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# Indonesia Business Forecast Report Q3 2014

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## Abstracts

**Core Views**

The election results will ultimately depend on whether the electorate clamours for reform or stability. If the preference is for the former, current Governor of Jakarta Joko Widodo (Jokowi) from the PDI-P will likely emerge victorious. If the inclination is towards stability, ex- General Prabowo Subianto (Gerindra) or prominent businessman Aburizal Bakrie (Golkar) are likely to be the frontrunners.

While we have yet to see his policy platform, Jokowi's ability to streamline bureaucratic inefficiencies, improve public finances, strike a balance between pro-business and pro-welfare policies, as well as willingness to take politically unpopular but necessary measures to right economic imbalances could provide some upside potential for the infrastructure, mining and oil and gas sectors.

Judging from the progressive deceleration in inflation, as well as a continuing fall in import demand, Bank Indonesia's (BI) monetary tightening appears to be exhibiting some measure of efficacy. In the near term, we do not expect BI to reverse its policy stance as it continues to allow policy measures to work their way through the economy. Towards the second half of the year, however, with inflation likely to fall within the BI's target range, coupled with an ongoing slowdown in economic activity, we expect BI policy to turn growth supportive and are consequently sticking to our forecast for 50 basis points of interest rate cuts.

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## Contents


Indonesians are set to vote in the upcoming legislative and presidential elections in April and July, respectively. The impending elections are particularly crucial as the new administration will assume the task of reinvigorating a slowing economy and rebuilding confidence from both the electorate and foreign investors. Indonesia, which emerged from the Global Financial Crisis relatively unscathed, is now witnessing its slowest growth in almost four years. Its citizens have become increasingly disgruntled following current president Susilo Bambang Yudhoyono's administration's failure to keep to his campaign pledges, while investors, both local and foreign alike, have been holding back on investment amid hints of surfacing protectionism.

Although Indonesia has returned to relative orderliness since the chaos of the late 1990s and early 2000s, the country faces multiple challenges and threats to its stability that could flare up again if President Susilo Bambang Yudhoyono's successor proves incompetent or if improved governance fails to take hold. As such, investors will continue to view Indonesia as one of Asia's riskier destinations.


Current Jakarta governor Joko Widodo's (Jokowi) runaway favourite tag for the presidential elections leads us to believe that it may not be too premature to deliberate Indonesia's economic trajectory under a Jokowi-led administration. While we have yet to see his policy platform, Jokowi's ability to streamline bureaucratic inefficiencies, improve public finances, strike a balance between pro-business and pro-welfare policies, as well as willingness to take politically unpopular but necessary measures to right economic imbalances could provide some upside potential for the infrastructure, mining and oil and gas sectors.

TABLE: ECONOMIC ACTIVITY

Fiscal Policy

Property, Infrastructure Spending To Provide Structural Loan Growth

On the back of a slowing economy and a likely increase in borrowing costs, we expect to see the pace of credit expansion in Indonesia's banking sector start to slow in the quarters ahead. Over the longer term, we believe that the banking sector has considerable potential for growth as the country is still in the early stages of a long-term credit up-cycle and the mortgage market has largely been untapped. Further support may also stem from an improvement in the government's finances, which would in turn allow for greater infrastructure spending, and ultimately stronger loan growth.

TABLE: FISCAL POLICY

Monetary Policy

BI To Maintain Tightening Bias, For Now

Judging from the progressive deceleration in inflation, as well as a continuing fall in import demand, Bank Indonesia's (BI) monetary tightening appears to be exhibiting some measure of efficacy. In the near term, we do not expect BI to reverse its policy stance as it continues to allow policy measures to work their way through the economy. Towards the second half of the year, however, with inflation likely to fall within the BI's target range, coupled with an ongoing slowdown in economic activity, we expect BI policy to turn growth supportive and are consequently sticking to our forecast for 50 basis points of interest rate cuts.

Table: MONETARY POLICY

Exchange Rate Policy

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**CHAPTER 3: 10-YEAR FORECAST**

The Indonesian Economy To 2023

A Bullish Long-Term Growth Story

Indonesia's large domestic demand base and exposure to commodities are two key factors driving our bullish growth outlook for the next decade. That said, government policy reform will be crucial in determining if the country can reach its real growth potential.

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