# Indonesia: Stalling GDP may prompt further easing

Indonesia posted disappointing GDP growth of 5.0% for the fourth quarter, with full year growth missing the government's official target of a 5.3% gain

Source: Shutterstock

5.0%

4Q GDP

2019 GDP at 5.0%

Lower than expected

## Growth momentum slowing

Indonesia posted 5.0% GDP growth in the fourth quarter, bringing full year growth to 5.0%, which was slower than 2018 and below the government's revised target for a 5.3% gain. Growth momentum has been hampered by the ongoing US-China trade war, with exports contracting in all but one month last year. The manufacturing sector tied to exports was likely the main drag on the economy, with PMI manufacturing in contraction for all of the second half of last year and for the first month in 2020. With growth momentum slowing, President Jokowi has ordered a radical shift to investments to chase the higher growth aspiration of 5.3%.

## Benign inflation and slowing growth momentum likely to prompt BI action

With price pressures benign and growth momentum fading, we expect Bank Indonesia (BI) to be called into action once more to jump-start the economy with additional policy easing. In 2019, BI had slashed policy rates four times (-100 basis points total) to help revitalise bank lending, which remains subdued at 7.0%. Additional rate cuts by the central bank will move in line with the President's directive to bolster investment activity, and we expect Governor Perry Warjiyo to pull the trigger in the near term. With the growth outlook turning even more precarious in light of the coronavirus, we expect BI to resume cutting policy rates but only when the Indonesian rupiah regains some stability.