

Indonesia: GDP growth mildly disappoints in 1Q18

Household and business spending remained healthy, but government spending and net exports growth rates slowed. BI is likely to consider measured tightening to support household spending



Source: Shutterstock

5.06%

1Q18 GDP growth rate

Unlikely to deter BI from measured tightening

Lower than expected

GDP growth expected to mildly accelerate for the rest of the year, which would not necessarily derail a 2Q BI policy rate hike

Economic activity continues at a pace seen in the past four years of around 5% YoY growth. Household spending grew at a steady pace while business spending accelerated to 8% from the 5% YoY increase in 1Q17. Government spending growth slowed to 2.3% from the year-ago growth

of 2.7%. Net export growth slowed dramatically due to high base effects. Import growth accelerated in 1Q18 but exports slowed. We expect net exports in the coming quarters to remain as a drag to overall economic activity largely due to base effects and rising imports. We need to see government spending growth mildly accelerate, especially in 4Q ahead of the presidential elections in April 2019. Leeway for higher deficit spending, however, would be limited as oil price and IDR assumptions for this year's fiscal budget were quite optimistic. We expect subsidies to be revised higher by mid-year and raise the fiscal deficit closer to 2.7% of GDP. This would help sustain a relatively strong household sector. Add to this efforts to contain inflation pressures. A rate hike as early as the 17 May meeting or by June would enhance such efforts through a support for IDR. IDR has slipped by almost 3% YTD. A persistently weak IDR at around the current level would see an average weakness of more than 4% this year, which is also weaker than this year's fiscal assumption. We revise our full year growth forecast from 5.4% to 5.2%. The revised forecast considers measured monetary tightening, improved household and business spending, more manageable import growth and limited fiscal deficit spending.