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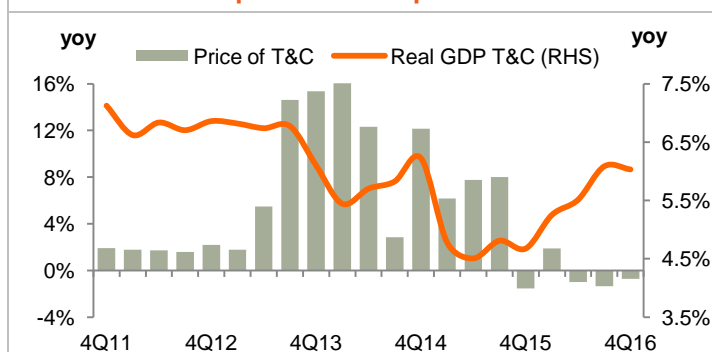
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Economic Highlights

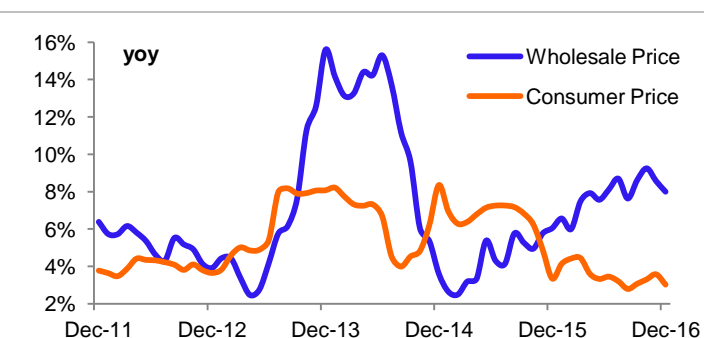
- The statistics office announced **Indonesia's economic growth of 4.94%yoy** for the fourth quarter in 2016, well in-line with our estimate. Non oil and gas export growth turned positive for the first time since 2014, mainly on the back of higher commodity prices. We suspect that there was also additional expenditure linked to the run-up of local government elections, which transpired through solid growth of non-profit institution spending. Meanwhile, household consumption dipped below 5.0% growth despite strong booking of passenger vehicle sales (*please see Chart 1*).
- FY16 economic growth was tuned into 5.02%, improving compared to the revised 2015 result of 4.88%. Alongside of this we found **the contribution of inventory and statistical discrepancy had turned from -0.6% of GDP to +1.0% of GDP**. A statistical discrepancy measures the residual between supply-side (production) and demand-side (expenditure) of GDP calculation. Now an additional 1.0% of GDP comprises of 0.4% stock up in inventory and 0.6% extra products that are unexplained and not purchased. Meaning that aggregate supply has exceeded aggregate demand in 2016, in line with the low inflation we saw last year.
- We also found a **widening decoupling between inflation price at the wholesale level and that at the consumer level** (*please see Chart 2*). It suggests that producers, due to weak demand concerns, had opted to absorb the increasing cost of production by squeezing their margin instead of passing it through to customers. The question remains on whether this trend would persist in the face of increasing energy costs, which may already take place as the growth of manufacturing sector plunged from around 4.5% to 3.4% in 4Q16 (a number not seen since 3Q13) and core inflation has gradually risen last month.
- The abovementioned findings have reinforced our view on the 2017 outlook. While the fiscal engine is revitalized, household consumption and corporate spending may be somewhat curbed by transitory inflation on energy costs. Yet we also expect that there's a chance of a slight pick-up for corporate in 2H17, after the banking sector finishes its consolidation and lending rates have hit bottom. The upside to GDP comes from export potentials this year, namely on primary commodities and selected manufacturing to the US (apparels and furniture). **We are maintaining our call for FY17 GDP at 5.04%**.

Chart 1. Consumption of Transport & Communication



Source: Central Bureau of Statistics (BPS), CEIC

Chart 2. Wholesale and Consumer Price Index



Source: Central Bureau of Statistics (BPS), CEIC

Indonesia: Selected Economic Indicators

	2013	2014	2015	2016	2017E
National Accounts					
Real GDP (% y-o-y)	5.6	5.0	4.9	5.0	5.0
Domestic demand ex. inventory (% y-o-y)	5.0	5.4	3.9	5.0	4.9
Real Consumption: Private (% y-o-y)	5.4	5.2	5.0	5.0	4.9
Real Gross Fixed Capital Formation (% y-o-y)	5.0	4.6	5.0	4.5	5.2
GDP (USD bn) — nominal	915	890	862	923	925
GDP per capita (USD) — nominal	3,668	3,530	3,374	3,569	3,577
Open Unemployment Rate (%)	6.3	5.9	6.2	5.6	5.5
External Sector					
Exports (% y-o-y, BoP Basis)	-2.8	-3.7	-15.4	-3.7 (E)	7.0
Imports (% y-o-y, BoP Basis)	-1.3	-4.5	-19.7	-4.4 (E)	6.6
Trade balance (USD bn, BoP Basis)	5.8	6.9	13.3	13.7 (E)	15.2
Current account (% of GDP)	-3.7	-3.2	-2.1	-2.0 (E)	-1.8
Central government debt (% of GDP)	21.3	23.6	25.0	27.8 (E)	30.2
International Reserves –IRFCL (USD bn)	99.4	111.9	105.9	116.4	114.0
Reserve Cover (Months of imports & ext. debt)	5.4	6.5	7.4	8.4	8.4
Currency/US\$ (Year-end)	12,189	12,440	13,795	13,436	13,555
Currency/US\$ (Average)	10,428	11,900	13,392	13,308	13,504
Other					
BI policy rate (% year end)	7.50	7.75	7.50	6.50*	N/A
BI 7-Day Reverse Repo rate (% year end)	N/A	N/A	6.25	4.75	5.00
Consumer prices (% year end)	8.08	8.36	3.35	3.02	4.57
Fiscal balance (% of GDP; FY)	-2.24	-2.26	-2.70	-2.46	-2.60
S&P's Rating – FCY	BB+	BB+	BB+	BB+	BB+

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

Economic and Market Research

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