

Prone to external shocks

General Information



GDP	USD868.35 bn (World ranking 16, World Bank 2013)
Population	249.87 mn (World ranking 4, World Bank 2013)
Form of state	Republic
Head of government	Joko WIDODO
Next elections	2019, presidential and legislative



Strengths

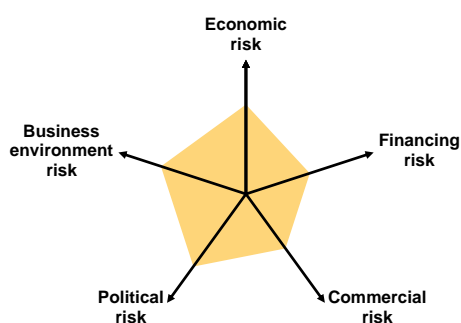
- Favourable demographics: large and young population
- Abundant natural resources
- Relatively good international relations (access to foreign assistance if needed)
- Track record of solid fiscal policies and relatively low public debt
- Banking system has shown overall resilience to the global financial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

Weaknesses

- Ongoing (often violent) social, religious and/or ethnic conflicts in several provinces
- Vulnerability to natural disasters (earthquakes, volcanoes, tsunamis)
- Exchange rate volatility and vulnerability to external shocks
- Lack of infrastructure compared to regional peers (Malaysia, Thailand)

Country Rating

B2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
China	15% 1	21% China
Japan	13% 2	12% Singapore
United States	8% 3	9% Japan
India	7% 4	7% Malaysia
Singapore	7% 5	6% South Korea

By product (% of total)

Exports	Rank	Imports
Coals	14% 1	16% Refined Petroleum
Fats	9% 2	7% Crude Oil
Natural Gas	9% 3	4% Engines
Crude Oil	6% 4	4% Iron Steel
Non Ferrous Ores	5% 5	4% Plastic Articles

Source: ITC, Chelem

Economic Overview

A difficult year ahead

The economy continues to slow in H1. GDP growth slowed from 5.0% to 4.7% y/y in Q1 2015 (the slowest pace since Q3 2009) reflecting deceleration in government expenditures and lower export growth. Private consumption and investment proved resilient. In Q2, exports figures remains on a downward trend and industrial production growth was volatile. Going forward, exports are set to remain the main Achilles's heel of the economy with decelerating demand from China and low commodities prices. Private consumption is set to remain solid supported by strong labour market, strong real wage growth and improving consumer confidence. Investment is expected to grow at a limited pace reflecting higher global uncertainties (pace of China's landing; timing of Fed tightening) and difficult credit conditions. Against this background, GDP growth is set to remain close to 5% in 2015.

Macro-policies: cautious to strengthen confidence

Public debt is low and the fiscal deficit (-2.2% of GDP in 2015) is also among the lowest in the region. No major slippage is expected in the near term as the Widodo's administration is on a "consolidation mode". The government has initiated reforms to rationalize subsidies, and to improve tax collection (while the country has approximately 70 million potential tax payers, only 23 million are registered). Positive results should give some leeway to increase infrastructure spending without a deterioration of the fiscal outlook. On the monetary side, the Central Bank is stuck between a rock and a hard place. While reducing inflation allows for easing, ongoing pressures on the currency, continuing current account deficit and possible FED tightening limit BI's room for manoeuvre.

External Risks: short-term stress ahead

The external debt to GDP ratio and import cover are at manageable levels (above 6 months), the only issue remains the current account evolution. Indonesia ran a surplus for 14 years straight years, but the current account balance turned negative in 2012, currently standing at -3.0% of GDP. From a trade point of view, this situation could get worse in the wake of the uninspiring economic outlook of Indonesia's two main partners (China and Japan). From a financing point of view, tighter U.S monetary policy could trigger a new round of capital outflows. Regarding external financing, the new government has initiated reforms to reduce the dependency on short term capital inflows, these reforms should boost national savings and help decrease the dependence on foreign capital finance domestic investment, especially in infrastructure.

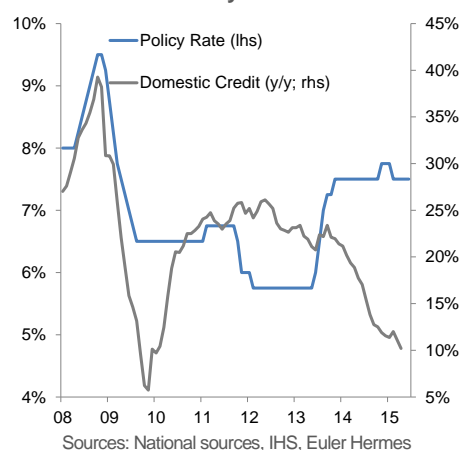
Key economic forecasts

	2013	2014	2015	2016
GDP growth (% change)	5.6	5.0	5.1	5.4
Inflation (% , yearly average)	6.4	6.4	6.1	4.0
Fiscal balance* (% of GDP)	-2.2	-2.3	-2.2	-2.0
Public debt* (% of GDP)	24.9	24.7	25.0	25.2
Current account (% of GDP)	-3.2	-3.0	-2.7	-2.5
External debt (% of GDP)	29.2	33.1	34.1	34

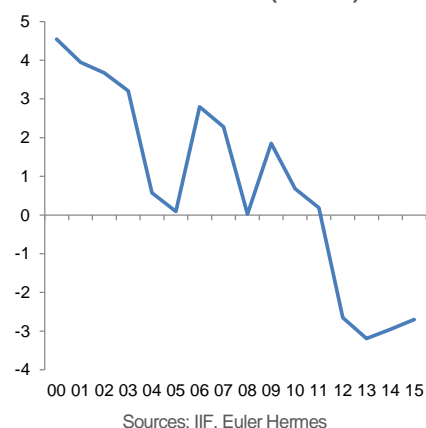
*Includes only Central government

Sources: National sources, IIF, IHS, Euler Hermes

Policy rates



Current account (% GDP)



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