Indonesia Economic Update

QNB Group

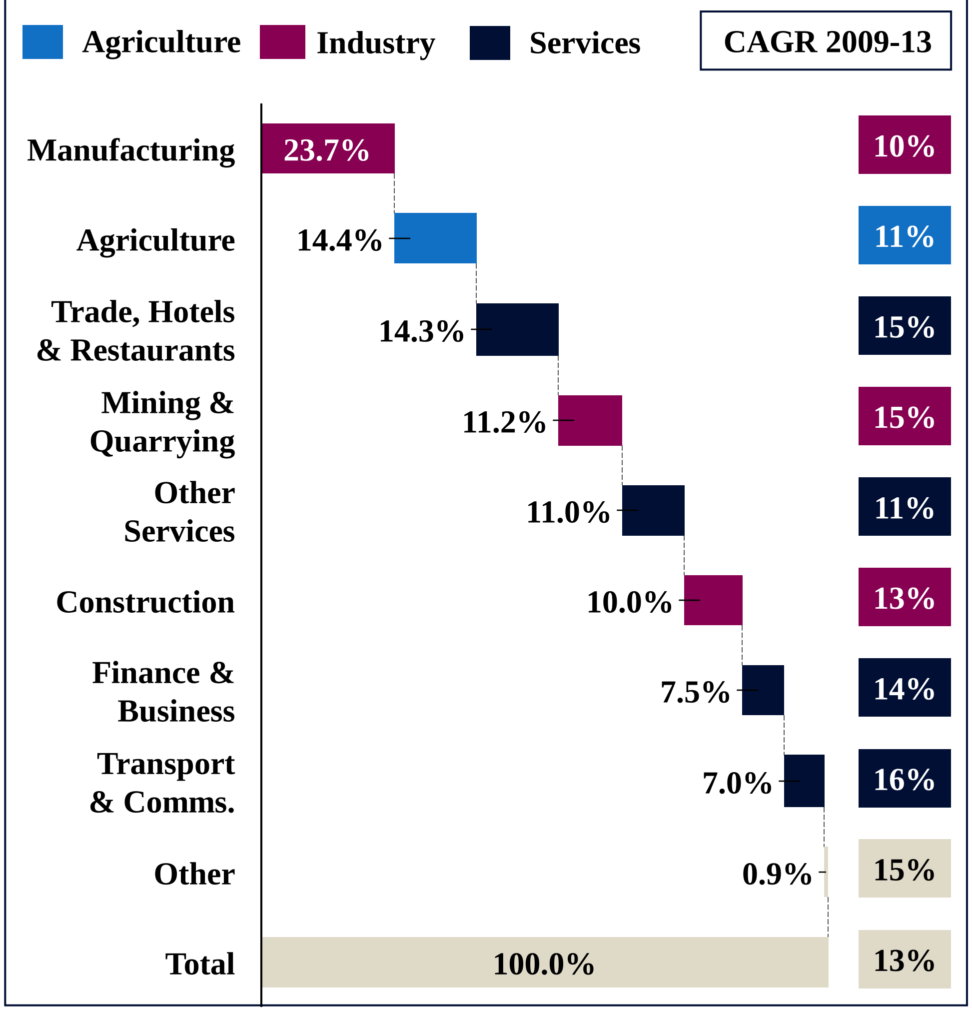
October 2014

Indonesia – Overview

The economy has enormous long-term potential based on a rich endowment of natural resources and a large population; the new Jokowi administration will need to address chronic underinvestment that leads to crippling supply bottlenecks

Overview Data (2013)	
GDP (bn USD)	869.0
% GDP related to Services	39.8
Real GDP Growth (%)	5.8
Per Capita GDP (k USD, PPP)	5.2
CPI Inflation (%)	6.6
Current Account Balance (% of GDP)	-3.4
FX Reserves (months of import cover, end-2013)	5.9
Exchange Rate (USD:IDR, end-2013)	12,270
Fiscal Balance (% of GDP)	-2.1
Government Debt (% of GDP)	26.1
Broad Money Growth (%)	12.7
Banking Assets (% of GDP)	54.5
3-Month Interbank Rate (%)	7.8
Population (m)	248.0
Population aged 15-64 Years (% share, 2010)	67.4
Population growth (%)	1.4
Unemployment (%)	6.3
Religion (% Muslim)	87.2
Doing Business Rank out of 189	120
Competitiveness Rank out of 144	38
Moody's Rating (Long-term FX debt)	Baa3

Nominal GDP by sector (2013)

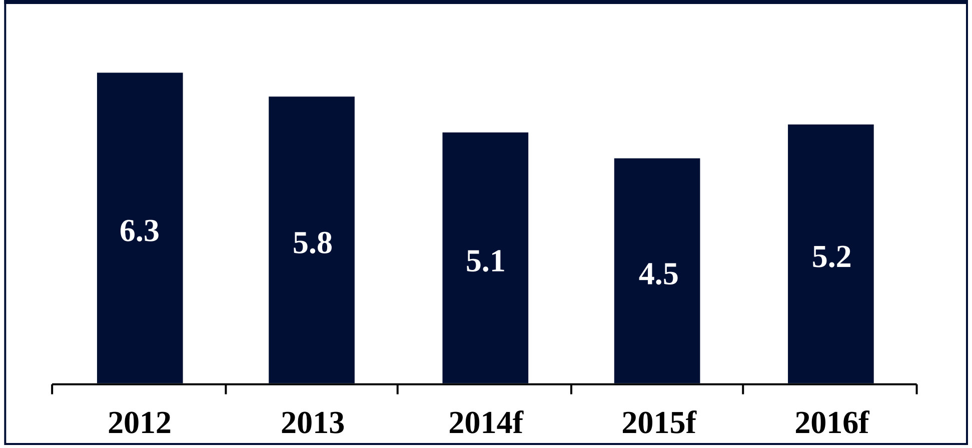


Sources: Central Bank of Indonesia (BI), CIA World Factbook, International Monetary Fund (IMF), Statistics Indonesia (BPS) World Bank, World Economic Forum and QNB Group analysis

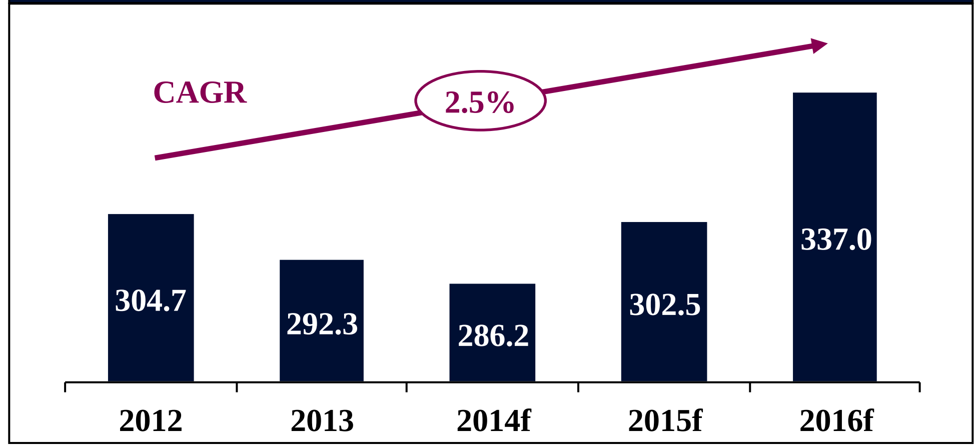
Indonesia – GDP Growth

A combination of lack of structural reforms and slower investment growth owing to reduced investor confidence are likely to dampen real GDP growth over the medium term, thus increasing unemployment despite a moderate population growth

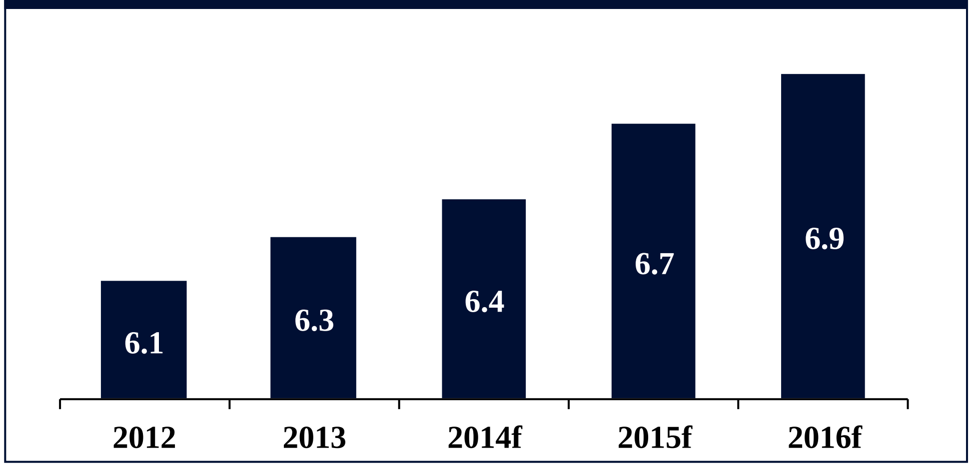
Real GDP Growth (%)



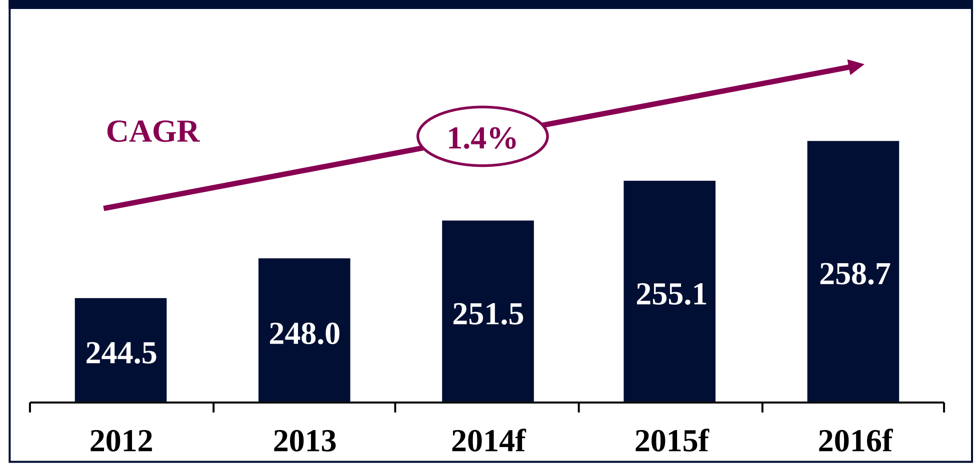
Investment (bn USD)



Unemployment (%)



Population (m)

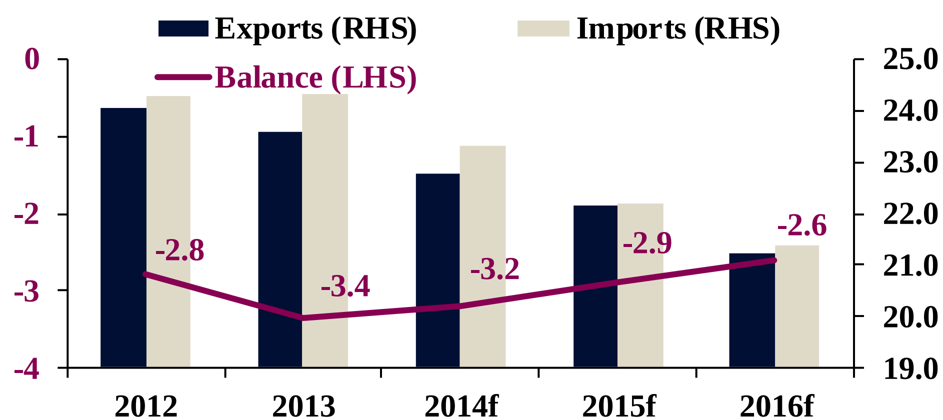


Sources: Bloomberg, IMF, BPS and QNB Group analysis and forecasts

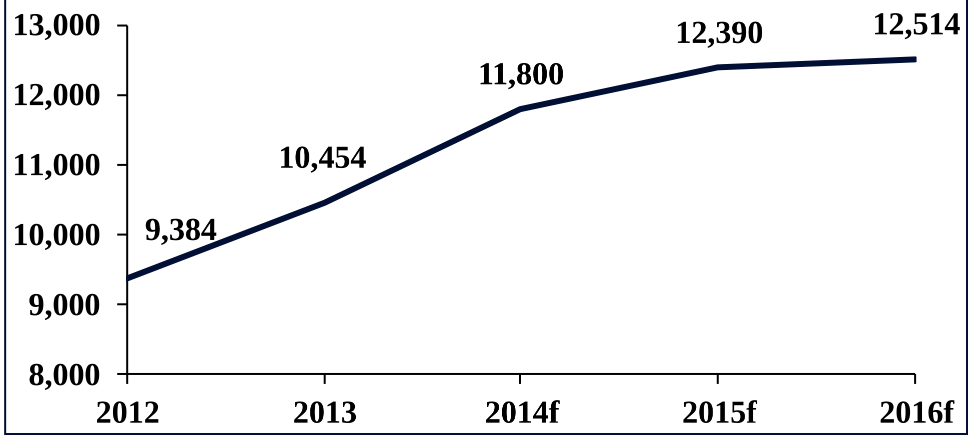
Indonesia – Balance of Payments

A persistent current account deficit and capital outflows are key macroeconomic risks in the short-term; the central bank has recently intervened to support the currency, eroding international reserves; trade is mostly with other Asian countries

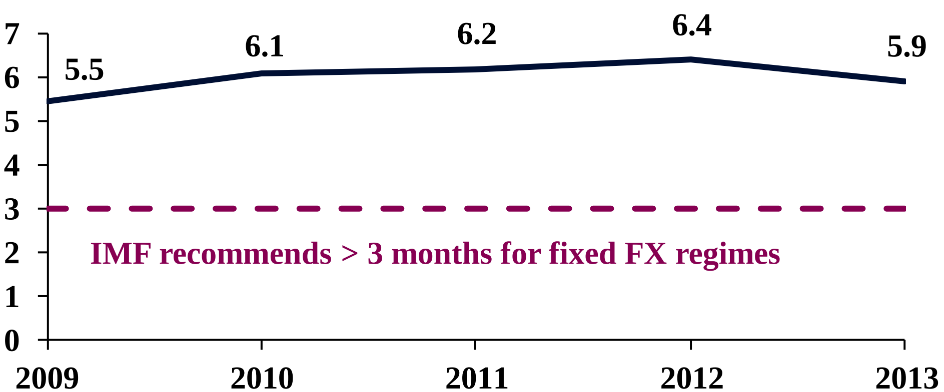
Current Account (% of GDP)



Exchange Rate (USD:IDR)



International Reserves (months of import cover)



Directions of Trade (2013)

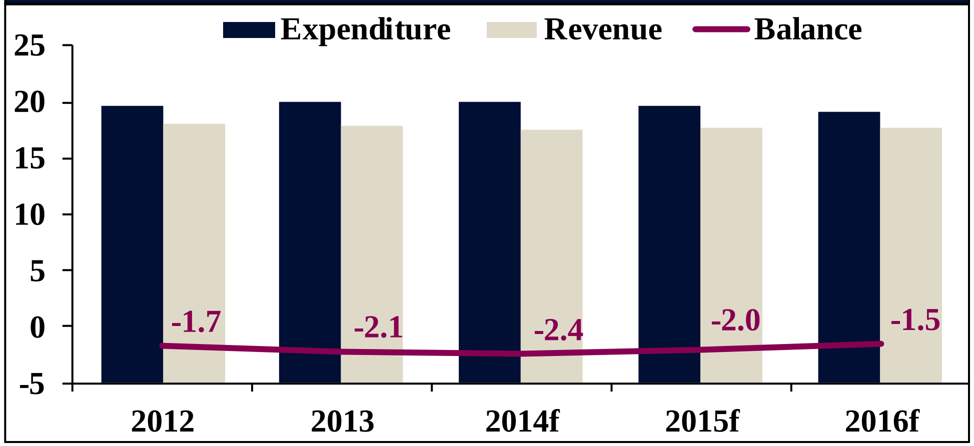
Exports		Imports	
Destination	(bn USD)	Source	(bn USD)
Japan	27.1	China	29.8
China	22.6	Singapore	25.6
Singapore	16.7	Japan	19.3
United States	15.7	Malaysia	13.3
India	13.0	South Korea	11.6

Sources: Bloomberg, BI, BPS and QNB Group analysis and forecasts

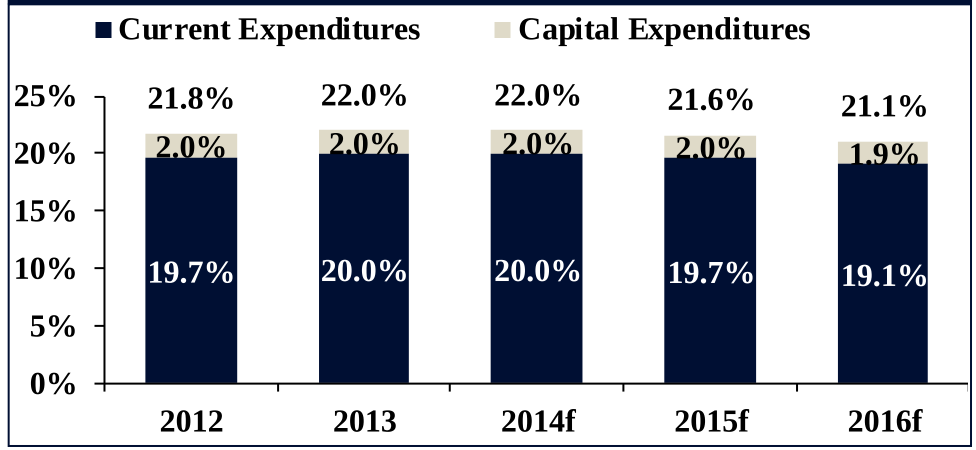
Indonesia – Fiscal Policy

Fiscal policy aims to eliminate the fiscal deficit over the medium term, alleviating public spending constraints; low levels of capital expenditure are insufficient to make up for the infrastructure gap, public debt remains relatively low

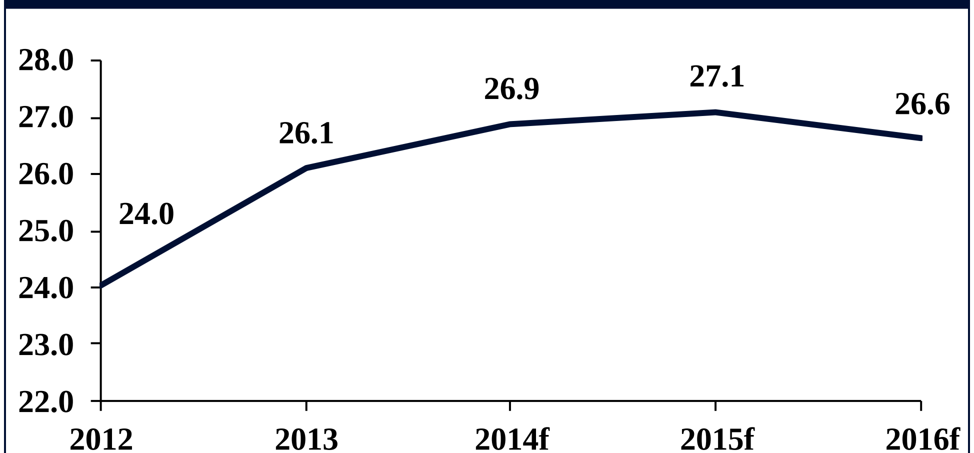
Government Budget (% of GDP)



Government Expenditure (% of GDP)



Public Debt (% of GDP)



Fiscal Policy

- **Fiscal policy aims to eliminate the fiscal deficit over the medium term**
- **The fiscal deficit is projected to widen to 2.4% of GDP in 2014 owing to weak revenue – deficit reduction beyond 2014 will require public spending restraint, dragging down growth over the medium term**
- **Public debt levels are expected to remain relatively low over the medium term, anchored by a fiscal rule limiting the general government deficit to no more than 3% of GDP per year**

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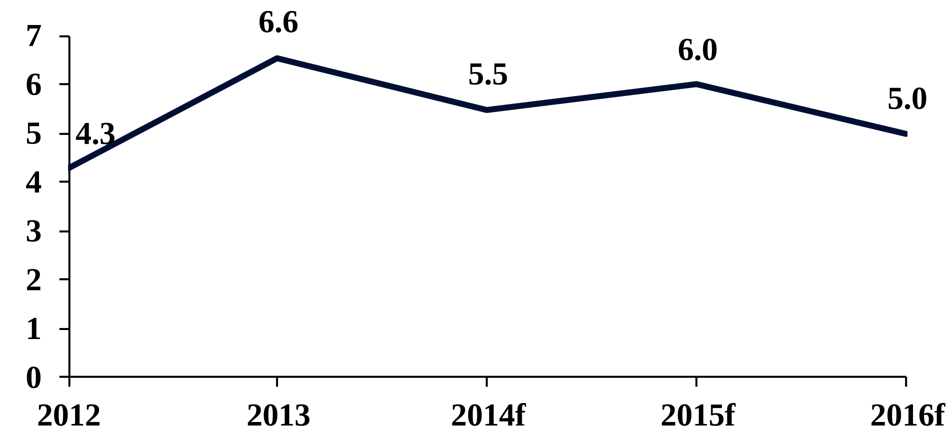
Sources: IMF, BI, BPS and QNB Group analysis and forecasts

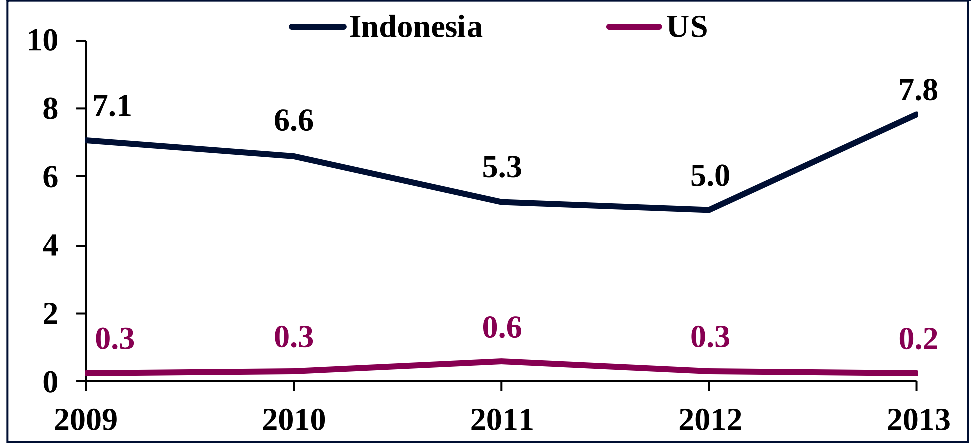
Indonesia – Monetary Policy

Monetary policy remains focused on anchoring inflation expectations and reducing balance of payments pressures; lower investor confidence has pushed up interest rates whilst broad money growth has slowed on weaker economic activity

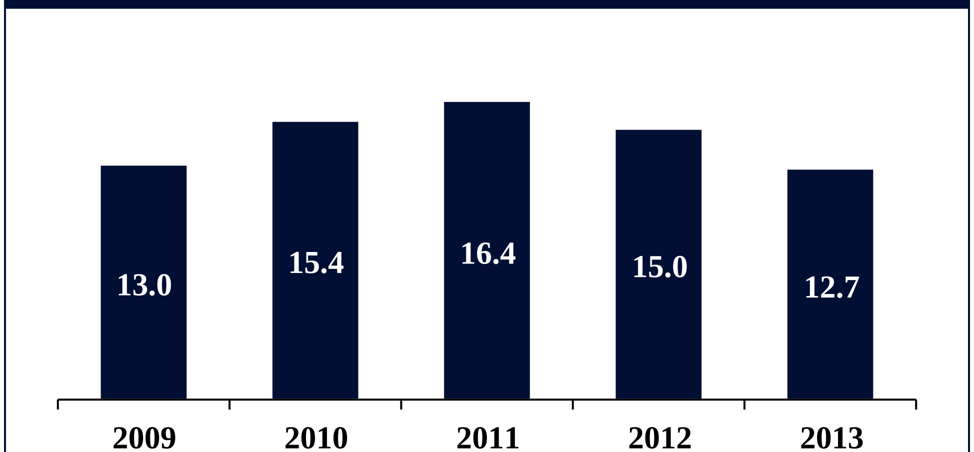
Inflation (%)



Interbank Interest Rates (%, 3-Month)



Broad Money Change (%)



Monetary Policy

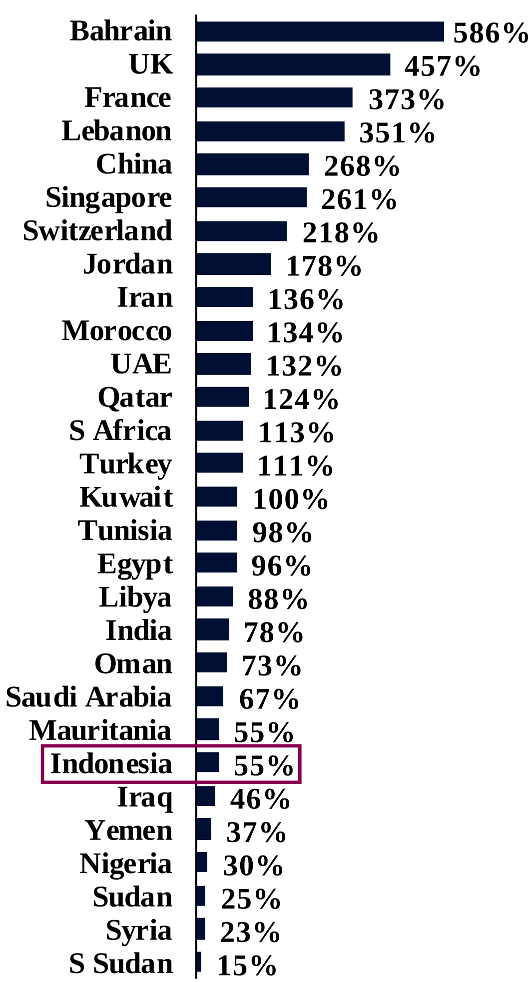
- Monetary policy remains focused on anchoring inflation expectations and reducing balance of payments pressures
- The Central Bank has raised its main policy rate numerous times to combat inflation and the weak exchange rate
- This has been combined with other monetary measures (such as reserve and capital requirements as well as loan to deposit caps), which has led to tighter liquidity and higher interbank interest rates

Sources: Bloomberg, BI, BPS and QNB Group analysis and forecasts

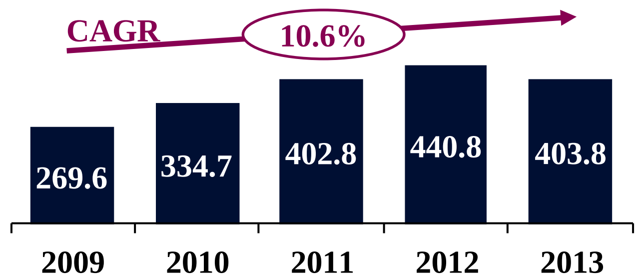
Indonesia – Banking Sector Overview

The banking sector is broadly competitive, with an abundant level of banks and relatively low market shares; the banking sector is one of the most profitable in the world as low penetration leads to high interest margins

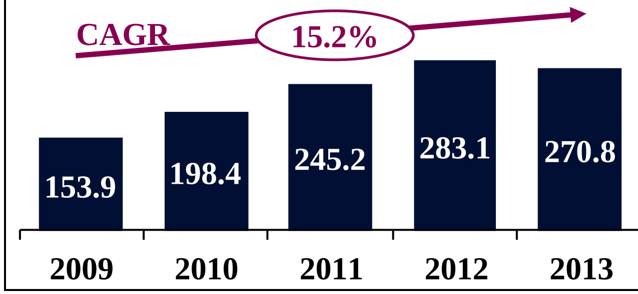
Assets to GDP (2013)



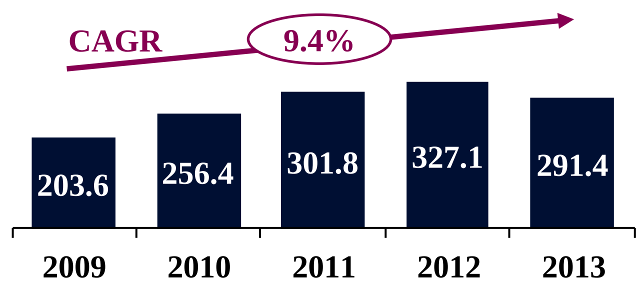
Asset (bn USD)



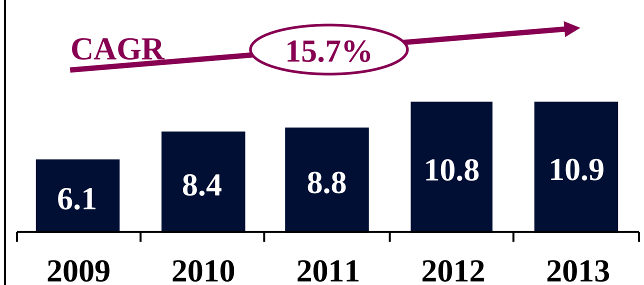
Loans (bn USD)



Deposits (bn USD)



Profit[1] (bn USD)



Analysis

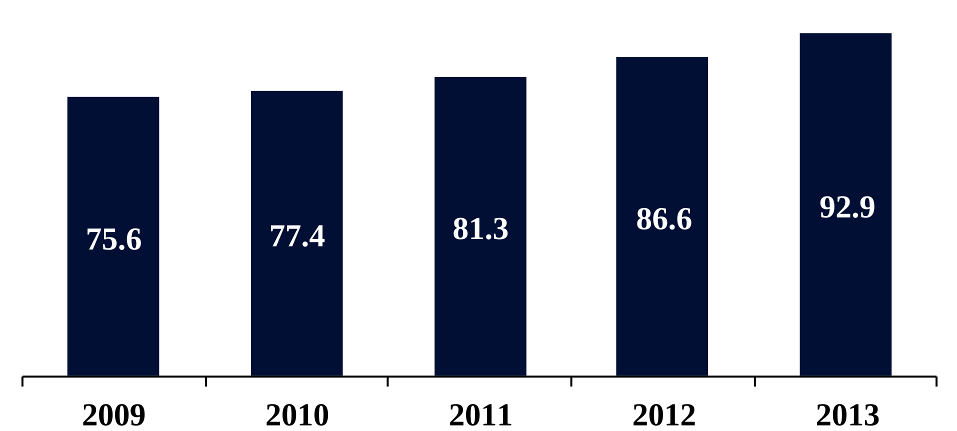
- Despite experiencing robust growth in recent years, assets, loans and deposits all slowed in 2013 on tight liquidity and rising interest rates – this trend is expected to continue in the near term
- Over the medium term, low banking penetration suggests considerable scope for strong growth

1 Implied estimates from average assets and return on average assets
Sources: Bankscope, Bloomberg, BI, BPS and QNB Group analysis and forecasts

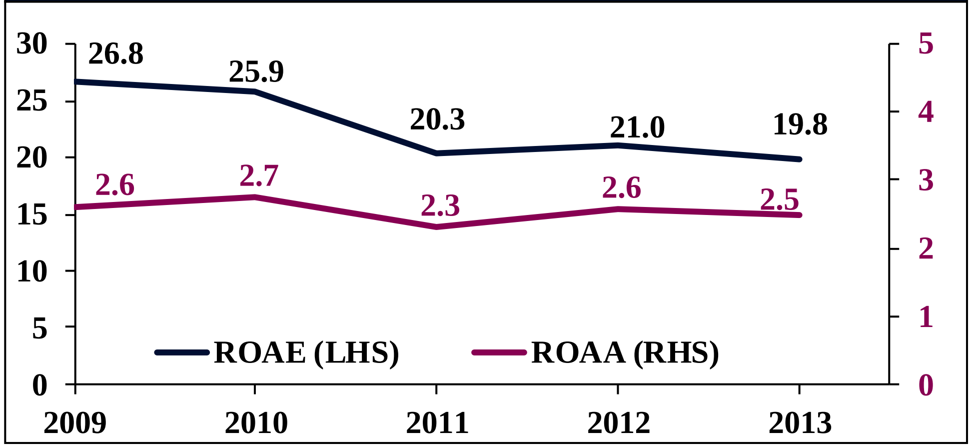
Indonesia – Banking Sector Ratios

Loans are growing faster than deposits, pushing up the loan to deposit ratio; returns on assets and equity is high albeit on a downward trend; capital adequacy is strong with low and falling non–performing loans

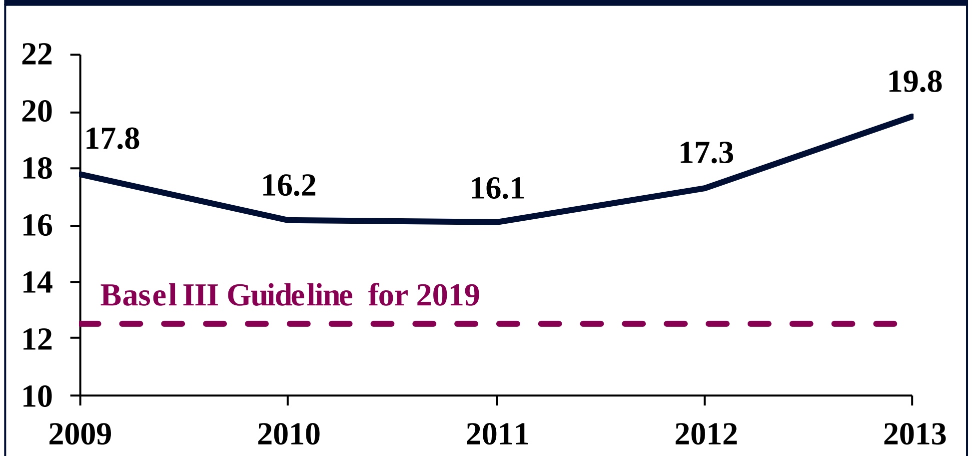
Loan to Deposit Ratio (%)



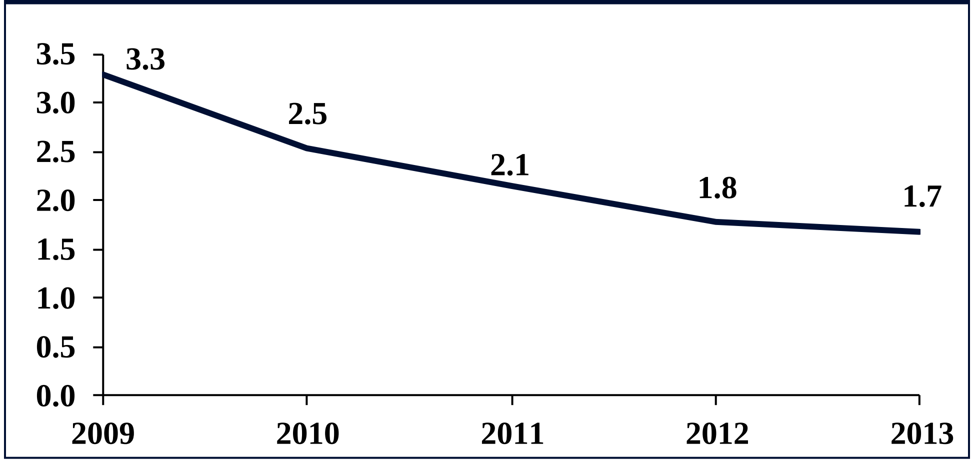
Return on Average Assets and Equity (%)



Capital Adequacy Ratio (%)



Non-Performing Loans (% of Gross Loans)



Sources: BI, IMF and QNB Group analysis and forecasts

Indonesia – Banking Sector Competitor Analysis

The top 3 banks are government-owned and account for 29.9% of total assets with strong profitability and low non-performing loans; foreign ownership of banks has been limited since July 2012, restricting competition

Financials for Top 5 Banks (2013)*

	Market Share by Assets (%)	Net Income (bn USD)	Equity (bn USD)	ROE (%)	Assets (bn USD)	ROA (%)	Loan to Deposit Ratio (%)	Non-Performing Loans (%)
Bank Mandiri	11.6	1.5	7.3	21.2	60.1	2.6	84.8	4.5
Bank Rakyat Indonesia	10.1	1.8	6.5	26.9	51.4	3.4	90.7	3.0
Bank Central Asia	8.2	1.2	5.2	22.3	40.7	2.9	77.9	0.2
Bank Negara Indonesia	6.5	0.7	3.9	19.0	31.7	2.3	85.9	2.2
PT Bank CIMB Niaga	3.8	0.4	2.1	16.6	18.0	2.0	96.0	3.2

Analysis

- There are 120 commercial banks in Indonesia: the top 3 are government–owned accounting for 29.8% of total assets; 66 are private; 26 are regional development banks; 14 are joint venture banks; and ten are foreign banks
- There are also 1,641 rural banks, but these are not permitted to take demand deposits and are confined to limited areas of operation
- The top five banks account for half of banking sector assets and three of them are owned by government
- New Central Bank regulations introduced in July 2012 limit foreign ownership of banks to 20%–40%, down from 99% which could restrict foreign investment in the sector and delay industry consolidation

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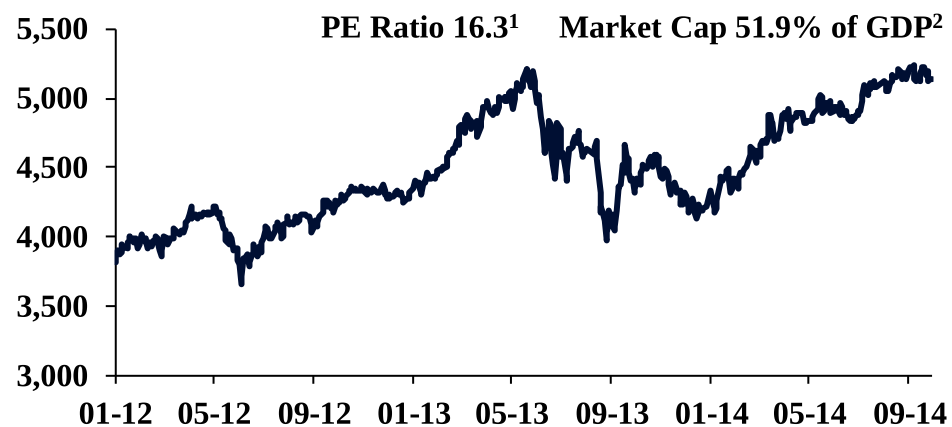
* Consolidated balance sheet of each bank, including international operations
Source: Bankscope, BI, Moodys, IMF and QNB Group analysis

Indonesia – Financial Markets

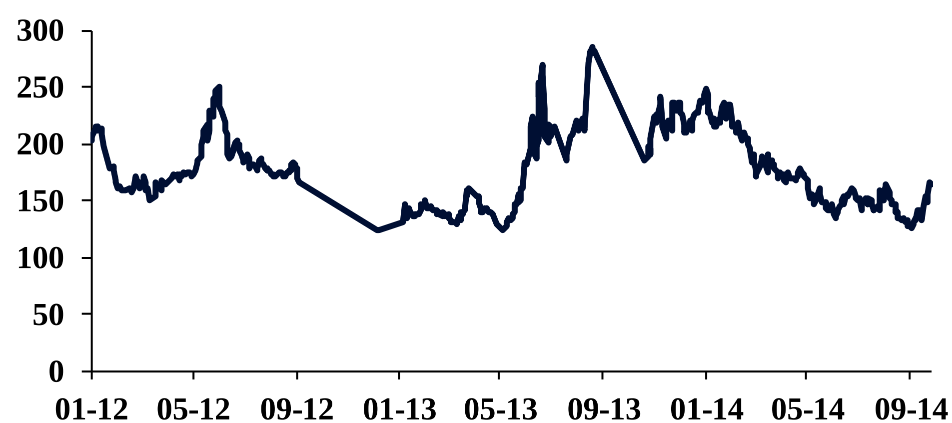
The Jakarta Stock Exchange is up 20.2% in 2014 on higher investor confidence and on improving economic fundamentals; sovereign yields and CDS spreads have fallen as capital flight risks have receded while sovereign risks remain stable

Indonesia Stock Exchange Index



Sovereign USD 10-Yr Bond Yield (%)

Sovereign Credit Default Swap Spreads (basis points)



Sovereign Ratings (July 2014)

	Rating	Outlook
Moody's	Baa3	Stable
Standard & Poor's	BB+	Stable
Capital Intelligence	BB-	Stable
Fitch	BBB-	Stable

1 Price to Earnings (PE) ratio, 12-month forward
2 Market Capitalization as at September 2014 as a share of 2013 GDP
Sources: Bloomberg, BI, BPS and QNB Group analysis and forecasts

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