

Indonesia Economic Briefing

Small deflation, trade surplus maintained



| | Apr-14 (Actual) | Apr-14 (Fcast)* | Apr-14 (Cons.) | Mar-14 | Feb-14 |
|----------------------------|--------------------|--------------------|-------------------|--------|--------|
| Headline CPI (% chg y-o-y) | 7.25 | 7.21 | 7.25 | 7.32 | 7.75 |
| Headline CPI (% chg m-o-m) | -0.02 | -0.06 | -0.03 | 0.08 | 0.26 |
| Headline CPI (% chg y-t-d) | 1.39 | 1.35 | na | 1.41 | 1.33 |
| Core CPI (% chg y-o-y) | 4.66 | 4.63 | 4.65 | 4.61 | 4.57 |

Source: Bloomberg, BPS, CEIC, *Danamon Estimates

A small deflation due to the harvesting season

- **Headline CPI declined slightly by 0.02%mom in April, lower than our expectation at -0.06%mom and the market consensus at -0.03%.** It then brought the year on year inflation rate to decline slightly to 7.25%, compared to 7.32% in the previous month, due to a high base effect, i.e. 0.05%mom inflation in April-13.
- **The deflation was driven by the relatively lower raw food prices** as we are still in the harvesting season. Food prices declined significantly, particularly rice, chili and vegetables. They gave the highest contribution to the deflation by around 0.31%mom. The deflation was also caused by the declining gold jewelry price with contribution around -0.03%mom.
- **Unexpectedly, the price of air transportation increased further**, which may be caused by the increasing world oil price in April and the higher demand of transportation due to the national election event.
- Meanwhile, core inflation was at 4.66%, higher than 4.61% in the previous month. This may be caused by increasing demand for goods, transportation and communication due to the national election event, and impact of the weakness in Rupiah, despite the decreasing of the gold jewelry price.

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| | Mar-14 (Actual) | Mar-14* (Forecast) | Mar-14* (Cons.) | Feb-14 | Jan-14 |
|-------------------------|--------------------|-----------------------|--------------------|--------|--------|
| Export Growth (% y-o-y) | 1.2 | -2.1 | -1.1 | -2.5 | -5.8 |
| Import Growth (% y-o-y) | -2.3 | -4.7 | -4.0 | -9.9 | -3.5 |
| Trade Balance (US\$bn) | 0.67 | 0.53 | 0.52 | 0.84 | -0.43 |

Source: Bloomberg, BPS, CEIC, *Danamon Estimates, **Revised

Trade Balance continue to record surplus

- **March's trade balance (the statistics office data) continue to print surplus.** Exports recorded a small positive growth at 1.2%yoy, which was able to counter the slowing pace of decline in imports. After falling sharply by 10%yoy in February, this month imports declined by only 2.3%yoy. This brought the trade balance to continue to print surplus of USD673mn.

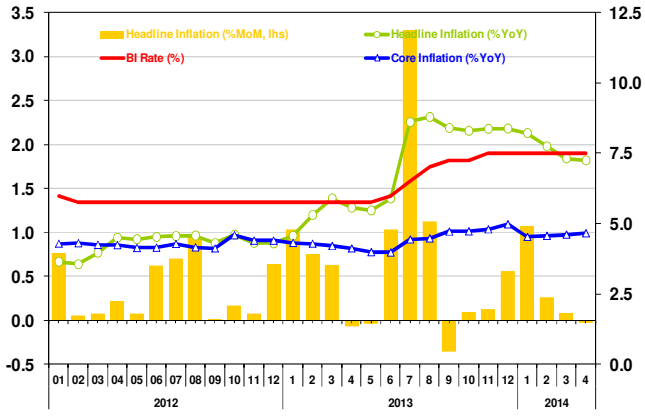
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- **The statistics office also revised February's trade balance data higher at USD840mn (previously was at USD785mn) due to higher records of oil exports.**
- March's trade surplus was driven more by higher surplus in the non oil and gas balance, while the oil and gas balance's deficit continue to edge higher.
- **Improvement in the non oil and gas balance was supported by coal and CPO exports** in line with the higher global price in March. However, **biggest month on month growth was seen in the exports of vehicles and parts indicated some improvement in the manufacturing exports.** But we still need to see further evidence whether the improvement in the manufacturing sector could counter the depressed commodity exports.
- Deficit on the oil balance is higher, driven by rising oil imports. This could put further pressure for the government (who are currently preparing budget revision to the parliament) to enact another fuel subsidy reform program. A high possibility would be the option to fixed the amount of fuel subsidy per liter, to help reduce pressure on the state budget.
- Declines were seen in the imports of iron and steel and chemical but the overall non oil and gas imports was still rising slightly. Consumption goods and raw material imports seen picking up, while capital goods remained subdued in line with the slowing FDI inflows in the first quarter.

Market & Policy Implications

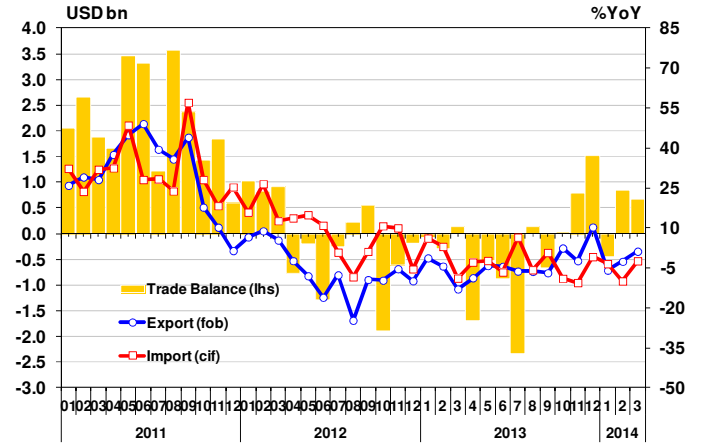
- So far, no big pressure on the inflation as we are still in the harvesting season. We still expect the overall inflation rate would be lower than last year. However **we remain watchful on few upside risks such as the segmented electricity rate hike that will be effective in May and also the potential measures that may be undertake to address the swelling fuel subsidy burden this year.**
- **The state budget revision (possibly in May) may also give some lights on measures that will be taken by the government to avoid the fiscal deficit to exceed the 3% limit.** The measures most likely will include the fixed fuel subsidy scheme, that could have impact on the inflation as well, if the amount of the fixed subsidy is still below the difference between the subsidized and the market price.
- **Inflation this year could be higher than our previous forecast early this year due to the segmented electricity rate hike.** The government will raise the electricity tariff for the medium and large scale industry gradually every two month until end of 2014. The impact on the inflation would depend on the passthrough to the consumer prices. Beside the industries, the electricity tariff will also be floated (adjusted to the changes in the rupiah exchange rate, the ICP (Indonesia's crude prices) and inflation) for certain type of user i.e. large scale usage households (R-3), medium and large scale businesses (B-2,B-3) and government institution (P-1). **Based on our calculation, the overall additional impact could be around 0.4% thus the YE inflation forecast could reach 5.37%yoy.**
- Trade data so far remained on track, though we are still counting on the improvement in the manufacturing exports to counter the subdued commodity exports. As inflation remained low, trade data remained positive and exchange rate relatively stable, **we do not think BI will change the policy rate at its next meeting, as in general, most economic variables are still on track.**

Chart 1. Indonesia CPI Inflation



Source: BPS, CEIC

Chart 2. Indonesia Foreign Trade



Source: BPS, CEIC

Indonesia: Selected Economic Indicators

| | 2010 | 2011 | 2012 | 2013 | 2014E | 2015E |
|-----------------------------------------------|-------|-------|-------|--------|--------|--------|
| National Accounts | | | | | | |
| Real GDP (% y-o-y) | 6.2 | 6.5 | 6.3 | 5.8 | 5.7 | 6.2 |
| Domestic demand ex. inventory (% y-o-y) | 5.3 | 5.7 | 6.1 | 5.1 | 5.5 | 5.7 |
| Real Consumption: Private (% y-o-y) | 4.7 | 4.7 | 5.3 | 5.3 | 5.2 | 5.4 |
| Real Gross Fixed Capital Formation (% y-o-y) | 8.5 | 8.8 | 9.7 | 4.7 | 4.0 | 6.8 |
| GDP (US\$bn) — nominal | 710 | 845 | 879 | 871 | 901 | 1,078 |
| GDP per capita (US\$) — nominal | 2,986 | 3,509 | 3,596 | 3,478 | 3,551 | 4,195 |
| Open Unemployment Rate (%) | 7.1 | 6.6 | 6.1 | 6.3 | 6.1 | 6.1 |
| External Sector | | | | | | |
| Exports, fob (% y-o-y, US\$ bn) | 32.1 | 27.0 | -6.1 | -2.6 | 2.2 | 6.0 |
| Imports, fob (% y-o-y, US\$ bn) | 43.7 | 30.3 | 8.4 | -1.4 | 3.7 | 4.2 |
| Trade balance (US\$ bn) | 30.6 | 34.8 | 8.6 | 6.1 | 3.6 | 6.8 |
| Current account (% of GDP) | 0.7 | 0.2 | -2.7 | -3.3 | -2.9 | -2.4 |
| Central government debt (% of GDP) | 26.1 | 24.6 | 23.1 | 22.0 | 21.2 | 22.2 |
| International Reserves –IRFCL (US\$ bn) | 96.2 | 110.1 | 112.8 | 99.4 | 100.8 | 103.5 |
| Reserve Cover (Months of imports & ext. debt) | 7.1 | 6.3 | 6.1 | 5.4 | 5.6 | 5.8 |
| Currency/US\$ (Year-end) | 8,991 | 9,068 | 9,670 | 12,189 | 11,058 | 10,754 |
| Currency/US\$ (Average) | 9,085 | 8,779 | 9,380 | 10,428 | 11,605 | 10,770 |
| Other | | | | | | |
| BI policy rate (% year end) | 6.50 | 6.00 | 5.75 | 7.50 | 7.75 | 8.00 |
| Consumer prices (% year end) | 6.96 | 3.78 | 3.65 | 8.08 | 5.37 | 4.61 |
| Fiscal balance (% of GDP; FY) | -0.73 | -1.14 | -1.77 | -2.24 | -2.20 | -2.00 |
| S&P's Rating – FCY | BB | BB+ | BB+ | BB+ | BB+ | BB+ |

Source: CEIC, *Danamon Estimates

Economic and Market Research

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