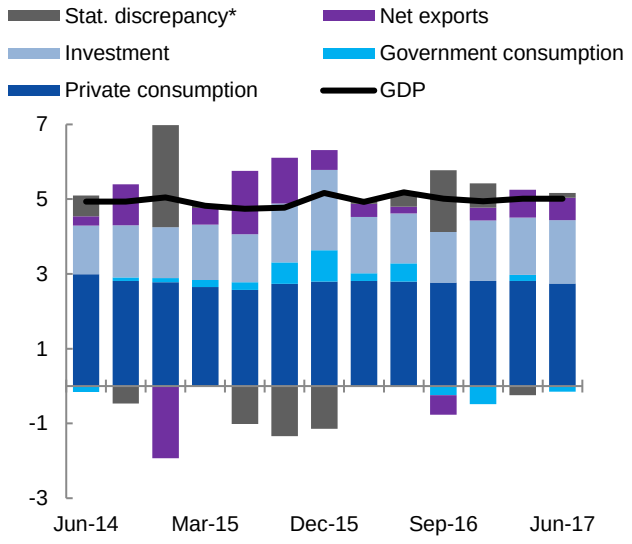
INDONESIA GDP RELEASE: Q2 2017

HIGHLIGHTS

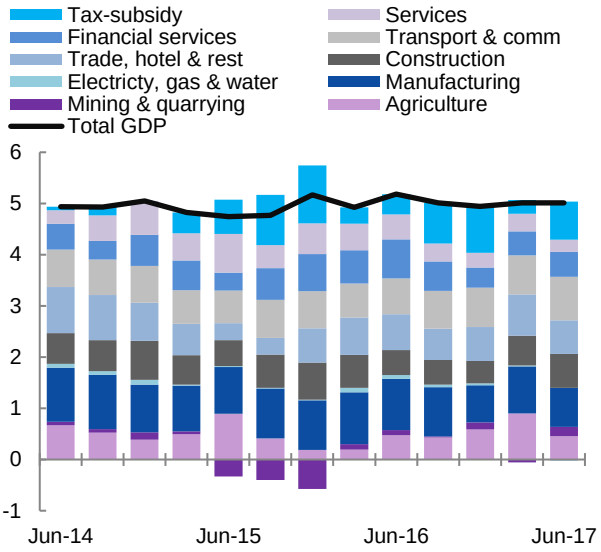
- **Indonesia's economy grew 5.0 percent yoy for the second consecutive quarter – slightly below market expectations of 5.1 percent. Stronger investment was offset by contracting government consumption and slowing net exports.**
- **Private consumption growth stayed flat at 5.0 percent yoy for the fourth consecutive quarter.**
- **Government consumption contracted by 1.9 percent yoy after growing 2.7 percent in Q1 2017.**
- **Gross fixed capital formation growth accelerated to 5.4 percent yoy, from 4.8 percent Q1 2017, the fastest pace of growth since Q4 2015.**
- **After surging in Q1, export and import growth eased to 3.4 percent and 0.5 percent, respectively.**
- **On the production side, growth was driven by the transport and communication sector.**

Figure 1: GDP growth remained unchanged in Q2 2017 as stronger investment was offset by contracting government consumption and slowing net exports
(contributions to growth, percentage points)



Note: * Stat. discrepancy includes change in inventories.
Source: BPS

Figure 2: On the production side, growth was driven by the transport and communication sector
(contributions to growth, percentage points)



Source: BPS

Indonesia's economy grew 5.0 percent yoy for the second consecutive quarter – slightly below market expectations of 5.1 percent. Growth of domestic demand slowed with government consumption contracting and private consumption growth plateauing. Investment growth picked up significantly, but not enough to offset tepid consumption. Export and import growth slowed down, but more importantly, both have remained in positive territory since Q4 2016. On the production side, both transportation and communication and manufacturing sectors provided the largest contributions to total growth, while the agriculture sector's contribution to growth dropped compared to previous two quarters.

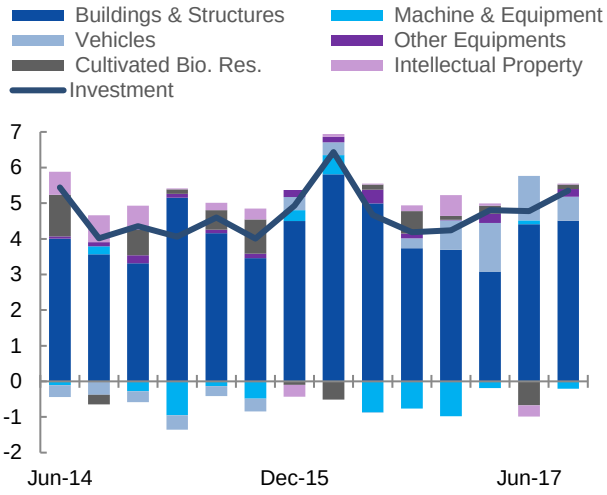
Private consumption growth was flat at 5.0 percent for the fourth consecutive quarter. Household consumption, which makes up 55 percent of the total economy, was unchanged partly due to higher inflation from the third administrative price hike in May. The steady growth rate also reflects a relatively subdued festive period in June, which did not provide the usual fillip to Q2 consumption growth. The unchanged growth in consumption is also in line with an increase in the private deposits growth (10.2 percent yoy in Q2 from 9.5 percent in Q1) as people held back on consumption to save more. Non-profit institutions consumption grew from 8.0 percent to 8.5 percent, although its share to GDP remains small at 1.2 percent of total GDP.

Government consumption contracted by 1.9 percent yoy, after growing 2.7 percent in Q1 2017. Government consumption contracted partly due to a decline in material spending (7.0 percent yoy in nominal terms) reflecting a base effect of a large increase in material spending at the same period last year. Subsidy expenditure also decreased, particularly electricity subsidies, in line with the increase in electricity price tariffs.

Gross fixed capital formation growth accelerated to 5.4 percent yoy, from 4.8 percent Q1 2017, the fastest since Q4 2015. Investment grew at the fastest pace since the Q4 2015 as the decline in investment lending rates with the 150 basis point reduction in the policy rate last year appear to gain increasing traction. The acceleration in investment growth was mainly driven by growth in buildings and structures investment, which strengthened to 6.1 percent in Q2 compared to 5.9 percent in Q1. Investment in vehicles and other equipment, such as office equipment and electronics, also grew strongly. Meanwhile, nominal public capital spending grew 4.4 percent after growing 15.8 percent in Q1. The slowdown in Q2 was partly due to a base effect of a faster budget execution last year supported by early procurement initiatives.

Figure 3: Investment growth was mostly driven by buildings and structures investment

(contributions to growth, percentage points)



Source: BPS

After surging in the previous quarter, export and import growth slowed down to 3.4 percent and 0.5 percent, respectively. Net exports contributed 0.6 percentage points to GDP growth – down from 0.7 percentage points in Q1 2017. The slowdown in the exports and imports growth was due to a contraction in the oil and gas exports and imports and a weakening non-oil and gas exports and imports growth. The deceleration of both exports and imports growth rates coincides with moderate decline in manufacturing business conditions.

On the production side, transport and communication sector contributed the most to GDP growth. Transport and communication also expanded the largest, with growth strengthening to 9.8 percent yoy from 8.6 percent in Q1, which was the highest growth since Q2 2013. This was followed by construction sector, which accelerated to 7.0 percent from 5.9 percent during the same period.