# OCBC TREASURY RESEARCH

## Indonesia

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# Dreaming of 2045

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**What today's 3Q19 GDP print tells us about Indonesia's future**

- **GDP data came in at 5.02% yoy, smack in between our expectation of 5.0%, and Q2's 5.04% yoy. Components suggest weaker contributions from private consumption and government spending than before.**
- **Despite being relatively protected by its deep moat of domestic consumption, the data nevertheless bears imprints of assaults from global trade concerns. Contribution of exports to growth? A big fat zero.**
- **Jokowi has a dream of turning Indonesia into a developed economy by 2045. To do that, investment must play a much bigger role. Data suggests a long way to go, with contribution to growth at its lowest in three years.**

**Steady does not do it**

When it comes to economic data and perhaps life in general, there is value in stability, since you know what to expect and can plan accordingly.

In the case of Indonesia's GDP year-on-year growth data, it has seemingly been a case of picking a number close to 5 and adjust the decimal points back and forth depending on your read of the global and domestic economic tendencies. Indeed, today's Q3 2019 print – at 5.02% yoy – marks the 22nd consecutive quarter that the growth rate can be rounded to 5% flat.

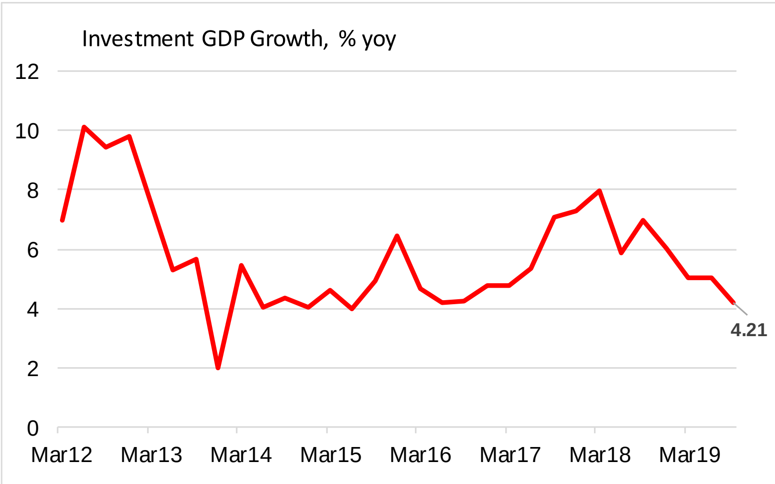

*Source: OCBC, Bloomberg.*

Viewed against a global environment besotted with this fear or that, and some of the regional peers where recession risk is a clear and present danger, Indonesia's economic stability is an unqualified plus, to be sure.

However, set against the backdrop of how Indonesia is still some ways from fulfilling its full potential, the wait for a more forceful uptick in growth rate would inadvertently test patience.

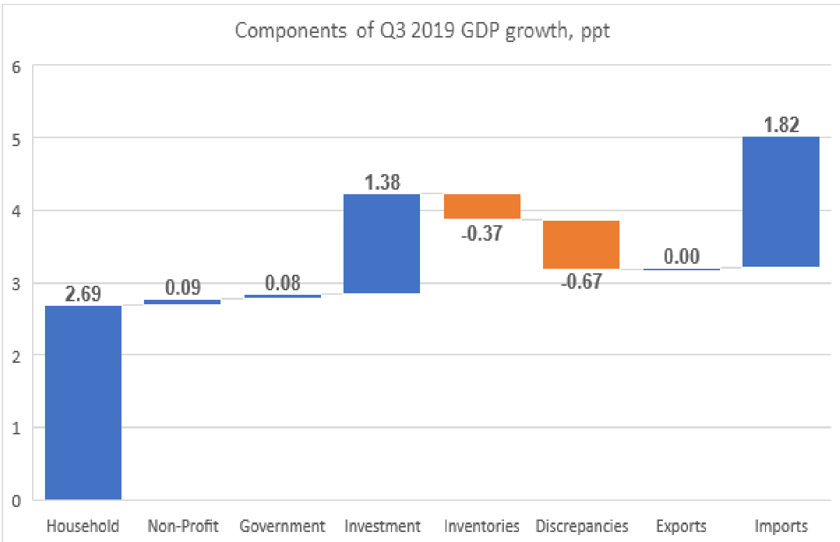
Chastened by the gap between actual growth outturns and the 7% growth rate target that he had envisioned in his first term, President Jokowi has nonetheless shown no sign of giving up. In the speech marking the inauguration of his second term recently, he envisaged that by 2045 – Indonesia's centenary as an independent republic – it would not only become a developed economy but will be the world's fourth largest economic entity worth $7 trillion.

To have a chance of turning that dream into reality, however, Indonesia needs to fire up its investment engine. Unfortunately, latest data shows that this remains a tough goal to realize.




*Source: OCBC, Bloomberg.*

At 4.21% in year-on-year terms, investment growth is the lowest since mid-2016. The slowdown is also evident when we look at the contribution to overall headline GDP growth that comes from investment activities, declining for the fifth consecutive quarter to 1.38 percentage points in Q3, compared to 2.24ppt the same period a year ago. As we highlighted in our Oct 23rd reaction note on the new cabinet, boosting investment should be at the front and center of Jokowi's agenda. Of utmost importance will be tackling the labor rigidity that has tied Indonesia's hands in trying to welcome more labor-intensive FDI, in particular.




*Source: OCBC, Bloomberg.*

Meanwhile, as grateful as Indonesia should be to the steadiness of private consumption as the 'anchor tenant' of growth stability, the fact of the matter is that a diverse set of contributors makes for a more balanced growth model. Already, the contribution of household consumption to overall headline GDP has softened to 2.69ppt in Q3, from 2.77 in the prior quarter.

On trade front, given what has been happening on tariff concerns, it is not surprising to expect minuscule contribution from exports. For good measure, and somewhat poetically, the growth contribution from exports came in at 0.0ppt in Q3, albeit an improvement from the -0.38ppt in Q2. Interestingly, from the trade front, it is the imports which contributed significantly to growth: courtesy of its heavy shrinkage year-on-year, imports contributed as much as 1.8ppt to headline GDP growth.

Overall, given the steadiness of the headline data, policymakers are unlikely to shift gears too dramatically from what they have already telegraphed to the market. Our sense is that Bank Indonesia – having cut rates by 100bps already this year – will shift towards a mini-pause mode and assess the impact of their loosening thus far, especially with the implementation of macroprudential policies on housing and vehicle loans in December in mind. Meanwhile, fiscal tap may be relatively loosened in Q4, with Finance Minister Sri Mulyani already telegraphing a looser fiscal stance that is likely to see deficit printing close to 2.2% of GDP for the year, rather than the sub-2% expected before.

In terms of near-term growth outlook, it should not come as a surprise that more of the same is to be expected, with 5.0% average growth rate for this year and next being our baseline expectations.

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