



Economic Highlights

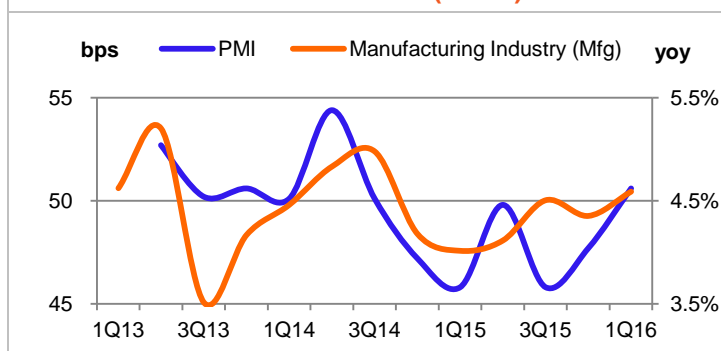
- The statistics office announced a **lower than expected economic growth of 4.92%yoy** for the first quarter in 2016. Despite a moderate slide compared to the revised 4Q15 figure of 5.04%, it has actually risen compared to 1Q15 result of 4.73%. Shortly after the announcement, market responded with a sell in IDR securities (especially 10Y govies) and some greenback buying on the side as they were expecting above 5.0% growth, raising concern on outlook for the rest of this year.
- Taking a deeper look into the breakdown, we have come to realize that **the fundamental is not as bleak as we initially thought**. Several factors worth highlighting are as follow: 1) despite unconvincing consumer leading indicators -e.g. diminished purchasing power, declining credit growth for household, and the contraction in vehicle sales-, private consumption surprisingly has continued to hold up; 2) steady improvement in the manufacturing sector with Purchasing Managers Index in expansionary mode (*please see Chart 1.*); and 3) sound growth in real investment precipitated through the construction sector. Based on these, we maintain our FY16 GDP growth projection of 5.03%.
- There have been questions on whether elevating investment can counterweight the fall in consumption, as the former makes up 33% of GDP while the latter reaches 56%. Another intriguing discussion would be **how fast, should government and corporate spending be able to grow at high pace, is the transmission to private consumption**. From Chart 2 we can learn that it takes 4 quarters of maintained high growth in government and corporate spending (3Q10-2Q11) before household spending picks up. This was also during times of commodity price boom, which is reflected by the magnitude of acceleration. Amid the absence of bold policy measures, the magnitude of an accelerated private consumption may be smaller in comparison.
- **Game-changers to watch for?** We believe long-term investment commitment is necessary to achieve sustainable growth. This transpires through the **Tax Amnesty Bill and capital injection to SOEs**, which now lingers on parliament's approval. A fraction of illicit fund repatriated would mean additional liquidity to push down interest rates and finance growth. Note that banks' loan to deposit ratio (LDR) have ranged between 89%-91% since mid 2013, putting a cap on its ability to lend.

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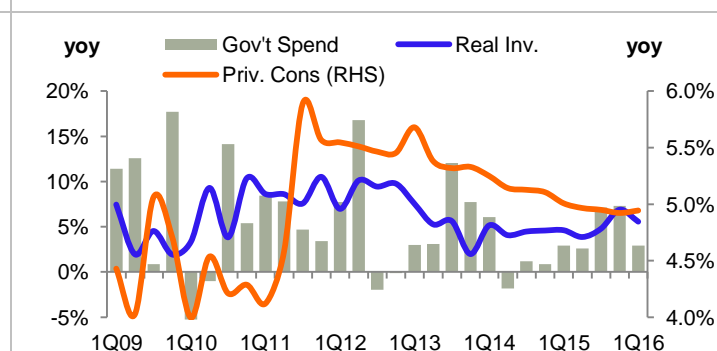
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Chart 1. PMI vs Real Investment (GFCF)



Source: Markit, Central Bureau of Statistics (BPS), CEIC

Chart 2. Growth of Domestic Demand



Source: Central Bureau of Statistics (BPS), CEIC

Indonesia: Selected Economic Indicators

	2011	2012	2013	2014	2015	2016E
National Accounts						
Real GDP (% y-o-y)	6.2	6.0	5.6	5.0	4.8	5.0
Domestic demand ex. inventory (% y-o-y)	6.1	7.7	5.0	5.4	3.9	5.0
Real Consumption: Private (% y-o-y)	5.1	5.5	5.4	5.2	5.0	5.1
Real Gross Fixed Capital Formation (% y-o-y)	8.9	9.1	5.0	4.6	5.1	4.8
GDP (US\$bn) — nominal	893	918	915	890	862	893
GDP per capita (US\$) — nominal	3,688	3,741	3,668	3,530	3,374	3,453
Open Unemployment Rate (%)	6.6	6.1	6.3	5.9	6.2	6.0
External Sector						
Exports, fob (% y-o-y, US\$ bn)	29.0	-6.6	-3.9	-3.4	-14.8	2.0
Imports, fob (% y-o-y, US\$ bn)	30.8	8.0	-2.6	-4.5	-19.9	4.0
Trade balance (US\$ bn)	26.1	-1.7	-4.1	-1.9	7.6	11.6
Current account (% of GDP)	0.2	-2.7	-3.7	-3.2	-2.1	-2.3
Central government debt (% of GDP)	22.3	22.3	21.3	23.6	25.0	24.6
International Reserves –IRFCL (US\$ bn)	110.1	112.8	99.4	111.9	105.9	103.0
Reserve Cover (Months of imports & ext. debt)	6.3	6.1	5.4	6.5	7.4	7.0
Currency/US\$ (Year-end)	9,068	9,670	12,189	12,440	13,795	13,800
Currency/US\$ (Average)	8,779	9,380	10,428	11,900	13,392	13,450
Other						
BI policy rate (% year end)	6.00	5.75	7.50	7.75	7.50	6.75
Consumer prices (% year end)	3.78	3.65	8.08	8.36	3.35	4.18
Fiscal balance (% of GDP; FY)	-1.14	-1.77	-2.24	-2.26	-2.70	-2.50
S&P's Rating – FCY	BB+	BB+	BB+	BB+	BB+	BBB+

Source: CEIC, *Danamon Estimates

Economic and Market Research

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