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Indonesia Economic Briefing

Second Cabinet Reshuffle: Solidifying Consolidation



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- President Jokowi announced his new “Working Cabinet” line-up earlier today by rotating 4 ministers and bringing in 9 new officials. This is larger than the first reshuffle with 6 posts back on August 2015, as it engaged a third of total cabinet members (and even higher if we include the recent installment of the Chief of Police). On his introduction, the President stated that time warrants for changes in order to face the following challenges: 1) economic growth with emphasis on equality and job openings, 2) navigating through global economic volatility, 3) the need for solidity and consolidation.
- It appears to largely reflect the reality of Indonesia’s political landscape, whereby consolidation between political parties had gradually taken place. The support from Golkar and National Mandate Party (PAN) was accommodated by several posts in both coordinating and line ministries. We take this as positive in terms of smoothening priority programs between the government and parliament.
- Our initial concern was that several cuts seemingly dismissed earlier merits held by former ministers, e.g. reform on the energy sector and infrastructure development that was mainly in the transportation sector. But soon realized that the need for “quick win” showcases had subsided and time has warranted for a different type of breakthroughs. What the government needs to focus on next is streamlining business licenses that could lead to ease of doing business and attract direct investments. And of the 13 reshuffled posts, half were on technical ministries that could lead to such breakthrough.
- In terms of navigating the economy amid global volatility, the President has reappointed Sri Mulyani Indrawati (former Managing Director of World Bank and former Minister of Finance during SBY’s era) as Minister of Finance. The move implied multiple stand points, in our view. First, her credibility in the international market would not only prove beneficial in such volatile environment but also timely in regards to the implementation of tax amnesty. Second, fiscal discipline would be enhanced and driven from the revenue side. Please note that during her 5 year tenure as MoF back in 2005 to 2010, tax ratio managed to reach 12.5% of GDP with budget deficit ranging between 0.1percent-1.5percent of GDP.
- Overall, market reaction has been neutral to positive over today’s announcement. Hopes of restored confidence towards the government could encourage private sector to spend and invest. While anxiously awaits on the next move that the president has up his sleeve.

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	6.25*
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
S&P's Rating – FCY	BB+	BB+	BB+	BB+	BB+	BB+

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

Economic and Market Research

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