
FLASH NOTE: Government Infrastructure RAPBN Not As Glamorous As It May Seem

During the president's speech on the Indonesian budget (RAPBN) for 2016, the government announced a total of Rp314tn to be used as the RAPBN for infrastructure spending next year. In hindsight, this +8% YoY increase in infrastructure budget looks great, especially for SOE contractors. However, a further breakdown of the total budget might suggest otherwise.

- **Infrastructure spending through the ministries has decreased.** The budget for the Ministry of Transportation and Ministry of Public Works has decreased to Rp47t and Rp101t respectively, bringing the total infrastructure spending through the ministries to Rp168t, down from Rp197tn (less Rp29tn) a year earlier. This suggests less budgets allocated for the larger state owned contractors (i.e. WIKA, WSKT, PTPP, ADHI) next year, compared to this year, adding to a list of concerns over stated-owned contractors.
- **RAPBD has almost doubled, showing us where the government's intentions are.** From 2015 to 2016, the state budget increased by Rp38tn to Rp79tn, showing that the government has strong intentions of growing the rural areas of the country. As this happens, major beneficiaries would be smaller contractors and consumer good retailers (ROTI, ICBP, ARNA) with maximum exposure to rural areas. Also, this gives more power to the local governments. We remain neutral on the view that rural areas will show significant improvements as a result of the increased RAPBD until budget realization meets expectations.
- **On a side note, this year's ABPN is set to gather steam.** The government is set to open the tendering process for multiple projects across the nation from end of 3Q15 to 4Q15. This includes the Jawa-5 power station (tendering process to begin in Sept.) and various other infrastructure projects funded from levels 1 & 2 APBD and also the APBN. This being said, in our forecasts projects that start tendering soon can start to be realized by the end of FY15, with most of these projects to start work by beginning 1Q16.
- **Large carryover projects into 2016 may explain the decrease in infrastructure ministries budget.** The decrease of Rp29tn in RAPBN through the ministries can be seen as a more realistic approach to next year's project realization. With huge projects such as power plants and railways only to start work by the beginning of next year, projects to start tendering and then realized next year may decrease (in numerical terms) to the target APBN set out this year.

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