

Indonesia Economic Briefing

3Q16 GDP: Direct Economical Impact of Tax Amnesty



Economic Highlights

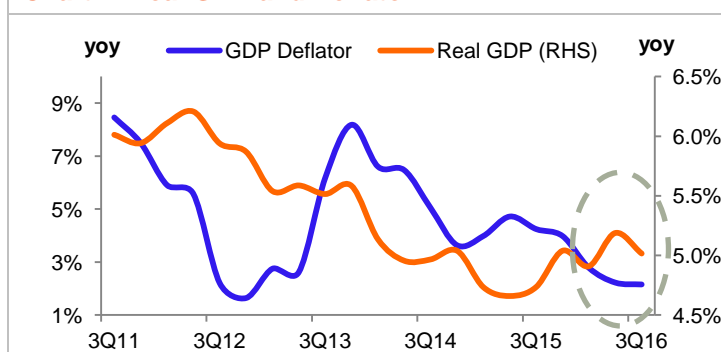
- The statistics office announced **Indonesia's economic growth of 5.02%yoy** for the third quarter in 2016, well in-line with our and market estimates. This tuned the cumulative 9M16 growth into 5.04%yoy. The largest increase of contributors to GDP was coming from manufactured beverage sector, which is also seen in the imported non-alcoholic drinks of trade balance. However, overall manufacturing sector have eased with capacity utilization rate, for both overall and electricity usage, falling (*please see Chart 3 and 4*).
- We have also found an **unusually high increase of tax portion in the Supply side of GDP calculation**. By this methodology, the GDP is accounted by adding: 1) intermediate input or raw materials to all industries, 2) labor input through wages, 3) entrepreneurship that is reflected by capital, profit, and tax payment but excludes government subsidies. Now the tax contribution itself has risen from an average of 0.4% GDP in 1H16 to 0.9% in 3Q16, while others are sliding. We suspect this was due to penalty payments for tax amnesty -collected around 0.8% GDP in 3Q16 alone-, meaning that idle money within the system has directly contributed to the economy through tax increase. Hence, there's a possibility that it will continue in the next 2 quarters, although at a lesser extent.
- Taking a deeper look into the expenditure breakdown, we highlight several issues regarding the outlook: 1) **unsettling real income** given a gradual rise in global commodity prices as well as inflation, 2) potential slowdown in government spending along with **countermanded capital injection to SOEs**, but 3) partly offset **by tax proceeds and low interest rates**. Based on these, we maintain our FY16 GDP growth forecast of 5.04% as the fourth quarter would be in the same range as today's result.
- **Possible policy implication?** Monetary policymakers have repeatedly suggested that room for further easing is still available, despite data-dependant. Hence, market will closely watch the result of US election and its impact to global financial pool this week. On the domestic side, 3Q16 BoP and October trade balance are due to be released on Nov 11th and 15th, respectively. We are still on the view that low policy rate helps to consolidate banks' NPL at a faster pace, reflected as well on the high growth in financial sector by GDP calculation. Current monetary transmission has not reach its full potential, yet the spread will automatically narrow once NPL issues subside. Then we can expect lending rate to fall and support productive growth.

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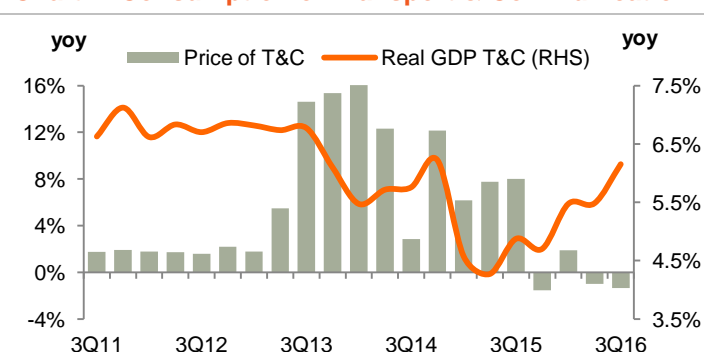
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Chart 1. Real GDP and Deflator



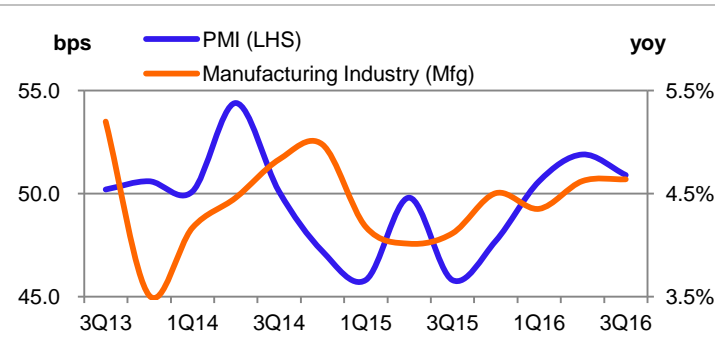
Source: Central Bureau of Statistics (BPS), CEIC

Chart 2. Consumption of Transport & Communication



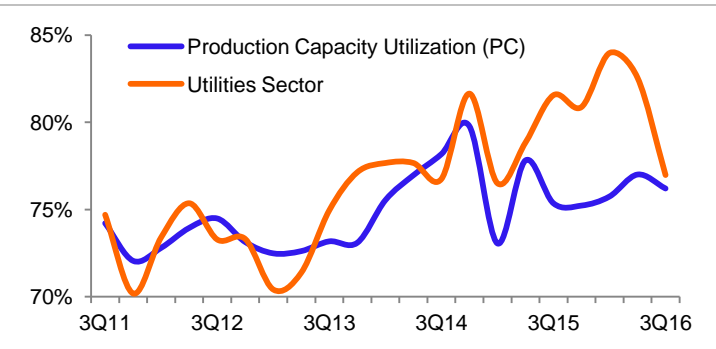
Source: Central Bureau of Statistics (BPS), CEIC

Chart 3. PMI vs Manufacturing Sector



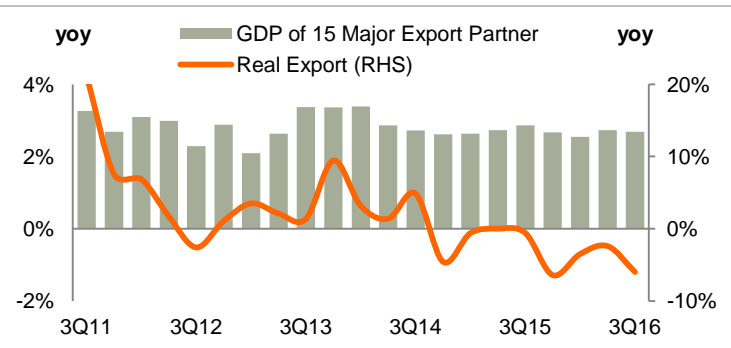
Source: Markit, Central Bureau of Statistics (BPS), CEIC

Chart 4. Industrial Capacity Utilization Rate



Source: Central Bureau of Statistics (BPS), CEIC

Chart 5. Real Export and GDP of Major Partners



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	-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
Other						
BI policy rate (% year end)	6.00	5.75	7.50	7.75	7.50	6.50*
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	3.20
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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