

## In case you missed it: China to the rescue?

Chinese growth surpasses expectations and everybody breathes a sigh of relief, America's shrinking trade deficit, strong retail sales and falling jobless claims create a sound platform for 1Q growth. Despite the uncertainty in Brexit Britain, people are still spending. Even sentiment in Germany seems to be improving. Is Goldilocks finally back?

### In this bundle



FX | China

#### China GDP too good to be true?

China's GDP growth was better-than-expected in 1Q, matching the growth of the previous quarter. How is this possible amid so much trade uncertainty?...



United States

#### US trade deficit boosts growth outlook

The US trade balance improved in February thanks to US companies cutting imports on assumption of a 1 January tariff hike that failed to materialise. This...

By James Knightley



#### Eurozone: A cold spring

April PMIs - the first glimpse on second quarter activity, came out weaker than expected. It looks as if eurozone growth is having trouble shifting into...

By Peter Vanden Houte



## United Kingdom

### UK spending splurge could have further to run

The latest surge in UK retail sales does sound a little too good to be true, but either way, spending could continue to modestly improve as Brexit...

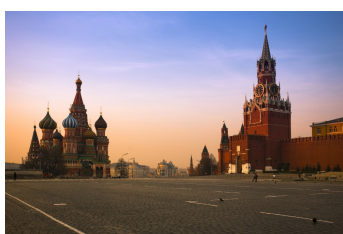
By James Smith



## Germany: First green shoots

Spotting turning points in the economy remains a very difficult task. Today's ZEW index adds to tentative evidence that a gradual rebound of the...

By Carsten Brzeski

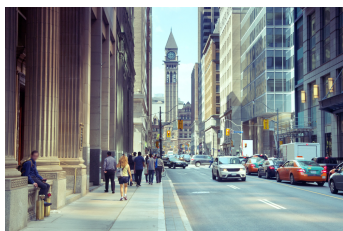


## Russia

### Russia: thinking progressive taxation?

The Russian government is reportedly considering exempting employees earning below the subsistence level from paying income tax. This could ease some...

By Dmitry Dolgin



## Canada

### Canada's housing market: Is it really all that bad?

The housing market is under pressure in Canada and coupled with household debt problems, you can see why this factors into the central bank's...

By James Knightley



## Malaysia

### Malaysia: What's happening to the ringgit?

We believe the latest selloff in Malaysian government bonds and the ringgit (MYR) is overdone. We maintain our end-2019 USD/MYR forecast of 4.05



## How will Indonesia's elections results impact the economy?

Growth in Indonesia has hovered about the 5% level since 2016 and going forward its trajectory will largely depend on who wins the elections next week....



#### Macedonia

### **North Macedonia elections: Heading into a run-off**

The upcoming presidential elections are unlikely to see North Macedonia change course in its approach towards Western integration. The incumbent...

---

## China GDP too good to be true?

China's GDP growth was better-than-expected in 1Q, matching the growth of the previous quarter. How is this possible amid so much trade uncertainty? We have the answer



China coal

### GDP surprised on the upside

China's GDP growth stood at 6.4% year-on-year in 1Q, the same as in 4Q. This was a surprise to the market as the consensus forecast was 6.2% YoY, the same as ours.

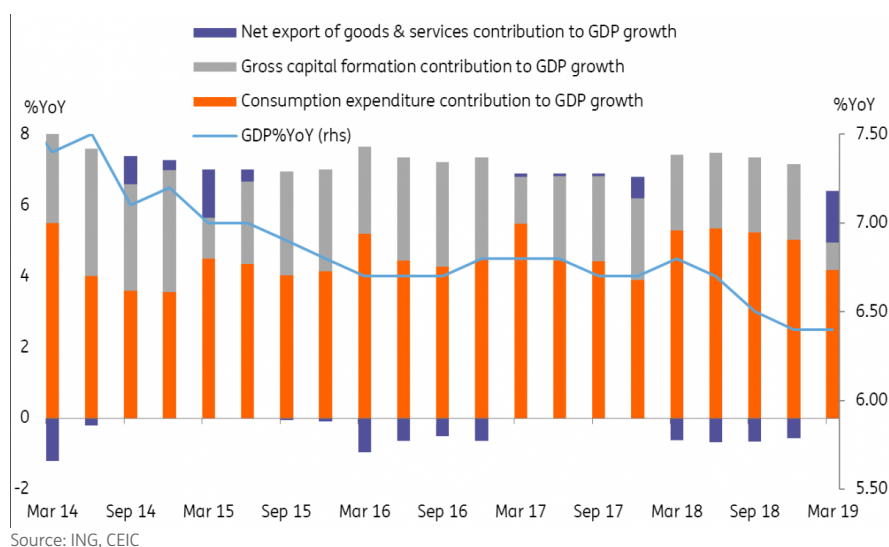
6.4%

China GDP growth

1Q19

Better than expected

## China GDP growth by components

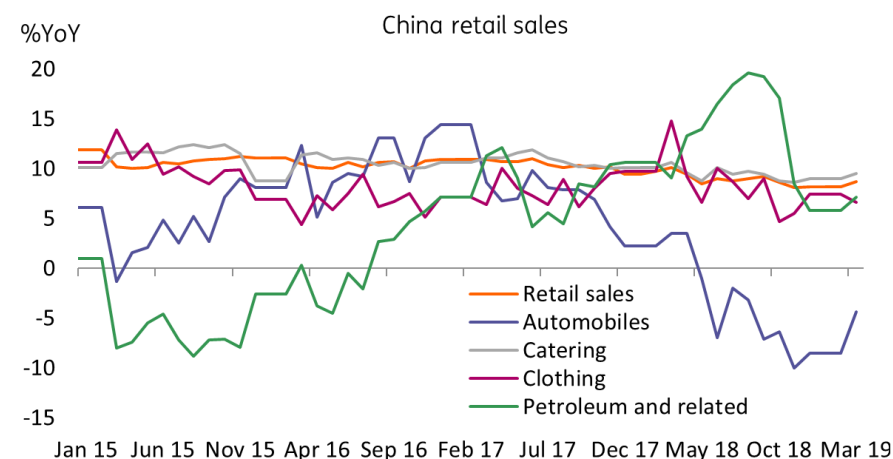


## Retail sales and consumption is not the answer

The official statement claims that consumption was the main economic engine, contributing more than 65% of the growth, which is just as expected. However, the contribution to GDP has fallen from 79% in 4Q.

Retail sales grew faster in 1Q, at 8.7% YoY. And while that's up from 8.2% in 4Q, it is lower than our forecast of 8.9%. We usually use clothing sales as a proxy of the willingness to spend in China because this is one area that consumers can cut back on, in addition to big ticket items like cars, when confidence in the economy starts to slip. Clothing sales growth dropped to 6.6% from 7.4%.

## China retail sales by selected items



## Fixed asset investment growth edged up a bit and 5G is working

Investment growth was 6.3% YoY year-to-date, better than 6.1% in February. Most of this was infrastructure related, including items related to metro line construction (aided by fiscal

stimulus) and 5G telecommunication.

5G's infrastructure investment and service investments were reflected in high-tech production line investment growth and high-tech service investment growth, at 11.4% and 19.3%, respectively, faster than overall investment growth.

5G is something we have underestimated. We focused too much on the impact that fiscal stimulus would have on investments and while we understood that 5G is a growth engine, we didn't realise that it is already in the ground, up and running. This is a unique growth engine for China.

---

*"5G is something we have underestimated. We focused too much on the impact that fiscal stimulus would have on investments and while we understood that 5G is a growth engine, we didn't realise that it is already in the ground, up and running. This is a unique growth engine for China."*

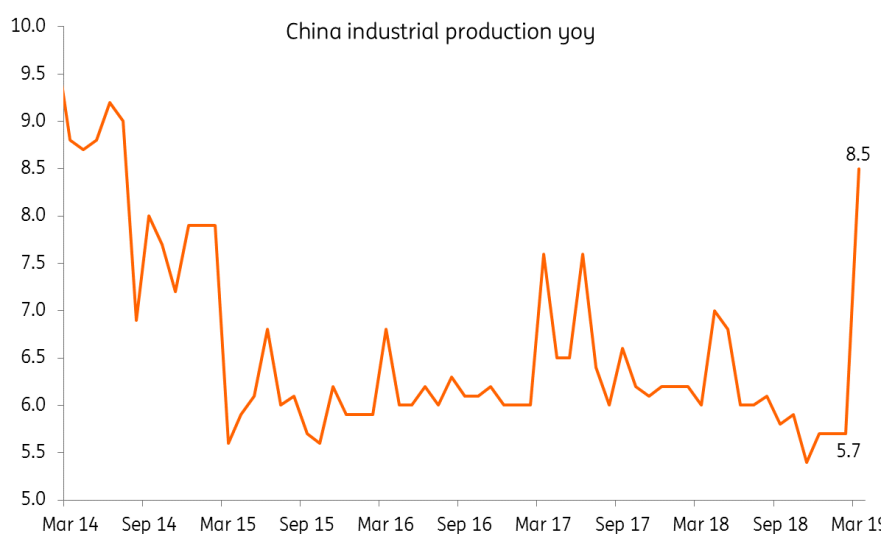
---

## Industrial production is the real surprise

Industrial production jumped to 8.5% YoY in March from 5.7% YoY in February. The jump was exceptional, driven by both infrastructure projects and 5G production.

On infrastructure projects from fiscal stimulus, the production of cement grew 22.2% YoY in March, a lot faster than 0.5% a month ago. Transportation equipment grew 13.6% in March compared to 10.9% YoY in 1Q19.

On telecommunication production, growth was 10.2% YoY in March, a jump from 7.8% growth in 1Q19.



Source: ING, Bloomberg

## Revising forecasts on GDP growth

The impact of fiscal stimulus on infrastructure projects and 5G infrastructure production is the real growth engine that's supported GDP growth in 1Q. And we think the trend could continue for the rest of the year. The production of 5G infrastructure, and the downstream of 5G equipment, should support both investment and industrial production. Retail sales and consumption could still grow but perhaps only modestly, as ongoing uncertainty about a trade deal with the US caps investment from export firms and their supply chains and limits wage growth.

From the positive production data, it is likely that industrial profits- which will be revealed near the end of April- will increase in March. And with China's economic growth remaining strong, we expect the government will have a stronger hand to play in trade negotiations.

Overall, we revise our GDP growth forecast in 2019 from 6.3% to 6.5%, which is the upper bound of the government target. On a quarterly basis, the revised growth rates are 6.4%, 6.5% and 6.6% for 2Q, 3Q and 4Q, respectively.

---

*"After the strong GDP report, further RRR cuts appear to be more distant...the central bank will use open market operations more frequently as it is a flexible tool to control liquidity. We also don't rule out the central bank possibly absorbing liquidity from the market in a gradual way if it sees credit growth as too fast."*

---

## The report card changes our view on monetary easing

Fiscal stimulus and telecommunication infrastructure have supported the economy. And as such, the job market should remain stable overall. This has been the government's primary concern and having achieved this, it can now shift its focus to other areas such as financial stability. The central bank recently noted that the economy doesn't need a flood of liquidity after credit grew 40% YoY in 1Q19.

Coupled with the strong GDP report, the central bank today replaced an expired CNY366.5 billion 1-year liquidity with a CNY200.0 billion 1-year liquidity at 3.3% and a CNY160.0 billion 7-day liquidity at 2.55%. This means that the central bank has shifted some of the 1-year liquidity to 7D liquidity, and reflects the fact that the bank would like to be more flexible in liquidity management. By doing so, it achieves the result of pushing the interest rate downward, which would also be the case if there were a cut in the Reserve Requirement Ratio.

We previously forecast four RRR cuts in 2019. The first cut was implemented in January, and we expected three more at the beginning of each quarter. But after today's strong GDP report, further cuts appear to be more distant. The RRR is one of the most rigid liquidity management tools because once it is reduced, the liquidity injection is long-lasting, and the central bank can only absorb liquidity through open market operations or raise the RRR to unwind the impact.

Our view is that the central bank will use open market operations more frequently as this is a flexible tool to control liquidity. We also don't rule out the central bank possibly absorbing liquidity

from the market in a gradual way if it sees credit growth as too fast, although this may only happen if 2Q GDP maintains its current growth pace.

## Yuan will be fairly stable

The yuan has been fairly stable against the dollar in 1Q, depreciating only 0.18%. It has fluctuated in a narrow range of around 1.8%, following the ups and downs of the dollar index but not to the same extent. This narrow trading range could remain in place even after a trade deal has been reached. If there is disagreement on a possible deal, the central bank could demonstrate China's political independence by depreciating the yuan slightly.

In 2019, we think the USD/CNY will track the dollar index. Our forecast for the USD/CNY of 6.75 by the end of the year essentially tracks the development of trade talks. But we need to closely monitor the yuan's moves post-trade talks to determine if we need to revise up our yuan forecast in 2Q and 3Q. As of now, the quarterly forecasts on USD/CNY and USD/CNH are 6.85 for 2Q19 and 3Q19.

### Author

#### Iris Pang

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

## US trade deficit boosts growth outlook

The US trade balance improved in February thanks to US companies cutting imports on assumption of a 1 January tariff hike that failed to materialise. This bodes well for 1Q GDP growth



**\$49.4bn** US trade deficit for February 2019

Better than expected

### Trade boost for 1Q GDP

The US trade deficit narrowed to \$49.4bn in February, the best reading since June 2018. This is \$1.752bn less than January, with imports growing just 0.2%MoM as exports increased 1.1%, led by a 4.3% jump in auto exports. This comes after an \$8.8bn decline in the US trade deficit in January resulting primarily from a 3% MoM drop in imports.

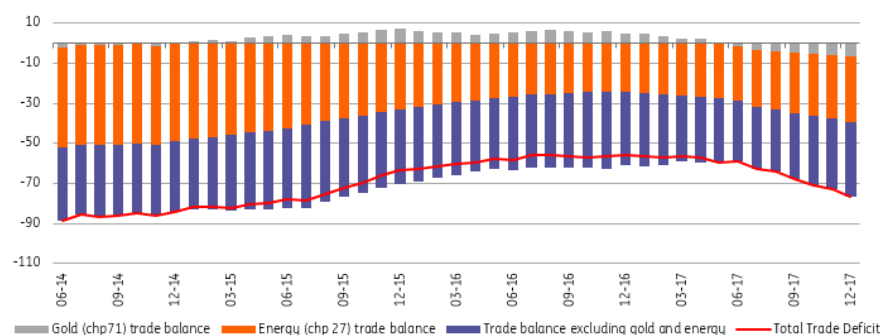
*We suspect there will be renewed deterioration in March, but with inventory levels looking reasonably high we expect it to be*

*modest*

The US' trade position had deteriorated sharply through the latter part of 2018, which we attribute largely to US firms ramping up imports from China ahead of anticipated tariff increases from 1 January 2019. The tariffs were postponed in mid-December by President Trump, but businesses could not have known that would happen and given the time it takes to ship products across the Pacific, they had unsurprisingly ordered fewer imports for January and February.

We suspect there will be a renewed deterioration in March, but with inventory levels looking reasonably high we expect it to be modest. In any case, this better than expected trade situation creates a really good platform for 1Q GDP growth. The Atlanta Fed GDP Now model based on data released up until last week points to 2.3% GDP growth for 1Q19, but today's trade figures means 2.5% is looking achievable.

## US monthly trade deficit (US\$bn)



Source: TurkStat, ING Bank

## But twin deficits to weigh on dollar

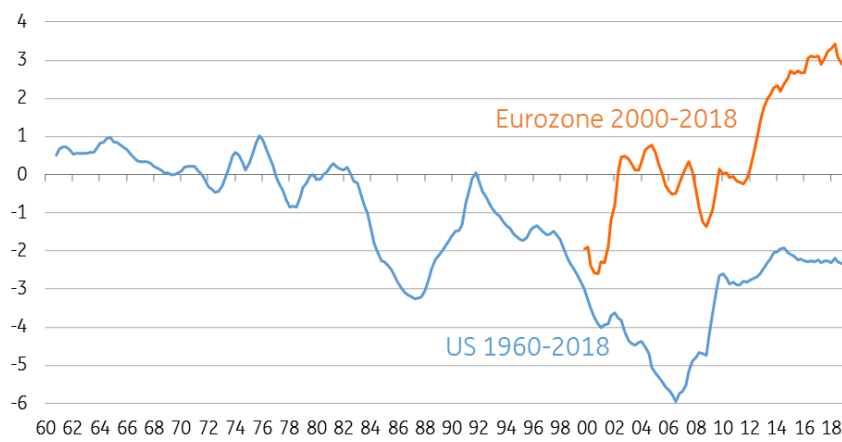
The improvements in the US trade balance in the first two months of the year suggest a decent chance of a narrowing in the current account deficit that hit \$138.4bn in 4Q18. As a proportion of GDP, it could edge down to 2.2% of GDP in 1Q19 from 2.3%, which isn't bad relative to recent history.

*When combining the fiscal and the current account balances together the 'twin deficit' issue is a clear headwind for the US dollar*

However, thanks to President Trump's expansionary fiscal policy - through both aggressive tax cuts and spending increases - the fiscal deficit is soon going to be up at 5%. When combining the fiscal and the current account balances together the 'twin deficit' issue is a clear headwind for the US dollar. Europe has a large current account surplus and a far more modest fiscal deficit and in an environment where both the Federal Reserve and the ECB are signaling little prospect of interest rate rises.

Our FX team look for EUR/USD to hit 1.18 by year-end.

## US & Eurozone current account deficits (% of GDP)



Source: Bloomberg, ING

### Author

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

---

Snap | 18 April 2019

## Eurozone: A cold spring

April PMIs - the first glimpse on second quarter activity, came out weaker than expected. It looks as if eurozone growth is having trouble shifting into higher gear, justifying the ECB's recent dovish stance



Source: Shutterstock

The flash estimate for eurozone's composite PMI indicator for April came in at 51.3, a decline from 51.6 in March and once again undershooting the consensus expectation of 51.8. The Manufacturing PMI rose to 47.8, though this is still in contractionary territory. The service sector PMI fell back to 52.5 from 53.3 in March. New order growth picked up slightly, but new export orders fell for the seventh straight month. Employment growth increased but remained among the lowest since 2016. Although cost inflation was higher, partially driven by higher oil prices, average prices charged for goods and services rose at the slowest rate in 20 months, a testimony of the current lack of pricing power. No wonder consumer price inflation is still going nowhere.

### Not all is bad

Since the second quarter of 2018, the eurozone economy has been persistently undershooting expectations. Today's figures continue this long string of underperformance. But we shouldn't get too pessimistic either. The recent upturn in China is a boon to Europe's economy as it is much more dependent on foreign demand than the US.

*The recovery is still in place, but at the same time we have to acknowledge that the business cycle is already in an advanced stage and that a growth pace of more than 0.3% quarter-on-quarter is getting harder to realise*

---

At the same time, central banks in major economies have become more dovish leading to easier financing conditions and buoyant financial markets. But even then any upturn is likely to remain muted. The Brexit story might still end in tears, while potential trade tensions with the US are lurking around the corner. On top of that markets could start to focus again on the deterioration of public finances in a number of member states, especially in Italy.

Rest assured: the recovery is still in place, but at the same time we have to acknowledge that the business cycle is already in an advanced stage and that a growth pace of more than 0.3% quarter-on-quarter is getting harder to realise. The second quarter already started on a bad footing, but we are still comfortable with our forecast of 1.2% GDP growth for the whole of 2019.

## ECB to buy time

Where does this leave the ECB? We think a big sigh of frustration was heard in Frankfurt after the publication of the PMI figures today.

If economic data continue to disappoint, the ECB will be forced to think of additional stimulus, a big U-turn after having stopped net asset purchases in January. However, the ECB will likely try to buy time, giving the uncertainties surrounding the current growth outlook. The terms of the new TLTROs still have to be determined and we believe that the ECB will wait as long as possible to do this, allowing it to decide on more favourable conditions for the banks if the expected growth improvement should fail to materialise.

## Author

### **Peter Vanden Houte**

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

## UK spending splurge could have further to run

The latest surge in UK retail sales does sound a little too good to be true, but either way, spending could continue to modestly improve as Brexit uncertainty temporarily dips. But given the challenging outlook for investment, we don't expect the Bank of England to hike rates this year

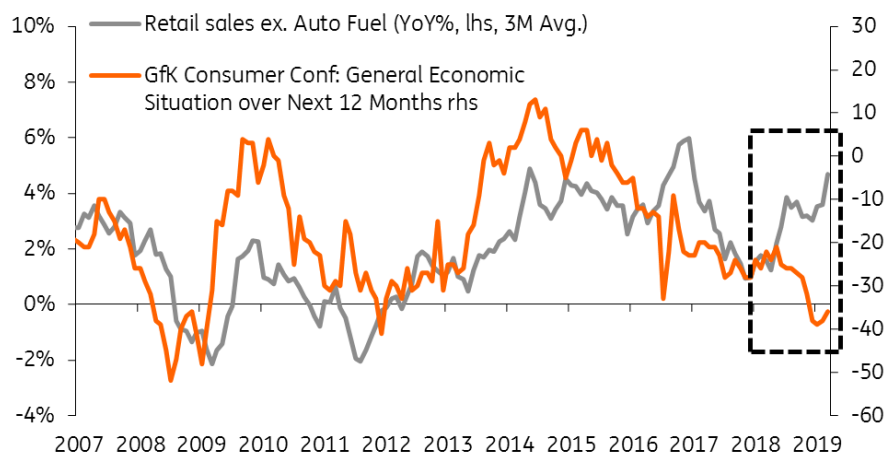


Source: Shutterstock

Despite all the Brexit noise, the latest surge in UK retail sales indicates consumer spending performed a little bit better during the first quarter – at least at face value. At 6.2% year on year, retail sales excluding fuel are now growing at the fastest annual pace, since the end of 2016.

However, we think it's worth treating these latest figures with a touch of caution. Easter falls later this year, which might typically be associated with lower sales during March relative to other years. Similar data from the British Retail Consortium also suggested that spending was more muted during March, aside from some increased purchases related to Mother's Day. The latest surge in retail spending also comes at a time where consumer confidence is around the lowest it has been since 2013.

## A gulf is opening up between better spending figures and depressed consumer confidence



Source: ING

That said, we think consumer spending could continue to perform well in the near-term. The latest Brexit extension to the end of October could see consumer confidence rise a little over the next couple of months as some of the 'no deal' concerns temporarily dissipate. That, combined with prospects of a sunny Easter trading period, makes for a better backdrop for retailers as we head towards the summer.

This could see a bit of growth momentum return in the short-term, although we suspect overall economic activity will continue to be restrained by the challenging investment environment. With [Brexit uncertainty set to return again](#) as we move through the summer, we think it is unlikely that the Bank of England will hike rates again this year.

### Author

#### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

---

Snap | 16 April 2019

## Germany: First green shoots

Spotting turning points in the economy remains a very difficult task. Today's ZEW index adds to tentative evidence that a gradual rebound of the German economy is in the making



Germany's most prominent leading indicator fell to 86.4 in March from 88.4 in February

The ZEW index, which measures investors' confidence, increased for the sixth consecutive month, to 3.1 in April, from -3.6 in March, entering the positive territory for the first time since March 2018.

However, the current assessment component continued the trend of the last few months and recorded its seventh straight drop. German stock market's gains of more than 5% during the previous four weeks, a weakening of the trade-weighted exchange rate by more than 2.5% since last summer as well as positive macro news from China have boosted financial analysts' optimism on the German economy.

All backed by the Fed's and ECB's u-turns towards an easing bias.

### German economy still in mystery land

The German economy remains a mystery. Driven by a series of one-off factors, the German industry was all of a sudden in a free fall in the second half of last year. A free fall, which had not been predicted by any leading indicator. While the current situation in the industry is not as disastrous as some data points suggest, as order books are still filled, the risk of a negative

sentiment loop or a cycle of fear has clearly increased.

At the same time, however, the domestic part of the economy has remained stubbornly strong. The decoupling of the services and manufacturing sectors illustrates the current dichotomy of the German economy. The latter reflecting the global slowdown as well as increased global uncertainty, while the former reflects the sound domestic fundamentals of the German economy. In fact, this decoupling is not a new phenomenon, it already started in 2015. Since then, the manufacturing sector has gone through a full cycle, while the service sector remained constantly stable. Another interesting aspect of the current downswing of the German economy is the fact that downturns normally follow on prior excesses. The German economy, however, did not show any excesses that would require a cleansing correction. Consequently, the economy is currently witnessing the slowdown which basically came from nowhere.

## ZEW index points to tentative optimism

Looking ahead, the main question is whether the significant slowdown could disappear almost as quickly as it came. The reversal of last year's one-off factors, some encouraging recent evidence from global activity as well as continued solid domestic fundamentals have again brightened the outlook for the German economy.

The main question, however, remains if it happens, when will the rebound happen? Not an easy question to answer. The first quarter might come in better than many expect. Judging from all available data so far, retail sales, car sales, employment, exports and construction were all stronger than in 4Q18. While Ifo and PMI have a much better track record in nowcasting German growth, the ZEW index is the only indicator which – unfortunately not always – signals turning points in the economy before they actually happen. Even though the ZEW index offers little clue about the actual strength of any downturn or rebound, six consecutive increases send a strong signal.

A strong ZEW index alone will not solve the current mystery of what the real strength of the German economy actually is. In our view, however, it is another welcome green shoot. After a long series of downward revisions of German growth prospects, it could be time for first (tentative) upward revisions.

### Author

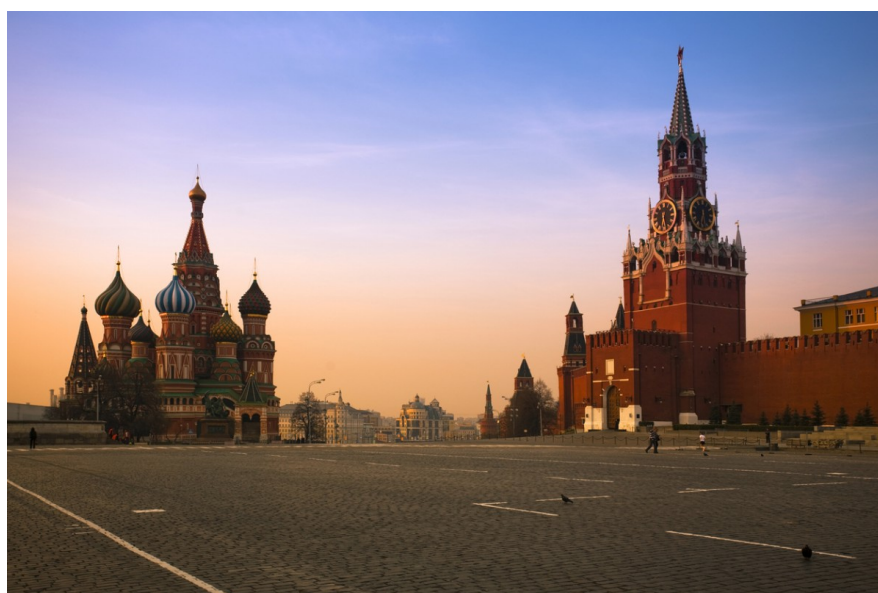
**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

## Russia: thinking progressive taxation?

The Russian government is reportedly considering exempting employees earning below the subsistence level from paying income tax. This could ease some tensions in the lower-income regions but would create the risk of tax evasion. This is far from being a base case scenario, but it confirms the preference to use budget tools to boost income



Source: istock

According to media reports, the Russian government may soon start discussing changes to household taxation, exempting employees with after-tax earnings below the subsistence level from paying personal income tax. This is currently collected by the regional budgets from Russia's entire 73 million employees at a uniform 13% rate. Official representatives of the presidential administration have implied that such discussions, if any, are at very early stages, and it is too soon to consider a shift from the uniform taxation regime as a base case scenario. Nevertheless, we believe some preliminary comments on the potential impact of this reform on the Russian macro picture are worth making.

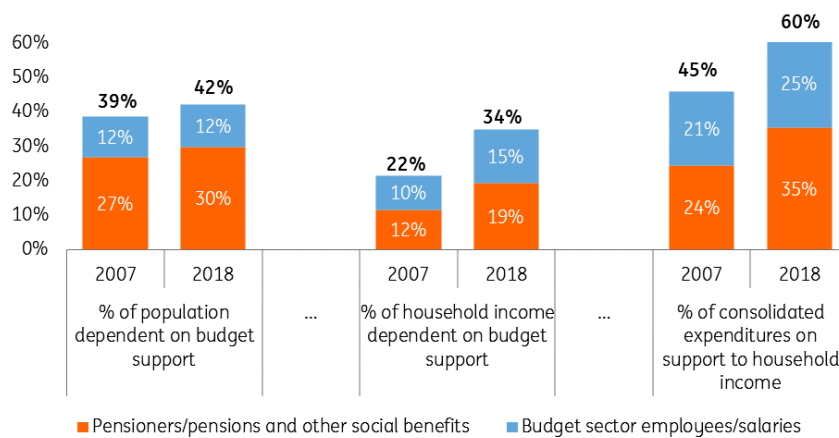
**13% of Russia's employees (9.5 million out of 72.6 million) are earning below the subsistence level.** Our estimates are lower than the preliminary numbers quoted by the media (15%, 11 million people, based on a top-down Russia average distribution of salaries and subsistence level) as we use bottom-up regional statistics accounting for a wide range of subsistence levels (RUB9.1-22.1k)



income growth and popular savings support. Given the current stronger budget execution (RUB550 billion surplus in 1Q19 vs. RUB350 billion consensus, National Wealth Fund set to hit 7% GDP this year, budget breakeven at a 10-year low of US\$50/barrel) the Finance Ministry is likely to see increased external pressure to ease budget policy in the coming years.

<https://think.ing.com/snaps/russia-president-vladimir-putin-state-of-the-nation-address/>

## Social focus of the Russian budget spending



Source: State Statistics Service, Finance Ministry, ING

### Author

**Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

# Canada's housing market: Is it really all that bad?

The housing market is under pressure in Canada and coupled with household debt problems, you can see why this factors into the central bank's reasoning for prolonging its pause



Source: Shutterstock

Higher interest rates and tighter mortgage rules have been feeding their way into the housing market and will continue to do so for a while. This has inevitably taken the steam off things and is arguably one of the main reasons the Bank of Canada (BoC) is happy to prolong its pause.

## Three reasons why household finances are undergoing a tricky period

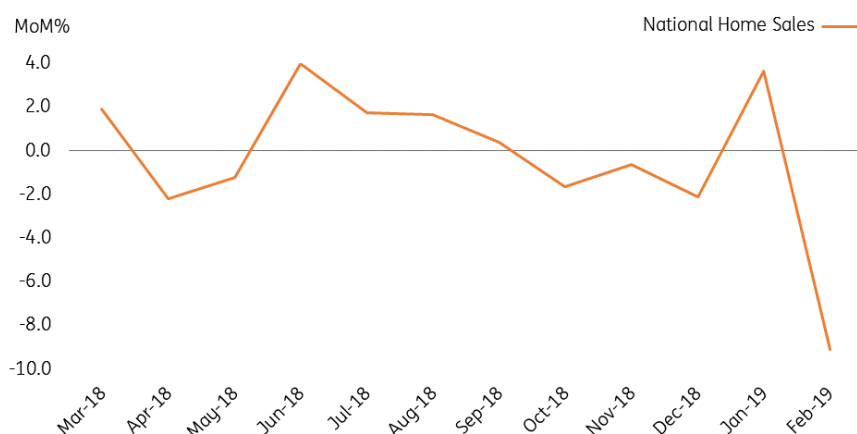
1. Homeowners are watching the value of, typically, their largest asset plateau – or even drop. It's also possible that some homeowners would like to sell their homes if they're at the risk of entering negative equity territory.
2. Mortgage repayment costs are creeping up as interest rates edge higher, and the fact that a lot of Canadian households are running high levels of debt isn't great news.
3. Nevertheless, it isn't an easy selling environment. Not only is it harder for prospective buyers to get a mortgage, but finding affordable homes is still an issue.

These factors don't bode well for housing demand.

## Home sale figures support view it's becoming difficult to sell your home

Canada's real estate association (CREA) recently reported home sales sunk 9.1% month on month in February and hit the lowest level since November 2012. Although the colder climate might have suppressed the figure, it's unclear if the broad-based slowdown is solely a weather story.

## Monthly decline was the largest since new mortgage regulations were introduced



Source: CREA

## New mortgage regulations likely to hurt already vulnerable areas

Canada's new mortgage regulations were introduced in January 2018. In short, the new rules have made it tougher for those with 'fragile finances' to obtain a mortgage and (as a secondary effect) prompted a slowdown in the housing market.

The 2014 oil price shock took a lot of momentum out of Alberta's housing market and, coupled with the below-par trajectory for the energy sector; you can argue the implementation of a stress test will only make matters worse. Data collected last year confirmed this, where provincial sales reached the lowest level since 2010.

## But there are some positives

GDP growth in January not only came as an upside surprise (+0.3% MoM) but also offered some upbeat news for real estate. As reported by Statistics Canada, the construction sector grew for the first time in eight months - with residential construction posting its second consecutive monthly gain. Now, although the sector tends to be quite volatile, as we wrote earlier in [our GDP preview](#), the recovery in building permits provides us with some reassurance when it comes to investment in the housing market going forward.

Moreover, in the recently announced federal 2019 budget, first-time buyers were amongst the

winners. The government has created an incentive for individuals to jump onto the property ladder by offering to absorb part of the associated costs, namely an \$885 million investment over five years. However, this won't come into effect until autumn.

As a result, home buyers might be tempted to delay their decisions, meaning, until then, our view on what's happening in the market will be clouded. This reinforces our previous argument that - if the BoC opts to hike in 2019 - it wouldn't arrive until the fourth quarter as the housing market is likely to appear weaker-than-expected in the near-term.

### To follow, or not to follow (the Federal Reserve)?

A more unwelcome start to 2019 was Canada's percentage of household debt to income standing at 176.3%, which is the highest it has been since 1990. Given that - when the next downturn in the economy arrives - the persistence and depth of household debt levels will only enhance an already difficult environment, and remains a key vulnerability to the health of the economy.

*The persistence and depth of household debt levels remains a key vulnerability to the health of the economy*

It seems that, for now, policymakers are happy to sit back to see how the global trade backdrop, oil prices and household activity all evolve. And with the [Fed firmly in the dovish territory](#), it's possible that this could sway the central bank to follow suit and prolong its pause further.

#### Author

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

# Malaysia: What's happening to the ringgit?

We believe the latest selloff in Malaysian government bonds and the ringgit (MYR) is overdone. We maintain our end-2019 USD/MYR forecast of 4.05

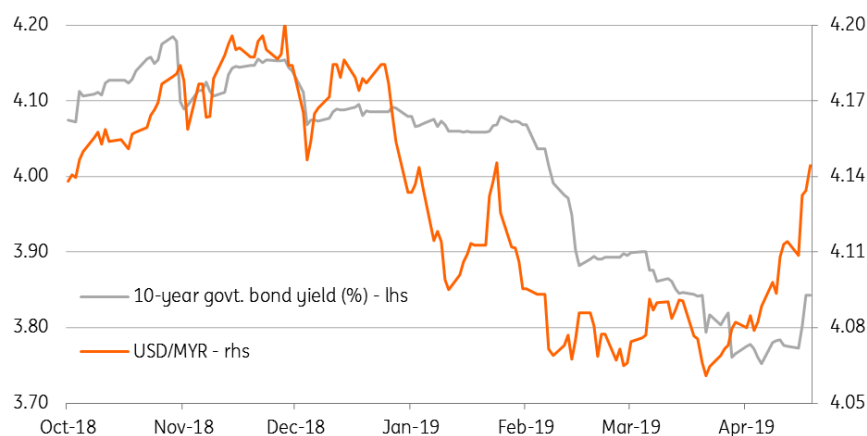


## What lies behind the latest market sell-off?

The downward pressure on Malaysian government bonds and the currency since mid-March intensified this week after a warning on Monday by FTSE Russell of the possible exclusion of Malaysian government debt from its World Government Bond Index. The index provider cited worries about market liquidity. This came on the heels of an announcement by Norway's sovereign wealth fund that it would cut its holdings of Malaysian and broader emerging market debt from its portfolio.

The 10-year bond yield is up seven basis points this week and the MYR has depreciated 0.9% on fears of foreigners potentially dumping most of their holdings of Malaysian government bonds.

## 10-year bond yield vs. USD/MYR rate



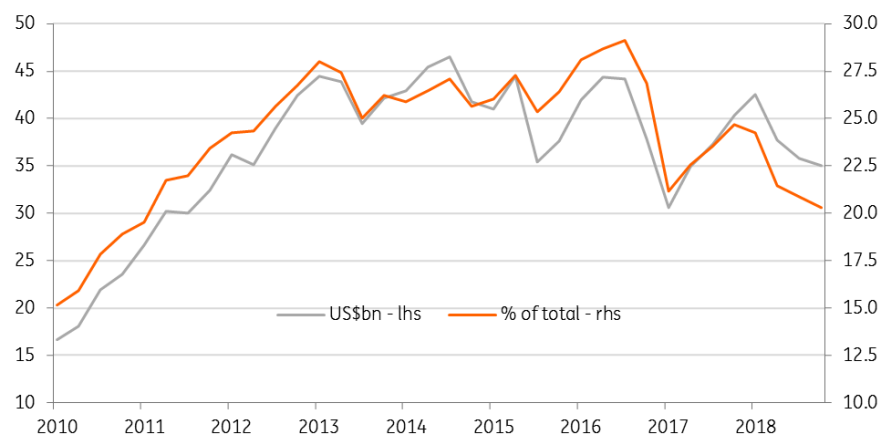
Source: Bloomberg, ING

## Falling foreign holdings of Malaysian debt

Based on figures from the central bank (Bank Negara Malaysia), foreigners have been steadily reducing their investments in Malaysian government debt in recent years.

As of end-2018, they owned \$35 billion worth of MYR-denominated government securities or about 20% of total outstanding MYR-denominated government debt. This share has fallen from 29% in 2016.

## Foreign holding of Malaysian government securities



Source: CEIC, ING

## Selloff looks to be overdone

Nothing has changed in Malaysia's economic fundamentals to warrant such a sudden shift in investor sentiment.

Growth continues to be softer, in keeping with a broader global trend. The economy posted negative inflation in recent months (-0.7% year-on-year in January and -0.4% in February), thus paving the way for a BNM policy easing. The BNM has recently signalled continued policy accommodation. We believe a rate cut is more likely than not at the next meeting on 7 May. As

such, the current economic trends have been government bond-friendly, even as weak public finances and a high level of public sector debt remain a long-term negative.

As for the currency, Malaysia's external payment position remains sound, with a current account surplus at 2-3% of GDP sustaining the MYR's appreciation. This is further supported by the currency's prevailing undervaluation on a real effective basis. Among other things, a softer US dollar environment and rising global oil prices also help.

Such a backdrop leads us to a view that the current sell-off in both government bonds and the currency is overdone. We maintain our view of the USD/MYR trading to 4.05 by end-2018 (spot 4.15).

## Speculators beware

Prime Minister Mahathir Mohamad, well-known for his erstwhile policy of capital controls, has wasted no time in warning the speculators.

---

*Malaysia cannot allow the market and ringgit to decline and depreciate further due to attacks by currency speculators. - Dr. Mahathir*

---

Earlier this week, local media quoted him saying, "Malaysia cannot allow the market and ringgit to decline and depreciate further due to attacks by currency speculators" and "If we are not careful, an economic crisis can recur". We view Mahathir's warning as mere verbal intervention, nothing heralding another round of capital controls or the fixed exchange rate regime under him. He has downplayed such a risk after assuming power a year ago.

[For our full country report please see here.](#)

### Author

#### **Olivia Grace**

Editor

[olivia.grace@ing.com](mailto:olivia.grace@ing.com)

#### **Julian Geib**

Junior Economist, Global Trade

[julian.geib@ing.de](mailto:julian.geib@ing.de)

#### **Zoltán Homolya**

Economic research trainee

[zoltan.homolya@ing.com](mailto:zoltan.homolya@ing.com)

#### **Amrita Naik Nimbalkar**

Economist, Global Macro

[amrita.naik.nimbalkar@ing.com](mailto:amrita.naik.nimbalkar@ing.com)

**Mateusz Sutowicz**

Senior Economist, Poland

[mateusz.sutowicz@ing.pl](mailto:mateusz.sutowicz@ing.pl)

**Alissa Lefebre**

Economist

[alissa.lefebvre@ing.com](mailto:alissa.lefebvre@ing.com)

**Deepali Bhargava**

Regional Head of Research, Asia-Pacific

[Deepali.Bhargava@ing.com](mailto:Deepali.Bhargava@ing.com)

**Ruben Dewitte**

Economist

+32495364780

[ruben.dewitte@ing.com](mailto:ruben.dewitte@ing.com)

**Kinga Havasi**

Economic research trainee

[kinga.havasi@ing.com](mailto:kinga.havasi@ing.com)

**Marten van Garderen**

Consumer Economist, Netherlands

[marten.van.garderen@ing.com](mailto:marten.van.garderen@ing.com)

**David Havrlant**

Chief Economist, Czech Republic

420 770 321 486

[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

**Sander Burgers**

Senior Economist, Dutch Housing

[sander.burgers@ing.com](mailto:sander.burgers@ing.com)

**Lynn Song**

Chief Economist, Greater China

[lynn.song@ing.com](mailto:lynn.song@ing.com)

**Michiel Tukker**

Senior UK & Eurozone Rates Strategist

[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

**Michal Rubaszek**

Senior Economist, Poland

[michal.rubaszek@ing.pl](mailto:michal.rubaszek@ing.pl)

**This is a test author**

**Stefan Posea**

Economist, Romania

[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Jesse Norcross**

Senior Sector Strategist, Real Estate

[jesse.norcross@ing.com](mailto:jesse.norcross@ing.com)

**Teise Stellema**

Research Assistant, Energy Transition

[teise.stellema@ing.com](mailto:teise.stellema@ing.com)

**Diederik Stadig**

Senior Economist, Healthcare & Technology

[diederik.stadig@ing.com](mailto:diederik.stadig@ing.com)

**Diogo Gouveia**

Sector Economist

[diogo.duarte.vieira.de.gouveia@ing.com](mailto:diogo.duarte.vieira.de.gouveia@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Ewa Manthey**

Commodities Strategist

[ewa.manthey@ing.com](mailto:ewa.manthey@ing.com)

**ING Analysts**

**James Wilson**

EM Sovereign Strategist

[James.wilson@ing.com](mailto:James.wilson@ing.com)

**Sophie Smith**

Digital Editor

[sophie.smith@ing.com](mailto:sophie.smith@ing.com)

**Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

**Adam Antoniak**

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

**Min Joo Kang**

Senior Economist, South Korea and Japan

[min.joo.kang@ing.com](mailto:min.joo.kang@ing.com)

**Coco Zhang**

ESG Research

[coco.zhang@ing.com](mailto:coco.zhang@ing.com)

**Jan Frederik Slijkerman**

Senior Sector Strategist, TMT

[jan.frederik.slijkerman@ing.com](mailto:jan.frederik.slijkerman@ing.com)

**Katinka Jongkind**

Senior Economist, Services and Leisure

[Katinka.Jongkind@ing.com](mailto:Katinka.Jongkind@ing.com)

**Marina Le Blanc**

Sector Strategist, Financials

[Marina.Le.Blanc@ing.com](mailto:Marina.Le.Blanc@ing.com)

**Samuel Abettan**

Junior Economist

[samuel.abettan@ing.com](mailto:samuel.abettan@ing.com)

**Franziska Biehl**

Senior Economist, Germany

[Franziska.Marie.Biehl@ing.de](mailto:Franziska.Marie.Biehl@ing.de)

**Rebecca Byrne**

Deputy Global Head of Editorial and Supervisory Analyst

[rebecca.byrne@ing.com](mailto:rebecca.byrne@ing.com)

**Mirjam Bani**

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

[mirjam.bani@ing.com](mailto:mirjam.bani@ing.com)

**Timothy Rahill**

Credit Strategist

[timothy.rahill@ing.com](mailto:timothy.rahill@ing.com)

**Leszek Kasek**

Senior Economist, Poland

[leszek.kasek@ing.pl](mailto:leszek.kasek@ing.pl)

**Antoine Bouvet**

Head of European Rates Strategy  
[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)

**Jeroen van den Broek**  
Global Head of Sector Research  
[jeroen.van.den.broek@ing.com](mailto:jeroen.van.den.broek@ing.com)

**Edse Dantuma**  
Senior Sector Economist, Industry and Healthcare  
[edse.dantuma@ing.com](mailto:edse.dantuma@ing.com)

**Francesco Pesole**  
FX Strategist  
[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

**Rico Luman**  
Senior Sector Economist, Transport and Logistics  
[Rico.Luman@ing.com](mailto:Rico.Luman@ing.com)

**Jurjen Witteveen**  
Sector Economist  
[jurjen.witteveen@ing.com](mailto:jurjen.witteveen@ing.com)

**Dmitry Dolgin**  
Chief Economist, CIS  
[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

**Nicholas Mapa**  
Senior Economist, Philippines  
[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

**Egor Fedorov**  
Senior Credit Analyst  
[egor.fedorov@ing.com](mailto:egor.fedorov@ing.com)

**Sebastian Franke**  
Consumer Economist  
[sebastian.franke@ing.de](mailto:sebastian.franke@ing.de)

**Gerben Hieminga**  
Senior Sector Economist, Energy  
[gerben.hieminga@ing.com](mailto:gerben.hieminga@ing.com)

**Nadège Tillier**  
Head of Corporate Sector Strategy  
[nadege.tillier@ing.com](mailto:nadege.tillier@ing.com)

**Charlotte de Montpellier**

Senior Economist, France and Switzerland  
[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

**Laura Straeter**  
Behavioural Scientist  
+31(0)611172684  
[laura.Straeter@ing.com](mailto:laura.Straeter@ing.com)

**Valentin Tataru**  
Chief Economist, Romania  
[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

**James Smith**  
Developed Markets Economist, UK  
[james.smith@ing.com](mailto:james.smith@ing.com)

**Suvi Platerink Kosonen**  
Senior Sector Strategist, Financials  
[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

**Thijs Geijer**  
Senior Sector Economist, Food & Agri  
[thijs.geijer@ing.com](mailto:thijs.geijer@ing.com)

**Maurice van Sante**  
Senior Economist Construction & Team Lead Sectors  
[maurice.van.sante@ing.com](mailto:maurice.van.sante@ing.com)

**Marcel Klok**  
Senior Economist, Netherlands  
[marcel.klok@ing.com](mailto:marcel.klok@ing.com)

**Paolo Pizzoli**  
Senior Economist, Italy, Greece  
[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

**Marieke Blom**  
Chief Economist and Global Head of Research  
[marieke.blom@ing.com](mailto:marieke.blom@ing.com)

**Raoul Leering**  
Senior Macro Economist  
[raoul.leering@ing.com](mailto:raoul.leering@ing.com)

**Maarten Leen**  
Head of Global IFRS9 ME Scenarios  
[maarten.leen@ing.com](mailto:maarten.leen@ing.com)

**Maureen Schuller**

Head of Financials Sector Strategy

[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

**Warren Patterson**

Head of Commodities Strategy

[Warren.Patterson@ing.com](mailto:Warren.Patterson@ing.com)

**Rafal Benecki**

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

**Philippe Ledent**

Senior Economist, Belgium, Luxembourg

[philippe.ledent@ing.com](mailto:philippe.ledent@ing.com)

**Peter Virovacz**

Chief Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

**Inga Fechner**

Senior Economist, Global Trade

[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

**Dimitry Fleming**

Senior Data Analyst, Netherlands

[Dimitry.Fleming@ing.com](mailto:Dimitry.Fleming@ing.com)

**Ciprian Dascalu**

Chief Economist, Romania

+40 31 406 8990

[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

**Muhammet Mercan**

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

**Iris Pang**

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

**Sophie Freeman**

Writer, Group Research

+44 20 7767 6209

[Sophie.Freeman@uk.ing.com](mailto:Sophie.Freeman@uk.ing.com)

**Padhraic Garvey, CFA**

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

**Tim Condon**

Asia Chief Economist

+65 6232-6020

**Martin van Vliet**

Senior Interest Rate Strategist

+31 20 563 8801

[martin.van.vliet@ing.com](mailto:martin.van.vliet@ing.com)

**Karol Pogorzelski**

Senior Economist, Poland

[Karol.Pogorzelski@ing.pl](mailto:Karol.Pogorzelski@ing.pl)

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

**Viraj Patel**

Foreign Exchange Strategist

+44 20 7767 6405

[viraj.patel@ing.com](mailto:viraj.patel@ing.com)

**Owen Thomas**

Global Head of Editorial Content

+44 (0) 207 767 5331

[owen.thomas@ing.com](mailto:owen.thomas@ing.com)

**Bert Colijn**

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

**Peter Vanden Houte**

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

**Benjamin Schroeder**

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

**Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

**Gustavo Rangel**

Chief Economist, LATAM

+1 646 424 6464

[gustavo.rangel@ing.com](mailto:gustavo.rangel@ing.com)

**Carlo Cocuzzo**

Economist, Digital Finance

+44 20 7767 5306

[carlo.cocuzzo@ing.com](mailto:carlo.cocuzzo@ing.com)

---

Article | 11 April 2019

## How will Indonesia's elections results impact the economy?

Growth in Indonesia has hovered about the 5% level since 2016 and going forward its trajectory will largely depend on who wins the elections next week. For the second time, President Joko Widodo will face off Prabowo Subianto, so what can we expect from the economy under each candidate?



Indonesian President Joko Widodo on the election campaign

### Take two: Jokowi vs Prabowo (again in 2019)

Indonesia will hold elections next week with incumbent President Joko Widodo, also known as Jokowi widely expected to secure a second five-year term. Latest polls show Jokowi leading his second-time challenger, the former general and now businessman, Prabowo Subianto, who Jokowi defeated in the previous election.

Here's a quick look at what we can expect from each candidate in terms of their economic policies.

## Jokowi to push investment with an eye on globalisation

President Jokowi's economic platform rests on his push to improve the economy through investments in infrastructure in a bid to gain global competitiveness and lower Indonesia's reliance on minerals and other resources exports. Jokowi hopes for Indonesia to move up higher-value-added ventures to help provide jobs through high technology industrialisation.

However, his push for investments and infrastructure has resulted in both current account and fiscal deficits. The president has defended the 'twin deficits', saying investments would eventually boost growth and help the economy reverse these deficits down the line. His push for investments has also contributed to Indonesia's strengthening ties with China.

---

*Although we can't see any near-term respite from the twin-deficit problem, the long-term prospects for Indonesia remain positive. A greater emphasis on infrastructure, health and education investment should help wean itself off lower-value added exports and evolve into a more dynamic economy*

---

At the same time, Jokowi has chosen to boost imports of basic foodstuffs to help stabilise prices - a move that seems to have worked in keeping domestic price growth in check, and inflation at the lower end of the central bank's 2.5 - 4.5% target range. Meanwhile, in response to his challenger's bid to lower corporate and personal taxes, he's also pledged to look into cutting taxes further, given that over the course of his term, he's effectively given tax breaks to lower income households.

If Jokowi is elected to a second term, we are likely to see the country push on with his infrastructure and investment plans. Inflation is likely to remain in check given Jokowi's program to import basic foodstuffs, but wider current account and fiscal deficits will remain the key overhangs on the Indonesian rupiah (IDR). Besides existing import curbs to rein in the current deficit, including consideration of increasing the biodiesel blend in local fuel, any future dip in global oil prices may help the government cut back on fuel subsidies.

Although there is unlikely to be any near-term respite from the twin-deficit problem, the long-term prospects for the economy remain positive. A greater emphasis on infrastructure, health and education investment will all help Indonesia wean itself off dependence on lower-value added exports and evolve into a more dynamic economy.

## Prabowo wants to take Indonesia back to its core strengths

The challenger Prabowo is making an aggressive bid to lower both corporate and income tax as he criticises the president's push outwards. If he manages to deliver this, it will boost the consumer's purchasing power and help the economy become more competitive and an attractive destination for foreign investment. Although lowering taxes are seen to bloat the country's deficit, Prabowo vows to boost the efficiency of the tax collecting machinery and achieve more revenue via consumption taxes.

---

*With less than a week to go before Indonesians head to the polls, Jokowi remains comfortably in the lead, but we've seen our fair share of election surprises in recent years*

---

Unlike Jokowi's globalisation drive, Prabowo seems to preach a return to Indonesia's core domestic strengths sourcing both food and energy domestically. This is why he's been critical of Jokowi's foods and oil importing policy to keep inflation low. Prabowo is encouraging a push inwards by helping local farmers via subsidies, while also planning to secure renewable energy via Indonesia's vast forest lands. Prabowo has also criticised his competitor's infrastructure drive because of the pressure it exerts on deficits, as well as publically denouncing ties with China.

However, it remains unclear, how Prabowo hopes to achieve industrialisation without pushing for investments, which may result in lower deficits but also slower growth. He may currently trail in the surveys leading up to the polls, but we won't rule out a surprise victory.

With less than a week to go before Indonesians head to the polls, Jokowi remains comfortably in the lead, but we've seen our fair share of election surprises in recent years.

Although the candidates are similar in their drive for industrialisation, increasing or preserving purchasing power and job creation, the two differ in their approach to these goals. The economy will continue to chug along at the current 5% handle, and we'll have to see who the people choose to get the economy jump-started through [reforms](#).

[Read our country profile on Indonesia and why reforms are needed for lift-off](#)

## Author

### Nicholas Mapa

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

## North Macedonia elections: Heading into a run-off

The upcoming presidential elections are unlikely to see North Macedonia change course in its approach towards Western integration. The incumbent government's candidate, Stevo Pendarovski, is currently ahead in the polls which would further underpin the ongoing political path although a second round appears very likely



Source: Shutterstock

Presidential candidate of the ruling Social Democrats, Stevo Pendarovski (C) greets his supporters on a party convention in Skopje, North Macedonia

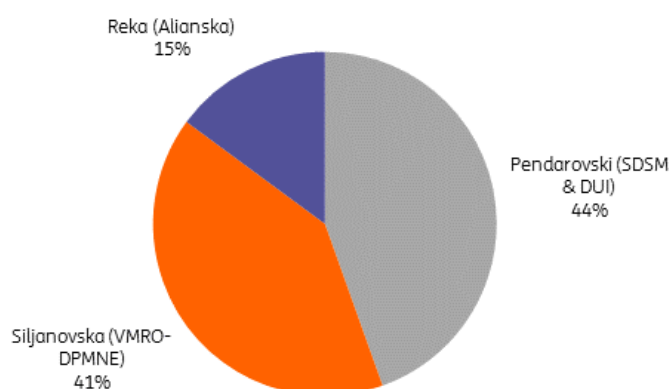
The successful passing of the name change deal in Skopje and Athens in January has been game-changing for the small country in the Balkans. Since then, North Macedonia is in the midst of the NATO ratification process and expected to start EU accession talks in the second half of 2019. We believe near-term obstacles are manageable although eventual EU membership remains distant with Montenegro and Serbia (which have already started accession talks) only expected to join by 2025.

Presidential elections due on 21 April are the first since the country has changed its name. Despite the mostly ceremonial role of the president, it's important for the leading coalition to prove that it

still enjoys popular support.

The candidate backed by the government coalition parties (social democrats SDSM and ethnic Albanians DUI) is credited with a slight advance in the opinion polls, which is why a second round is quite likely. The social democrats are expected to secure the presidency after the run-off, but it depends a lot on the turnout of ethnic Albanians which is expected to be lower than Macedonians. Needless to say, opinion polls have recently displayed modest predictive power. There is also the material risk that the minimum turnout of 40% for the elections to be validated isn't reached. Run-off is scheduled in two weeks' time around 5 May.

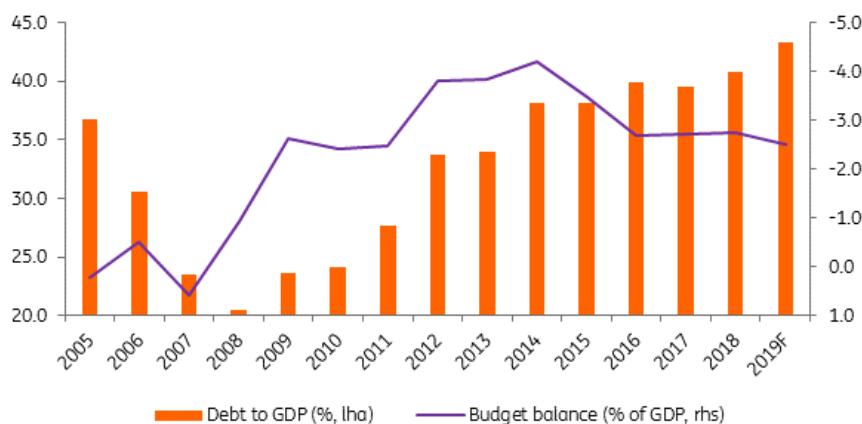
## Heading into run-off



Source: IPIS, M-Prospect

Regardless of the election outcome, we see no obstacle to NATO membership and negotiation on EU accession processes. The [government program for 2019-2020](#) sees some fiscal consolidation ahead with the budget deficit reaching -2.0% of GDP by 2021 from -2.5% target for 2019. As the economy is expected to run below its potential, the structural deficit is seen rising further. Provided that growth accelerates, government debt as a percentage of GDP is likely marking its top in 2019.

## Slower fiscal consolidation ahead



Source: MinFin, SSO

## Rating factors that could lead do an upgrade or downgrade

Agency (review date)	Upgrade Drivers	Downgrade Drivers
<b>S&amp;P</b> BB- stable (6 September)	<ul style="list-style-type: none"> <li>Timely reform implementation, for instance as part of EU accession negotiations, to strengthen institutional arrangements and improve economic prospects</li> <li>Stronger fiscal performance that places net general government debt firmly on a downward path</li> </ul>	<ul style="list-style-type: none"> <li>Major political tensions or waning reform momentum, impairing growth and FDI, and undermining longer-term growth prospects</li> <li>Large fiscal slippages or off-budget activities that question the sustainability of public debt</li> </ul>
<b>Fitch</b> BB positive (14 June)	<ul style="list-style-type: none"> <li>Improvement in governance standards and further reduction in political risk (e.g. progress towards EU accession and continuation of political stability)</li> <li>Implementation of a medium-term fiscal consolidation programme (i.e. stabilisation of public debt/GDP ratio)</li> </ul>	<ul style="list-style-type: none"> <li>Adverse political developments that affect governance standards and the economy</li> <li>Fiscal slippage or crystallisation of contingent liabilities</li> <li>Widening in the current account deficit that exerts pressure on FX reserves and/or the euro currency peg</li> </ul>

Source: S&P, Fitch, ING

### Author

#### Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).