



Wisnu Wardana
Economist

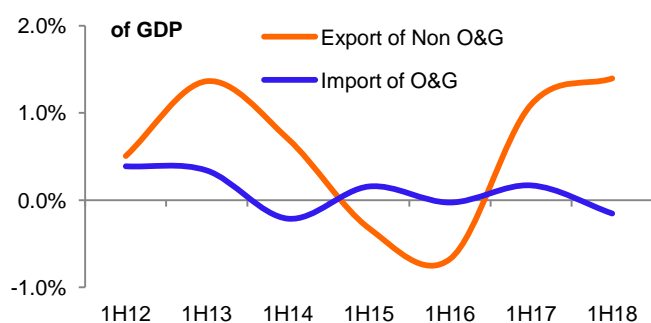
wisnu.wardana@danamon.co.id

Economic Highlights

- The statistics office announced **Indonesia's economic growth of 5.27% yoy** for the second quarter of 2018, higher than our 5.10% estimate. There were two specific factors that helped boost the result in 2Q18: 1) harvest booking, which was shifted from the first quarter in 2017 to the second quarter this year. As we have mentioned in the past, the gap can go up to 0.3pps with low base effect and 2) realization of the government's social spending that amounted around IDR 27tn. Both factors will have phased out in quarters to come.
- A point worth highlighting from 1H18 cumulative figures was the contribution of trade towards GDP (*please see Chart 1*). Export of non-oil and gas sustained its recovery despite the drop in CPO price, whilst coal and basic manufacturing products have upheld previous growth momentum. What came as a surprise was actually **the negative growth of imported oil and gas in the midst of faster economic recovery**. Please keep in mind that average oil price had surged by 40% this year and Indonesia is a net oil importing country for consumption purposes.
- Another note worth pointing out was the sizable increase in inventories. It seems that producers were ramping up supply as a rebuttal towards the sudden pick-up in household purchasing power. This was also concurred by the highest capacity utilization rate since 2014. And since overall data suggest that the improvements were broad-based across subsectors, **we think the economic structure and especially the real sector has gotten healthier**.
- **What next?** Our view on consumption remains unchanged in the sense that income and saving recoveries for the past 2 years will continue to bear fruit. The frontloading of direct investment during the first half of this year should somewhat ease on the run up towards presidential election. Much also depends on whether the government will proceed in managing imported capital goods for infrastructure. But our thoughts for the medium-run still lingers on paving way for top local players to set-up shop internationally, so that the Primary Income and Gross National Product¹ figures can be overturned (*please see Chart 2*).

Please see the important disclaimer and information on the back of this report.

Chart 1. Trade Contribution to GDP



Source: Central Bureau of Statistics (BPS), Danamon Calculation

Chart 2. Gross National Product – 2017 Comparison

| Country | NIIP/GDP | Primary Income/GDP | GNP/GDP |
|------------------|-------------|--------------------|--------------|
| India | -17% | -1.3% | 1.02x |
| US | -45% | +1.0% | 1.01x |
| China | +16% | -0.6% | 0.99x |
| Indonesia | -33% | -3.1% | 0.97x |

Source: Central Bureau of Statistics (BPS), CEIC, Danamon Calculation

¹ $GNP = GDP + [(income\ earned\ on\ all\ foreign\ assets - income\ earned\ by\ foreigners\ in\ the\ country)]$.

Indonesia: Selected Economic Indicators

| | 2014 | 2015 | 2016 | 2017 | 2018E |
|---|--------|--------|--------|-----------|--------|
| National Accounts | | | | | |
| Real GDP (% y-o-y) | 5.0 | 4.9 | 5.0 | 5.1 | 5.1 |
| Domestic demand ex. inventory (% y-o-y) | 5.3 | 4.0 | 5.0 | 4.8 | 5.6 |
| Real Consumption: Private (% y-o-y) | 5.1 | 5.0 | 5.0 | 4.9 | 5.0 |
| Real Gross Fixed Capital Formation (% y-o-y) | 4.4 | 5.0 | 4.5 | 6.2 | 6.3 |
| GDP (USD bn) — nominal | 891 | 861 | 933 | 1,016 | 1,076 |
| GDP per capita (USD) — nominal | 3,532 | 3,370 | 3,603 | 3,878 | 4,050 |
| Open Unemployment Rate (%) | 5.9 | 6.2 | 5.6 | 5.5 | 5.3 |
| External Sector | | | | | |
| Exports (% y-o-y, BoP Basis) | -3.7 | -14.9 | -3.1 | 16.9 | 6.5 |
| Imports (% y-o-y, BoP Basis) | -4.5 | -19.7 | -4.5 | 16.2 | 13.0 |
| Trade balance (USD bn, BoP Basis) | 6.9 | 14.1 | 15.4 | 18.9 | 10.3 |
| Current account (% of GDP) | -3.2 | -2.1 | -1.8 | -1.7 | -2.5 |
| Central government debt (% of GDP) | 24.7 | 27.4 | 27.8 | 28.6 (E) | 28.7 |
| International Reserves –IRFCL (USD bn) | 111.9 | 105.9 | 116.4 | 130.2 | 120.6 |
| Reserve Cover (Months of imports & ext. debt) | 6.5 | 7.4 | 8.4 | 8.3 | 7.7 |
| Currency/US\$ (Year-end) | 12,440 | 13,795 | 13,436 | 13,548 | 14,100 |
| Currency/US\$ (Average) | 11,878 | 13,392 | 13,308 | 13,383 | 13,950 |
| Other | | | | | |
| BI policy rate (% year end) | 7.75 | 7.50 | 6.50* | N/A | N/A |
| BI 7-Day Reverse Repo rate (% year end) | N/A | 6.25 | 4.75 | 4.25 | 5.75 |
| Consumer prices (% year end) | 8.36 | 3.35 | 3.02 | 3.61 | 3.64 |
| Fiscal balance (% of GDP; FY) | -2.26 | -2.70 | -2.46 | -2.60 (E) | -2.52 |
| S&P's Rating – FCY | BB+ | BB+ | BB+ | BBB- | BBB- |

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

Economic and Market Research

| | | |
|---|------------------|-------------------------------|
| Wisnu Wardana wisnu.wardana@danamon.co.id | Economist | +62 21 8064-5000 ext. 8873 |
| Dian Ayu Yustina dian.yustina@danamon.co.id | Economist | +62 21 8064-5000 ext. 8875 |

PT Bank Danamon Indonesia, Tbk.
Menara Bank Danamon
Jl. H.R. Rasuna Said Kav. C-10, Kuningan
Jakarta 12940
Indonesia

Facs: +62 21 80645263

ANALYST CERTIFICATION

We hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views in this report.

DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Bank Danamon Indonesia, Tbk. and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof. We expressly disclaim any responsibility or liability (express or implied) of P.T. Bank Danamon Indonesia, Tbk. its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Bank Danamon Indonesia, Tbk. its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission there from which might otherwise arise is hereby expressly disclaimed. The information contained in this report is not to be taken as any recommendation made by P.T. Bank Danamon Indonesia, Tbk. or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regards to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.