Media Release

HSBC Economic Outlook 2016:
Indonesia's Economy Starts to See Green Shoots

Jakarta, 12 May 2016 - At its Economic Outlook for 2016, titled ***"ASEAN Economic Community - Indonesia to Punch Above Its Weight"*** presented in Jakarta today, HSBC says that following the soft growth in this year's first quarter due to slower investment, it raises its 2016 GDP forecast for Indonesia to 5.0%, from 4.7%. The key factor behind the upgrade is increased investment, which saw two straight quarters of robust investment growth of around 2% quarter-on-quarter or more.

The 2015 and beginning of 2016 downturn have seen weak commodity prices and declining exports due to subdued global commodity markets, but some green shoots are starting to emerge. However, further reforms to diversify the economy are needed to attract more investment, boost productivity, and stimulate new sources of growth. Easing regulations, boosting infrastructure, and encouraging small and medium enterprises are also mandatory. Indonesia has proven its resiliency in the midst of the still unstable global economic situation; Indonesia is listed as countries whose GDP growth is above ASEAN's 4.3%, together with Myanmar, Laos, Vietnam, and the Philippines.

Speaking at the event today, **Su Sian Lim, HSBC's ASEAN economist** said that ***"Although growth in Indonesia has moderated, the slowdown has not been sharp, thanks to domestic consumption, and in particular investment growth helping to offset the drag from weaker external trade. Given Indonesia's strong fundamentals, the economy so far has been experiencing strong capital inflows."*** The Indonesian Government has been effective in its efforts to improve the country's infrastructure. Regulations passed in late 2015 allow projects for the next budget year to be pre-funded and pre-bid for. However, in order to remain in favor with investors, the Government must not let up on the infrastructure spending push. As things stand, realized disbursements by the Public Works Department remain slightly behind the Government's own targets. Nevertheless, the administration's determination to achieve its infrastructure goals is evident.

It will also be a disappointment for portfolio investors if the tax amnesty bill does not pass, given that state revenue collections this year have been much softer than expected due to slower economic growth, and still relatively depressed revenues from oil-related activities. With a significant amount of stimulus having been delivered by Bank Indonesia and the Government in late 2015/early 2016 still working its way through the economy, growth will eventually pick up momentum again in the coming quarters. Since September 2015, twelve stimulus packages have been rolled out. Many of the measures have already been implemented, and are aimed at making the business and investment climate easier also more attractive, through tax and fiscal incentives, and a reduction of regulation and red-tape.

Su Sian also praised Bank Indonesia (BI), which has complemented such measures through interest rate and reserve requirement cuts. BI has delivered 75 basis points of rate cuts so far this year, and 150 basis points of reserve ratio cuts since November 2015. Su Sian Lim also applauded the intention of the Indonesia's Financial Services Authority (*Otoritas Jasa Keuangan* or *OJK)* to get banks to lower their lending rates by 400 basis points this year from around 13% to 9%. ***"Even if a quarter of this target is realized, it would still represent significantly cheaper funding for borrowers. This, in turn, should help to stimulate economic activity,"*** she added. Lower lending costs are likely to prove crucial to the financing of future infrastructure projects, and will also benefit businesses immensely. However, **Su Sian** warned that with growth still below trend, BI should wait until later in Q2 to deliver this easing. “***BI needs to remain watchful as policy overkill could spark upside risks to inflation in the medium term.”***

In the near-term, however, the household sector may continue to lag. Although consumer confidence has rebounded sharply, in line with the recovery of the Rupiah, weak wage trends and a rise in the unemployment rate suggest limited upside for now. Meanwhile, budget revenues remain problematic, and it remains to be seen if the tax amnesty proposal will be approved by parliament.

Indonesia’s participation in the ASEAN Economic Community (AEC) is a major milestone in contributing to the goal of shared prosperity. While regional economic integration brings about advantages across the economic spectrum, regardless whether the country exports commodities or deals more in technology, innovation, and services, regional competition also calls for more structural reforms. More needs to be done by Indonesia to make the most out of its participation in the region.

AEC gives its members access to over 600 million people who are on the cusp of being middle-income earners, while reducing barriers to trade offers positive advantages to ASEAN. AEC opens up an opportunity for entrepreneurs across the region to grow networks, reap the benefits of economies of scale and specialization, as well as drive their businesses to greater commercial heights. Crucial in harnessing this enormous potential is to link economies and make it easier to do business across a network of trade corridors that bring people, capital, and ambition together.

Nevertheless, the weakness in China’s economy will continue to affect the growth prospects of Southeast Asia economies as demand for export falls and investment declines, though countries differ in their level of exposure to the risks. In addition, the prospect of United States monetary normalisation may have impacts on the region. Members of ASEAN will have to cope with potential domestic and external risks to sustain its growth impetus. For growth to pick up, this trend will need a reverse.

For Indonesia as a member of the AEC, reforms are now all the more important as it competes for investment with other neighboring countries. Investment provides a stimulus to economic development, and the rate of investment mirrors the infusion of necessary capital to support the development process. A great deal of effort is needed to ensure that red tape and regulatory hurdles do not hamper businesses. Concrete regulations must therefore be geared towards inviting investment.

Concluding the discussions today, speakers noted that the launch of the AEC makes 2016 a pivotal year for ASEAN. The AEC offers an opportunity to create a seamless regional market as well as production base for Southeast Asia economies. However, much work still needs to be done towards integration in many areas as envisaged by ASEAN Vision 2020. Members of the AEC need to take concrete measures to realise a single economic market by aligning regional initiatives and national agendas, avoiding duplication, reducing disparities in the region, and moving towards a community that is integrated in the global economy. **Country Manager & Chief Executive HSBC Indonesia, Sumit Dutta** said, ***“Southeast Asia is still the most dynamic and fastest-growing region in the world. And Indonesia is a dominant force in ASEAN, contributing 35% of total ASEAN GDP and over 40% of ASEAN population. With the establishment of AEC, Indonesia continues to play a significant role in the liberalisation of the flow of goods, services, capital, and ultimately, skilled labour within the region in a bid to raise its competitiveness and facilitate investment into infrastructure. This is why growing our already substantial business in the region is one of the bank’s strategic priorities.”***

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HSBC has operated in Indonesia since 1884 and now the Bank serves its customer through 38 branches in 6 major cities across Indonesia. Supported by more than 3,000 employees, today HSBC Indonesia has grown into Indonesia's leading international bank, offering services in Commercial Banking and Global Banking for Corporate and Institutional Banking, Global Markets for treasury capital Markets as well as Retail Banking and Wealth Management business.

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