Euler Hermes Economic Research

Country Report

Indonesia

Turning the growth corner?

General Information

GDP	USD861.9bn (World ranking 16, World Bank 2015)
Population	257.6mn (World ranking 4, World Bank 2015)
Form of state	Republic
Head of government	Joko WIDODO
Next elections	2019, presidential and legislative

Strengths

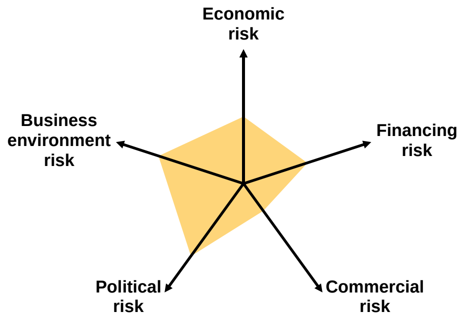
- Favourable demographics: large and young population
- Abundant natural resources
- Relatively good international relations (access to foreign assistance if needed)
- Track record of solid fiscal policies and relatively low public debt
- Banking system has shown overall resilience to the global financial crisis

Weaknesses

- Exchange rate volatility and vulnerability to external shocks
- Lack of infrastructure compared to regional peers (Malaysia, Thailand)
- Strong dependence on commodities exports especially to China
- Increasing inequality poses a threat to social cohesion and economic growth

Country Rating

B2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
Japan	13%	1	19%	China
China	10%	2	17%	Singapore
Singapore	10%	3	9%	Japan
United States	9%	4	6%	Korea, Republic of
India	7%	5	6%	Malaysia

By product (% of total)

Exports		Rank		Imports
Coal, coke and briquettes	12%	1	21%	Petroleum and related materials
Fixed vegetable oils and fats	11%	2	6%	Other industrial machinery and parts
Gas, natural and manufactured	10%	3	5%	Electrical machinery, apparatus
Petroleum and related materials	7%	4	5%	Iron and steel
Articles of apparel, clothing accessories	4%	5	4%	Specialised machinery

Source: UNCTAD

Economic Overview

First signs of pickup in growth?

GDP growth is set to level off in 2016 after five years of deceleration. The economy is forecast to expand by +5% this year after +4.8% in 2015. Domestic demand is on the rise, supported by strong fiscal spending and higher private consumption.

Exports still struggle but as commodity prices edge up, one can see first signs of improvement. Private investment crawls upward but improved economic conditions suggest a gradual increase.

Domestic credit conditions have eased thanks to lower interest rates. Moreover, streamlined regulations for foreign investors, an under control current account deficit, and better demand prospects should translate into a gradual increase in foreign inflows. Risks include yet another drop in commodity prices, lower external demand growth, and tighter global financing conditions.

Adequate policies enhance the economic outlook

The deficit is set to widen in the short run. Reasons include government increases in expenditures to support economic growth and lower commodity prices which translate into lower fiscal revenues. Yet alarm bells should not sound for the time being. Relatively low levels of debt and deficit are supported by a tough fiscal framework which limits government deficit to -3% GDP and public debt to 60% GDP.

The monetary policy is flexible and appropriate. A tight approach in 2015 helped the economy to (i) navigate through external turbulences (lower commodity prices, Fed tightening) and (ii) reduce inflationary pressures. In H1 2016, a combination of lower inflation and a slight improvement in external conditions allowed the Central Bank to ease its monetary policy. Looking ahead, a cautious easing stance will probably be maintained to support economic growth.

The country's business environment is significantly improving. Indonesia is now ranked 109th (up from 120th) in the World Bank's Doing Business 2016 survey. It ranks better on Paying taxes, Dealing Construction and Getting credit sub-components.

External position is improving

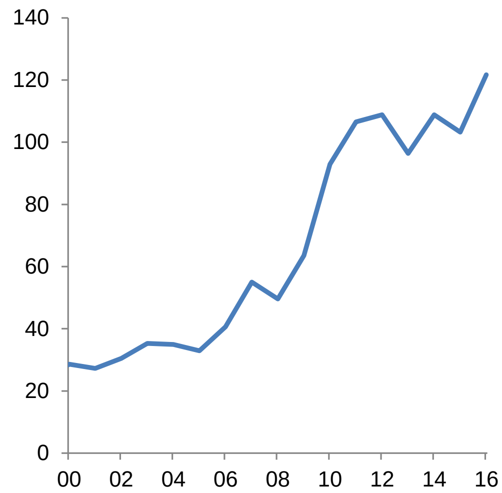
External pressures on the currency have abated thanks to the cautious monetary stance. The external debt to GDP ratio and the import cover ratio (above 6 months) are at acceptable levels. Furthermore, the current account balance has improved and stabilized above -3% GDP. Lower exports were compensated by lower imports.

Key economic forecasts

	2014	2015	2016f	2017f
GDP growth (% change)	5.0	4.8	5.0	5.2
Inflation (%, year average)	6.4	6.4	3.8	5.5
Fiscal balance (% of GDP)	-2.2	-2.8	-2.7	-2.7
Public debt (% of GDP)	24.7	27.3	27.6	28.4
Current account (% of GDP)	-3.1	-2.0	-2.0	-2.2
External debt (% of GDP)	33.1	36.0	37.3	36.9

Sources: IIF, IMF, Euler Hermes

Figure 1 – Reserves excluding gold (USD bn)



Sources: IHS, Euler Hermes

DISCLAIMER
These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2016 Euler Hermes. All rights reserved.

Contact Euler Hermes Economic Research Team
research@eulerhermes.com

Last review: 2016-09-15
Country Risk Analyst:
Mahamoud Islam
mahamoud.islam@eulerhermes.com