



### Monthly Economic Review April/May 2015

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- **Inflation:** Indonesia inflation rose to 6.79% yoy in April (vs. 6.38% a month earlier) mainly due to higher food prices following an increase in fuel price. The government increased gradually Premium price to Rp 7,400/liter from Rp 6,600/liter in the last two months. Further, the price of 12-kg cannisters of liquefied petroleum gas was also adjusted last month. Looking at monthly profile, inflation accelerated to 0.36% in April compared to 0.17% in March. Year-to-date (YTD) inflation still recorded a deflation figure with a lower level of 0.08% (vs. 0.44% deflation in March). Meanwhile, annual core inflation was stable at 5.04% whilst YTD core inflation stood at 1.49% (vs. 1.25% in March).
- **Trade Balance:** Trade balance reported a higher-than-expected surplus of USD 1.13 billion in March (vs. USD 738.3 million in February). This is the fourth consecutive month that Indonesian trade has recorded a surplus. Compared to the same period last year, the slowdown in import by 13.4% to USD 12.6 billion was faster than export which fell by 9.7% to USD 13.7 billion. Exports have been hit by a slowdown in commodities demand whilst imports have weakened amidst the depreciated Rupiah. However, import and export improved comparing to previous month of USD 11.5 billion and USD 12.2 billion, respectively.
- **GDP Growth 1Q15:** Indonesian GDP grew by 4.71% in 1Q15. Comparing to first quarter of 2014 which stood at 5.14%, this low GDP growth reflected a slowdown in domestic economy mainly due to a drop in government spending, weak oil prices and China's weakening economy. Looking at the industry of origin, information and communication sector recorded the highest yearly growth of 10.5% whilst in the expenditure side, household booked the fastest at 5.0%. Total GDP based on current and 2010 constant price accelerated to Rp 2,724.7 trillion and Rp 2,157.5 trillion in 1Q15 (vs. Rp 2,499.9 trillion and Rp 2,060.5 trillion a year earlier).
- **Jakarta Composite Index (JCI):** JCI dropped significantly to 5,086.43 at end of April versus 5,518.67 in the previous month. The selling activities along the stock market were mainly triggered by lower-than expected corporate performances during the first quarter of this year. This factor heightened the investors' concern on domestic economy which was in contrast to government's optimistic GDP growth target of 5.7% this year. As of 5 May, however, JCI was closed higher at 5,160.14 following the Fed's decision to maintain its interest rate at current level.

- **BI Rate:** Following the Fed's decision to maintain its interest rate benchmark, it is expected that BI will maintain its benchmark rate, deposit facility and lending facility rates at 7.50%, 5.50% and 8.0%, respectively for the second straight month in the next BI's board of governor meeting. Current inflation was still in line with expectation for this year of 4±1%. There was a signal of longer wait for rate increase by The Fed, after it downgraded U.S economic outlook. US Commerce Department reported that the economy grew at an anemic 0.2% annual rate in 1Q15 (vs. 2.2% in 4Q14).
- **Rupiah:** Rupiah was relatively stagnant against the greenback and closed at 12,963/USD at end of April (vs. 13,084/USD in March). A higher-than expected trade surplus in the first quarter of this year was countered by selling activities along the capital market. The currency is expected to remain fluctuate against US Dollar, mainly impacted by China's economic slowdown and at the same time The Fed's decision to maintain its current interest rate. As of 5 May, Rupiah weakened slightly to 12,993/USD.
- **Government Bond Yield (10Y):** In tandem with the selling activities along the stock market, the 10-year government bond was also under pressure amidst the Rupiah fluctuation. The yield of 10Y government bond benchmark accelerated to 7.73% at end of April compared to 7.43% in the previous month. Although The Fed's policy on interest rate can be a positive catalyst for bond market in the near term, the 10Y benchmark yield accelerated further to 7.83% as of 5 May, in tandem with the weaker Rupiah and lower GDP growth data for 1Q15.
- **Investment realization in 1Q15:** Amidst the weaker Rupiah, domestic investment was up by 22.8% yoy to Rp 42.5 trillion whilst foreign investment grew at a lower level of 14.0% to IDR 82.1 trillion in 1Q15. Cumulatively, total investment realization in 1Q15 stood at IDR 124.6 trillion (vs. IDR 106.6 trillion in 1Q14). Mining sector had the biggest share of 12.0%, followed by food industry (10.3%); electricity and gas (9.4%); food crops & plantation (9.1%); metal, machinery, and electronic (8.6%), with the rest was contributed by other industries.
- **Commodities**
  - **Oil:** Western Texas Intermediate (WTI) price was closed at a stronger level of USD 58.97/barrel (vs. USD 47.73/barrel at end of last month). The main catalyst behind this price improvement was concern on political tension in the middle east and declining oil production from the U.S. that potentially limit the oil supply along the global market. As of 5 May, world oil price strengthened to USD 60.76/barrel
  - **Coal:** Coal price strengthened to USD 59.20/ton at end of April compared to USD 57.20/ton as of March 31. The stronger price was mainly backed by market concern on a potential supply decrease in the global market as Indonesian coal production could drop by up to 24 percent this year following producers' plan to stop ramping up output and concentrate on business stability. Coal price further rose to USD 59.55/ton as of 5 May.
  - **CPO:** Crude palm oil price strengthened at end of April and closed at USD 589.08/ton compared to USD 584.28/ton as on March 31. An uptrend price of WTI acted as a positive catalyst for this commodity as it can be used as an alternative fuel or biofuel. The trend continued and CPO price closed at USD 599.52/ton as of 5 May.
  - **Gold:** Gold price was up to USD 1,197.80/ounce at end of April (versus previous month's closing of USD 1,186.40/ounce) following the release of U.S. economic data which include moderated job gains and steady unemployment rate. As of 5 May, however, the gold price was closed slightly lower at USD 1,196.70/ounce amidst the stronger US Dollar.
- **Other News**

**Government offers lax tax to woo investors:** The government has issued a new set of tax allowances to attract more sizeable investments into Indonesian economy. Government Regulation (PP) No. 18/2015 stipulates that any firms that have made significantly valuable investments, intend to export their manufacturing output, have

hired a high number of workers, or used a large amount of local content are eligible to obtain tax incentives starting in early May. Similar to the previous stipulation in PP No. 5/2011, investors may obtain a reduction of taxable income of up to 30 percent of their total investments applied over six years (5 percent per year). The new rule also expands the provision of the tax allowances to 144 business sectors from previously 129. The new sectors include the shipbuilding and marine industries, mineral processing as well as tourism.

- **Fuel price adjustment:** Pertamina increased the price of Pertamax by 2.3% to Rp 8,800/liter as of 1 May, in line with global fuel prices. The equivalent grade of gasoline form Shell, Super, has sold at gas stations for Rp 8,950/liter, up 2.9% from the previous price. Nevertheless, the government has maintained the price of Premium at Rp 7,400/liter. This price review was done monthly since the government ended the subsidy scheme for Premium at the beginning of this year.

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