Indonesia Economic Briefing

Balancing the Gap

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Economic Highlights

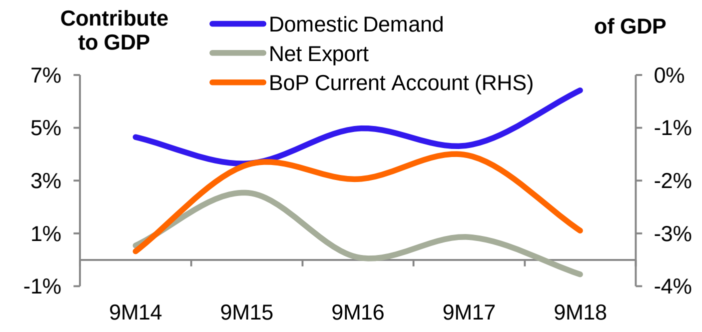
- The statistics office announced **Indonesia's economic growth of 5.17% yoy** for the third quarter of 2018, in line with our estimate. Two specific factors that helped boost the result in 2Q18 at 5.27% -i.e. harvest booking and realization of the government's social spending- have expectedly phased out. But we think it will reemerge next year as the newly approved government budget for 2019 had penciled in more social spending.

- On cumulative basis, 9M18 GDP also grew by 5.17% compared to year-ago levels. Looking at the breakdown by expenditure, it was clear that **growth was driven domestically** to the point that import had overturned external demand for Indonesia's exported goods and services (*please see Chart 1*). While from the supply side, several sectors that have been improving this year can be attributed to the same drivers -e.g. better purchasing power leads to an increase in wholesale and retail trade of non-vehicles, strong fixed investment leads to higher service and import of electricity-related sector, and robust government spending leads to surging public and education services-.

- Aside from that, couple of notes worth pointing out were: 1) the **sliding contribution in tax minus subsidy** from 0.9% of GDP in 9M15 to 0.4% of GDP in 9M18. This goes in line with statements from high ranking officials within the MoF in regards to tax expenditure as an instrument to support growth, and 2) 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 (and/or preparation against higher production cost, going forward).

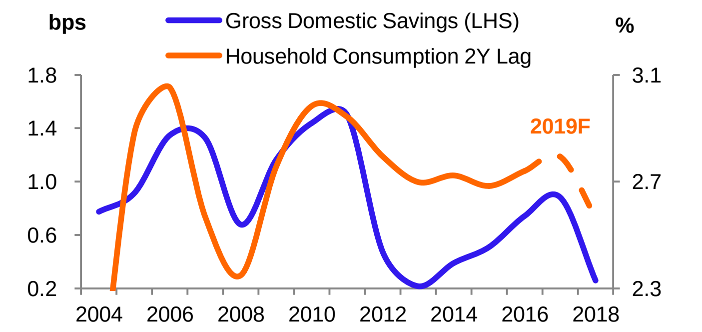
- **Outlook?** Our view on consumption remains unchanged in the sense that income and saving recoveries for the past 2 years will continue to bear fruit then gradually peaking within the next 9 months (*Please see Chart 2*). However, given the current status in external account, we think the imbalance between domestic and external demand needs to be addressed delicately. Much also depends on whether the government will proceed in managing imported capital goods for infrastructure. Our FY18 and FY19 GDP forecasts remained at 5.14% and 5.18%, respectively.

Chart 1. Impact of GDP Imbalance to BoP



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

Chart 2. GDS[1] & Household Consumption



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

[1] *Gross Domestic Savings (GDS) consists of savings from household, corporate, and public sectors, after their income are used for consumption. What drives GDS are FDI and export. GDS moved well in-line with commodity prices as the economy relies heavily on them. There's a 2-year lag adjustment between GDS and household consumption.*

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	-2.7
Central government debt (% of GDP)	24.7	27.4	27.8	28.9	30.3
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	14,500
Currency/US$ (Average)	11,878	13,392	13.308	13,383	14,180
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	6.00
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	-2.51	-2.08
S&P's Rating – FCY	BB+	BB+	BB+	BBB-	BBB-

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

Economic and Market Research

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