

Hanging in There Indonesia's growth consolidates further

Feb 6, 2017

- At 4.94% yoy, Indonesia's Q4 GDP came a tad shy of our expectation of 5.0% and lower than 5.02% of the previous quarter, bearing signs of another quarter of fiscal pullback, even as private consumption largely held up.
- In an ideal world, Indonesia could lean on rate cuts by the central bank and fiscal largesse by the government to boost growth. Inflation uptick limits what BI can do however. And deficit caps continue to encumber fiscal space.
- Still, the momentum looks comfortable enough for us to believe there is no need for such risky moves, especially if structural reforms continue apace. Moreover, its domestic growth orientation will remain a big plus, as opposed to countries with fortunes that are more entwined with global trade flows.

Treasury Advisory

Corporate FX &

Structured Products

Tel: 6349-1888 / 1881

Fixed Income &

Structured Products

Tel: 6349-1810

Interest Rate

Derivatives

Tel: 6349-1899

Investments &

Structured Products

Tel: 6349-1886

Wellian Wiranto

Economist

Treasury Research &
Strategy,
Global Treasury,
OCBC Bank

+65 6530-5949

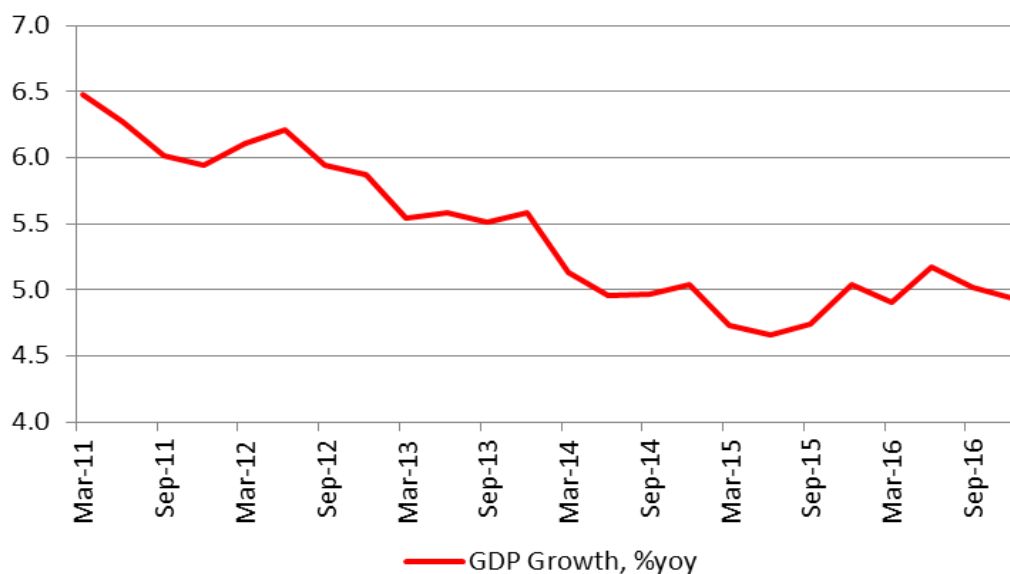
wellianwiranto@ocbc.com

No need for boosts

In a world whereby market wakes up wondering which fellow leader Donald Trump has argued with over the phone, or which country is at the receiving end of his unfair currency devaluation accusations, it is rather hard to quibble excitedly about the second decimal place of a GDP print that reflects how a particular economy did months ago.

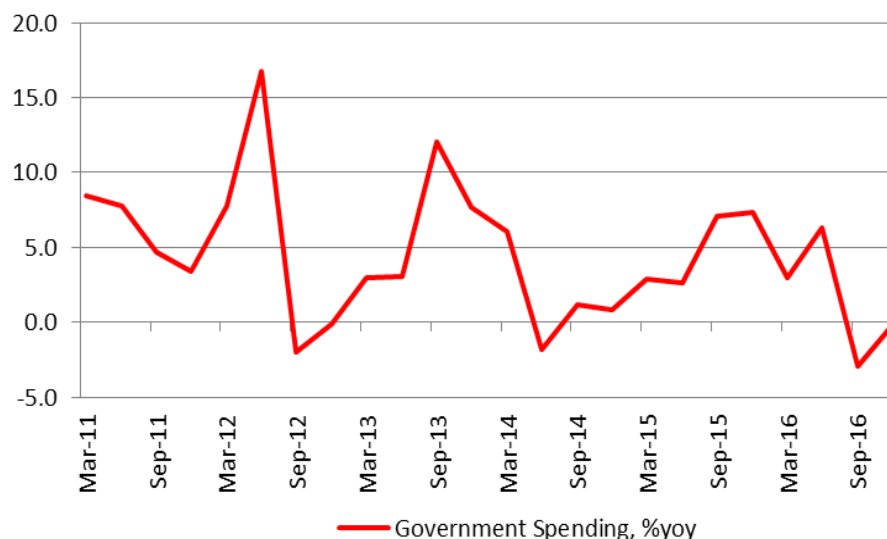
Yet, that is precisely one factor we have to keep in mind when we look at Indonesia's Q4 GDP print today. At 4.94%, it is but a hair's breadth away from rounding up to the 5.0% that market has generally expected beforehand.

Moreover, while it is true that it marks a slower growth print compared to what the economy achieved the quarter before, the trajectory going forward should be more encouraging.



Source: Bloomberg, OCBC.

To begin with, the chief culprit of the relative slowdown in Q4 remains that of a pull-back in government spending. In particular, the budget rationalization plan that Finance Minister Sri Mulyani instituted when she took over the portfolio in late July, continued to show its imprint, with contribution of government spending to overall growth remained negative in Q4.



Source: Bloomberg, OCBC.

Compared to Q3, however, the magnitude of government spending's drag on growth has minimized to nearly flat at -0.15% yoy in Q4, versus nearly -3% yoy in the prior quarter. Even if it is unlikely that government spending will surge back massively in 2017, we have nonetheless seen the back of considerable pullback, particularly as the New Year kicks in and allows the government to reset the clock of its budget deficit cap once more.

Meanwhile, private consumption has remained largely supportive of overall growth. This particularly important segment – comprising about 55% of the economy – showed growth of 4.99% yoy in Q4, comparable to 5.01% in Q3. The fact that employment picture remains stable and that previous rate cuts by the central bank have yet to fully work their way through the system should provide support to consumption in the coming quarters.

Moreover, with commodity prices rebounding, coupled with some easing of export rules for minerals, household spending in the outer islands in particular will also be better placed. As a cross-check, mining industry's growth going by sectoral GDP data, was at 1.6%yoy in Q4, compared to 0.29% in Q3, for instance.

Altogether, while it is easy to state the obvious that Indonesia's growth has been flat-lining thus far, we are less sold on the idea that there will not be any pick-up from here, and we remain comfortable with our view that growth will reach 5.2% this year.

In particular, with our house view of an oil price recovery to USD65/barrel by year-end, Indonesia is likely to be a beneficiary given its commodities exports base. The flip side of such a scenario, of course, is that inflation may pick up and limit the room for further monetary easing. On that front, our sense is that even without such an inflation upside risk, the chances of further rate cut by the central bank – which has already delivered as many as 150bps cuts last year already – are relatively minimal anyway given its focus on currency stability.

Overall, our sense is that compared to other Asian economies, Indonesia's growth risk is actually tilted to the upside. Its domestic orientation is sometimes under-appreciated and can make all the difference in a year whereby the nascent global trade recovery may well be nipped in a bud by a rise of protectionist policies. For good measure, one ratio that investors should pay attention more and more in the coming months is that exports to US is but 1.9% as a percentage of Indonesia's GDP. This is lower than the neighboring Malaysia, for example, and especially when compared to places like Vietnam.



Source: UNCTAD, OCBC.

The fact that Indonesia needs to boost its export base over the medium term is undeniable and the government's structural reforms in closing the infrastructure gap, for example, remains crucial. Still, in a world where we should all count our blessings, for Indonesia one existing blessing is that it is much less entwined with the world's trade flows for now – and that might work out just nicely in the near term.

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

Co.Reg.no.:193200032W