



### Economic Highlights

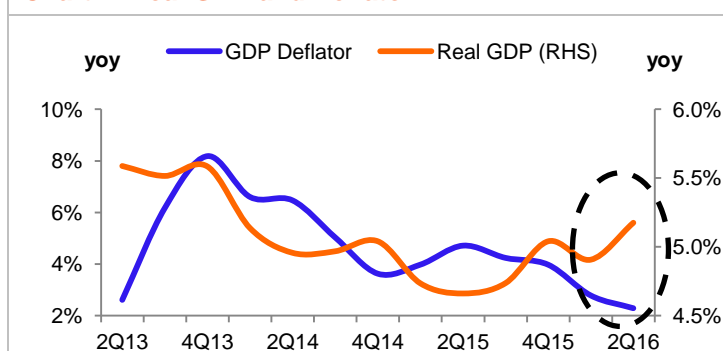
- The statistics office announced a **better than expected economic growth of 5.18%yoy** for the second quarter in 2016. This tuned the first half growth into 5.04%yoy. The largest increase of contributors to GDP was coming from agriculture and financial sector. With the first merely due to a shift in recording harvest output from 1Q16 to 2Q16 and the latter due to lag in interest rate adjustment that widened banks' margin. It is also worth noting that manufacturing sector continues to accelerate with Purchasing Managers Index in expansionary mode (*please see Chart 2*), despite a modest drop in capacity utilization rate.
- We have found a **decoupling between deflator and real output** (*please see Chart 1*). A GDP deflator is essentially use to measure price inflation for all new domestically produced goods and services, derived by dividing nominal GDP with real GDP. Today's release showed that nominal GDP has slightly fallen while real GDP increased, resulting in an even softer deflator. This means that improved real income was not necessarily a product of better earnings but on the back of lower prices. It also helps explain why corporate players are still expressing concerns of subdued demand (as their revenue is reflected in nominal GDP).
- Taking a deeper look into the expenditure breakdown, we highlight several issues regarding the outlook: 1) **unsettling real income** given the gradual rise in global commodity prices, 2) potential slowdown in government spending along with **plans of budget cut** worth IDR133.8tn, but 3) partly offset by the **disbursement of capital injection to SOEs** that may support real investment. Based on these, we maintain our FY16 GDP growth projection of 5.04% yet reckon for a potential upside to 5.14%.
- **Possible policy implication?** We have been flagging that determinants for monetary easing depend on low inflation as well as stable currency and ample liquidity at this juncture. Although these determinants have been fulfilled, the fact that Rupiah stability stems from spillovers of capital inflow had put us on a more cautious stance. We also saw Bank Indonesia was in the market to guard REER to not appreciate abruptly and hurt exporters. And we believe the recovery in loan growth would provide cushion for BI to reserve its policy ammunition. Thus, our baseline for further monetary easing remained at the fourth quarter this year, which is timely in terms of knowing the success rate of tax amnesty program.

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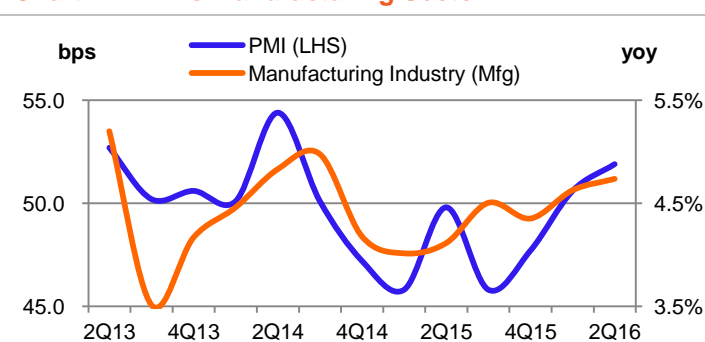
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**Chart 1. Real GDP and Deflator**



Source: Central Bureau of Statistics (BPS), CEIC

**Chart 2. PMI vs Manufacturing Sector**



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

## Indonesia: Selected Economic Indicators

	2011	2012	2013	2014	2015	2016E
<b>National Accounts</b>						
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
<b>External Sector</b>						
Exports, fob (% y-o-y, US\$ bn)	29.0	-6.6	-3.9	-3.4	-14.8	-7.5
Imports, fob (% y-o-y, US\$ bn)	30.8	8.0	-2.6	-4.5	-19.9	-6.9
Trade balance (US\$ bn)	26.1	-1.7	-4.1	-1.9	7.6	6.1
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	13,400
Currency/US\$ (Average)	8,779	9,380	10,428	11,900	13,392	13,360
<b>Other</b>						
BI policy rate (% year end)	6.00	5.75	7.50	7.75	7.50	6.25*
BI 7-Day Reverse Repo rate (% year end)	N/A	N/A	N/A	N/A	6.25	4.75
Consumer prices (% year end)	3.78	3.65	8.08	8.36	3.35	3.94
Fiscal balance (% of GDP; FY)	-1.14	-1.77	-2.24	-2.26	-2.70	-2.50

Source: CEIC, E = Danamon Estimates, \*) Up to August 2016

## Economic and Market Research

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