

Fiscal Policy Highlights and Macroeconomic Framework for the 2007 Draft Budget

Jakarta, 17 May 2006 (Fiscal News) – As mandated by Act No. 17 of 2003 concerning State Finances, the Initial 2007 Draft Budget Discussions commenced with a presentation to the Indonesian Parliament of the Government Work Plan, the Macroeconomic Framework and Fiscal Policy Highlights for 2007. These Government deliberations with Parliament are crucial as they will form the basis for preparation of the 2007 Draft Budget.

The Minister of Finance explained that in light of internal developments and the dynamics of the global economy in recent years, Indonesia's economic development remains daunted by a range of challenges that calls for a comprehensive response through concrete actions. The scope of these challenges includes: *First*, maintenance and reinforcement of macroeconomic stability as a prerequisite for sustainable economic growth. *Second*, promotion of stronger economic growth accompanied by better equilibrium in sources of growth with investment and non-oil and gas exports taking on an expanded role. *Third*, creation of more jobs to reduce unemployment and poverty. *Fourth*, creation of a more conducive investment climate. *Fifth*, improved provision of adequate levels and quality of infrastructure. *Sixth*, promotion of export competitiveness. *Seventh*, increased participation by the private sector. *Eighth*, building of more robust foundations for future sustainable economic growth.

The basic macroeconomic assumptions for 2005-2007 are as follows:

Indicator	2005		2006		2007
	Second Revised Budget	Outcome	Budget	Projection	Draft Budget
a. Economic Growth (%)	6.0	5.6	6.2	5.9	6.2-6.4
b. Inflation (%)	8.6	17.1	8.0	8.0	5.0-7.0
c. Rupiah Exchange Rate (Rp/US\$1)	9,800	9,705	9,900	9,000	9,000-9,200
d. 3-Month SBI-3 Interest Rate (%)	8.4	9.09	9.5	12.0	8.0-9.0
e. Price for Indonesian Crude (US\$/barrel)	54.0	51.8	57	60	55-58
f. Lifting (MBCD)	1.075	0.999	1.050	1.000	1.000
g. Crude Oil Production(MBCD)	1.125	1.060	1.110	1.050	1.045

The Minister of Finance then presented the Fiscal Policy Highlights that will serve as the basis for preparation of the Draft Budget for fiscal 2007. The fiscal strategy will again focus on two fundamental measures. First, to press forward with fiscal consolidation in order to ensure fiscal sustainability. To do this, the government will trim the fiscal deficit to about 0.5-0.7 percent of GDP to keep risks and government debt exposure at a safe level without neglecting the support needed to boost economic growth. Fiscal management will include actions to strengthen domestic revenues and improve the effectiveness and efficiency of government expenditures. Complementing this will be efforts to create a pro-growth fiscal stimulus with progressive

improvement in employment creation and poverty alleviation in order to reduce poverty and unemployment. *Second*, to formulate a manageable budget financing strategy that will reduce the stock of government debt and the ratio of official debt to GDP. To achieve the key fiscal policy objectives in the 2007 Draft Budget, the government will pursue key policy actions in the areas of state revenues, state expenditures, and budget financing.

Concerning budget revenues, taxation policy in 2007 is aimed not only at boosting revenue collection, but also at providing a limited fiscal stimulus in support of higher quality of economic growth. In 2007, the government will take further actions in administration and policy reforms in taxation, customs and excise. Policy concerning non-tax revenues and grants will target increased revenues from natural resources exploitation in the oil and gas and non-oil and gas sectors, in addition to profits from SOEs, other non-tax revenues and grants.

In the area of budget expenditures, central government spending allocations are aimed at maintaining the level of real incomes of active and retired civil servants and easing the burden of debt interest within the overall context of official debt management. The budget will include some improvements to the subsidies and direct cash transfers to the public so that these funds can be better targeted and meet the needs of the poor. Regional government expenditures will again be focused on: (i) narrowing the fiscal gap between the central and regional level and between different regional level governments; (ii) reducing interregional disparities in the provision of public services; (iii) strengthening fiscal sustainability; (iv) building the capacity of the regions in tapping local revenue potential; (v) improving efficiency in the use of national resources; and (iv) improving transparency and accountability in allocation of regional expenditures.

Lastly, concerning budget financing, policy will be aimed primarily at covering the fiscal deficit, meeting debt amortization obligations and injecting government capital into state enterprises in order to accelerate the construction of infrastructure and thus promote stronger economic growth. In 2007, budget financing needs will again be met from domestic and foreign sources. Budget financing from domestic sources will be raised from net sales of government securities, taking into account the combined needs of fiscal and monetary policy, the use of funds released by debt moratoriums to finance the reconstruction and rehabilitation of Aceh and Nias, asset sales targeting maximum recovery value from the bank restructuring program and the use of government funds on deposit at BI (if needed).

Source : Ministry of Finance