



KEMENTERIAN KEUANGAN  
REPUBLIK INDONESIA

# BEYOND REVENUE: THE INDISPENSABLE CONTRIBUTION OF THE UPSTREAM INDUSTRY TO LOCAL INDUSTRY AND ECONOMIC GROWTH



**Jakarta, 18 Mei 2017**



# Outline

**Indonesia's Recent Macroeconomic Update**

**Fiscal Policy 2017**

**Beyond Oil and Gas Revenue**

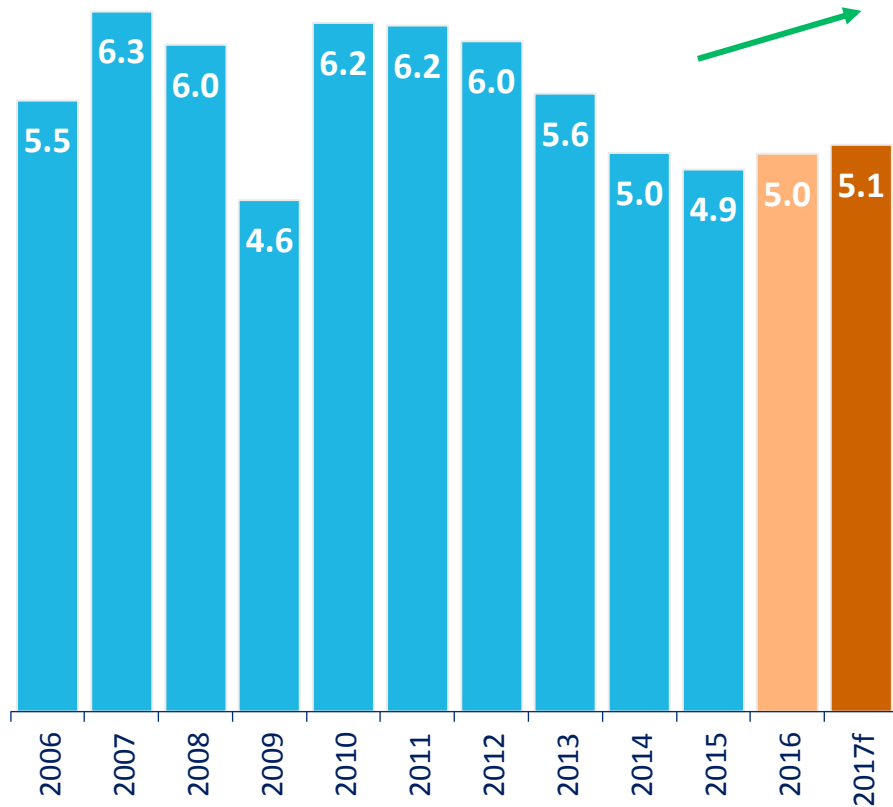


# **Indonesia's Recent Macroeconomic Update**

# 2016 ECONOMIC GROWTH IS A TURNING POINT

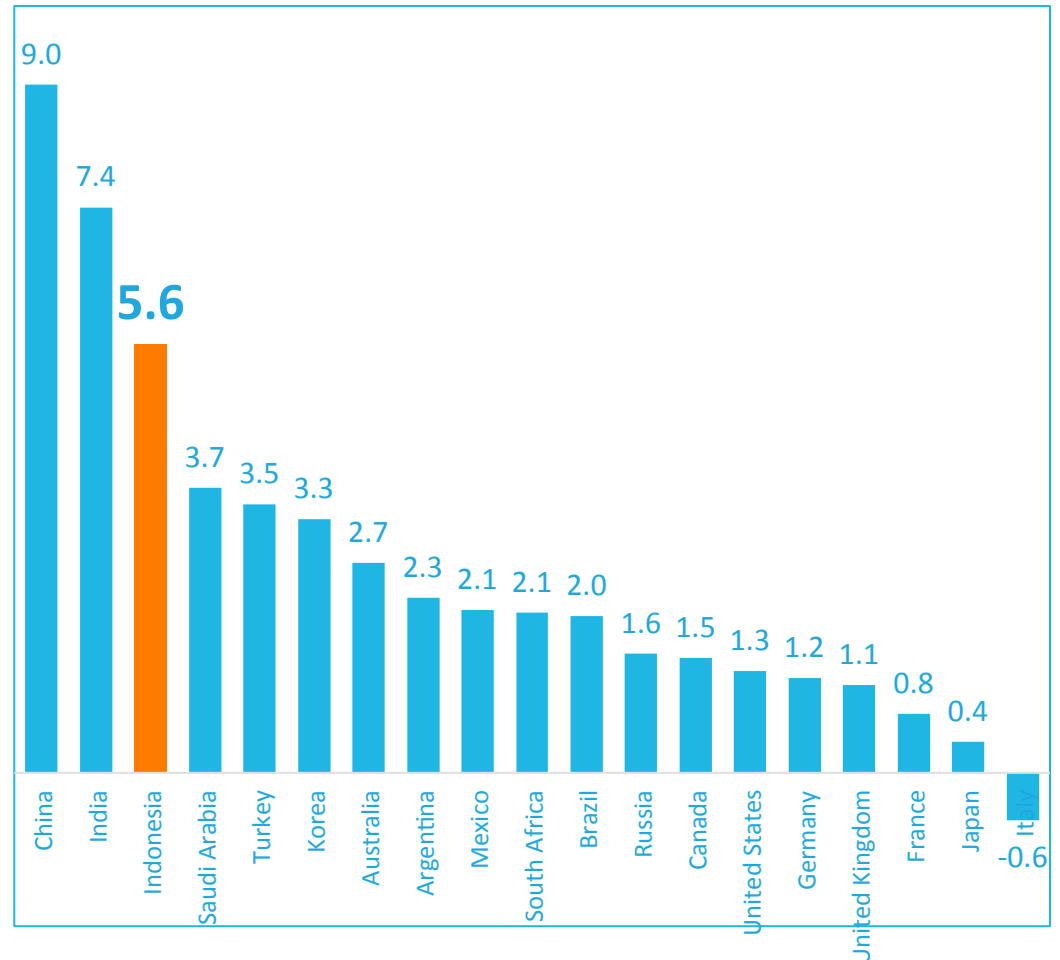
## Indonesia's growth is among the highest

Indonesia Economic Growth (%)



source: IMF & BPS

Economic Growth in G20 & BRICS Countries (2007-2016)



# GDP GROWTH BY EXPENDITURE SIDE

## Household Consumption and Investment as engines of growth

### Investment

- 2006-2015 Average: **6,8%**
- 2016 : **4,5%**
- 2017 Estimation: **6,0%**

### Export

- 2006-2015 Average: **5,3%**
- 2016 : **-1,7%**
- 2017 Estimation: **0,2%**

### Import

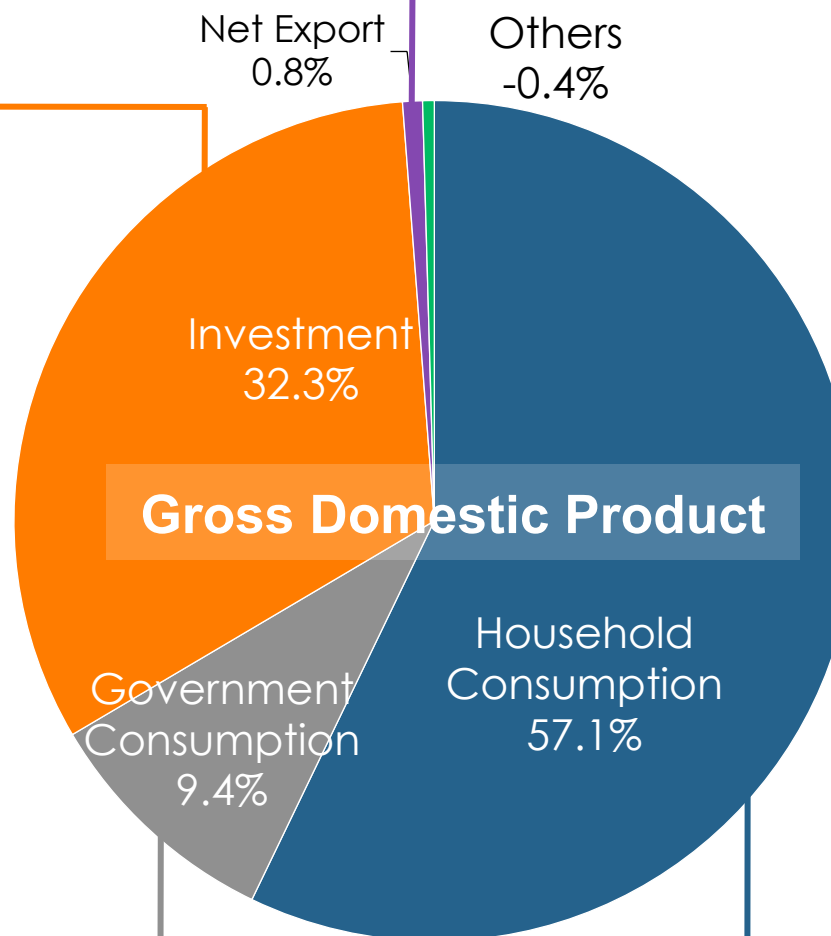
- 2006-2015 Average: **5,1%**
- 2016 : **-2,3%**
- 2017 Estimation: **0,7%**

### Household Consumption\*

- 2006-2015 Average: **4,9%**
- 2016 : **5,0%**
- 2017 Estimation: **5,0%**

### Government Consumption

- 2006-2015 Average: **6,3%**
- 2016: **-0,1%**
- 2017 Estimation: **4,8%**



\* Including LNPRT

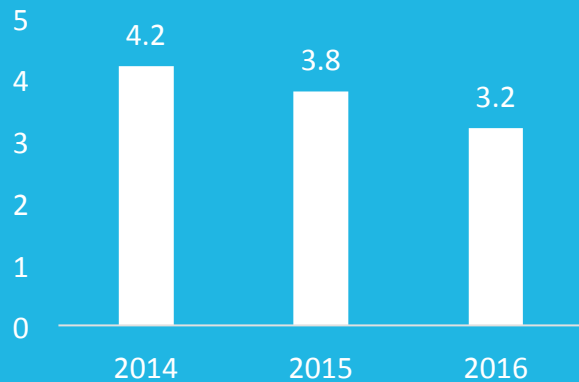
source: BPS, Processed

# GDP GROWTH BY PRODUCTION SIDE

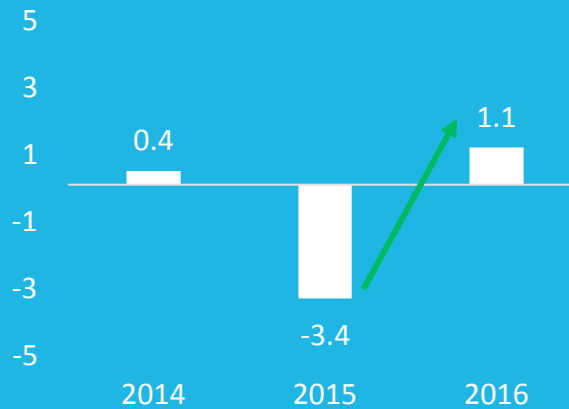
## Growth of mining sector has rebounded

### PRIMARY SECTORS

#### Agriculture (% , yoy)

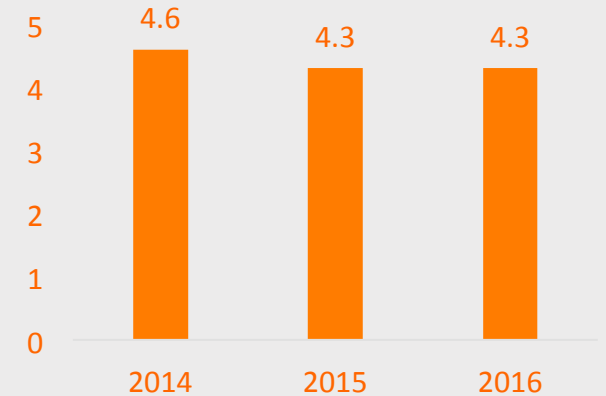


#### Mining (% , yoy)



### SECONDARY SECTOR

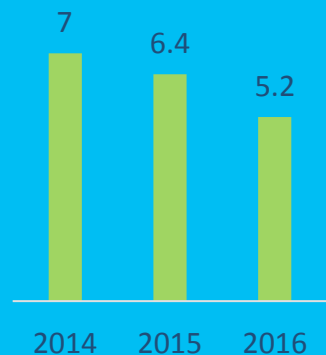
#### Industrial Processing (% , yoy)



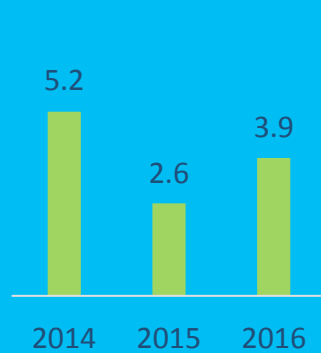
Source: BPS, Processed

### TERTIARY SECTORS (% , yoy)

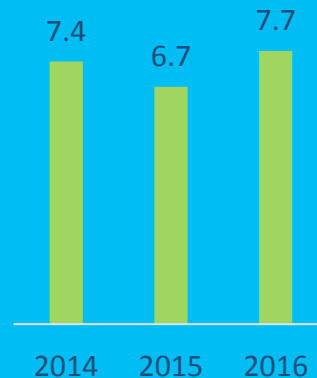
#### Construction



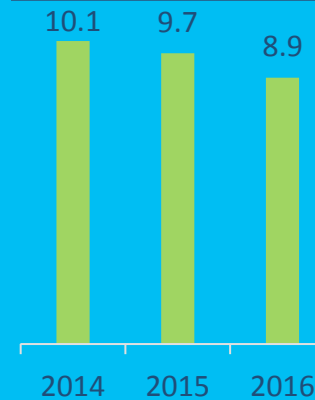
#### Trading



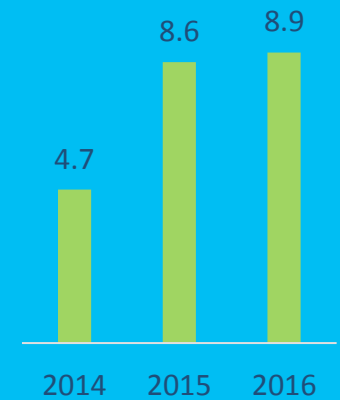
#### Transportation



#### Communication



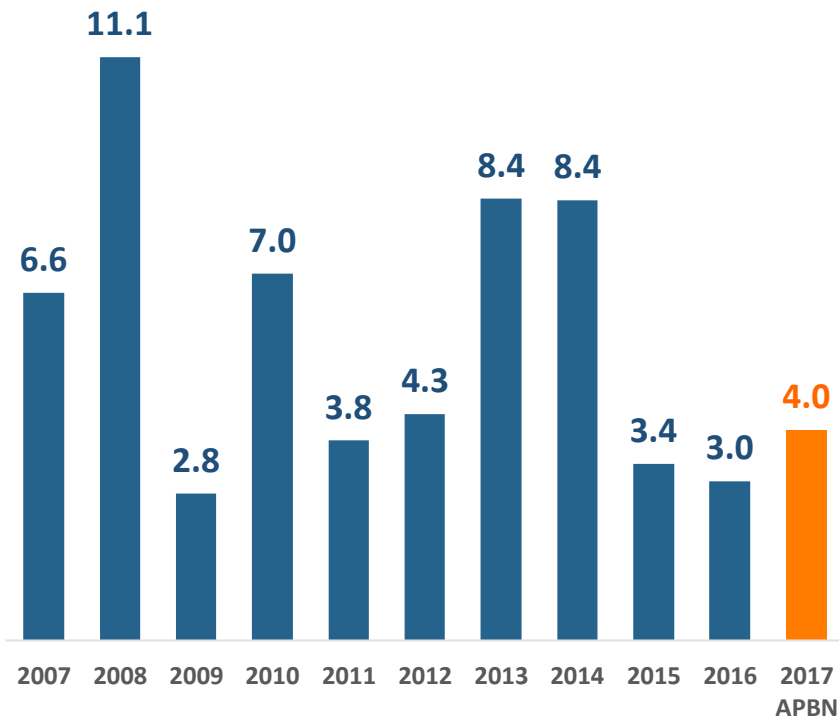
#### Finance and Insurance



# GROWTH SUPPORTED BY MANAGEABLE INFLATION

Rupiah movement against US Dollar has been more benign

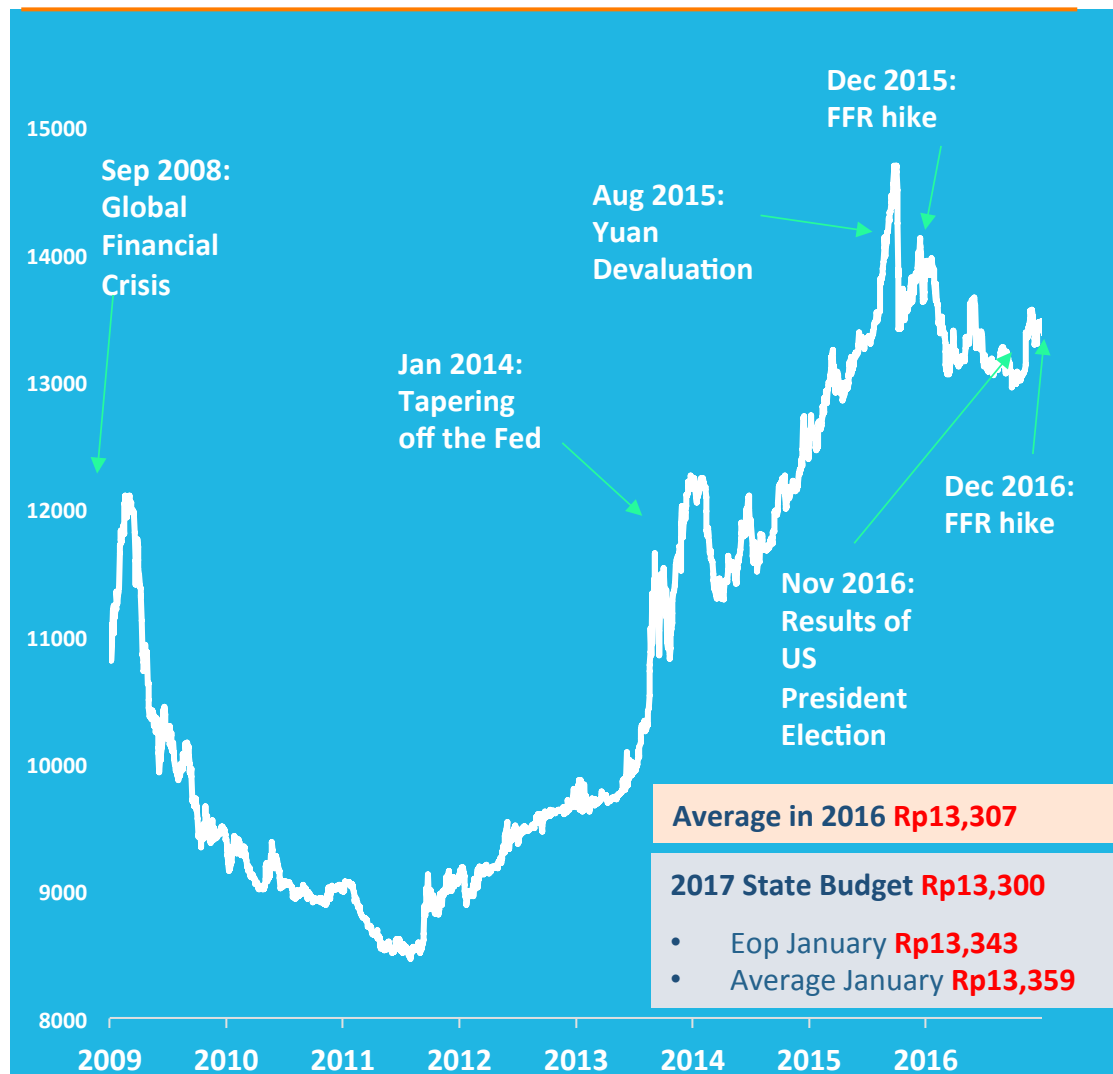
Annual inflation (%)



January 2017 Inflation (yoy)	Inflation	Core	Administered Price	Volatile Food
	3,49%	3,35%	3,35%	4,13%

source: BPS & Bloomberg, Processed

Rupiah movements against US dollar



# The Economic Policy Packages

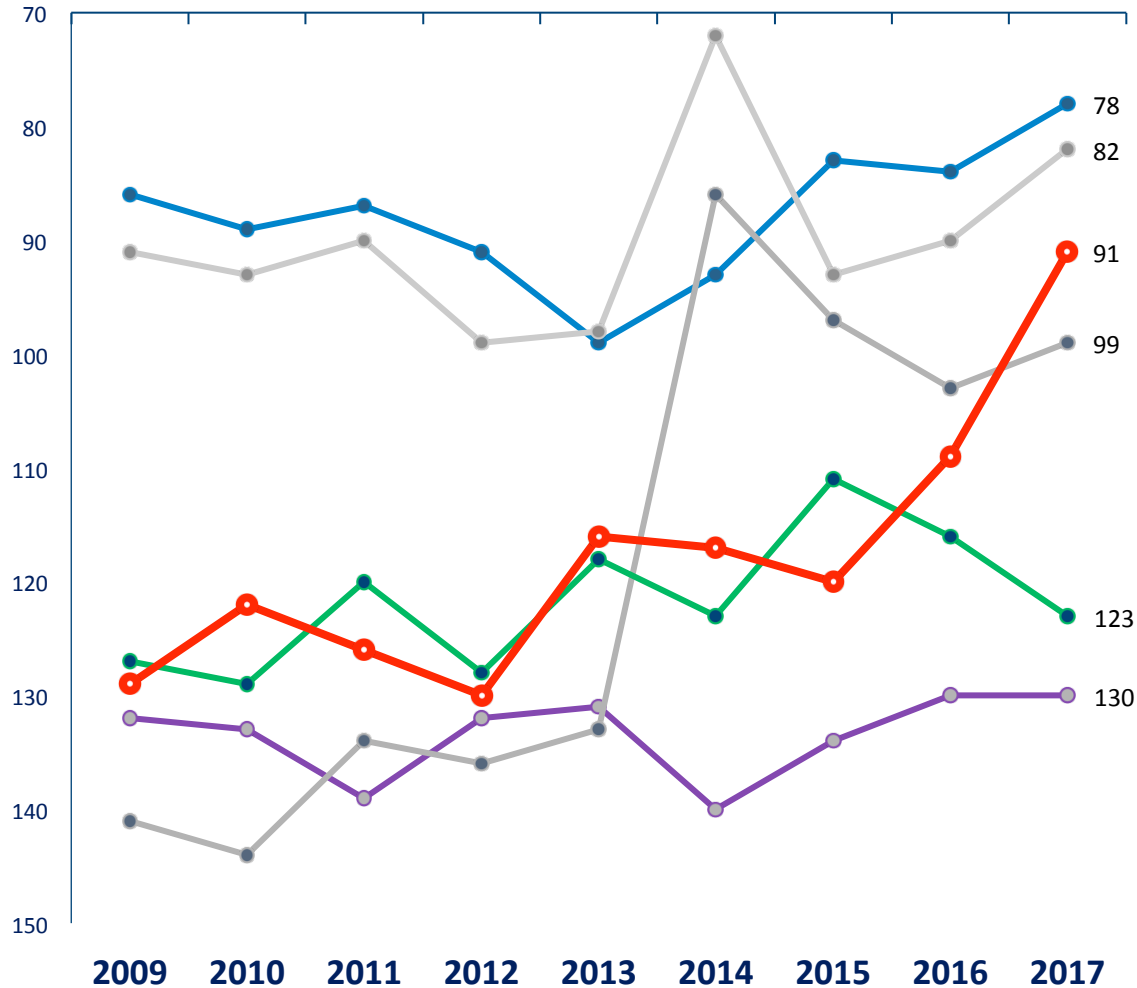
*“To improve national industry competitiveness, export and investment to generate significant economic growth”*

Harmonizing Regulations	Simplifying Bureaucratic Process	Ensuring Law Enforceability
<p><b>Phase I (9 Sept '15)</b> Improving national industry competitiveness</p> <p><b>Phase II (29 Sept '15)</b> Easing permit requirement and simplifying export proceeds requirement</p> <p><b>Phase III (7 Oct '15)</b> Boosting investment, spurring exports, and maintaining people's purchasing power</p> <p><b>Phase IV (15 Oct '15)</b> Simplifying wage formula and expanding loans for small business</p> <p><b>Phase V (22 Oct '15)</b> Improving industry and investment climate through tax incentives and deregulation on sharia banking</p> <p><b>Phase VI (6 Nov '15)</b> Stimulating economic activities in border areas and facilitating strategic commodities availability</p> <p><b>Phase VII (7 Dec '15)</b> Stimulating business activities in labor-intensive industries nation-wide through incentives in the form of accelerating land certification process for individuals</p>	<p><b>Phase VIII (21 Dec '15)</b> Resolving land acquisition disputes, intensifying domestic oil production, stimulating domestic parts and aviation industries</p> <p><b>Phase IX (27 Jan '16)</b> Accelerating electricity generation, stabilizing meat prices and improving rural –urban logistics sector</p> <p><b>Phase X (11 Feb '16)</b> Revising Negative investment List and improving protection for SMEs</p> <p><b>Phase XI (29 Mar '16)</b> Stimulating national economy through facilitation to SMEs and industries</p> <p><b>Phase XII (28 Apr'16)</b> Improving Indonesia's rank on Ease of Doing Business (EODB)</p> <p><b>Phase XIII (24 Aug '16)</b> Low Cost Housing for Low-Income Communities</p> <p><b>Phase XIV (10 Nov '16)</b> Roadmap for E-commerce</p>	

Source: Coordinating Ministry for Economic Affairs

# SIGNIFICANT IMPROVEMENT OF *EASE OF DOING BUSINESS* POSITION

## Indonesia is amongst the most progressive improvers



- China
- Vietnam
- **INDONESIA**
- Philippines
- Brazil
- India

# #91

From 190 countries

Skor: 61,5 (↑3,4)

JUMP  
15 ranks

2016: #106  
2015: #120

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

- World Bank Group, Press Release EODB 2017

Source: World Bank Ease of Doing Business Report 2017



# Fiscal Policy 2017

# MACROECONOMIC ASSUMPTION

2016 Realization      2017 APBN

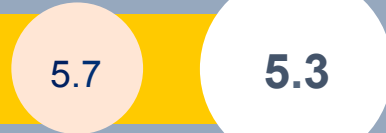
**Economic Growth** (% , yoy)



**Inflation** (% , yoy)



**SPN 3 Months** (average %)



**Exchange Rate** (Rp/US\$)



**ICP** (US\$/barrel)



**Oil Lifting** (thousand barrel/day)



**Gas Lifting** (equivalent with thousand barrel oil/day)



# INDICATORS OF WELFARE

2016 Realization      2017 Target

<b>Unemployment rate (%)</b>	5.61	5.3 – 5.6
<b>Poverty rate (%)</b>	10.70	9.5 – 10.5
<b>Gini ratio (index)</b>	0.397	0.38
<b>Human Development Index</b>	70.1	70.11

## 2017 economic growth projections by various institutions:

Bank Indonesia 5.0% - 5.4%	IMF 5.1%
World Bank 5.3%	Consensus Forecast 5.2%

# MORE CREDIBLE STATE BUDGET

## 2017 STATE BUDGET

Realistic calculation basis

Expansive and prudent budget, with deficit 2.41% of GDP

Tax Revenue growth target is 16.8% from 2016 realization

Strengthening tax reform to support revenue optimization

Spending policy to support strategic priorities such as infrastructure

Transfer to Region slightly higher than Line Ministries Budget

Deficit 2.46% of GDP

Credibility has been preserved through lower tax revenue target and budget consolidation

Rp 107 Trillion of tax revenue was coming from Tax Amnesty

“Smart cutting policy” was effectively implemented with 100% disbursement of Line Ministries budget.

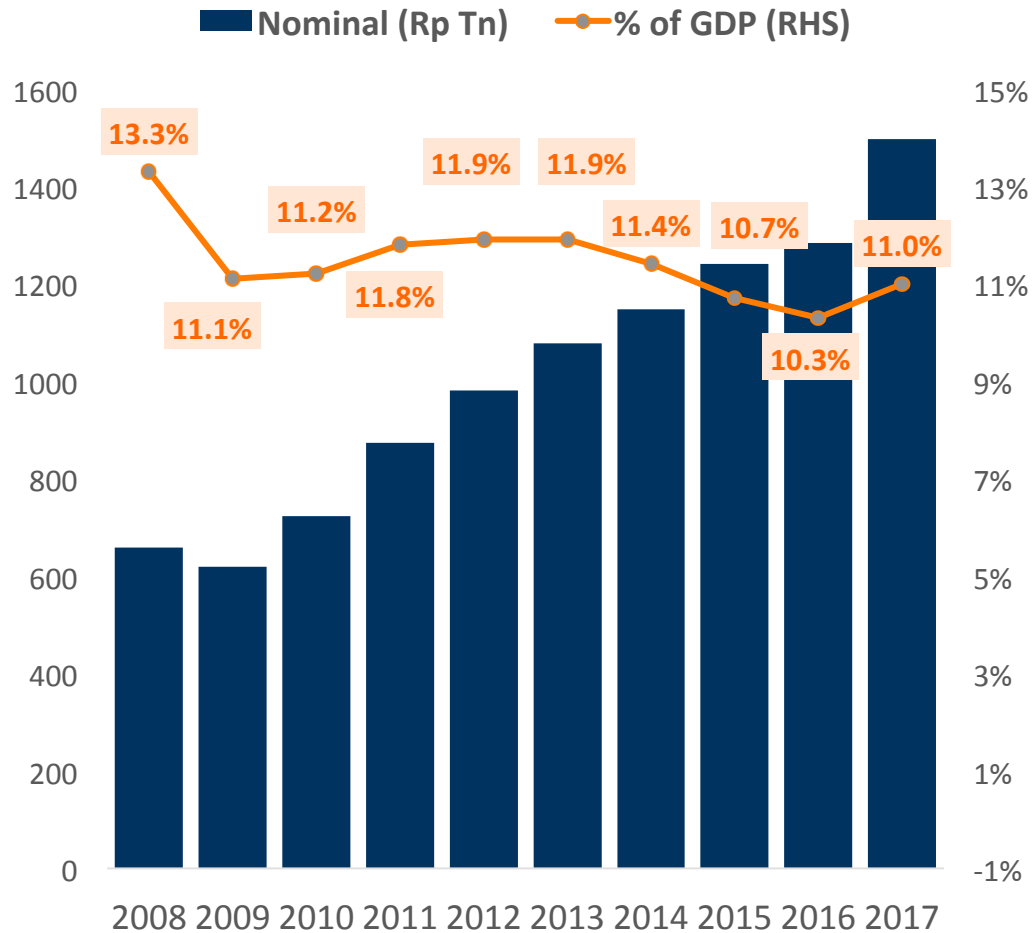
No postponement of General Allocation Fund payment to regional government

## 2016 BUDGET REALIZATION (PRELIMINARY)

# TAX IS THE MAIN SOURCE OF REVENUE

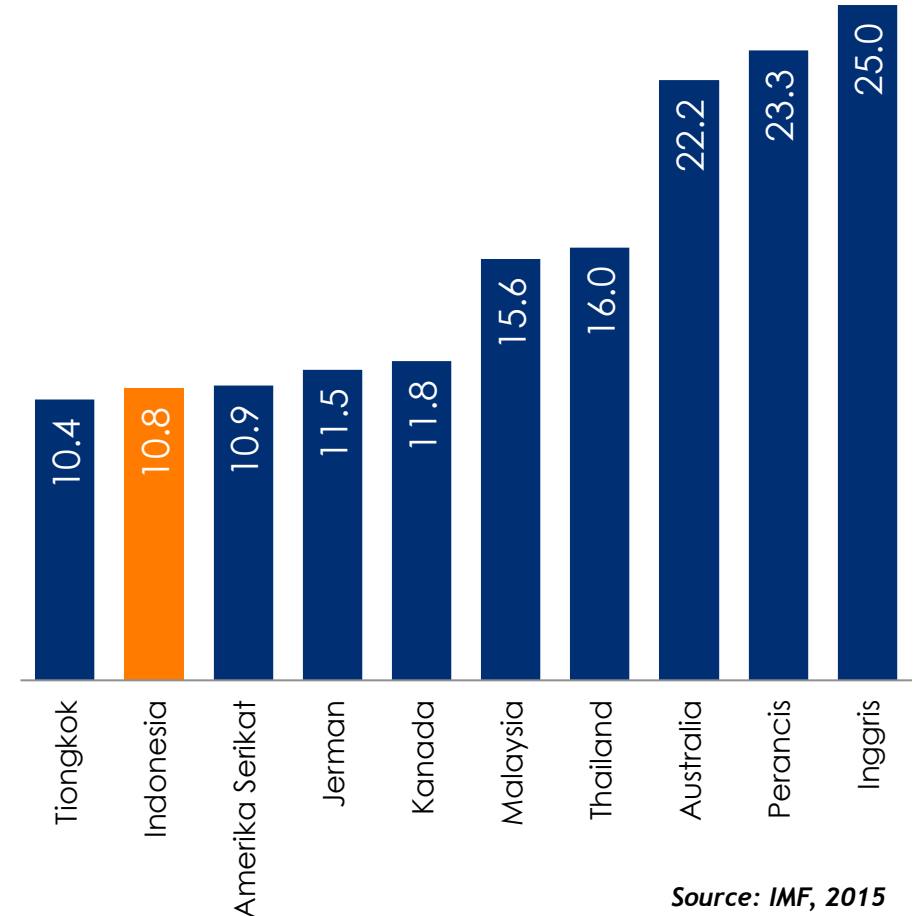
However Indonesia's tax ratio is low

## Tax Revenue



Source: Kemenkeu

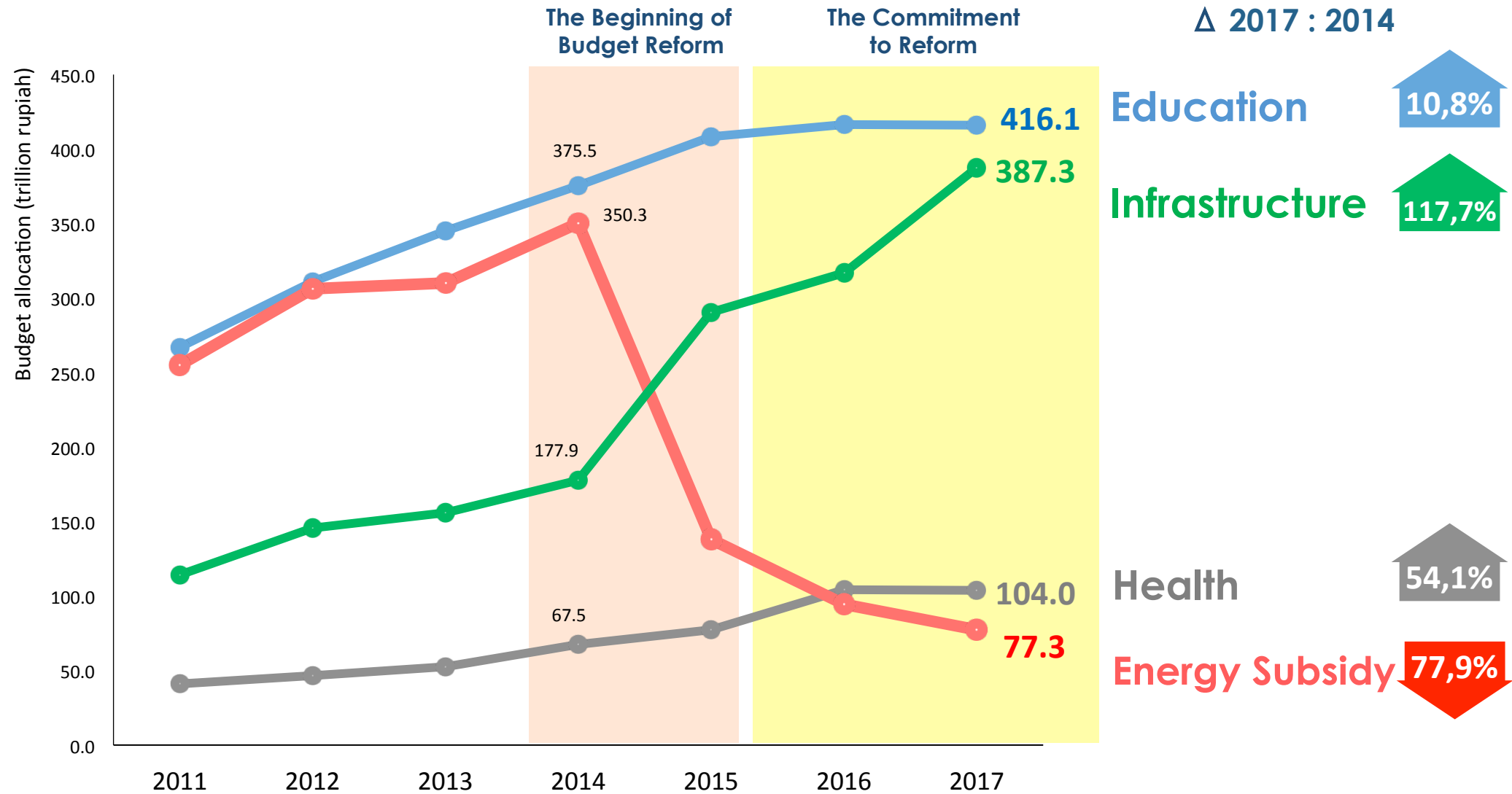
## Tax Ratio (%)



Source: IMF, 2015

# SPENDING QUALITY IMPROVES AS PRODUCTIVE SPENDING INCREASES

Started with energy subsidy reform, and reinforced with increasing infrastructure spending

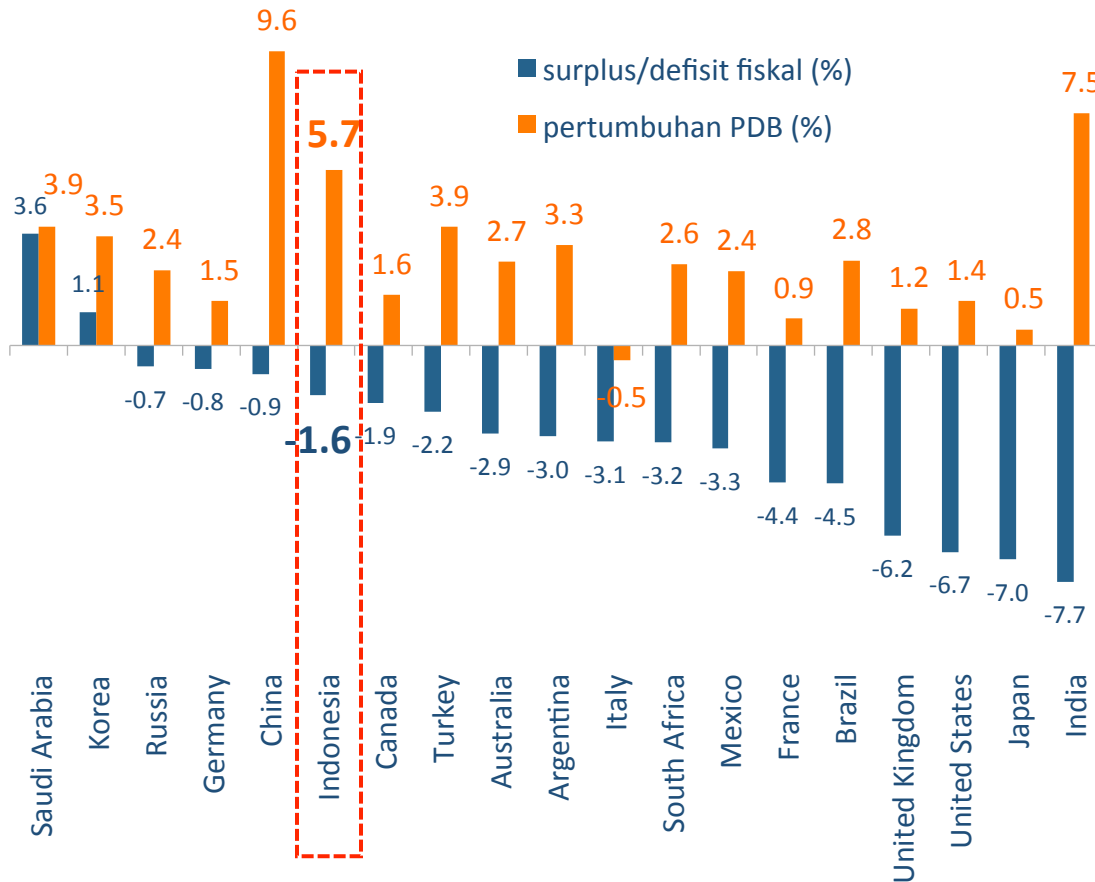


source: MoF

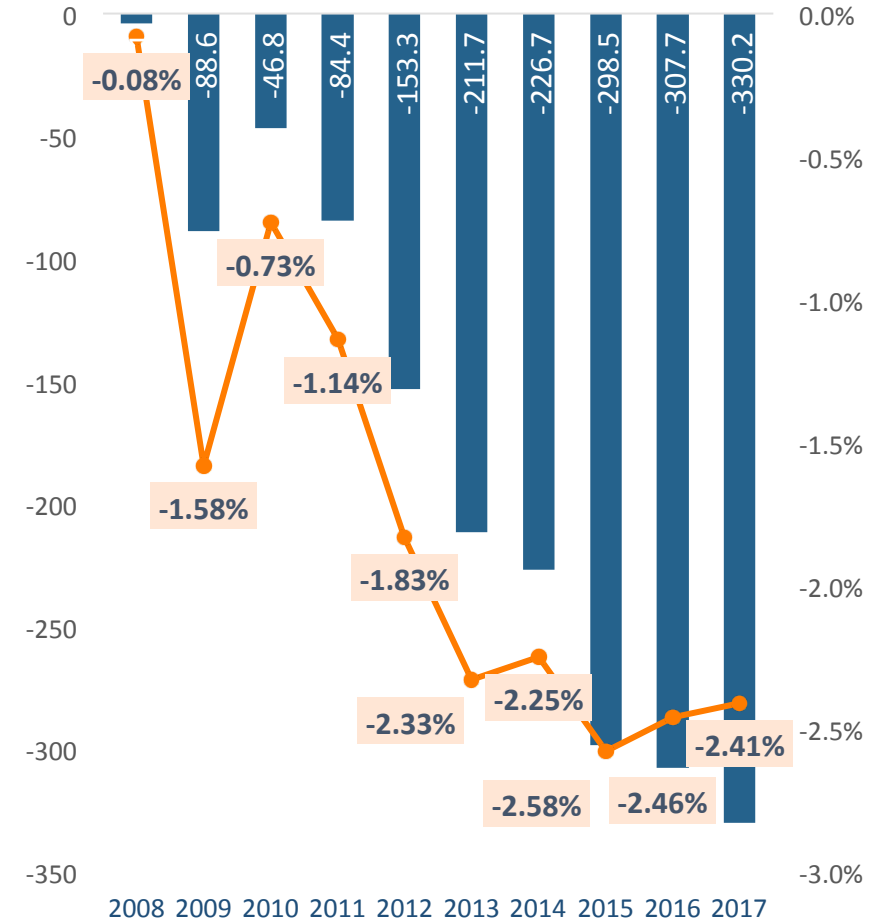
# KEEPING DEFICIT WITHIN SAFE LEVEL

With low debt and deficit, Indonesia economic growth is one of the highest

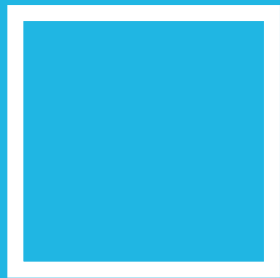
## The average of deficit and GDP growth in the last decade



## Budget Deficit (Rp Tn) & Ratio to GDP



Source: World Economic Outlook - IMF, Oktober 2016 & CEIC, diolah



# Beyond Oil and Gas Revenue

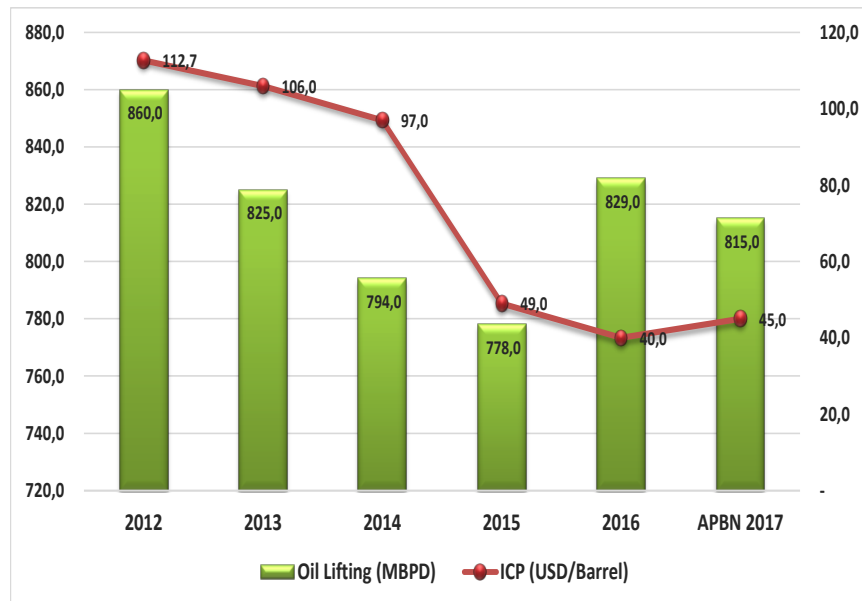
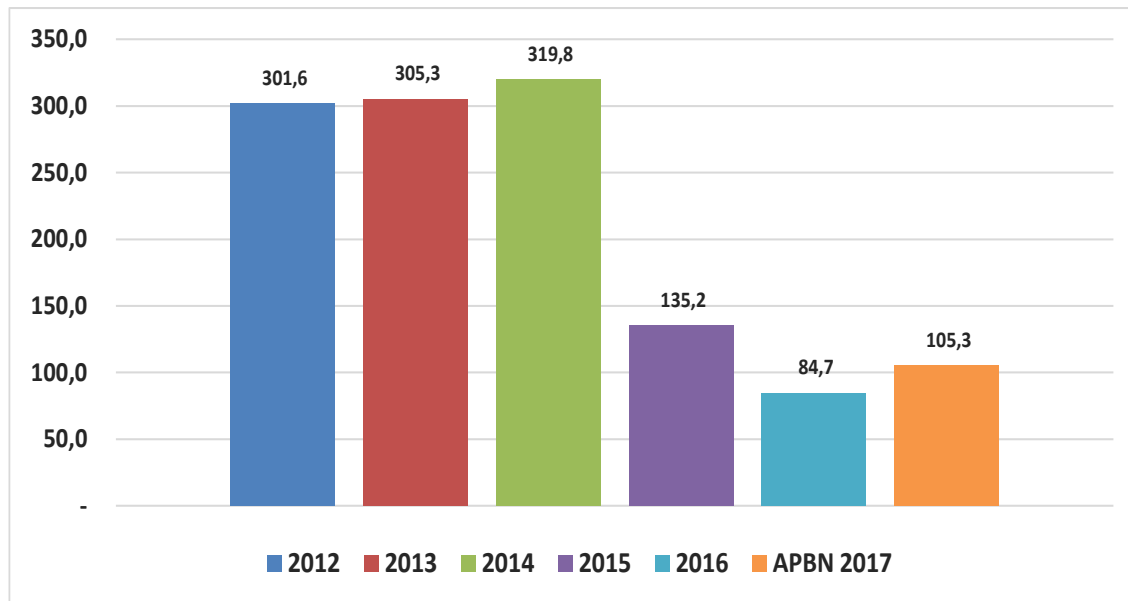
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# OIL AND GAS REVENUE HAS DECLINED

Crude oil price is uncontrollable but oil lifting is challenge...

The oil and gas revenue has declined roughly 13% on average in the last 5 years, mainly caused by crude oil price fluctuation

ICP tends to decline about 14% in the last 5 years whereas lifting is stagnant...



Uraian	2012	2013	2014	2015	2016	Budget 2017
1. Oil and Gas Income Tax	83,5	88,7	87,4	49,7	36,1	35,9
2. Oil and Gas Non Tax Revenue	205,8	203,6	216,9	78,2	44,9	63,7
3. Oil and Gas Other Revenue (DMO)	12,3	12,9	15,5	7,3	3,7	5,7
<b>Total Oil and Gas Revenue</b>	<b>301,6</b>	<b>305,317</b>	<b>319,779</b>	<b>135,172</b>	<b>84,743</b>	<b>105,316</b>

**Government policies regard to enhance oil and gas revenue in 2017:**

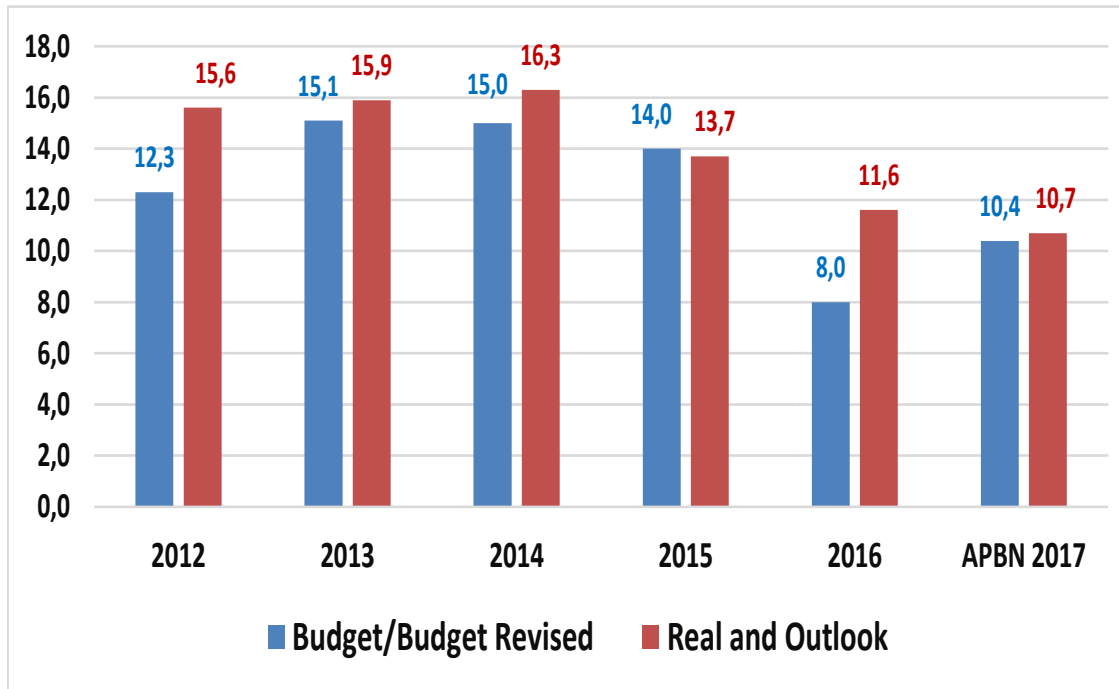
- ✓ Monitoring of the new 6 onstream project with 6.500 BPOD and 305 MMSCFD in order to be on schedule
- ✓ The strategic plan to increase oil lifting based on President Instruction Number 12/2012 about production enhancement and effort to achieve oil lifting

# BEING MORE EFFICIENT AND PRODUCTIVE

Oil and Gas Industry urged to be more efficient and productive...

Cost recovery wasn't efficient yet, it has deviation roughly 12% from budget/budget revised target...

PSC Gross Split could urge KKKS to be more efficient and productive..



## New Regulation:

Ministry Energy and Mineral Resources Regulation Number 08 Year 2017 about Gross Split Production Sharing Contract

## PSC Gross Split:

“A production sharing contract in term of oil and gas upstream industry based on gross revenue sharing without cost operation refund.”

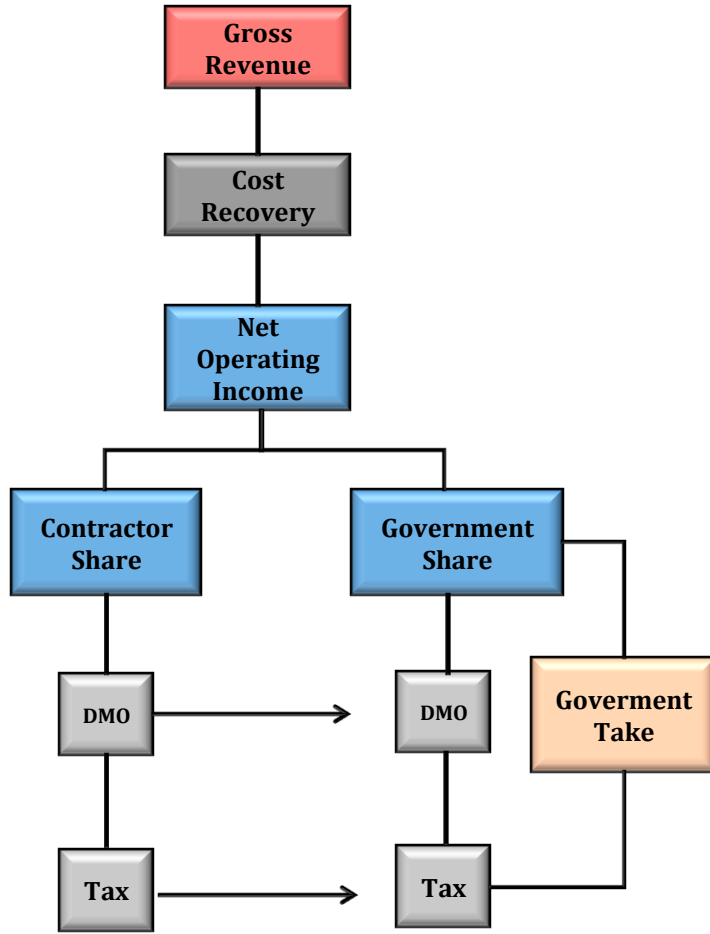
## Advantages of PSC Gross Split:

1. Exploration and exploitation would be more efficient
2. KKKS and Supporting Industry would be have a resilience againts oli price fluctuation
3. Process business of KKKS and SKK Migas would be more simple and accountable.

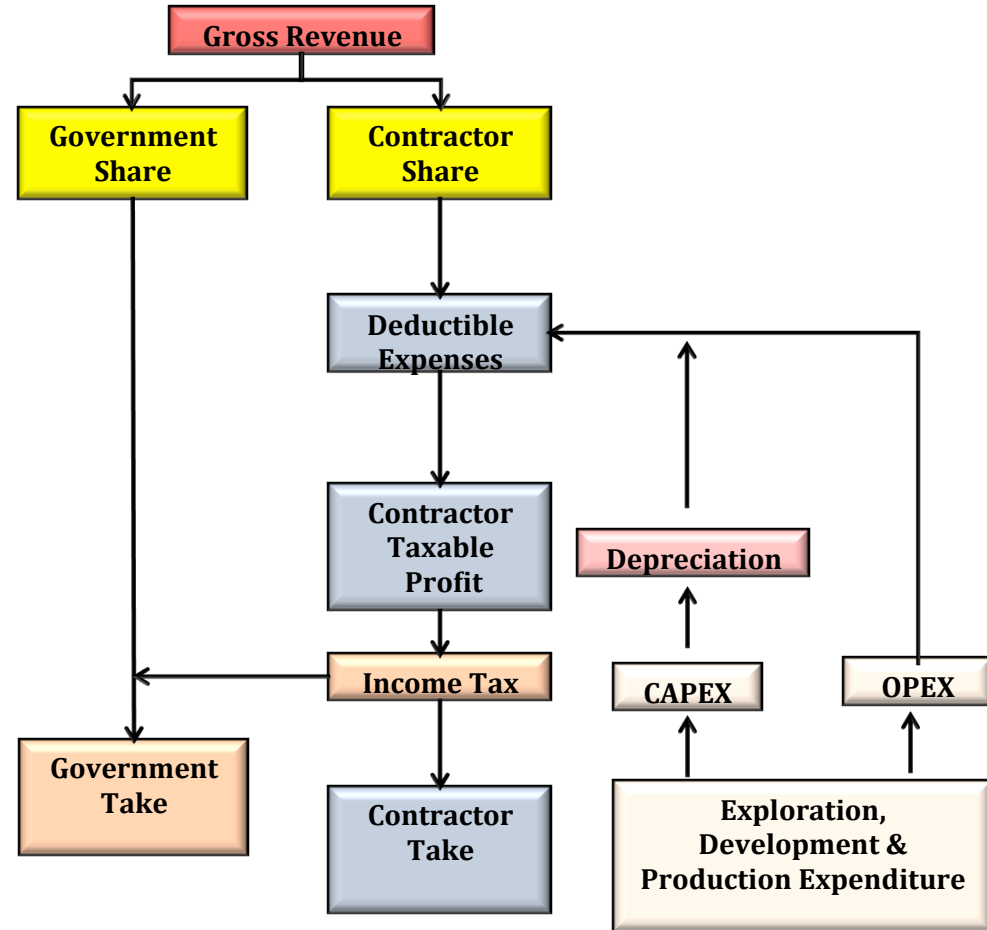
# COMPARISON WITH GROSS SPLIT

PSC Gross Split created in order to be more efficient, simple and accountable

## PSC Konvensional



## PSC Gross Split



# SUMMARY

- State Budget continues to be optimized to support national development, while maintaining discipline and fiscal sustainability:
  - ✓ Strengthening tax reform
  - ✓ Improving efficiency, effectiveness and productivity of spending
  - ✓ Strengthening prudent financing management. The budget deficit in order of expansionary fiscal policy should be managed prudently and aimed at productive activities
- The credibility of the state budget must be maintained so as a fiscal instrument capable of stimulating the economy and gaining public and market trust
- Government will continue to provide incentives and encouragement for the development of productive sectors, through targeted fiscal policies/ incentives
- Government urge investment on oil and gas sector under masive exploration and exploitation through the new regulation and competitive production sharing scheme

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**THANK YOU**

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