losses.
3. A pooling fund scheme to strengthen the role of the State Budget in bearing and absorbing risks.
4. Insurance for disaster financing for events that rarely happen but have a large impact as a government strategy in transferring disaster risk.

The DRFI strategy was prepared by the Government in order to protect state finances (APBN) against fiscal risks due to natural disasters, with priorities for (i) protection State Assets (BMN) and Regional Property (BMD); (ii) protection of households and affected communities, especially low income groups; (iii) recovery of social life and affected communities; (iv) strengthening the role of local governments, the private sector, and the community in disaster risk financing; and (v) strengthening the domestic insurance industry, especially disaster insurance.

D. THE IMPLEMENTATION OF DRFI STRATEGY

The Government implemented and refined the DRFI Strategy by preparing a road map, both for the short term (2018-2019) and for the medium term (2019-2023). The implementation is packaged in five main pillars as follows:

1. **Protecting State Finances**

This pillar focuses on developing a special budget mechanism, namely disaster pooling funds. The establishment of disaster pooling funds aims to strengthen fiscal resilience, especially against disaster risk, while improving fiscal management related to disaster risk in an effort to improve the efficiency and effectiveness of disaster fund management. The disaster pooling fund scheme is also intended to build better planning to ensure adequate and timely funding capacity and targets, both in emergency response, recovery and rehabilitation, and reconstruction. Pooling fund management requires flexibility so as to be in line with the nature of natural disasters that can occur any time and disregard administrative boundaries, but prioritize transparency, efficiency and good governance. Disaster pooling funds become innovations or breakthroughs so that disaster financing is not entirely dependent on the state budget.

The Disaster Pooling funds will be managed by a unit or working unit under the guidance of the Minister of Finance by implementing a pattern of financial management of the Public Service Agency. Currently, the Government is preparing a set of regulations and a pooling fund business/governance model. This disaster pooling fund management unit is expected to be established in 2019. The pooling fund business model can be broadly described as follows:

a. The pooling fund will manage joint funds that can be sourced from: (i) the Central Government, which consists of the disaster reserve fund State Budget allocation and SAL unspent (SAL) disaster reserve funds allocation; (ii) contribution of the Regional Local Government; and (iii) Third-party funds (DPK).
b. The pooling fund unit will manage the disaster pooling funds to ensure the availability of adequate liquidity. This unit will also conduct disaster fund investments in financial instruments and transfer risks to domestic and international financial markets through disaster insurance mechanisms (CAT-insurance and CAT-Bonds).
c. The managed funds will be channeled distributed to disaster-affected communities to finance their activities, especially the rehabilitation and reconstruction activities, as well as funding research and development to support disaster mitigation and preparedness efforts.
d. The funds will be channeled distributed through existing channels and new channel of funds that are efficient in accordance with the governance of public service agencies. Theis mechanism will help the Government's efforts work to record and evaluate disaster-related expenditures in a more accurate and detailed manner and protect the budget by ensuring the financing of quality infrastructure development. Direct distribution of funds to the public can also support financial inclusion programs.
e. The establishment of a pooling fund is also followed by efforts to improve the management governance of disaster financing in general, especially in order to improve the efficiency of disaster funding management, for example through a budget tagging program and a review of disaster expenditure reviews.

As an instrument to protect the State Budget, the pooling fund will be complementary to the state budget and will provide added value which currently is not part of the disaster financing scheme that is funded by the State Budget. The added value is in the form of the ability to accumulate the capacity of disaster reserve funds, as well as to reduce fiscal risk through a mechanism for transferring risk to third parties. The existence of pooling funds complementary to the State Budget will not reduce the role of relevant ministries or agencies such as BNPB in disaster risk management.

The pooling fund is a joint effort of the Central Government, local government, private sector/industry, insurance/reinsurance and the public in disaster risk financing. To date, this risk has been largely borne by the Central Government. The joint funding scheme is expected to spearhead the Government approach for future disaster risk financing.

2. Strengthening fiscal coordination between the central and local government

The strengthening of coordination is carried out through clear arrangements in the financing of central and local disaster management or financial mechanisms that are linked to the mechanism of joint funds. For example, contributions to joint funds or inter-regional insurance pools. The efforts to strengthen coordination include improving the financing mechanism for mitigation planning in order to respond to disasters more effectively.

3. Protecting public assets

This pillar contains the State Assets insurance program, where a pilot project will begin in the second quarter of 2019 to protect buildings within the Ministry of Finance, especially for State Assets in the form of office and other buildings, educational and health facilities. This project will be followed with insurance for all assets of ministries and institutions that can also be developed through an independent insurance mechanism that is linked to the pooling fund. In addition, investment in data development and technology is also needed to improve BMN insurance efficiency. The expansion of BMN insurance implementation is also needed to expand the types of BMN to be insured, and to develop the potential to be implemented in BMD.

4. Protecting households and the poor

Community protection is carried out through social programs linked to pooling funds for post-disaster assistance and encouraging household protection, fisheries and agriculture, through insurance both by the government and through the insurance industry. The government will also strengthen existing community protection schemes such as insurance for farmers, ranchers, catch fishermen, small fish farmers, and home insurance, to become part of a comprehensive disaster risk financing policy.

5. Strengthening disaster risk financing coordination

This pillar focuses on efforts to improve disaster risk management to support comprehensive disaster risk management. The pillar contains regulation arrangement activities, coordination and harmonization of DRFI's policies with disaster risk management policies; education and dissemination of DRFI strategies; and participation in international initiatives and cooperation, such as the APEC Working Group on Disaster Risk Financing and Insurance (DRFI) and the South East Asia Disaster Risk Insurance Facility (SEADRIF).

E. DEVELOPMENT OF THE IMPLEMENTATION OF DRFI STRATEGIES

The Government's priority in implementing the DRFI Strategy in the short term, especially in 2019 is the implementation of the State Assets (BMN) Insurance pilot project and the establishment of natural disaster pooling fund management institutions or disasters joint fund.

1. BMN insurance pilot project

Public asset insurance is a financing instrument that is generally chosen to protect transportation infrastructure such as roads, bridges, tunnels, and ports against the risk of losses due to natural disasters. Insurance is designed to shift the risk of reconstruction costs from the Government to insurance companies as special risk financing providers. In the Indonesian context, State Assets insurance is one of the financing instruments in the DRFI Strategy that the Government is using to shift the risk of losses due to natural disasters and encourage increased availability of insurance products, especially natural disaster insurance. The insurance is expected to help the government in improving compliance in implementing regulations regarding building quality standards as well as facilitating financing of the rehabilitation and reconstruction of damaged State Assets more quickly.

BMN insurance is part of the planning carried out by the Government for financial protection against the risk of natural disasters. This planning is carried out in the context of financing disaster activities, especially rehabilitation and reconstruction after the disaster to be more effective. In the implementation of BMN Insurance, the Government has decided to do it in stages, that is begin with a demonstration on BMN managed by the Ministry of Finance. This decision was taken by the Government after looking at several considerations as follows:

a. Ministries/Agencies have never purchased insurance premiums for State Assets on a large scale for protection against natural disasters, so the Government does not yet have data on the history of claim payments and there is no premium value for thise State Assets insurance.
b. The value and distribution of BMN is very large and wide so it requires data on the values and conditions of State Assets risk assessment that is accurate and up to date. Accurate data will be useful in obtaining efficient premium prices.
c. In order to obtain data on the latest State Asset values and conditions, the Government has revalued the State Assets. The State Asset revaluation process managed by the Ministry of Finance was completed in 2017, while the accurate data on the risk of State Asset damage to accurate and up-to-date natural disasters is not yet available.
d. The BMN distribution managed by the Ministry of Finance covers all regions of Indonesia, so that it adequately describes the risks faced by all State Assets, especially assets in the form of buildings, in order to obtain a comprehensive learning understanding.

In the pilot project, the insured State Asset objects in Ministry of Finance are permanent office buildings, permanent education buildings and health care buildings. The State Assets insurance will use a special insurance product to protect all risks of the protected objects. The insurance product was designed jointly by the Ministry of Finance, Financial Service Authority (OJK) and the Indonesian General Insurance Association (AAUI). The total number of buildings in the Ministry of Finance to be insured is 1,557 units with a total fair value of IDR11.48 Trillion. The pilot project at the Ministry of Finance is expected to provide a basis for determining efficient premium prices. The BMN insurance project will also be followed by a program to improve the quality of the State Asset database as well as the preparation of State Asset risk maps for natural disasters.

2. Establishment of a pooling fund management agency for natural disasters

The responsibility of the Government in implementing disaster management is regulated in Law No. 24 year 2007 concerning Disaster Management. It includes allocating an adequate budget for disaster management in APBN and allocating the budget for disaster management in the form of ready-to-use funds. To support the implementation of this Law, The Government Regulation Number 21 of 2008 concerning the Implementation of Disaster Management was enacted to regulate budget allocation and reallocation mechanism to meet disaster financing needs. In addition, the Government also specifically regulates disaster management funding by issuing Government Regulation Number. 22 of 2008 concerning Funding and Management of Disaster Assistance. This Government Regulation states that APBN and APBD must provide funding for three phases of any disaster, namely pre-disaster, emergency response and post-disaster.

To provide an adequate disaster management budget and by considering limited fiscal space, the Government decided to innovate natural disaster financing through the establishment of a pooling fund management agency. The process of the establishment of pooling fund management agency started in early 2019 through the formulation of Presidential Regulation Plan (RPerpres) regarding the Disaster Pooling Fund as a legal basis for the establishment of a disaster pooling fund management agency. The draft of the Presidential Regulation is in the process of discussion across related institutions, namely the Ministry of Finance , BNPB, the Ministry of Home Affairs, Bappenas, the State Secretariat, and the Ministry of Law and Human Rights. It is expected that the draft of the Presidential Regulation will be completed by the end of 2019.

The Presidential Regulation will regulate disaster pooling funds, disaster fund sources, and disaster fund management, including its usage. The disaster pooling fund management agency is planned to be in the form of a government working unit with financial governance that is able to meet the needs of disaster management funds, that provide added value and sustainable disaster management funds. As a financing scheme to support the State Budget, disaster fund management institutions will report to the Minister of Finance and obtain direction from the Minister of Finance in the management and distribution of the funds.

APPENDIX

RECENT MACROECONOMIC INDICATOR DEVELOPMENT

Macroeconomic Indicator Data

Indicators		2018								2019				
		May	June	July	August	September	October	November	December	January	February	March	April	May
GDP														
Economy Growth (%)			5.27			5.17			5.18			5.07		
Nominal Constant Price (IDR Trillion)			2,603.75			2,684.19			2,638.89			2,625.04		
Nominal Current Price (IDR Trillion)			3,685.27			3,841.76			3,798.68			3,782.36		
Inflasi (%)		3.23	3.12	3.18	3.20	2.88	3.16	3.23	3.13	2.82	2.57	2.48	2.83	
IHK		132.99	133.77	134.14	134.07	133.83	134.20	134.56	135.39	135.83	135.72	135.87	136.47	
Core		2.75	2.72	2.87	2.90	2.82	2.94	3.03	3.07	3.06	3,06	3.03	3.05	
Administrative Price		3.61	2.88	2.11	2.55	2.40	2.74	3.07	3.36	3.39	3.38	3.25	3.17	
Volatile Food		4.33	4.60	5.36	4.97	3.75	4.48	4.32	3.39	1.76	0.33	0.16	2.05	
Exchange Rate (IDR/USD)														
Average		14,160	14,049	14,415	14,560	14,869	15,179	14,692	14,500	14,158	14,035	14,183	14,144	**14,384**
End Of Period		13,951	14,404	14,413	14,711	14,929	15,227	14,232	14,481	13,973	14,069	14,241	14,259	14,273
Interest Rate (%)														
BI-7days Repo Rate		4.50	5.25	5.25	5.50	5.75	5.75	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Consumption Credit (eop)		12.34	12.3	12.2	11.96	11.9	11.83	11.8	11.73	11.72	11.68	11.64	11.62	
Working Capital Credit (eop)		10.51	10.49	10.55	10.48	10.59	10.47	10.48	10.34	10.52	10.55	10.51	10.5	
Investment Credit (eop)		10.29	10.35	10.36	10.37	10.54	10.38	10.51	10.38	10.38	10.36	10.34	10.31	
Oil Price (USD/barel)														
Average (ICP)		72.5	70.4	70.6	69.4	68.3	69.2	68.6	54.8	56.6	61.3	63.6	68.3	68.1
WTI		67.0	74.2	68.8	69.8	73.3	65.3	50.9	49.0	51.6	55.0	58.2	63.9	60.9
Brent		77.1	78.6	73.1	77.2	83.0	73.9	58.4	57.7	60.2	64.0	66.1	71.3	71.1
Government Securities and Stocks														
Bonds	Yield (5YR)	6.83	7.57	7.67	7.98	8.05	8.35	7.82	7.91	7.85	7.51	7.15	7.31	7.54
	Yield (10YR)	6.99	7.80	7.77	8.20	8.12	8.54	7.87	8.03	8.01	7.82	7.63	7.83	7.96
Stocks	JCI	5,984	5,799	5,936	6,018	5,977	5,832	6,056	6,194	6,533	6,443	6,469	6,455	6,209
NFB	Stocks, Certificate of BI	-17,976	-12,744	9,885	14,975	-5,919	10,055	46,065	-12,395	30,502	30,842	24,141	**46,030**	-16,807
Banking (%)														
CAR		22.19	22.01	22.56	22.83	22.91	22.97	23.32	22.97	23.22	23.45	23.42	23.21	
LDR		91.99	92.76	93.11	93.79	94.09	93.71	93.19	94.78	93.97	94.12	94.00	94.25	
NPL		2.79	2.7	2.7	2.7	2.66	2.67	2.7	2.59	2.56	2.59	2.51	2.57	
Credit Growth		10.23	10.65	11.19	11.91	12.43	13.09	12.05	11.7	11.9	12.7	11.55	11.06	

Budget Realization May 2018 and May 2019

Descriptions	2018			2019		
	Budget	Real 30 May	% to Budget	Budget	Real 30 May	% to Budget
A. Revenue	**1,894,720.3**	**658,987.1**	**36.21%**	**2,165,111.8**	**728,451.3**	**33.64%**
I. Domestic Revenue	1,893,523.5	684,541.7	36.15%	2,164,676.5	727,745.0	33.62%
1. Tax Revenue	1,618,095.5	538,678.2	33.29%	1,786,378.7	569,324.0	31.87%
a. Domestic Tax	1,579,395.5	520,404.7	32.95%	1,743,056.9	552,858.8	31.72%
b. International Trade Tax	38,700.0	18,273.4	47.22%	43,321.8	16,465.2	38.01%
2. Non-tax Revenue	275,428.0	145,863.5	52.96%	378,297.9	158,421.0	41.88%
II. Grant	1,196.9	1,445.4	120.76%	435.3	706.3	162.26%
B. Expenditure	**2,220,657.0**	**779,502.7**	35.10%	**2,461,112.1**	**855,905.3**	34.78%
I. Central Government Expenditure	1,454,494.4	457,995.2	31.49%	1,634,339.5	530,809.9	32.48%
1. Line Ministries	847,435.2	231,467.6	27.31%	855,445.8	288,230.7	33.69%
2. Non-line Ministries	607,059.2	226,527.7	37.32%	778,893.7	242,579.3	31.14%
II. Transfer to Region and Village Fund	766,162.6	321,507.5	41.96%	826,772.5	325,095.4	39.32%
1. Transfer to Region	706,162.6	300,849.8	42.60%	756,772.5	304,662.6	40.26%
2. Village Fund	60,000.0	20,657.7	34.43%	70,000.0	20,432.8	29.19%
C. Primary Balance	**(87,329.5)**	**18,951.7**	-21.70%	**(20,115.0)**	**(377.5)**	1.88%
D. Deficit	**(325,936.6)**	**(93,515.7)**		**(296,000.2)**	**(127,453.9)**	
% Surplus / (Deficit) to GDP	(2.19)	(0.63)		(1.84)	(0.79)	
E. Financing	**325,936.6**	**179,391.9**	55.04%	**296,000.2**	**157,893.5**	53.34%
I. Debt Financing	399,219.4	178,510.1	44.71%	359,250.6	159,629.4	44.43%
II. Investment Financing	(65,654.3)	-	0.00%	(75,900.3)	(3,000.0)	3.95%
III. Lending	(6,690.1)	784.0	-11.72%	(2,350.0)	1,251.2	-53.24%
IV. Guaranteed Debts	(1,121.3)	-	0.00%	-	-	0.00%
V. Others	183.0	97.8	53.44%	15,000.0	13.0	0.09%
SURPLUS / (DEFICIT) BUDGET FINANCING	-			-		

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