

Indonesia: Sustained Steady Growth In 4Q11

The Indonesian economy maintained 6.5% y/y growth for the second consecutive quarter in 4Q11, bringing the full-year growth rate to 6.5% -- the fastest pace since the Asian Financial Crisis. The data was in line with market's expectation.

Improvements in fixed investment and private consumption have helped to offset the slowdown in external demand during 4Q11. GFCF surged an impressive 11.5% y/y in the fourth quarter despite the increase in external market uncertainties. This was the strongest since 4Q08. On the other hand, exports growth slipped to 7.9% y/y from double-digit growth pace in the preceding quarters.

Looking ahead, the growing middle-income population is likely to continue to drive growth in private consumption demand. However, the key factor for economic outperformance will have to come from investment demand. On the backdrop of flushed global liquidity and growth risks in the developed economies, the recent credit rating upgrades by Fitch and Moody will place Indonesia in a favourable position to attract FDI inflows. Furthermore, infrastructure investments will likely accelerate with the passage of the land acquisition bill in Dec. Nonetheless, export outlook is expected to weaken in line with a moderation in demand from the developed economies as well as China, for commodities such as palm oil, coal and metals which account for more than half of the country's exports. We believe Indonesia will be able to attain GDP growth of 6.0% in 2012.

Implication On Monetary Policy

Indonesia's monetary and fiscal policies will likely remain accommodative this year as a result of the risks in the external environment. But further interest rate cuts will have to be weighed against inflation risks in the coming quarters, particularly if domestic demand remains firm. The 4Q11 GDP data on Monday supports view that Bank Indonesia will keep its benchmark interest rate steady at 6.00% later this week. We do not foresee that the central bank will be in a hurry to deliver more interest rate cuts after recently lowering the floor of its interbank overnight rate by 50 bps to 200 bps below its benchmark policy rate and the combined 75 bps interest rate cuts late last year. Overall, a 25 bps rate cut in 1H12 is still a possibility if external risks intensify.

USD/IDR is currently trading below 9,000 from 9,068 end-2011. The IDR appreciation against USD was more moderate compared with other regional currencies such as MYR or SGD. While Indonesia's economic outlook remains bright, the low yields could dampen demand for domestic assets. We are maintaining our target for USD/IDR at 8,850 by the end of 2012.

Strong Fixed Investment Growth Offset Slowing External Demand					
<i>y/y% change</i>	4Q10	1Q11	2Q11	3Q11	4Q11
GDP	7.1	6.7	6.6	6.5	6.5
Public Consumption	7.3	2.8	4.5	2.8	2.8
Private Consumption	4.9	4.5	4.6	4.8	4.9
GFCF	8.7	7.2	9.3	7.1	11.5
Exports	16.5	12.5	17.5	18.1	7.9
Imports	17.1	14.4	15.3	14.0	10.1
<i>Source: Bloomberg</i>					

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