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Higher tax collection expected to reduce government debt

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The Finance Ministry expects to rack up less debt in 2021 by using leftover funds from last year and by betting on higher tax revenue this year all in minimizing fiscal pressures on pandemic-struck Indonesia.

Finance Minister Sri Mulyani Indrawati said debt issuance was projected to only reach 81.4 percent of the expected Rp 1.17 quadrillion (US$80.9 billion) for this year as the government uses accumulated cash surplus (SAL) from 2020 and higher tax collection in the first half of 2021 to cover the difference.

As a comparison, debt issuance reached 100.5 percent of the expected Rp 1.22 quadrillion last year as the government pledged billions of dollars on COVID-19 relief programs.

"This [lower debt issuance] is mainly because the nominal budget deficit will be lower. The state revenue [projection] is good and we are going to optimize the remaining 2020 budget," Sri Mulyani told lawmakers in a meeting with the House of Representatives on Monday.

Sri Mulyani said this year's budget deficit, as a nominal value would lighten to Rp 939.6 trillion, 6.64 percent lower than expected.

However, as a ratio of gross domestic product (GDP), the budget deficit would be at 5.7 percent, higher than the 2 to 3 percent in the years before the pandemic, but lower than the 6.09 percent booked last year.

Minimizing debt is key to alleviating Indonesia's mounting fiscal pressure that had prompted the Supreme Audit Agency (BPK) to raise concern over the government's ability to service debt.

The BPK pointed out that interest payments on national debt relative to government revenue stood at 19.06 percent last year, much higher than the 7 to 10 percent recommended by the International Monetary Fund.

Meanwhile, the government debt to revenue ratio was 369 percent, also far exceeding the IMF-recommended threshold of 90 to 150 percent.

The Finance Ministry expects to maintain the 2021 budget deficit through higher tax collection in the Jan-June period. As a result, the annual tax collection shortfall would only be 4.3 percent of the initial target of Rp 1.22 quadrillion.

Last year, the tax collection shortfall reached 10.7 percent of the targeted Rp 1.19 quadrillion as businesses closed, tax cuts were granted and tax collection activity was impeded by mobility restrictions.

"Our economic recovery in the first half of 2021 is quite robust, but we are faced with downside risks, namely the new Delta COVID-19 variant and the virus mutation that will continue for a long time," Sri Mulyani said.

Indonesia's GDP contracted 0.74 percent in the first quarter and is expected to grow around 7 percent in the second quarter as businesses and industries resumed operations. However, the government has imposed 14-day emergency public activity restrictions (PPKM Darurat) starting July 3, which are expected to stifle third quarter GDP growth.

Center of Reform on Economics (CORE) Indonesia analyst Yusuf Rendy Manilet said he expected the government to miss its projected state revenue targets as a looming surge in COVID-19 cases would compel an extended restriction, reduce tax revenue and thus widen the tax collection shortfall.

The government has the option of extending the PPKM Darurat until new cases drop to 10,000. Official data show Indonesia recorded 47,899 new COVID-19 cases on Tuesday.

"This happened in 2020. Tax revenue collection slowed down each time restrictions were imposed. When restrictions were lifted, it took time to recover. I think the same cycle will be repeated this year," Yusuf told *The Jakarta Post* on Tuesday.