

MACROECONOMIC ANALYSIS SERIES

INDONESIA ECONOMIC OUTLOOK 2020

FURTHER SLOW-DOWN IN THE MIDST OF HEIGHTENED GLOBAL RISKS

Macroeconomic & Financial Sector Policy Research – LPEM FEB UI

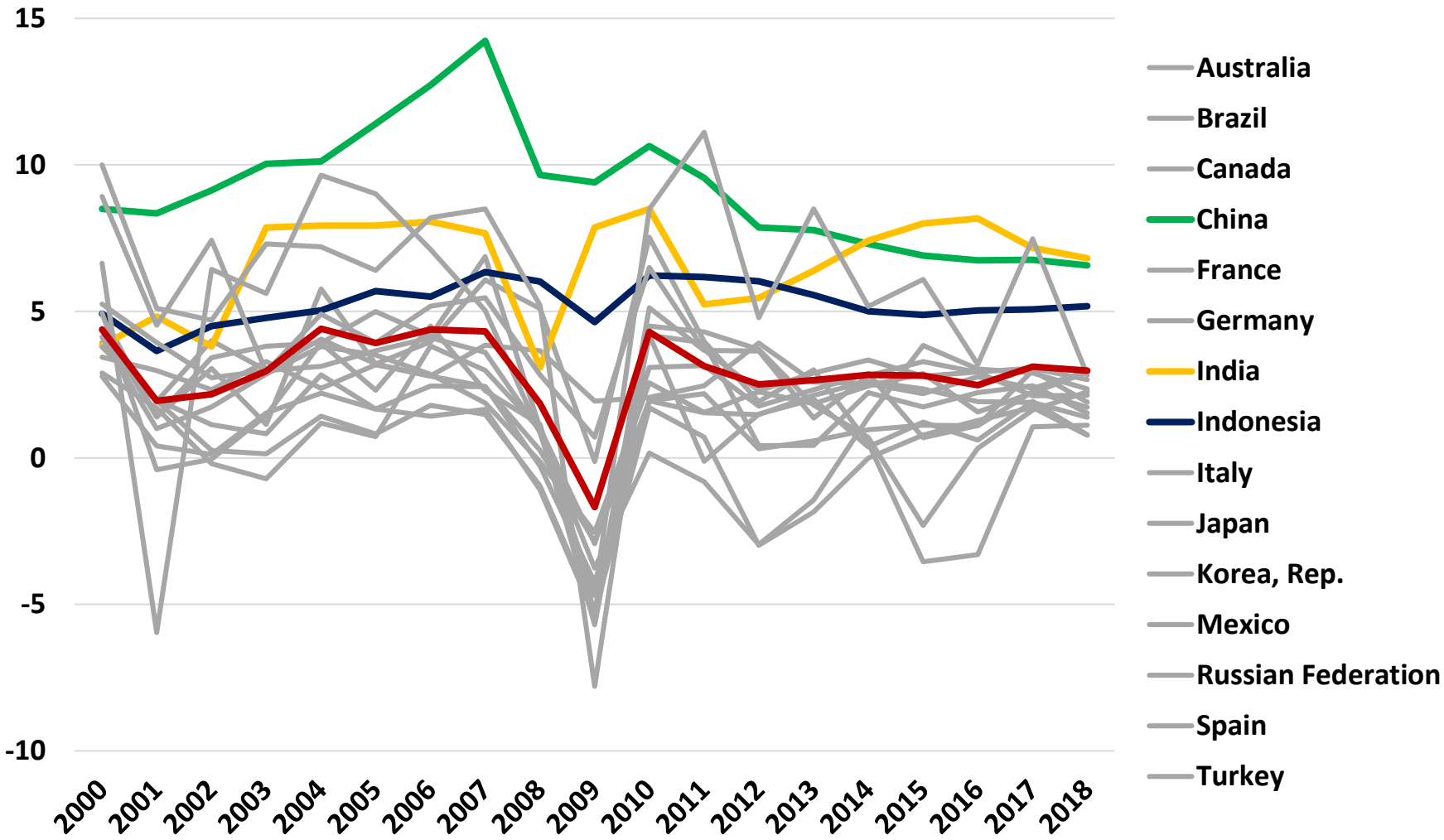
Jakarta, February 12th 2020





Recent Trends of Economic Growth in Indonesia

Pertumbuhan GDP Dunia dan 16 Perekonomian Terbesar 2000-2018 (Tahunan)



Dalam 20 tahun terakhir perekonomian besar yang pertumbuhannya konsisten di atas rata-rata dunia (2,9%) hanya China (9,3%), India (6,6%), dan Indonesia (5,3%)

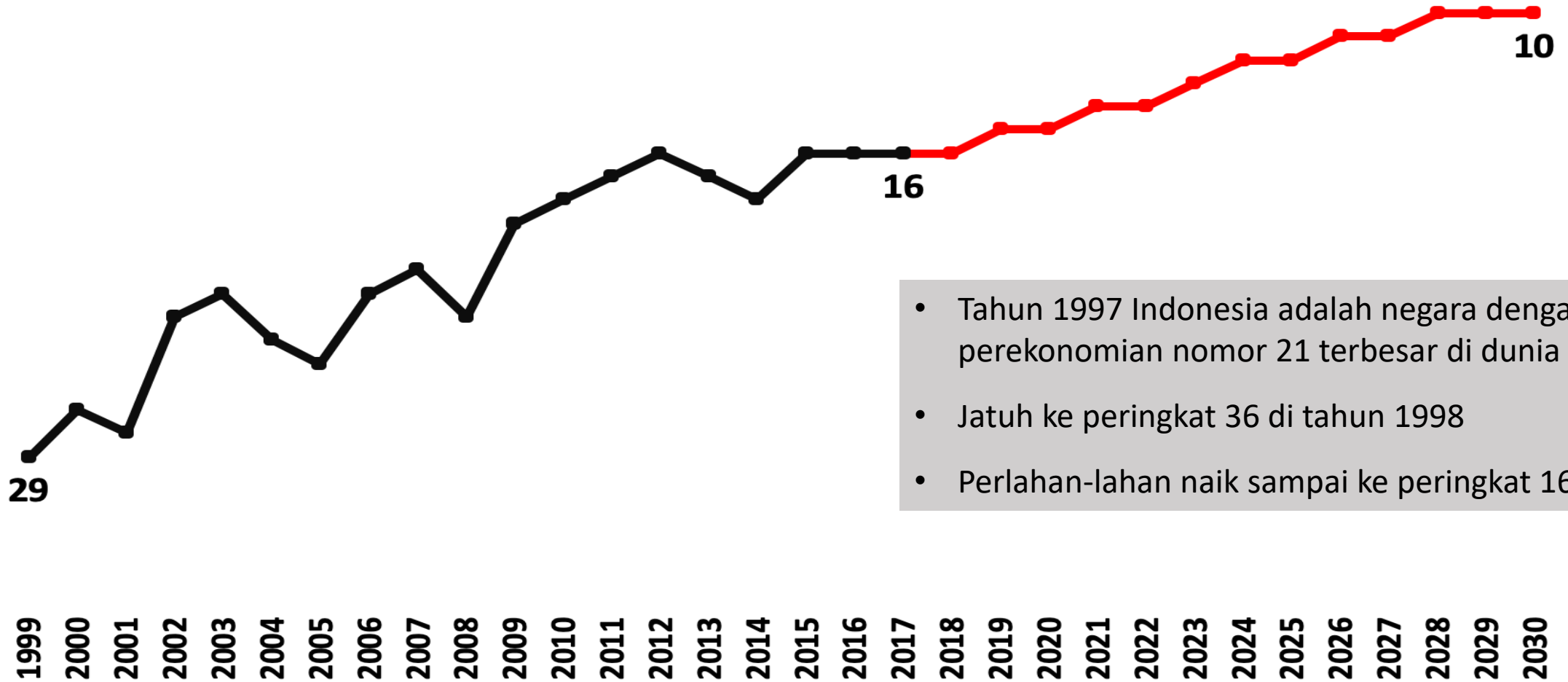
Sumber: World Bank



FAKULTAS
EKONOMI
DAN BISNIS

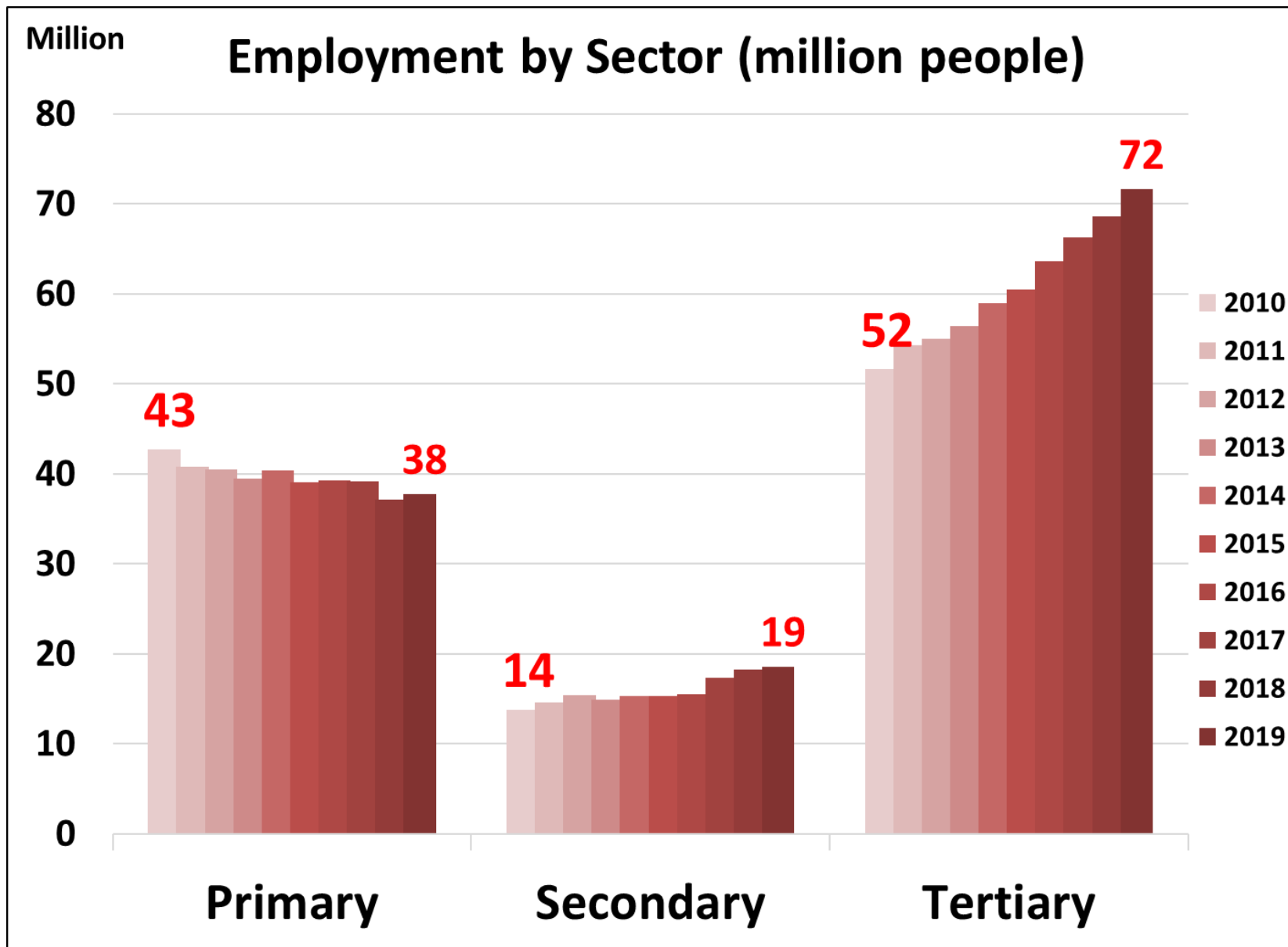
Lembaga Penyelidikan Ekonomi dan Masyarakat (LPEM FEB UI)

Peringkat GDP Indonesia di Dunia (1999-2030): Aktual dan Proyeksi



- Tahun 1997 Indonesia adalah negara dengan perekonomian nomor 21 terbesar di dunia
- Jatuh ke peringkat 36 di tahun 1998
- Perlahan-lahan naik sampai ke peringkat 16 saat ini

Sumber: Worldbank, berdasarkan USD harga berlaku



- Pekerjaan orang Indonesia banyak berubah dalam 8 tahun terakhir
- 127 juta orang bekerja di 2018; naik dari 109 juta di 2010
- Mayoritas bekerja di sektor jasa (tersier); 71 juta orang.



Bonus Demografi

Berdasarkan proyeksi BPS, sekitar tahun 2030, rasio ketergantungan Indonesia akan mencapai titik terendahnya

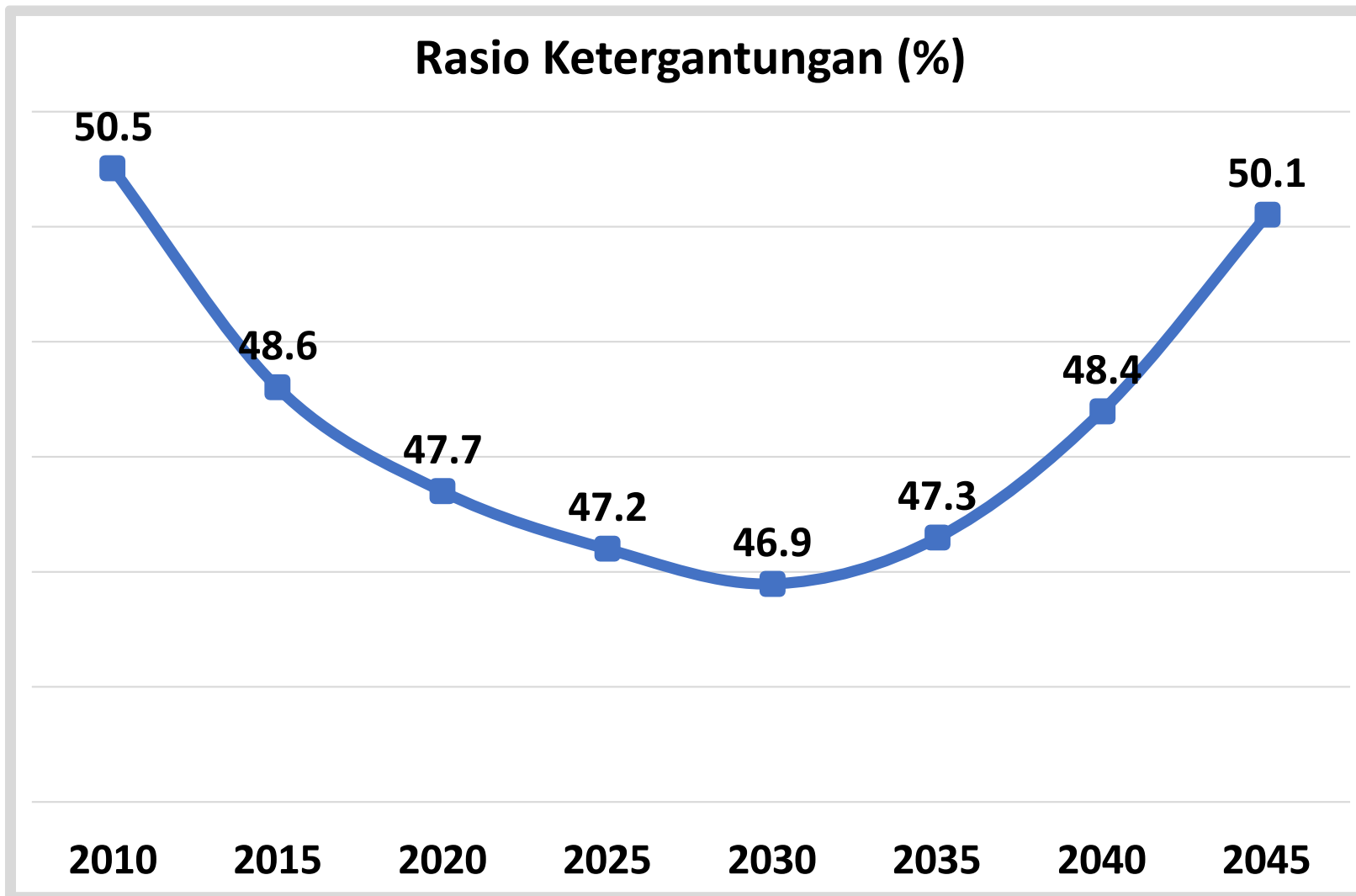
Kurun waktu 2020-2030 adalah puncak *bonus demografi*.

Angkatan kerja kita akan semakin didominasi oleh *millenial* dan *Gen Z*.

Kelompok ini secara umum lebih *resourceful*, kreatif, dan produktif dibandingkan generasi pendahulunya.

Perekonomian Indonesia harus tumbuh maksimal selama periode ini.

Rasio Ketergantungan (%)



Sumber: BPS, diolah



OUTLINE

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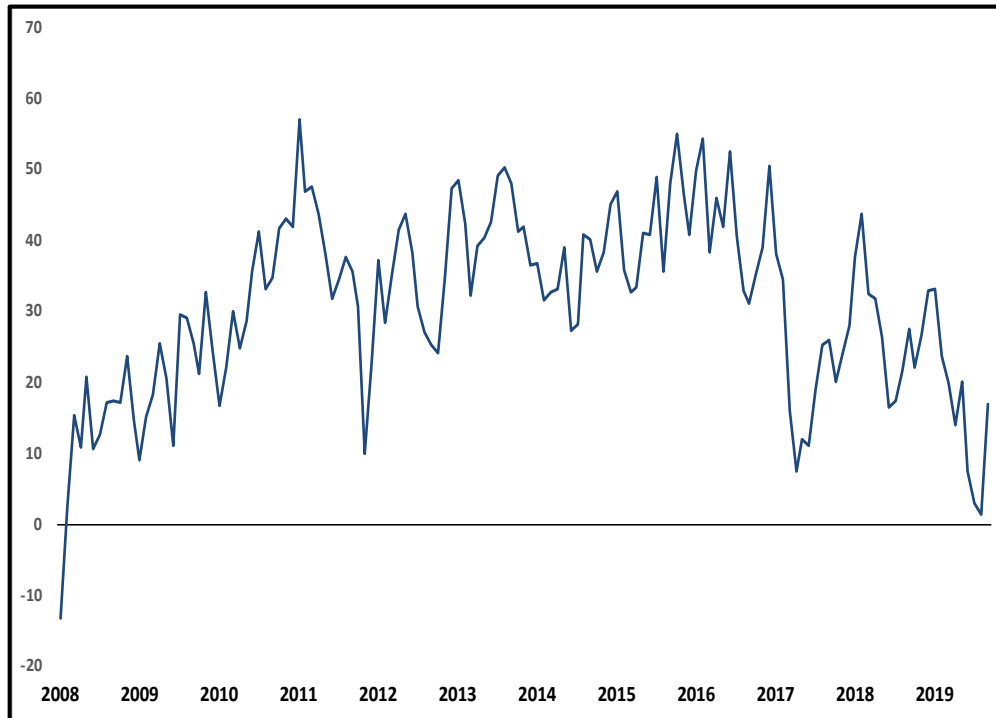
AGENDA IN MITIGATING THE RISKS UPCOMING GLOBAL SHOCKS

RISK OF GLOBAL CRISIS

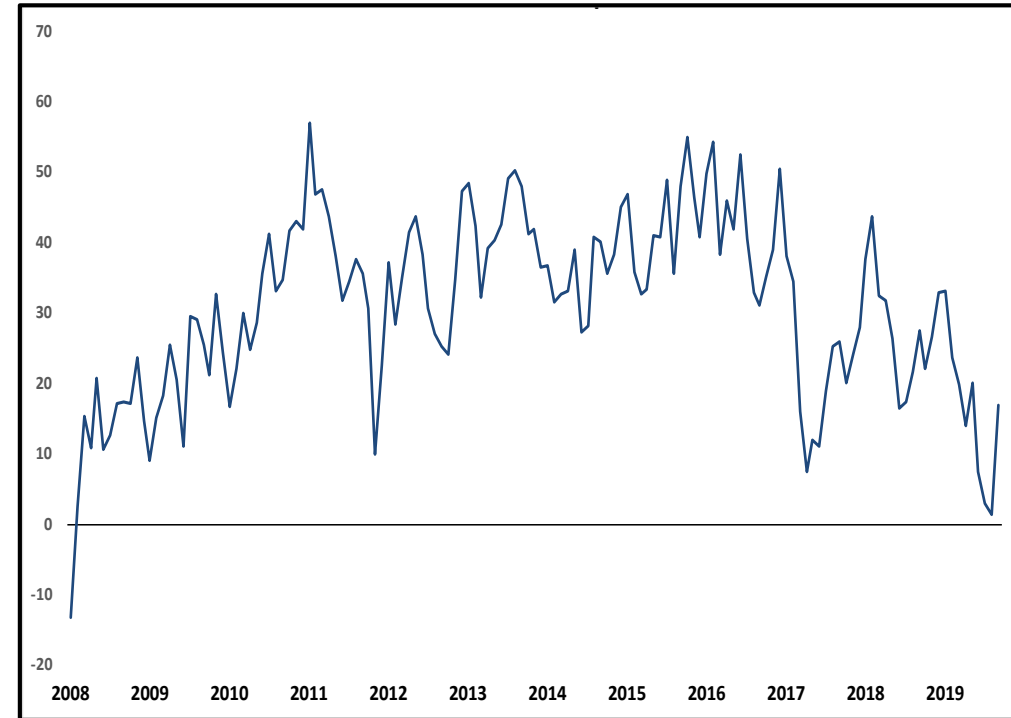


Bleak Growth Ahead

ZEW US DOW Jones Market Expectations Index



ZEW Eurozone Stoxx 50 Market Expectations Index

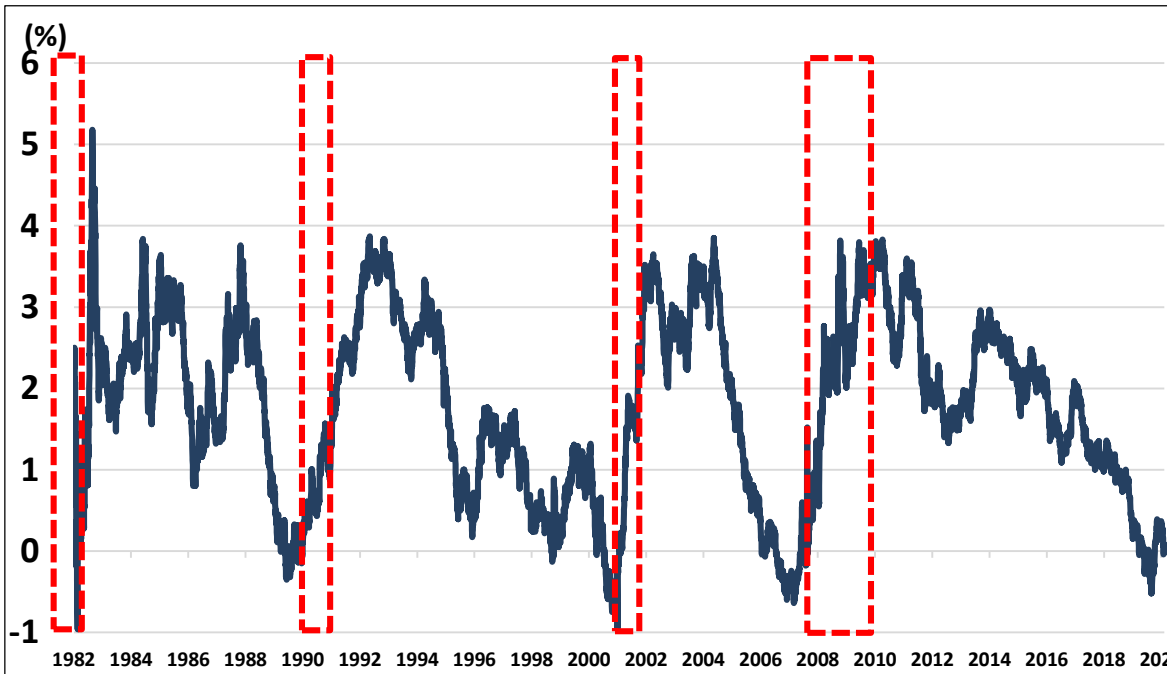


Source: Bloomberg

- Slowdown in global growth for the past two quarters, while the market expectations in the advanced economies has reached its lowest level since the 2008 Global Financial Crisis.
- Some systemic countries, including US, China, Euro Area, and Japan, is expected to have a steady output growth in 2020.

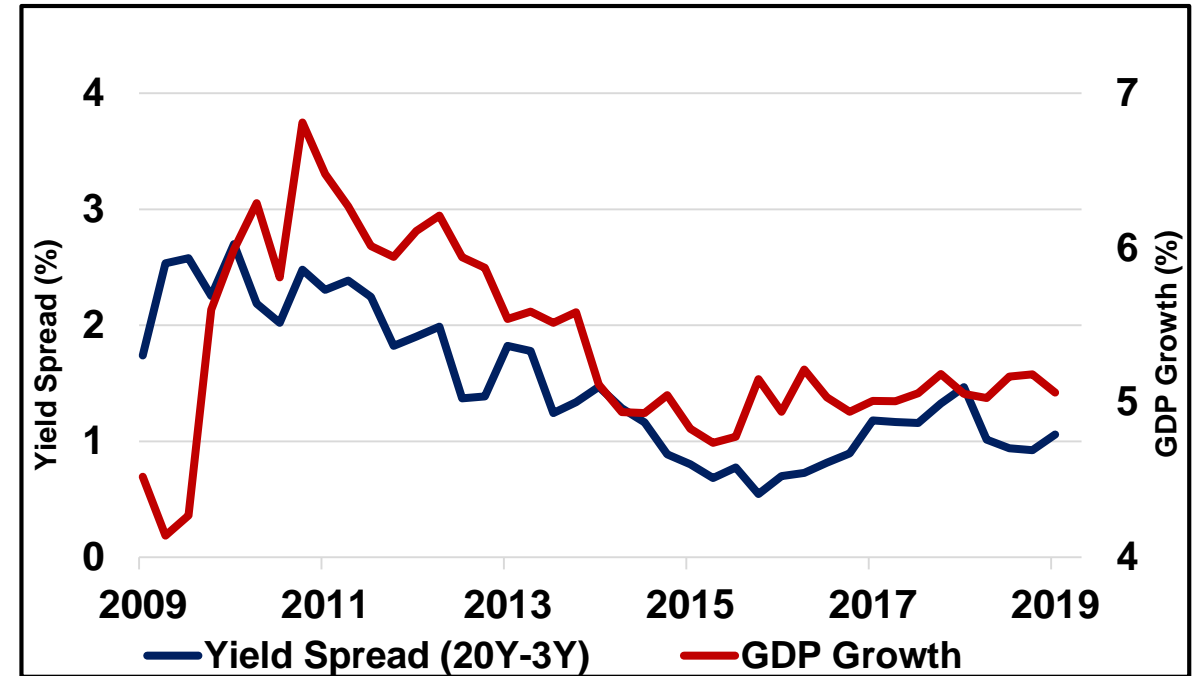
Inverted Yield Curve

Slope of US 10Y-3M Yield Curve (1982-2020)



Source: FRED St. Louis

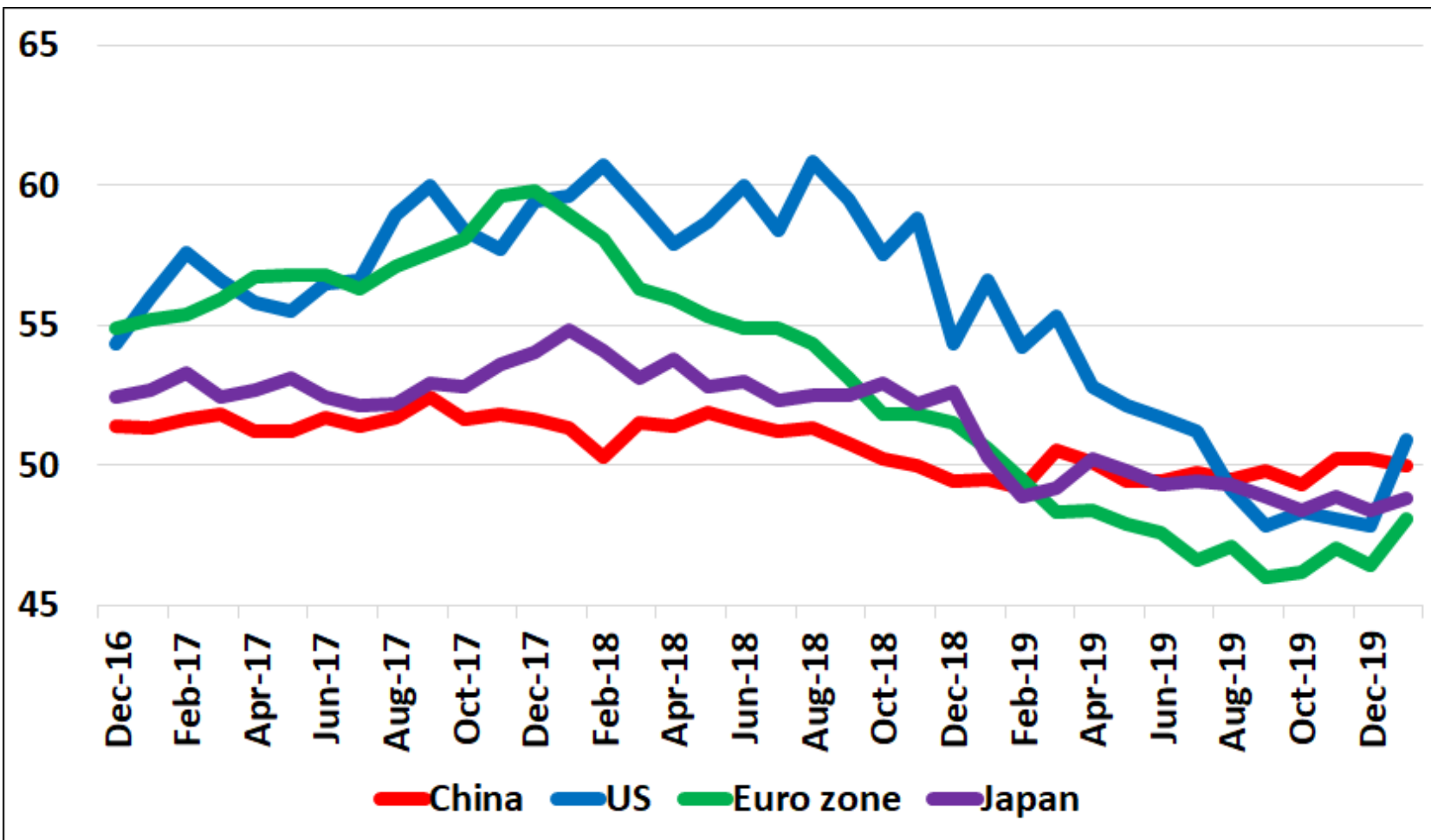
Slope of Indonesia 10Y-3Y Yield Curve (2010-2019)



Source: CEIC

- One of the strongest indicators of recession: inverted US yield curve. i.e. the yield of short-term bonds higher than those of long-term bonds.
- The inversion of the US yield curve, which started in March 2019, has raised a recession perception for the US economy performance for 2020.
- Indonesia's yield curve, lagged by two quarters, has an interesting predictive power of the future economic activity as well.

PMI Manufacturing Index

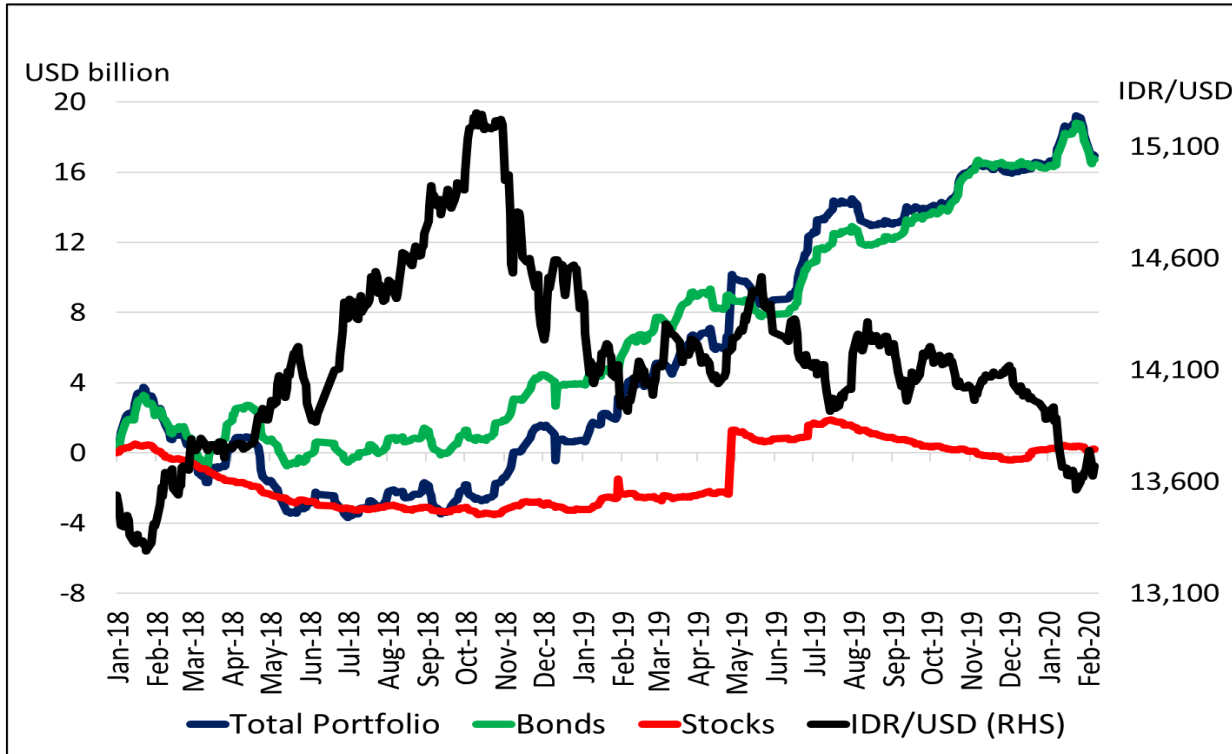


Source: Bloomberg

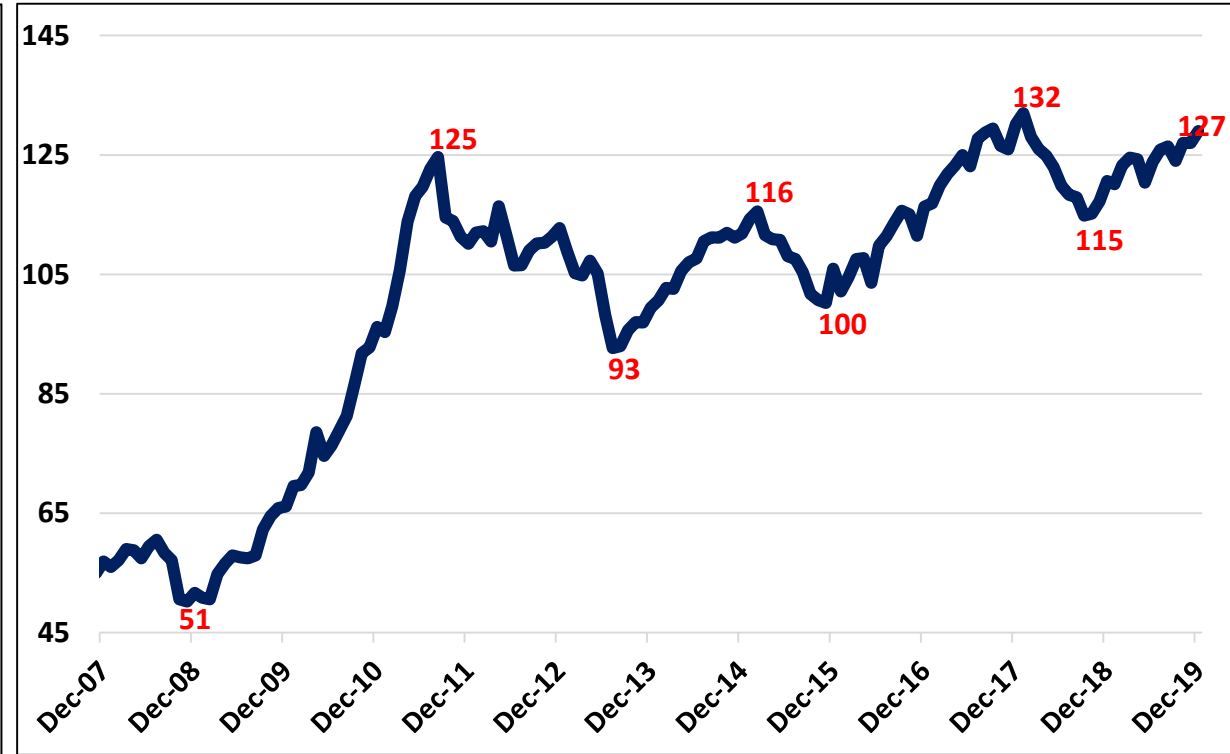
- Manufacturing sector continues to decline, especially in advanced economies including China, US, Europe Zone, and Japan.
- Several domestic factors such as negative GDP growth in Germany; constrained monetary policy and aging population in Japan, worsen the manufacturing performance in such countries.
- The trade tension between US-China and Brexit also affect the manufacturing sector negatively, making the upcoming slowdown inevitable.

How much is the capital inflow needed to weather the 2020 crisis?

Accumulated Portfolio Net-Inflow and IDR/USD (Q3-2007 to date)



Foreign Exchange Reserves (USD Billion)



- Massive capital outflow during GFC in 2008 resulted in the weakening of Rupiah to IDR 11,800 (depreciated by ~29%), BI managed to stabilize Rupiah. Since then accumulated additional USD 67 bn reserves until Aug 2011.
- The probable US recession (or significant slowdown) could affect the movement of Rupiah in 2020.

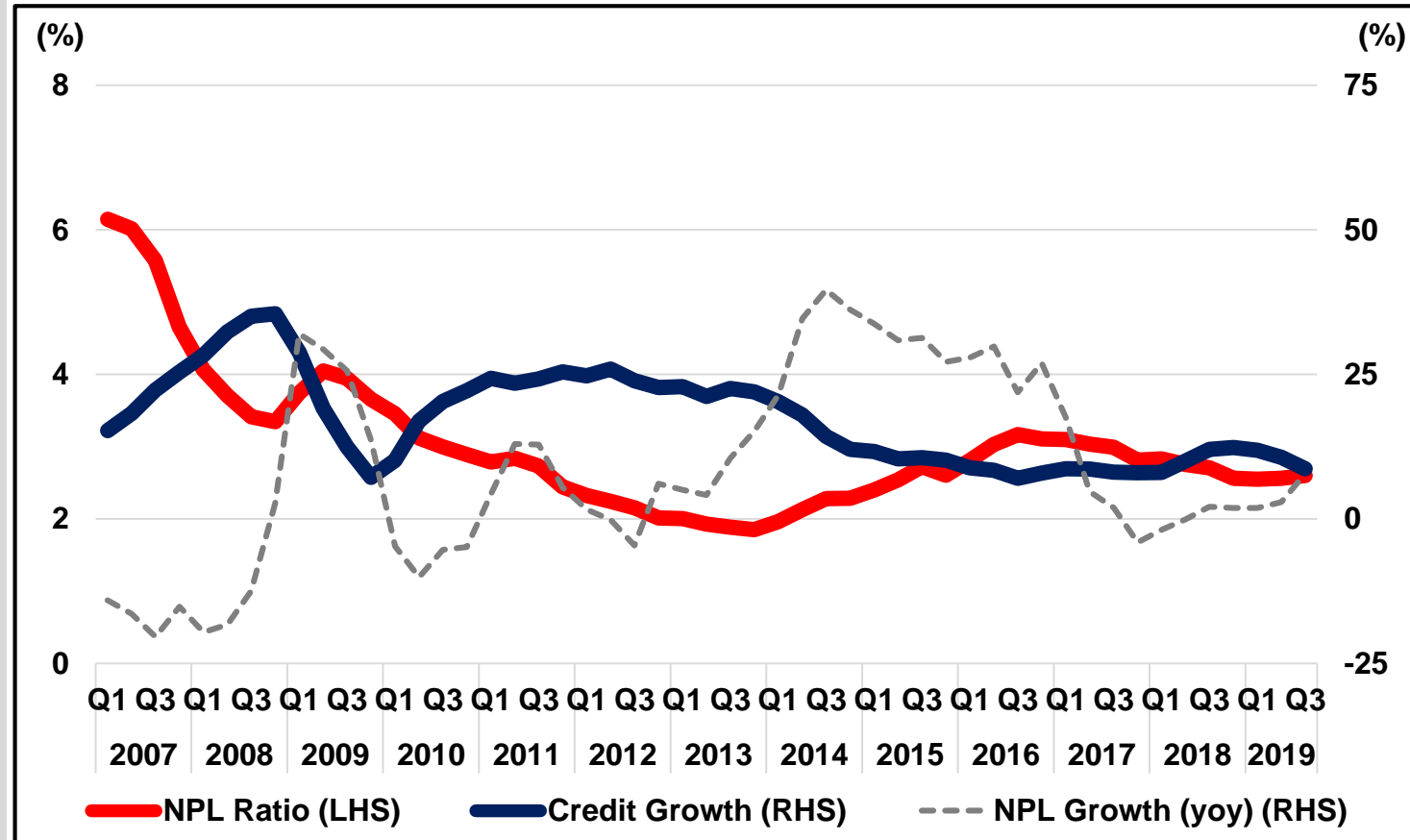
CREDIT AND NON-PERFORMING LOANS



Cautious Credit Versus Weak Demand

- In the post-GFC, credit growth has reached its highest point of 35% (Q4 2008), at the same time, NPL ratio dropped to 3.3%, meaning that credit grew faster than bad loans.
- The episode of economic slowdown and tightening monetary policy after the end of commodity boom put pressure on banks performance as NPL ratio slowly increased to as high as 3.2% (Sept-2016).
- Since then, NPL ratio has started to decrease and credit growth is slowly recovering. However, the growth in NPL indicates that there is an increase in bad loans growth.

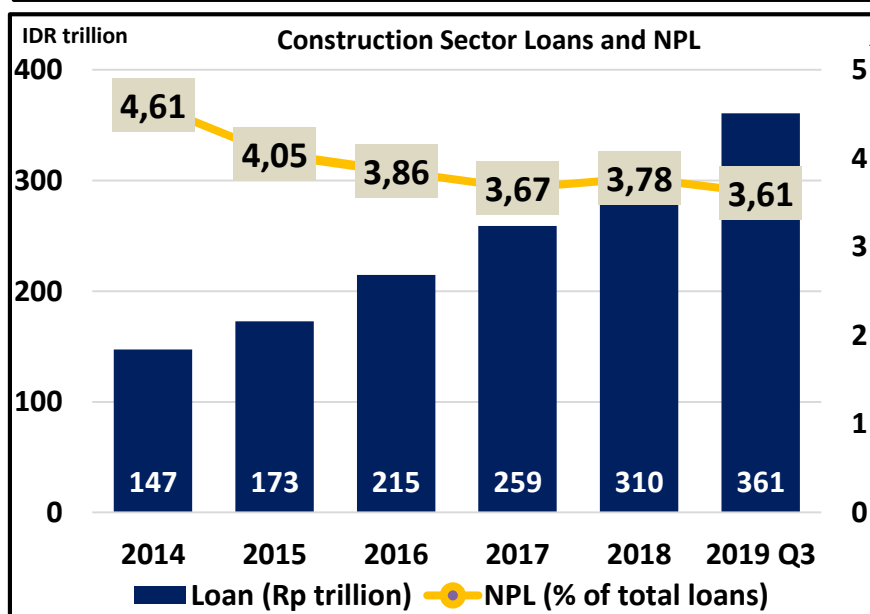
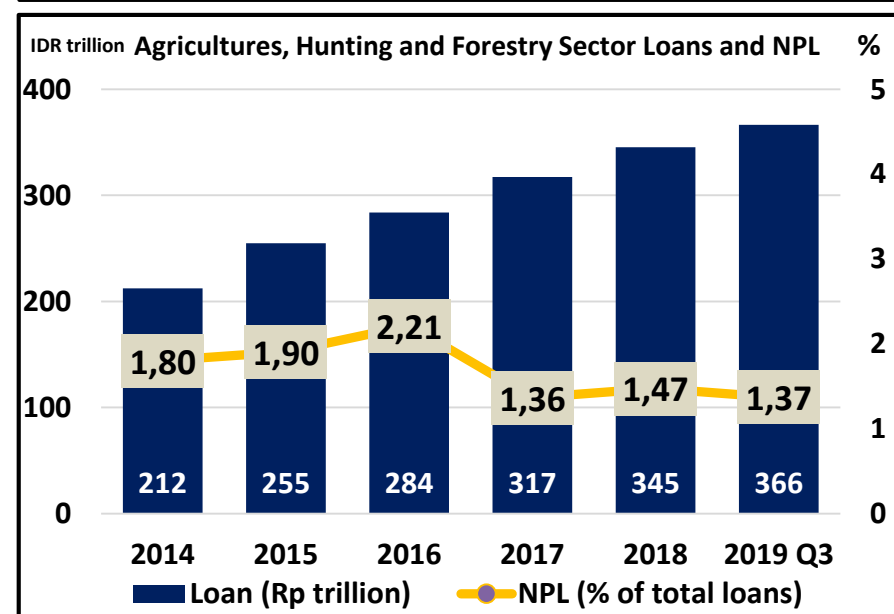
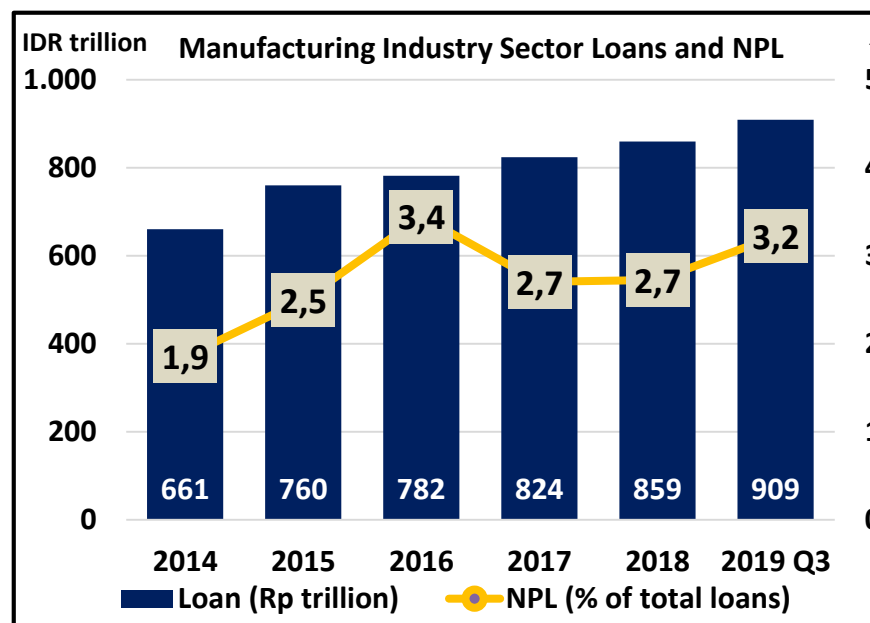
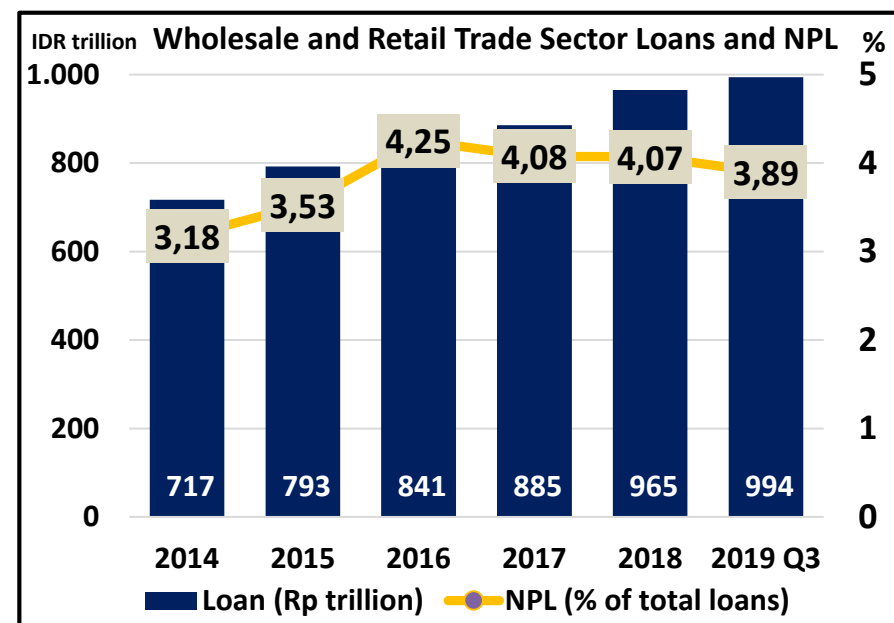
Credit Growth and NPL, 2007Q1-2019Q3 (%)



Source: CEIC

NPL by Sectors

- NPL ratio decreased in all sectors except manufacturing.
- Low interest rate in the upcoming period is expected to help NPL trend manageable despite the weak demand and low commodity prices.



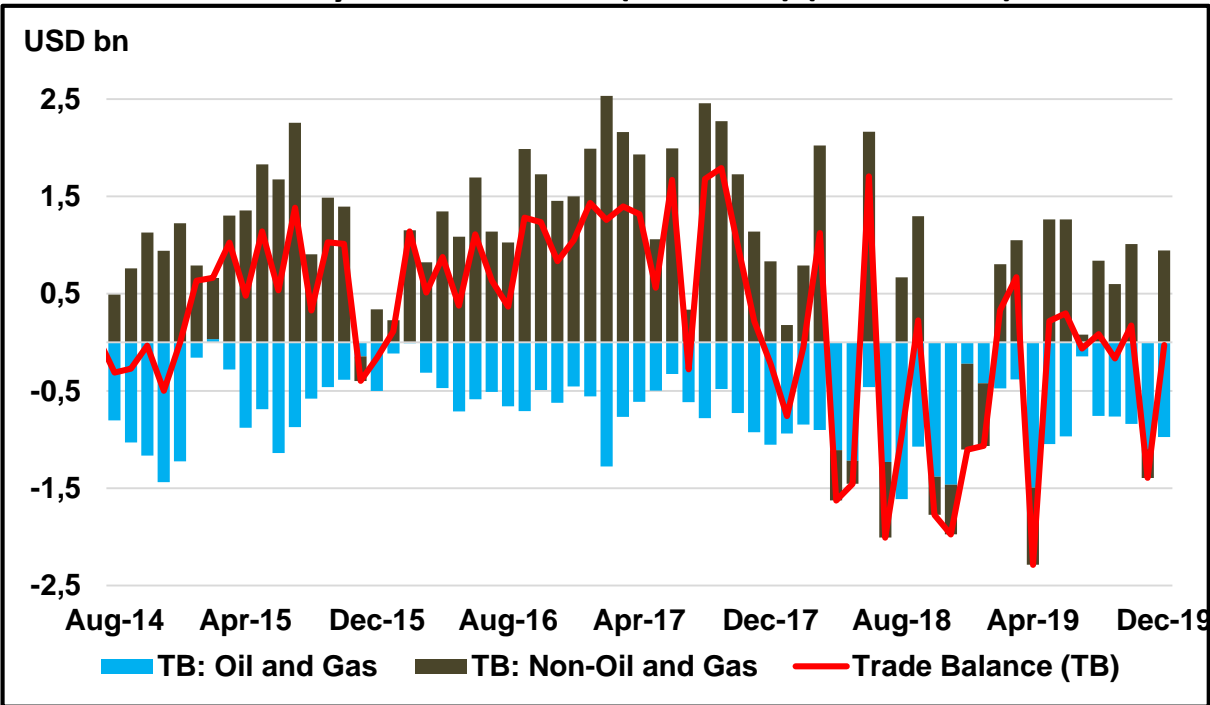
Source: CEIC

TRADE TENSIONS AND INVESTMENT

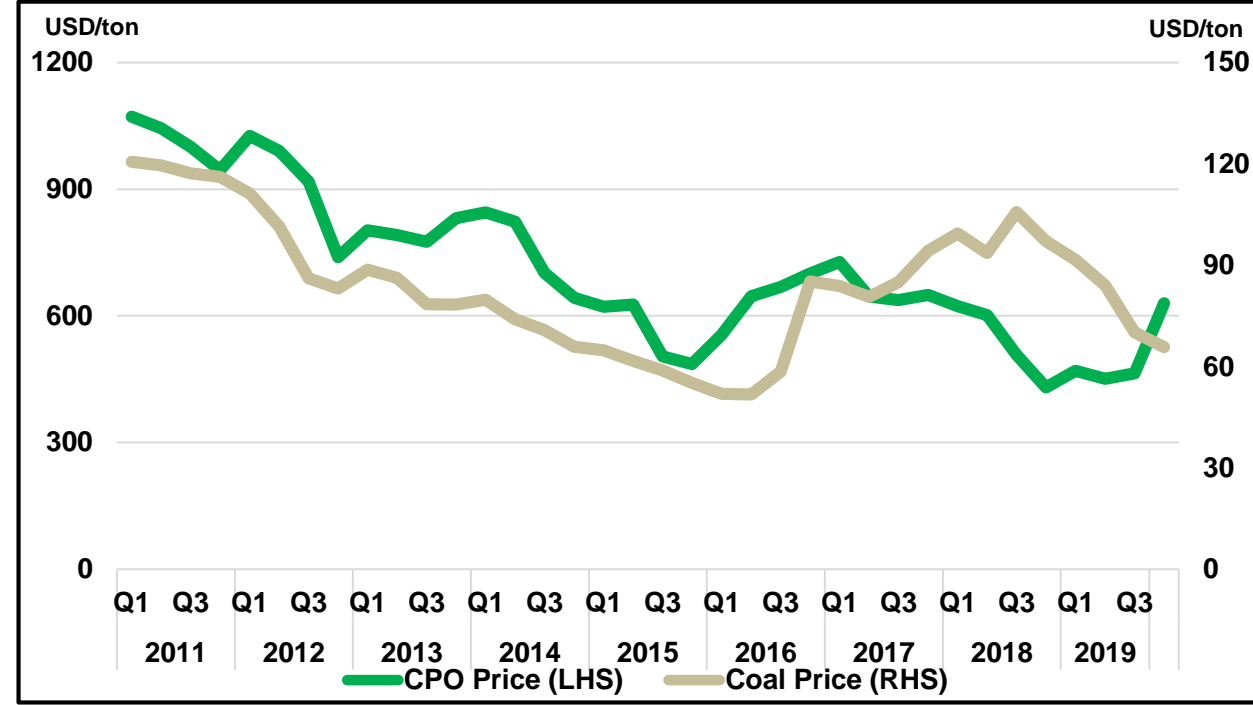


External Risks Continue to Challenge the Economic Growth

Monthly Trade Balance (Nominal) (2014-2019)



CPO and Coal Price (USD/ton) (2011-2019)

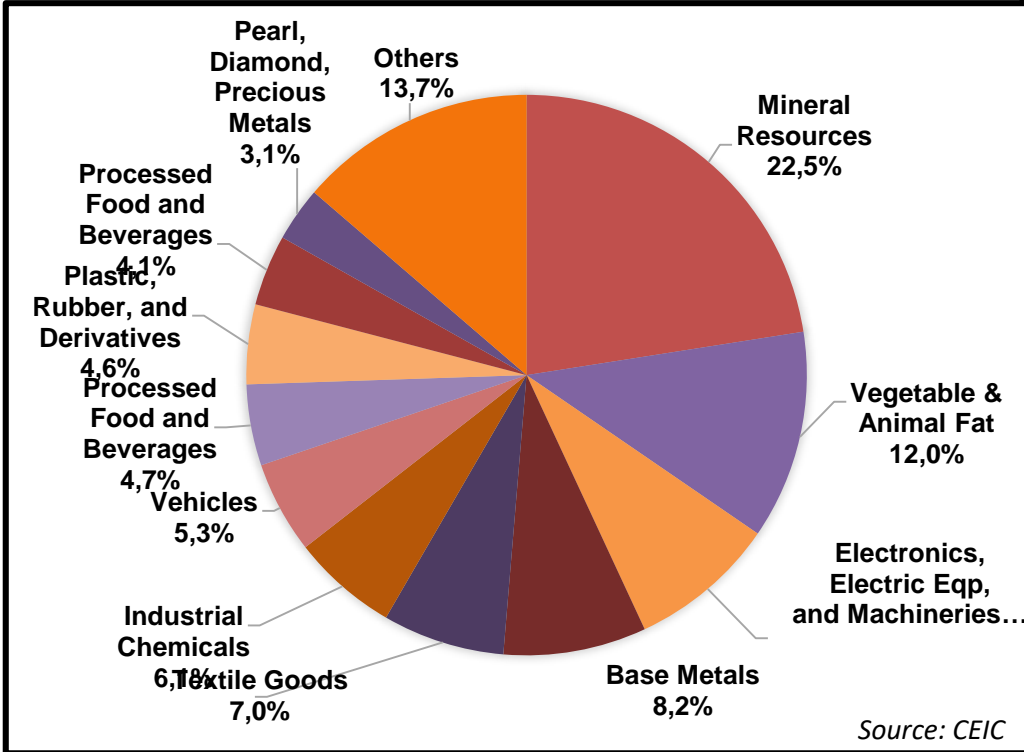


Source: CEIC

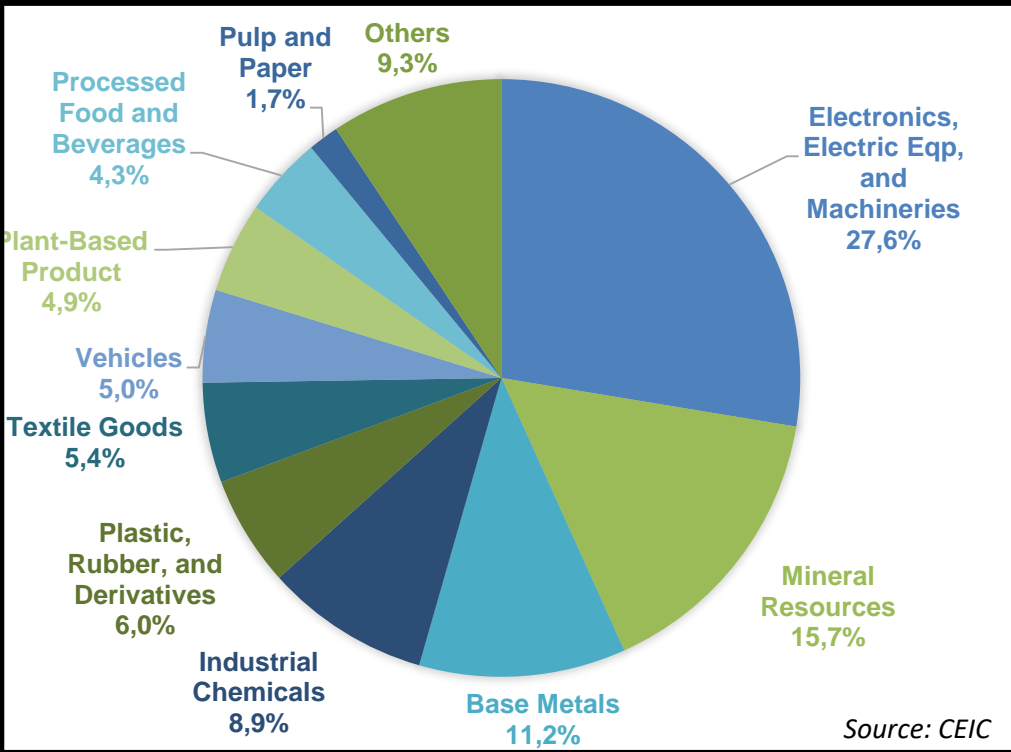
- CAD is now manageable at -2.7% (2019) with slightly positive trend
- While oil and gas trade balance has remained in deficit for the last 5 years, narrowed non-oil and gas balance as a result of disappointing export performance is one of the drags that widened the trade deficit, hence CAD.
- Given that export is dominated by commodity and raw materials, falling commodity prices have decelerated exports at least in the last two years. There is sign for CPO price recovery. The Corona Virus outbreak is now another risk.

Indonesia Export Import Profile

Export (2019)



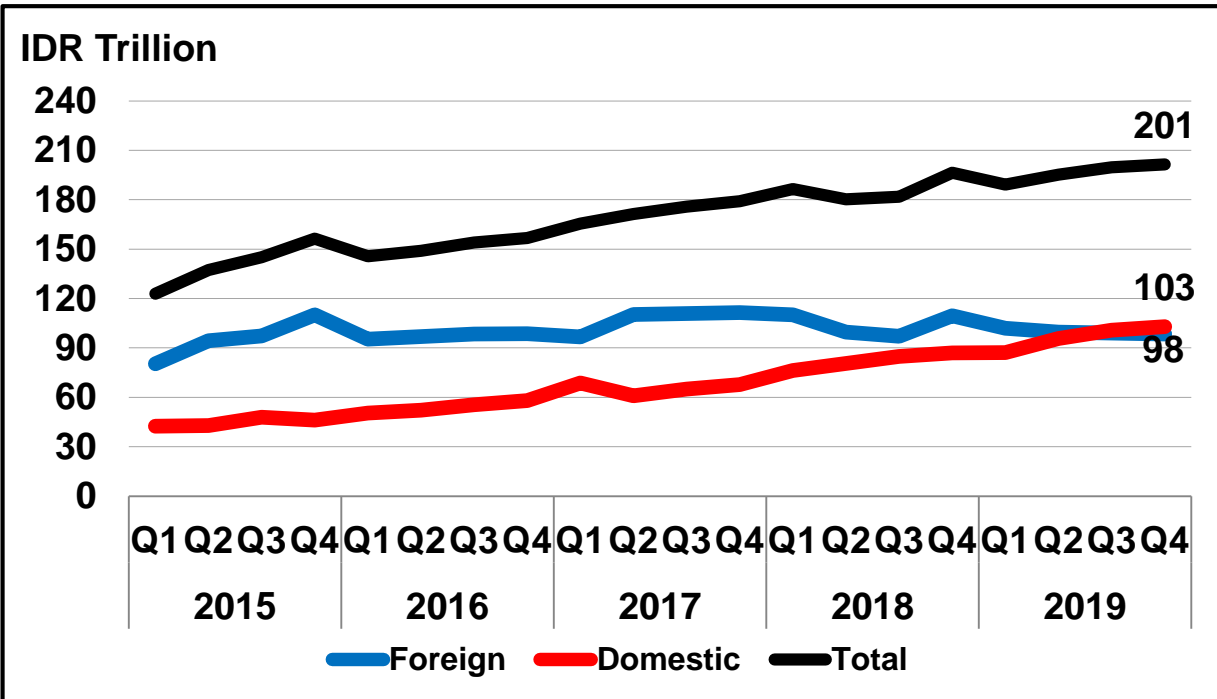
Import (2019)



- Indonesia's exports are still highly dependent on commodity goods (40.6% of the total export value).
- Stagnating trend in exports, coupled with rising demand for imported goods, has reversed the usual trade surplus into deficit since 2018.
- In 2020, although there is a slight increase in commodity prices, we see no significant improvement in trade as the infrastructure projects remains.
- The impact of potential global shocks might be lagged into Indonesia's real domestic economy as the historical episodes of GFC, thus, trade will not be falling apart in the near future.

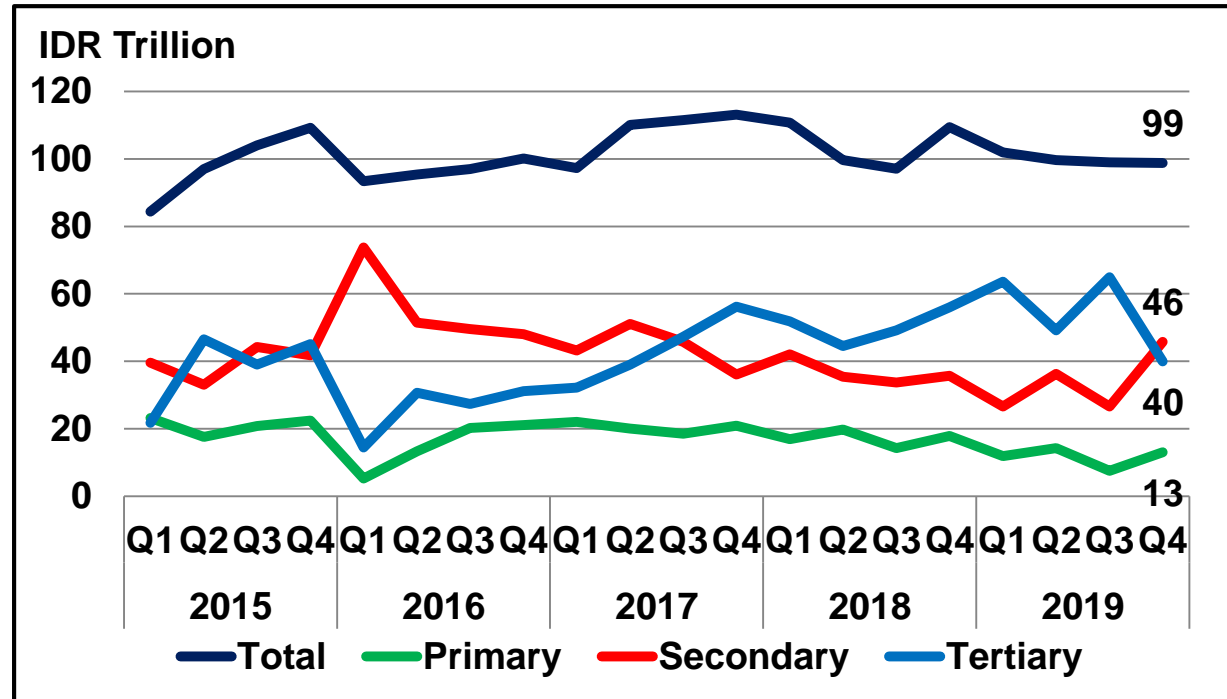
Investment

Foreign and Domestic Investment (Nominal)



Source: CEIC

FDI Realization (Nominal)

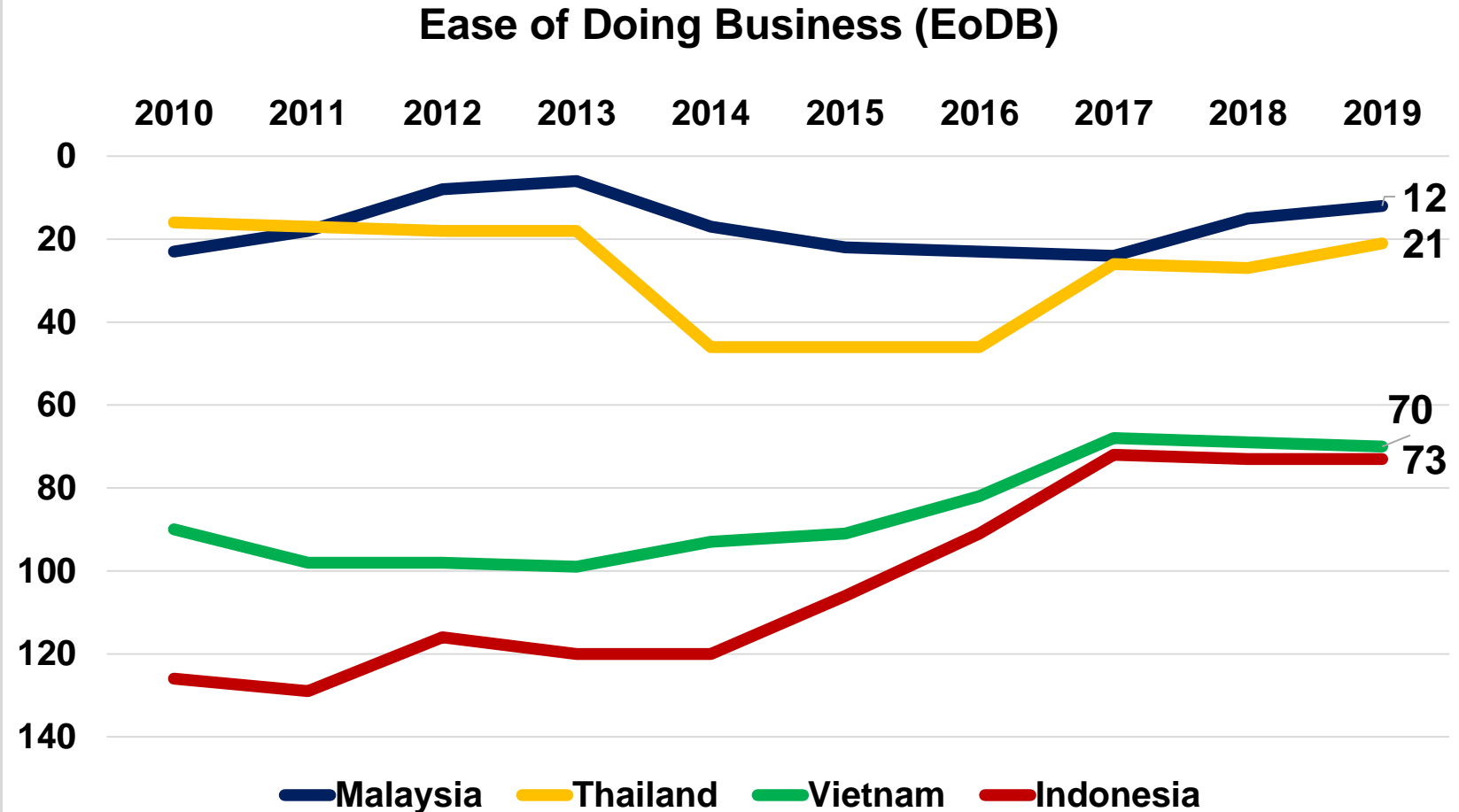


Source: CEIC

- Based on **BKPM data**, the amount of total investment realization has declined by 14% (yoy) from the previous year, due to the slowdown in foreign investment realization by 4%.
- Lower FDI might be triggered by the combination of tighter monetary policy and Rupiah volatility, which increase the long-term borrowing cost and reduce the foreign investment value.
- Looking forward, we see that investment might be still subdued in the near future.

Indonesia's Economy Has Opportunities to Increase along with the Improvement of the Investment Climate

Although Indonesia's EoDB rank has slightly decreased to 73rd position in 2019 from 72th position in 2017, the ease of doing business in Indonesia shows the most significant improvement among the other peers in recent years.



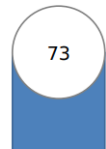
Source: Trading Economics and World Bank

Ease of Doing Business in
Indonesia

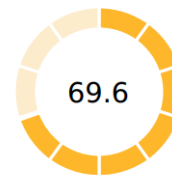


Region	East Asia & Pacific
Income Category	Lower middle income
Population	267,663,435
City Covered	Jakarta, Surabaya

DB RANK

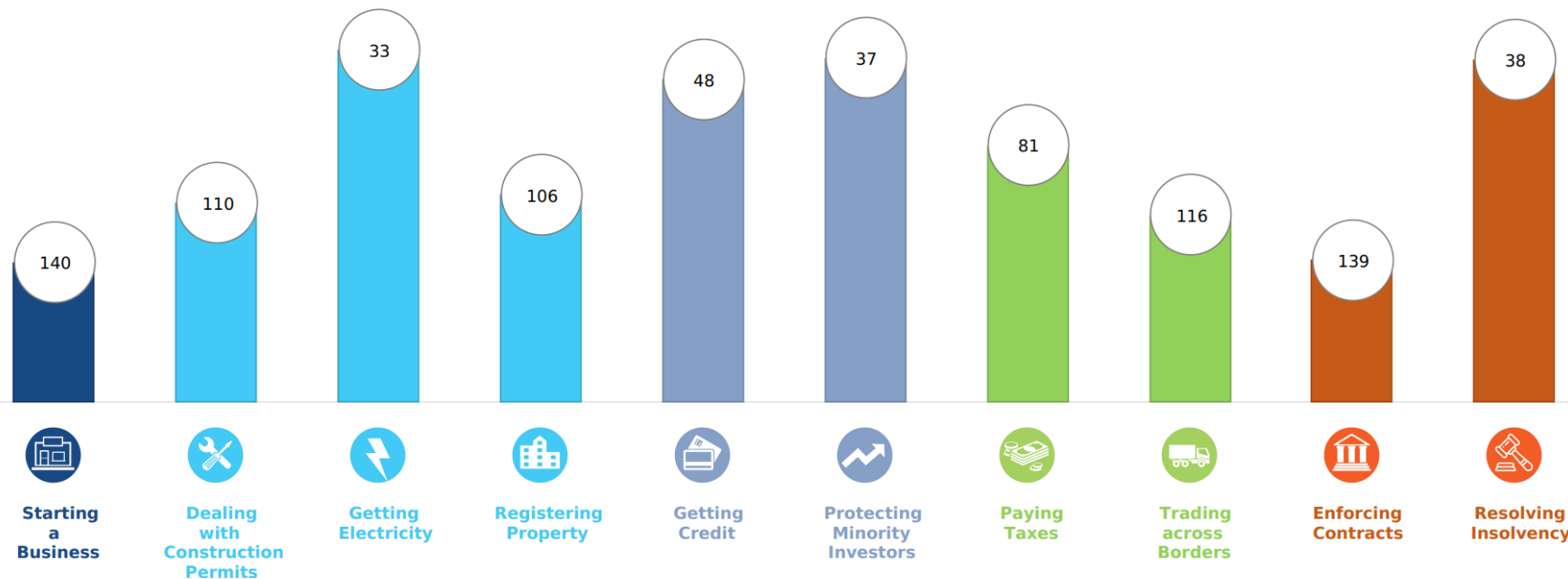


DB SCORE



- To attract more investment, GoI needs to continue improving the investment climate in Indonesia.
- Various **regulation** issues:
 - Starting a business (#140), dealing with construction permits (#110), registering property (#106)
- Costs of **exporting** and **importing**: Trading across borders (#116)

Rankings on Doing Business topics - Indonesia



Source: Doing Business Report 2020

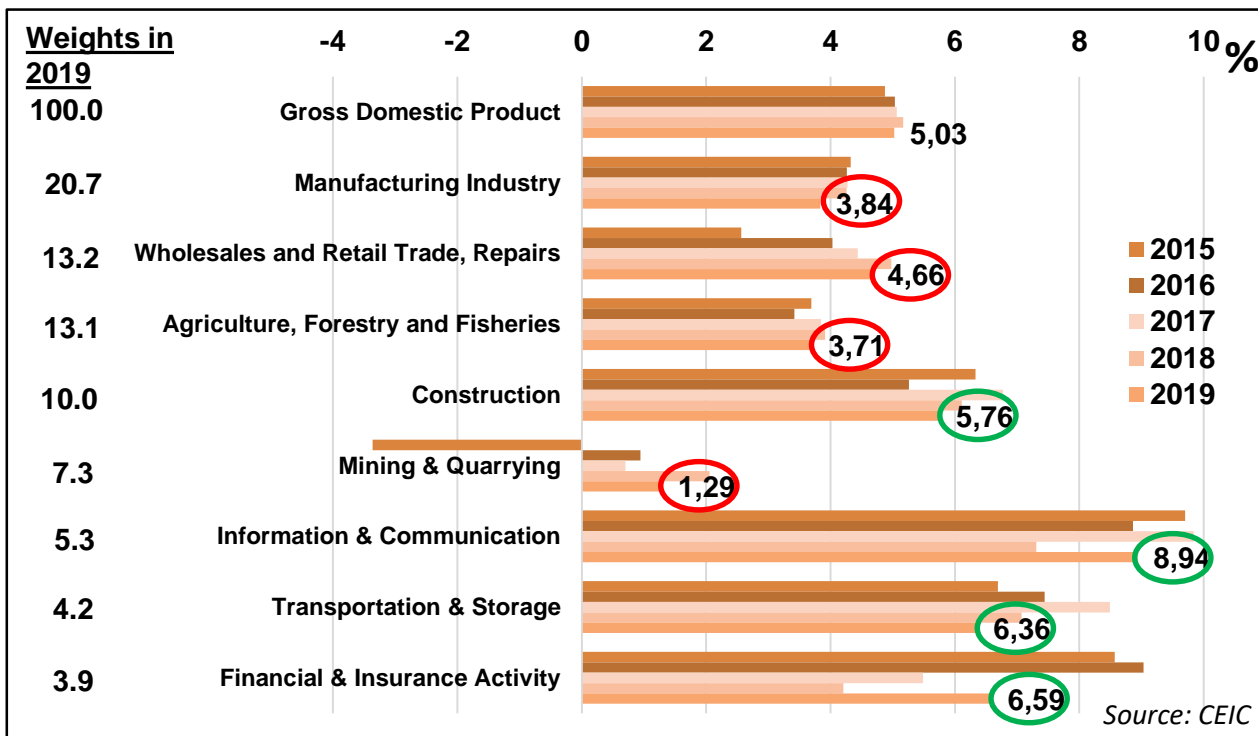


DOMESTIC CONDITIONS: GDP, CONSUMPTION, AND INFLATION

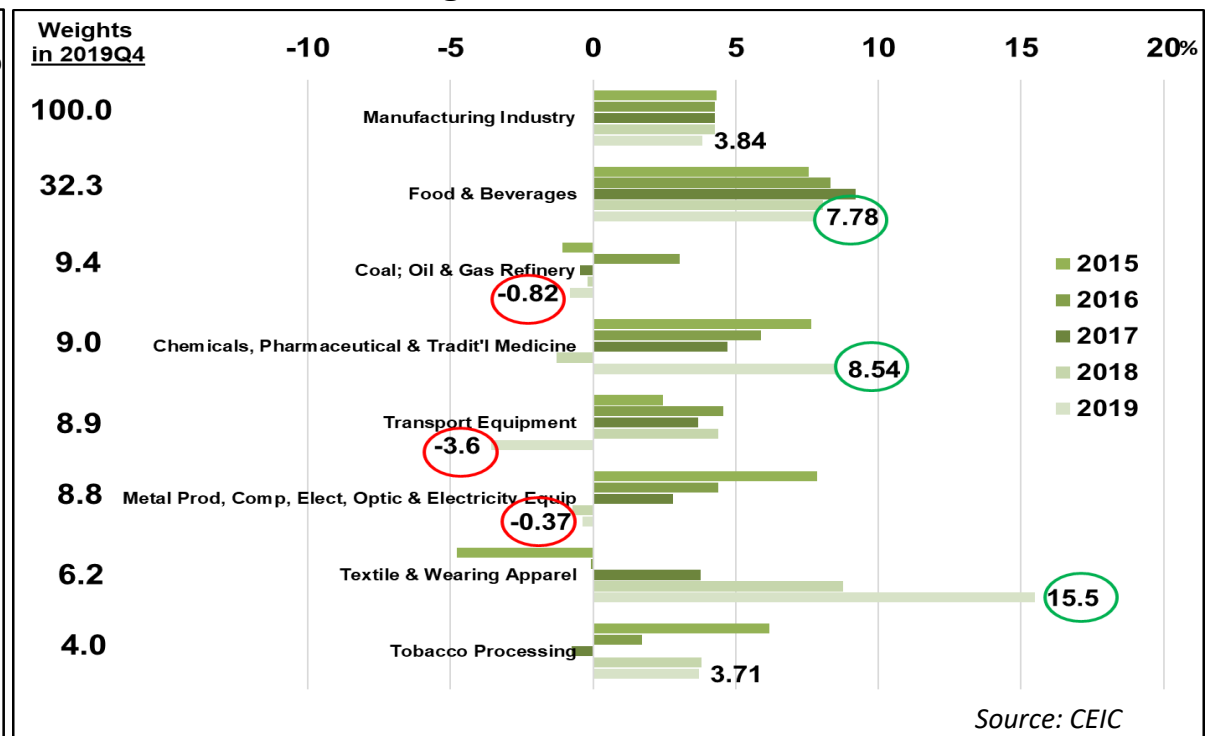


GDP: Manufacturing Sector

Growth of GDP and the Main Industries, 2014-2019



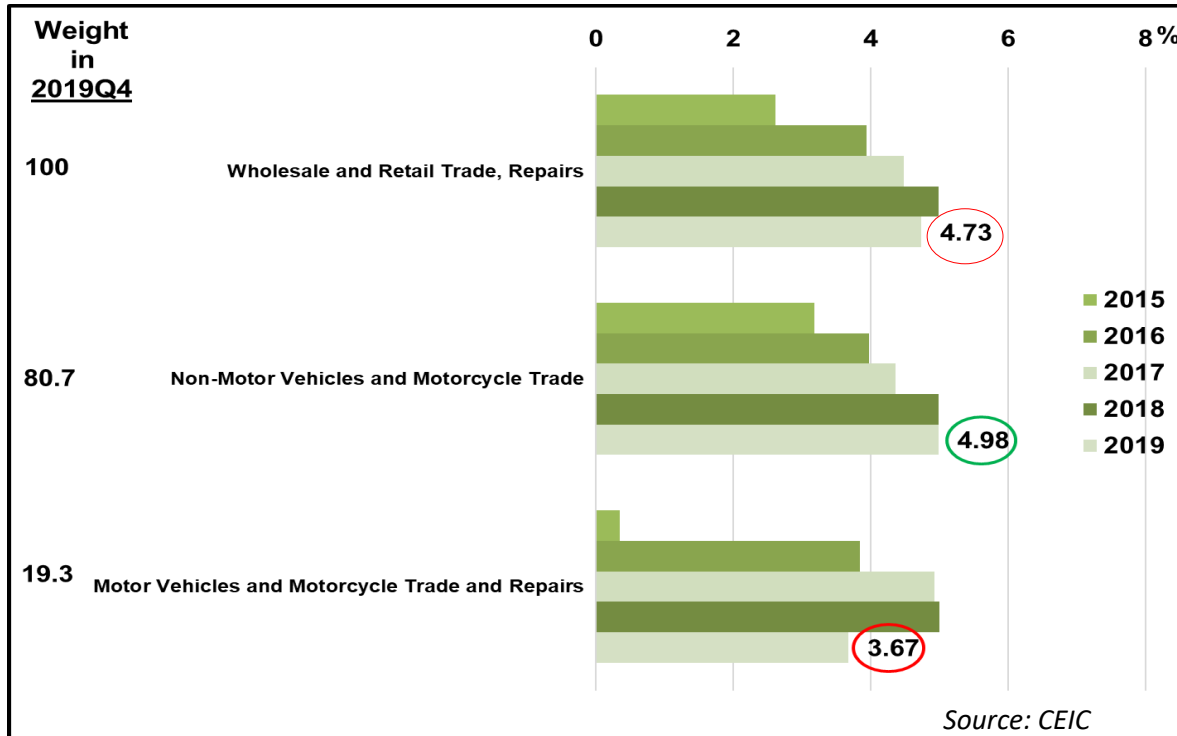
Growth of Manufacturing Sector and Its Subsectors, 2014-2019



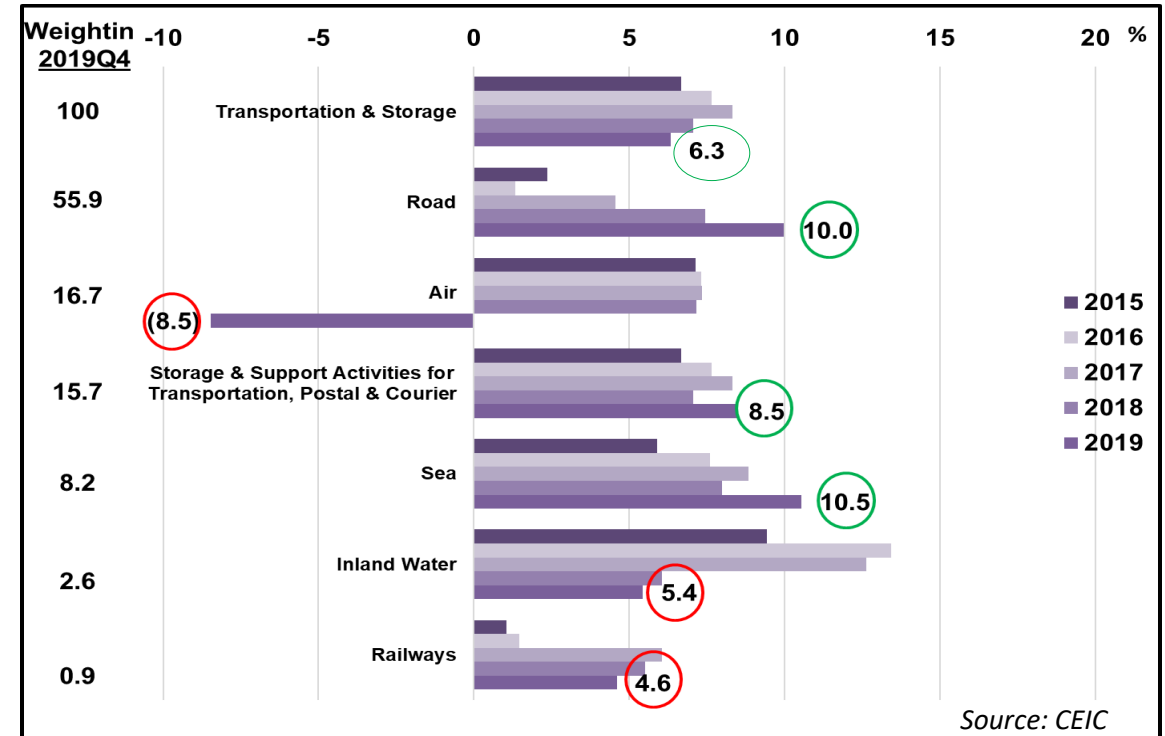
- GDP growth recorded at 5.02% (yoy) in Q4. Continuing the 5% trend but slowing down since 2017.
- The manufacturing sector, as the most contributing sector to GDP, also have the same trend which recorded a growth at 3.8% (yoy) until 2019 Q4. Still trending down.
- Short-term manufacturing growth was and is still likely to be dampened by weak demand, both globally and domestically.

GDP: Wholesale, Retail, and Transport

Growth of Wholesale and Retail Trade and Its Subsectors, 2014-2019



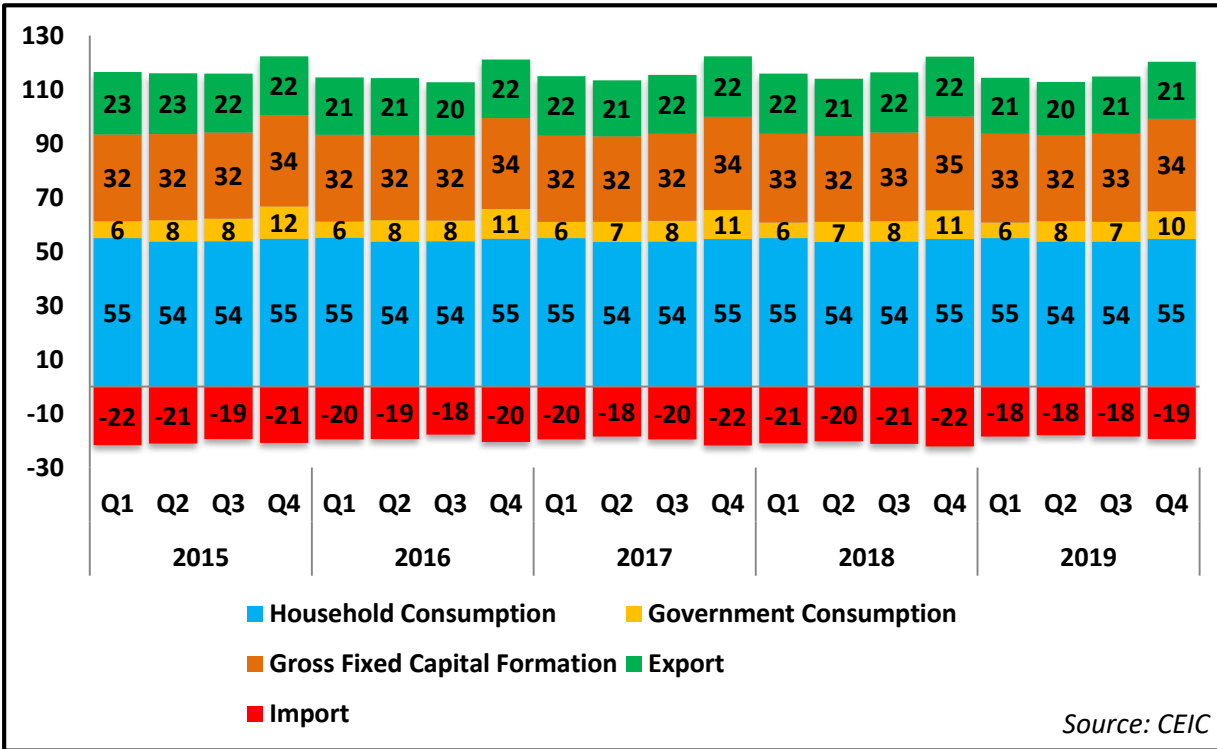
Growth of Transport and Its Major Subsectors, 2014-2019



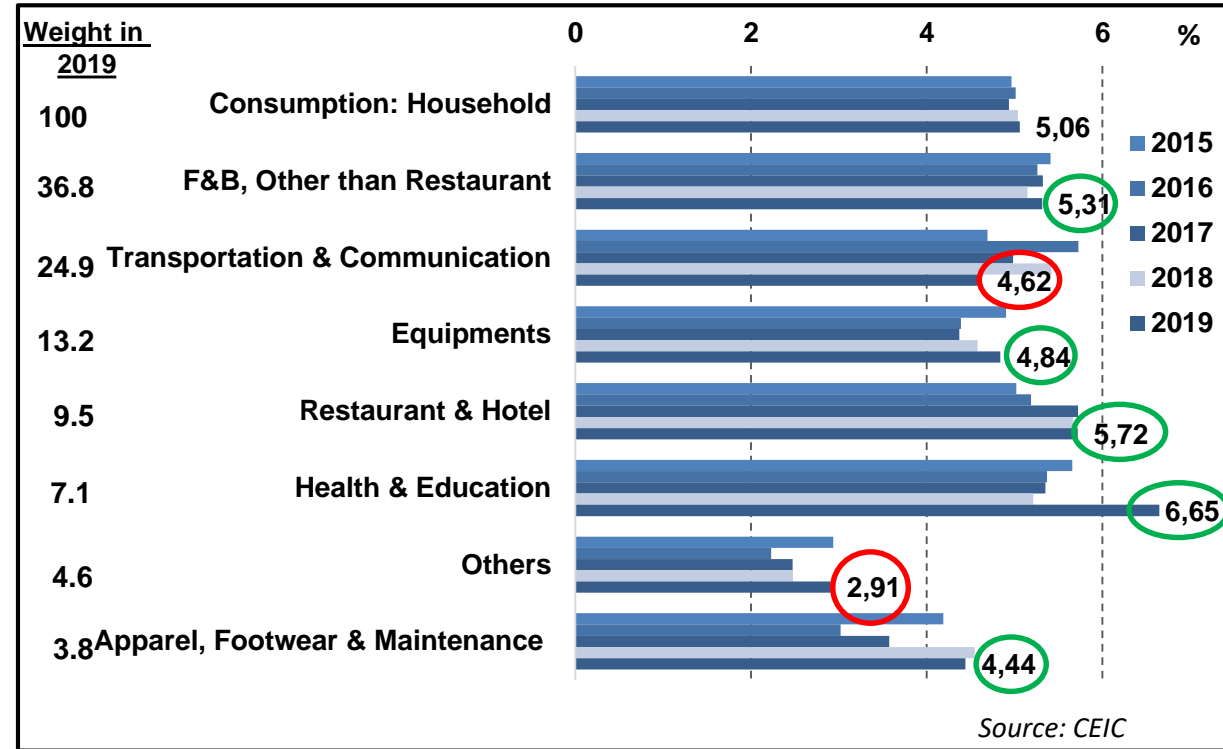
- The wholesale and retail trade growth has declined to 4.73% (yoy), the growth of transportation and storage sector also has deviated from its 'normal' level as it only recorded at 6.30% in 2019 compared to around 7% (yoy) last year.
- The repercussion of substantially higher airline ticket prices remained, and the air transport subsector is still hurt as it recorded the second consecutive negative double-digit growth of 8.50% (yoy) in 2019.

Expenditure Side: Consumption

Shares of GDP Components, 2015-2019 (%)



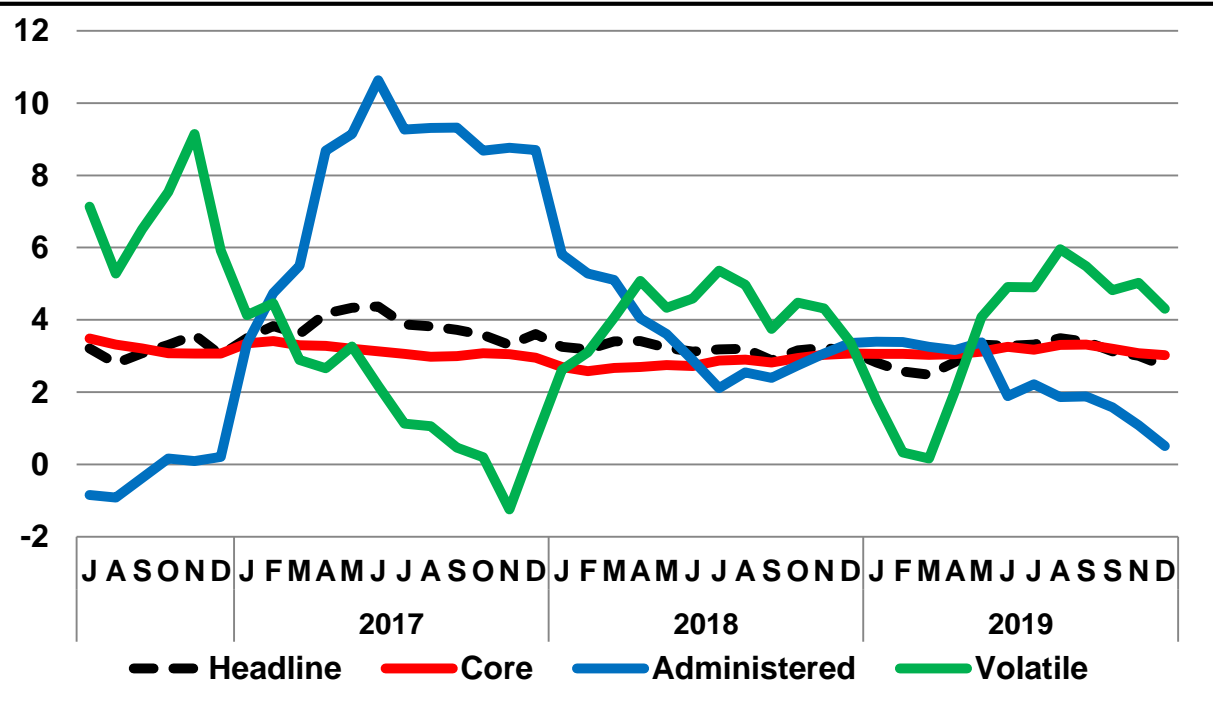
Growth of Household Consumption and its Components, 2015-2019



- Household consumption grew by 5.06% (yoy) in 2019 with a slight positive trend.
- The high airfare price has made transportation and communication component a notable exceptions by the decelerating growth. Consistent with production story.
- Need to be cautious in interpreting consumption data due to import content. But 2019 consumption grows amid weakening import.

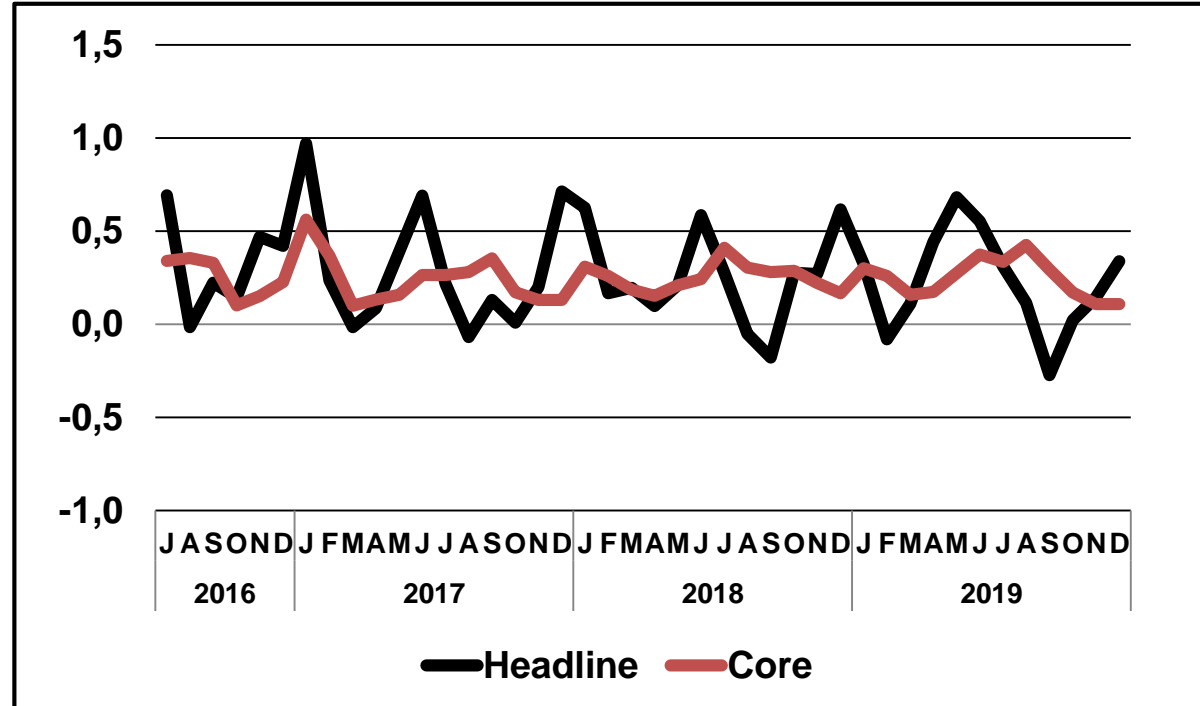
Inflation

Inflation Rate (% , y.o.y)



Source: CEIC

Inflation Rate (% , mtm)



Source: CEIC

- Both core and headline inflation in December 2019 are still manageable within Bank Indonesia's inflation target, recorded at 2.72% and 3.02% (yoy).
- Inflation remains under control and manageable for the rest of 2019 and 2020.



Pendapatan di 2019 mencerminkan kinerja dari perekonomian

Belanja Negara cukup fleksibel sehingga budget deficit tetap bisa relatif rendah di 2,2% dari GDP

URAIAN	APBN	Realisasi Sementara	% thd APBN
A. PENDAPATAN NEGARA	2.165,1	1.957,2	90,4
I. PENDAPATAN DALAM NEGERI	2.164,7	1.950,4	90,1
1. Penerimaan Perpajakan	1.786,4	1.545,3	86,5
2. Penerimaan Negara Bukan Pajak	378,3	405,0	107,1
II. PENERIMAAN HIBAH	0,4	6,8	1.560,7
B. BELANJA NEGARA	2.461,1	2.310,2	93,9
I. BELANJA PEMERINTAH PUSAT	1.634,3	1.498,9	91,7
1. Belanja K/L	855,4	876,4	102,4
2. Belanja Non K/L	778,9	622,6	79,9
II. TRANSFER KE DAERAH DAN DANA DESA	826,8	811,3	98,1
1. Transfer ke Daerah	756,8	741,5	98,0
2. Dana Desa	70,0	69,8	99,7
C. KESEIMBANGAN PRIMER	(20,1)	(77,5)	385,3
D. SURPLUS/ (DEFISIT) ANGGARAN (A-B)	(296,0)	(353,0)	119,3
% Surplus/ (Defisit) Anggaran terhadap PDB	(1,84)	(2,20)	
E. PEMBIAYAAN ANGGARAN	296,0	399,5	134,9
KELEBIHAN (KEKURANGAN) PEMBIAYAAN ANGGARAN		46,4	



Uraian	APBN 2019	Realisasi*		
		Nominal	% Growth	% thd Target
Pajak Penghasilan	894,45	770,29	2,71 %	86,12 %
- Non Migas	828,29	711,21	3,78 %	85,86 %
- Migas	66,15	59,08	-8,68 %	89,31 %
PPN & PPnBM	655,39	532,91	-0,81 %	81,31 %
PBB (Sektor P3)	19,10	21,17	8,90 %	110,84 %
Pajak Lainnya	8,61	7,69	15,99 %	89,32 %
Jumlah	1.577,56	1.332,06	1,43 %	84,44 %

* Sementara

AGENDA IN MITIGATING THE RISKS UPCOMING GLOBAL SHOCKS



To dampen external volatility and the future projection of the global economic crisis

MONETARY POLICY

- Central banks are right to ease their policy rates as it will recover credit growth.
- Prices should be managed to keep low and stable inflation.

FISCAL POLICY

- Countercyclical fiscal measures are needed to manage a sharp decline in economic growth and aggregate demand.
- To boost household demand, government expenditure should be directed to overcome inequality, such as injection in social spending.

TRADE AND INVESTMENT

- Persistent efforts in supporting import-substitution industries will generate a robust economic growth.
- GoI needs to further simplify investment regulations.

DOMESTIC SECTORS

- Government needs to implement concrete actions of structural reforms to boost manufacturing sector as well as trade competitiveness.
- Amid the long list of reforms agenda, we see that investment needs to be the key engine of our economic growth

Economic Indicators in 2020

Indicators	2019	FY 2020
GDP	5.0%	5.0-5.2%
Inflation	2.7%	3.0-3.5%
Credit Growth	7%	10%
BI 7-Days Repo Rate (end of period)	5.0%	4.75%
CAD	2.7%	2.5-3.0%
IDR/USD	14,017	14,000-14,300

Source: LPEM FEB UI

- As we projected, the GDP grew by 5.0% in 2019.
- GDP to grow by 5.0-5.2% for 2020 based on several scenarios. If not mitigated well, the risks of recession in advanced countries could aggravate the growth of Indonesia's GDP in 2021.
- We expect BI might, at least, lower the policy rates one more time and then hold it in 2020.
- The monetary easing in 2019 will provide some support for credit growth in 2020.



THANK YOU

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