

Solid growth underpinned by better fundamentals

General Information



GDP	USD932.3bn (World ranking 16, World Bank 2016)
Population	261.1mn (World ranking 4, World Bank 2016)
Form of state	Republic
Head of government	Joko WIDODO
Next elections	2019, presidential and legislative



Strengths

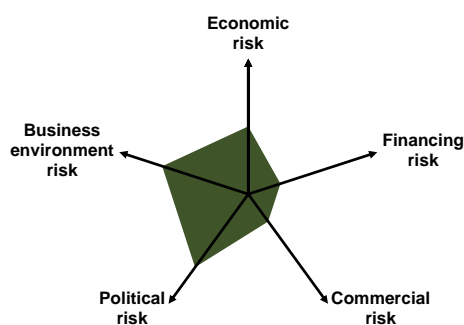
- Abundant natural resources (coal, petroleum, and copper ore along with agriculture)
- Resilient banking system owing to relatively high capital adequacy ratio and low level of NPLs
- Favorable demographics: large and young population as well as growing middle class
- Solid public finances and sound fiscal policies

Weaknesses

- Corruption, lack of transparency, and weak legal system
- Inefficient tax administration and strong informal economy
- Growth dependent on raw commodity exports, especially to the slowing Chinese economy
- Serious infrastructure gap compared to regional peers
- Increasing inequality poses a threat to social cohesion and inclusive economic growth

Country Rating

B1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports	
China	12%	1	23%	China	
United States	11%	2	13%	Singapore	
Japan	11%	3	9%	Japan	
Singapore	8%	4	7%	Thailand	
India	7%	5	5%	Malaysia	

By product (% of total)

Exports		Rank		Imports	
Fixed vegetable oils	12%	1	13%	Petroleum products	
Coal and coke	10%	2	6%	Electrical machinery	
Articles of apparel	5%	3	6%	Industrial machinery	
Gas	5%	4	5%	Iron and steel	
Manufactured articles	4%	5	5%	Telecommunication	

Source: UNCTAD

Economic Overview

Gradual acceleration

After reaching a low point in 2015 (+4.9% GDP growth), the economy bounced back supported by strong domestic demand growth. Looking ahead, EH expects +5.1% growth in 2017 and +5.2% in 2018.

The outlook for exports is improved by higher demand from major economies, and a gradual recovery of commodity prices. Macro-policies are becoming more supportive as key structural imbalances, namely a large current account deficit and a high level of inflation, have been reduced.

Improved business sentiment, favourable credit conditions and rising new exports orders suggest a gradual rise in investment. Private consumption growth is set to remain firm. It is supported by a dynamic labor market and a combination of high wages growth and moderate inflation.

Macropolicies: more supportive

Government debt is low (below 30% of GDP) and deficit is under control. Against this backdrop, the authorities plan to boost economic growth through an increase of public investment in infrastructure.

Fiscal policy will continue to be expansionary until 2018 at least. Yet the fiscal deficit should remain below the target of -3.0% of GDP.

Monetary policy is accommodative. The central bank has embarked on an easing cycle since late 2015 in order to boost economic growth. Policy rate decreased by 1pp to 4.5% between April 2016 and August 2017. Looking ahead, the authorities will likely maintain their easing stance given the low rate of inflation and rupiah stability.

Improving business environment

The reforms initiated by the current administration to improve the business environment such as a deregulation package, and a tax amnesty program are starting to bear fruit. Indonesia's rank in the World Bank Doing Business 2017 survey improved from 106 to 91 (out of 190 countries). There was significant progress on tax and credit sub-components. The current government strategy is to open the country to foreign investment, with lower restrictions on sectors that were previously heavily protected (tourism, transportations and retail, e.g.).

Solid external position and stable currency

External debt has decreased from 36.0% in 2015 to an estimated 32.0% of GDP in 2017. Foreign exchange reserves are a comfortable level, covering more than 7 months of imports of goods and services.

The current account deficit is set to narrow further owing to improving terms of trade, and improving global demand. Coupled with higher inflows of portfolio investment and FDI, Indonesia's favourable balance-of-payments position will help to keep the rupiah in check.

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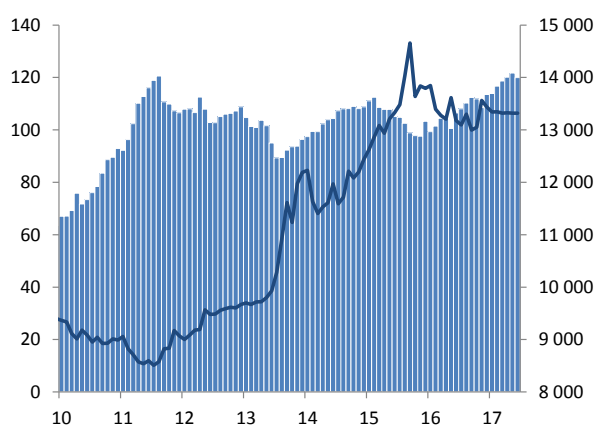
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Key Economic Forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	4.9	5.0	5.1	5.2
Inflation (% , year average)	6.4	3.5	4.0	4.5
Fiscal balance (% of GDP)	-2.6	-2.5	-2.9	-2.9
Public debt (% of GDP)	27.5	28.9	28.9	28.8
Current account (% of GDP)	-2.0	-1.8	-1.7	-1.7
External debt (% of GDP)	36.0	34.0	32.0	32.0

Sources: IIF, IMF, Euler Hermes

Figure 1 – International Reserves (excl. Gold, USD bn on LHS) and Exchange Rate (IDR per USD on RHS)



Sources: IHS, Euler Hermes