

Indonesia: 3Q GDP prints at 5.17%

Indonesia posts decent growth numbers despite a challenging external environment with government spending complementing household consumption



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5.17% 3Q 2018 GDP growth rate

As expected

Well-behaved inflation and government spending support growth

Economic growth in the third quarter was in-line with market expectations for a 5.15% expansion and slightly below ING's forecast for a 5.2% gain.

- Government spending continued to support overall growth, posting a 6.28% growth print, accelerating from the 5.2% growth seen in 2Q.
- Household spending posted another above 5% print, up 5.01%, with inflation slipping to 3.16% and core inflation at 2.94% while capital formation printed at 6.96%.

- Construction activity picked up 5.79% while services rendered a 5.26% increase to help provide an added boost to the 3.62% expansion in agriculture and 4.33% gain in industrial output.

These improvements helped offset the challenges faced on the external front with the trade gap still substantial at \$2.724 bn.

Outlook for growth despite challenging environment

Government spending is likely to round out in 2018 as the government looks to bolster the overall growth print given the challenging external environment. Household spending growth should also remain healthy thanks to subdued inflation. Low inflation contributed to consumer spending in 2Q and will likely continue to close out 2018. Average YTD 2018 inflation stands at 3.2%, slower than the average of 3.91% posted in the same period in 2017.

Bank Indonesia raised policy rates by 150 basis points throughout 2018 may put a damper on overall capital formation going in 2019, but stability is the main focus of Bank Indonesia and the overall national government for the time being as Governor Warjiyo looks to maintain the attractiveness of Indonesia financial assets.

We expect the robust household spending coupled with an acceleration of government spending to bring the overall economic growth to an average of 5.2% this year, mildly higher than 2017's growth of 5.1% as Indonesia posts a respectable growth print despite the challenging environment.