



---

## Indonesia: Economy on a slowing mode before next year's elections

- > **Event:** Like most developing Asian economies, Indonesia's economy is hit by the weaker global momentum. Its slowdown is expected to bring GDP growth down to 5.3% from an average 6.3% rate over the past three years. The decline is explained by three factors: lower commodity prices, weaker Chinese demand and investments. The widening of the current account deficit above 3% of GDP contributed to the collapse (nearly 20%) of the rupiah against the US dollar between May and September. That collapse followed capital outflows (mainly portfolio investment) triggered by the Fed's intention to end its monetary stimulus in the near future. Since then, the rupiah has regained some value, supported by a more restrictive monetary policy, notably successive interest rate hikes.
  
- > **Impact on country risk:** The latest economic developments have shown that Indonesia's external financial needs make it vulnerable to external shocks, be it the US monetary tapering or an enduring lower Chinese commodity demand. However, Indonesia keeps robust fundamentals and remains first driven by a strong domestic demand that can cushion it against an economic downturn and preserve a positive outlook, albeit possibly with a growth under potential. Faced with rising financing constraints in its balance of payments, Indonesia will need to attract more FDI notably to finance a share of its ambitious infrastructure programme. Enhancing investor confidence is thus required which is more difficult in a slower economic context and given the rising resource nationalism in the run-up to the July 2014 elections. Next year's presidential polls will bring a new government after Yudhoyono's ten-year term but it should not change the economic orientation as there is a national consensus for achieving macroeconomic stability. Continuity in economic policy and future stability in ONDD's favourable risk classifications are therefore the most likely scenario. (analyst: Raphaël Cecchi, r.cecchi@ondd.be)