

**ECONOMIC REPORT | Indonesia 3Q16 GDP****Growth Slips to 5.0% as Government Spending Slumps**

- *3Q16 GDP growth came in at 5.0%, below consensus expectation. Data polled from Bloomberg shows the consensus expectation is a 5.1% growth hence the growth recorded in 3Q16 is below expectation. Government spending contracted during the quarter by 3.0%, shedding 0.2% point from the total GDP growth according to our estimate.*
- *Broad moderation across the supply side except the mining sector. In 3Q16, we note there was a broad moderation across the supply side as consumption especially from the government wanes. Agriculture sector growth slipped to 2.8% from 3.4% in 2Q16, manufacturing maintains growth at 4.6% while distributed trade slows to 3.7% from 4.1% previously*
- *Due to current tight fiscal situation of the Indonesia's government and the slowdown in its economy, the central bank might feel urged to conduct another round of rate cut but with the possibility of a December rate hike by the Fed looms larger over time, that window might just have close for the central bank to do so.*

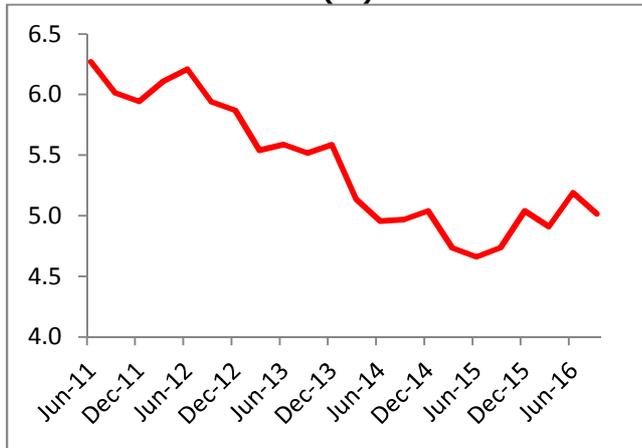
**3Q16 GDP growth came in at 5.0%, below consensus expectation.** Data polled from Bloomberg shows the consensus expectation is a 5.1% growth hence the growth recorded in 3Q16 is below expectation. Government spending contracted during the quarter by 3.0%, shedding 0.2% point from the total GDP growth according to our estimate. The Indonesian President, Joko Widodo did call for a restraint in his office spending in last August and we do believe the call has resonated across the government as reflected by due to pressure to keep the budget deficit limit at 3% of GDP as set the Indonesian law.

**Broad moderation across the supply side except the mining sector. In 3Q16,** we note there was a broad moderation across the supply side as consumption wanes. Agriculture sector growth slipped to 2.8% from 3.4% in 2Q16, manufacturing maintains growth at 4.6% while distributed trade slows to 3.7% from 4.1% previously. The mining sector though, rebounded marginally after 6 successive quarters in contraction. This is however not a big surprise considering the global commodity prices have climbed significantly since the lows in 1Q16.

**Shortfall of tax revenue realization and growth slowdown risk government breaching the 3% budget deficit cap.** The government launched the ambitious tax amnesty program in July this year in hope to repatriate some 1,000 trillion IDR (approx. USD76 billion) out of the estimated 4,000 trillion IDR (approx. 303 USD billion) stashed abroad. The program has so far pick-up some pace after a slow start but we doubt it will achieve its target by next year. Besides, we note that the tax realization from the government budget target often fell short and it has widened quite considerably over the year. In 2015, the shortfall amounts to 238.6 trillion IDR or 2.7% of Indonesia's GDP. Expect that figure to match or widens further this year.

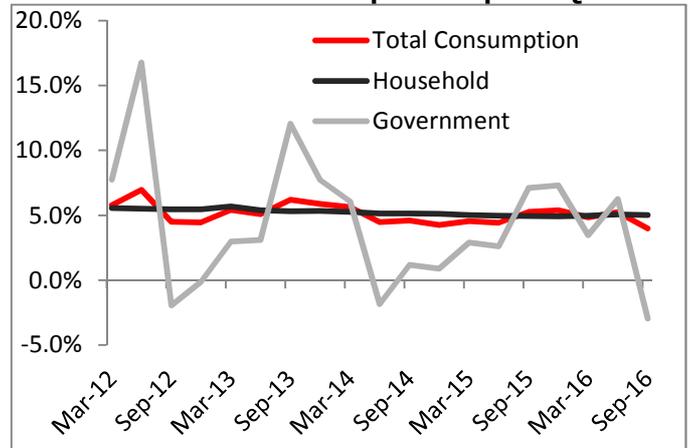
**The Indonesian central bank has been one the most aggressive central bank this year,** having shelved a total 150 basis points this year alone after another 25bps cut made in October. Due to the current tight fiscal situation of the Indonesia's government and the slowdown in its economy, the central bank might feel urged to conduct another round of rate cut but with the possibility of a December rate hike by the Fed looms larger over time, that window might just have close for the central bank to do so.

**Chart 1: GDP Growth YoY (%)**



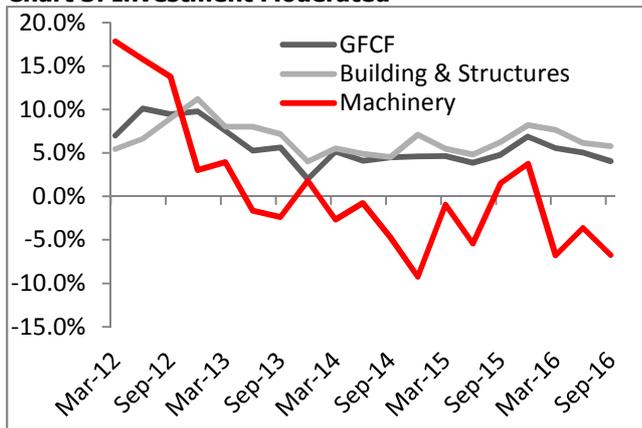
Source: Indonesia Central Bureau Statistics; MIDF Research

**Chart 2: Government Consumption Drops in 3Q16**



Source: Indonesia Central Bureau Statistics; MIDF Research

**Chart 3: Investment Moderated**



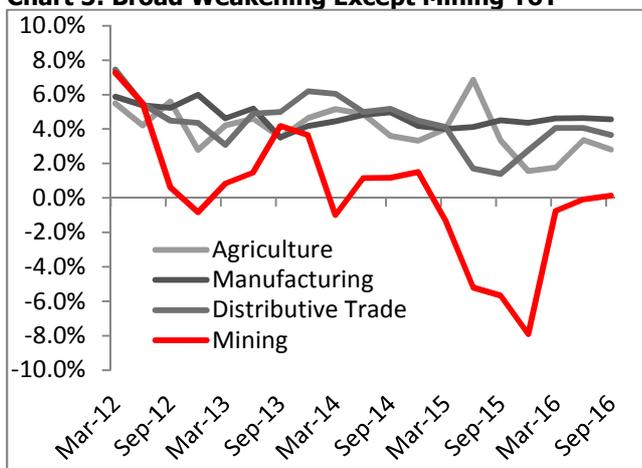
Source: Indonesia Central Bureau Statistics; MIDF Research

**Chart 4: Exports and Imports YoY**



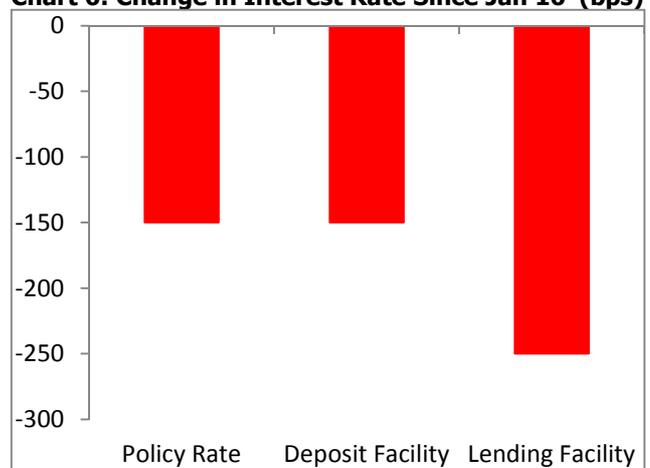
Source: Indonesia Central Bureau Statistics; MIDF Research

**Chart 5: Broad Weakening Except Mining YoY**



Source: Indonesia Central Bureau Statistics; MIDF Research

**Chart 6: Change in Interest Rate Since Jan 16' (bps)**



Source: Bank of Indonesia; MIDF Research

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