



Indonesia's Economic Outlook 2020

Office of Chief Economist
Bank Mandiri

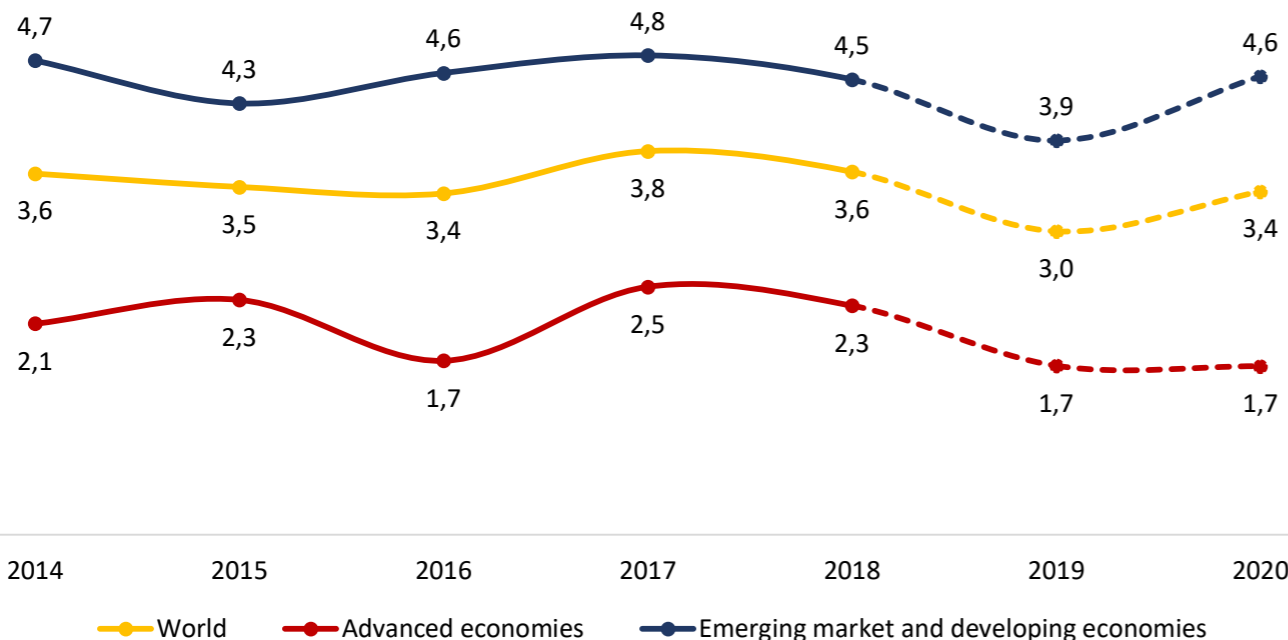
The Global Economic Update: Recession or Slow Down?



Flagging Global Economy in 2019

Weakening global demand causing commodity prices to be stagnant and major CBs to be more dovish

Global Economic Growth Projection (%)



Source: IMF (World Economic Outlook, Oct-19)

Growth Projection for Large Economies (%)

| Country | 2018 | 2019F | 2020F |
|---------|------|-------|-------|
| | 2.9 | 2.4 | 2.1 |
| | 1.9 | 1.2 | 1.4 |
| | 0.8 | 0.9 | 0.5 |
| | 1.4 | 1.2 | 1.4 |
| | 6.6 | 6.1 | 5.8 |
| | 6.8 | 6.1 | 7.0 |
| | 2.3 | 1.1 | 1.9 |
| | 1.1 | 0.9 | 2.0 |
| | 0.8 | 0.7 | 1.1 |

Source: IMF (World Economic Outlook, Oct-19)

Commodity Price Forecast

| Commodity | 2018 | 2019F | 2020F |
|-----------------------|-------|-------|-------|
| Oil (USD/barrel) | 71.7 | 68.0 | 69.0 |
| CPO (MYR/metric ton) | 2,252 | 2,035 | 2,094 |
| Coal (USD/metric ton) | 107.2 | 76.0 | 81.0 |

Source: OCE Bank Mandiri Estimation

Policy Rate Forecast in Advanced Economies (%)

| Country | 2018 | 2019F | 2020F |
|---------|------|-------|-------|
| | 2.5 | 1.75 | 1.5 |
| | 0.0 | 0.0 | 0.0 |
| | -0.1 | -0.1 | 0.0 |

Source: Bloomberg as of 17 Oct 2019

As for now, an expectation of US deceleration, not recession

GDP growth (%)

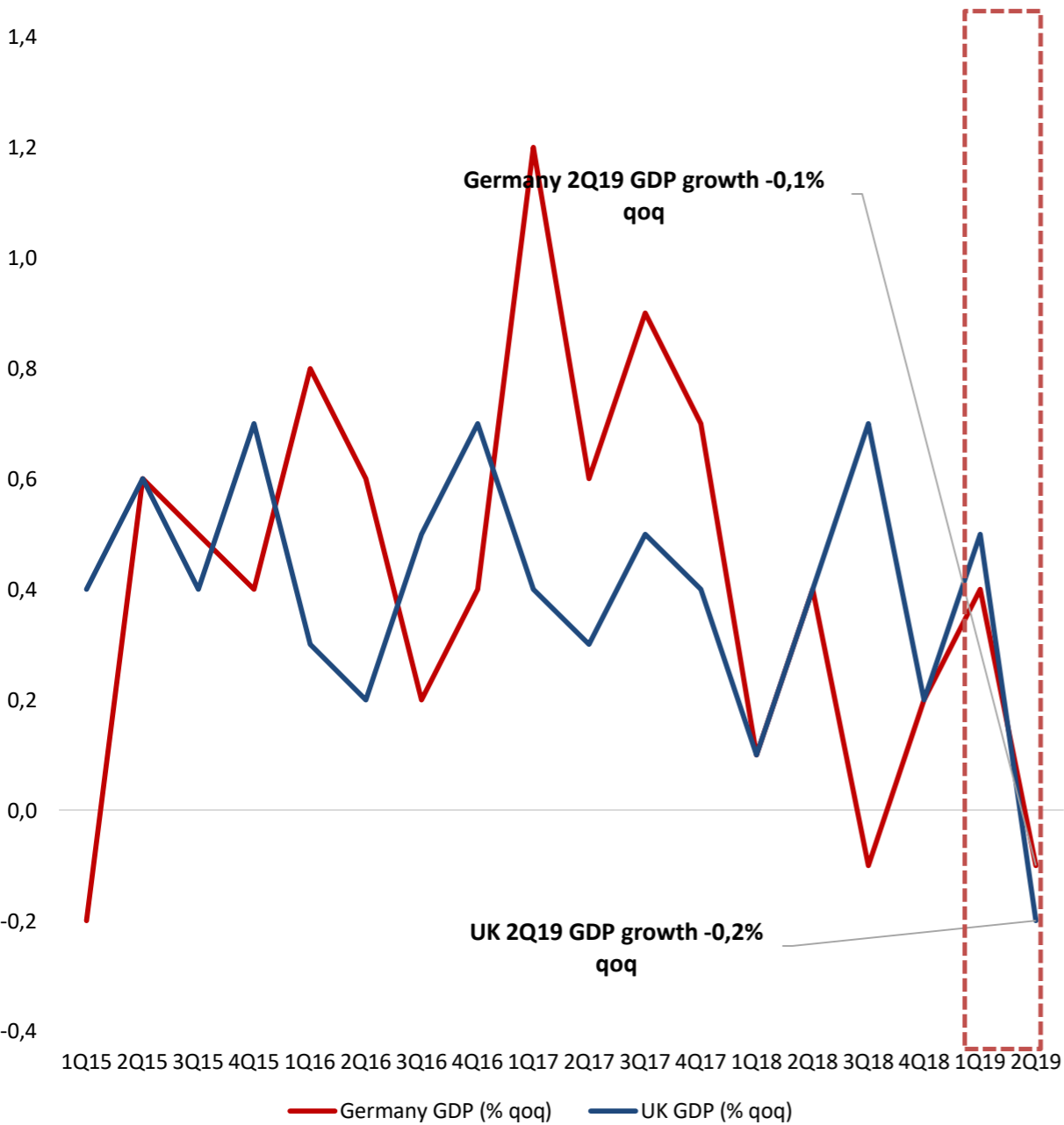
| Forecasters | 2019 | 2020 |
|--|------------|------------|
| IMF World Economic Outlook | 2.6 | 1.9 |
| World Bank's Global Economic Prospects | 2.5 | 1.7 |
| Bank of America Merrill Lynch | 2.3 | 1.7 |
| Barclays | 2.2 | 1.6 |
| Bloomberg Economics | 2.4 | 2.1 |
| Capital Economics | 2.1 | 1.2 |
| Citigroup | 2.6 | 2 |
| Fitch Ratings | 2.3 | 1.8 |
| Goldman Sachs Group | 2.3 | 2.2 |
| JPMorgan Chase | 2.2 | 1.7 |
| Moody's | 2.3 | 2.1 |
| Nomura Securities | 2.3 | 1.5 |
| Oxford Economics | 2.3 | 1.8 |
| Societe Generale | 2.3 | 0.5 |
| Standard Chartered | 2.3 | 1.8 |
| UBS | 2.3 | 1.3 |
| Wells Fargo | 2.3 | 2.3 |
| Average | 2.3 | 1.7 |
| Median | 2.3 | 1.8 |

Source: Bloomberg and various reports

Another Risk: The Early Sign of Recession in Eurozone

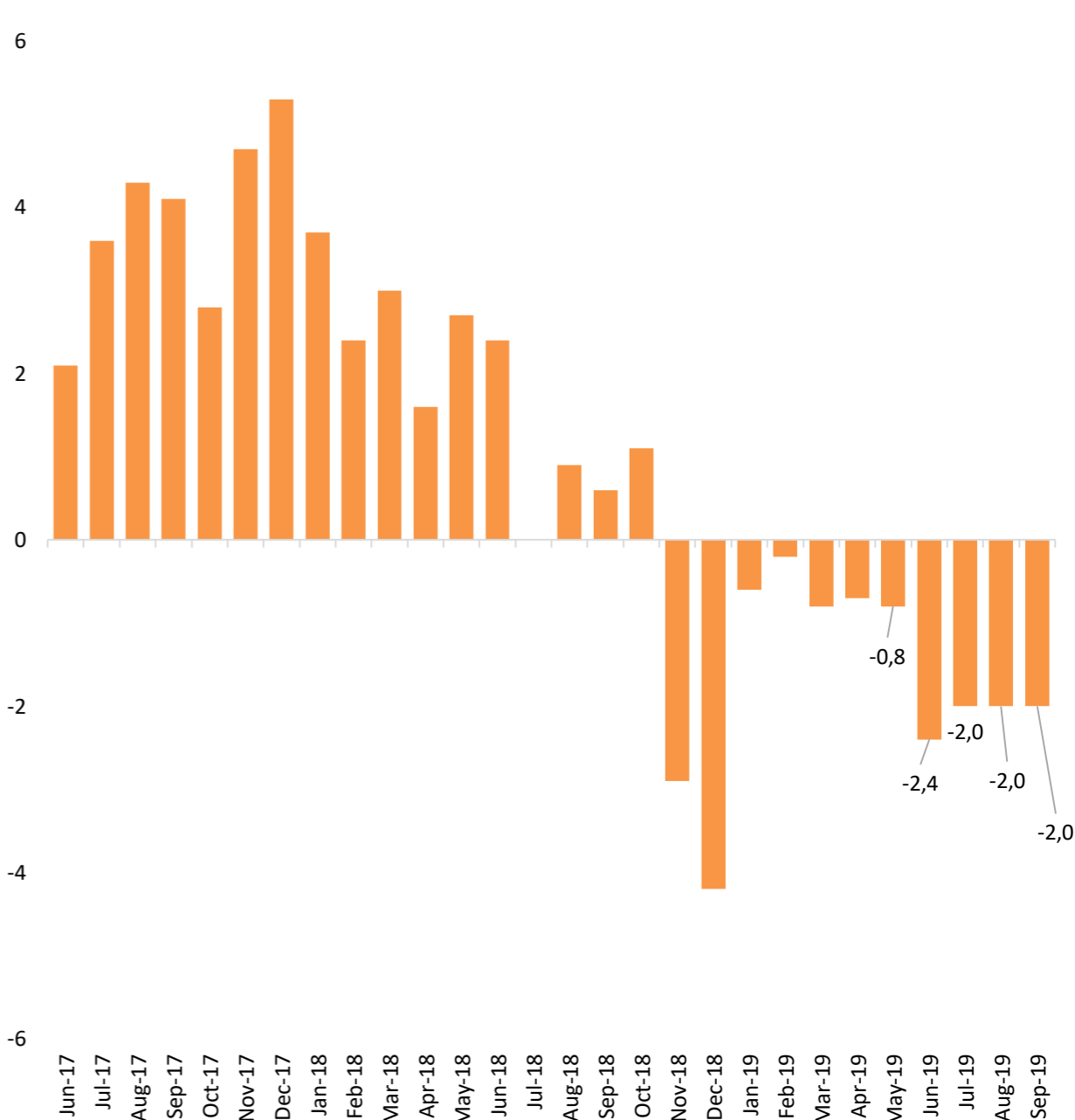
Eurozone's economic engines has been slowing down

Germany & UK Economic Growth (% qoq)



Source: Bloomberg

Eurozone's Industrial Production (% yoy)

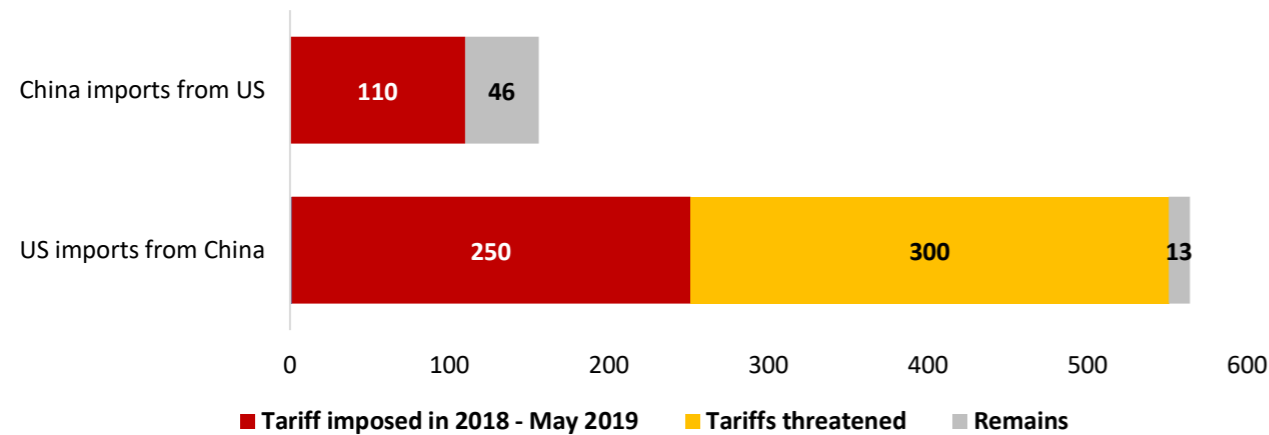


Source: Bloomberg

How long is The US - China Trade War?

US to hit USD300 bn worth of Chinese products with 10% tariff

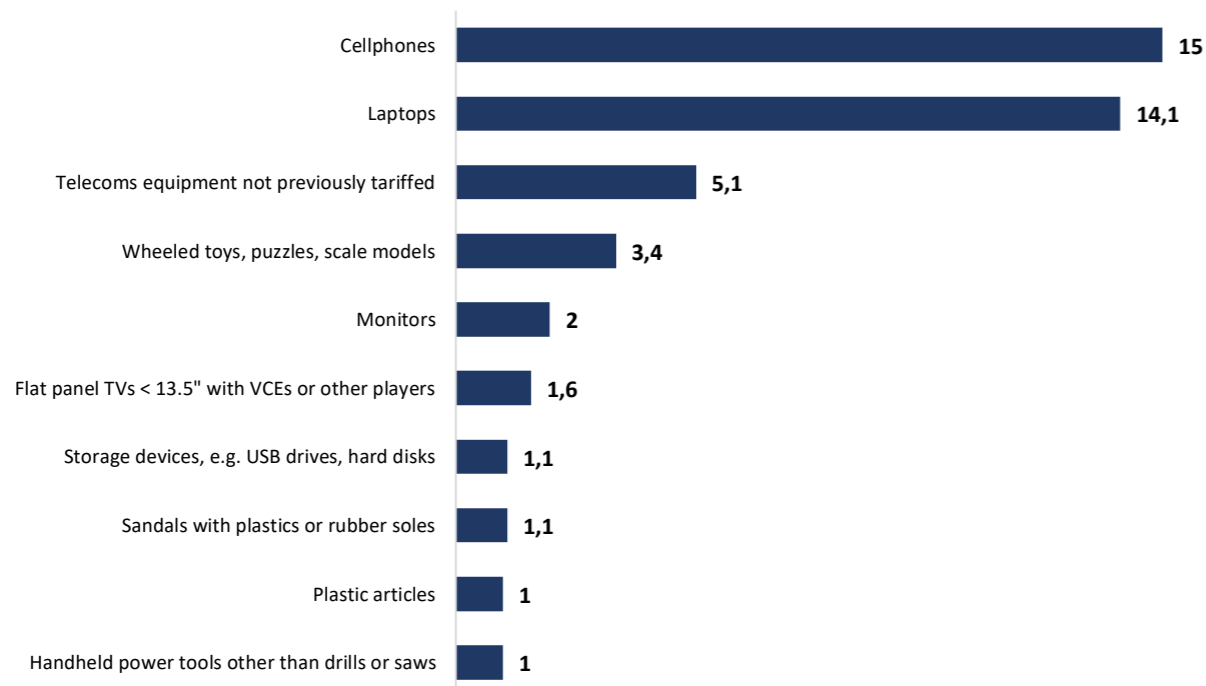
Value of import goods (USD bn)



Note:

US total import from China in 2018 was USD563 billion
China's total import from US in 2018 was USD156 billion

Top 10 US imports from China affected by the new tariff (USD bn)



Source: US International Trade Commission, Bloomberg & Reuters

The U.S.-China Trade War: A Brief Recap



U.S. action



Chinese action










- January 22, 2018**
Tariffs implemented against washing machines and solar cell imports
 - March 8, 2018**
Signed tariffs on imported steel and aluminum from all nations
 - May 25, 2018**
Announced a \$1.3 billion fine and other penalties for ZTE, the Chinese telecommunication tech company
 - June 15, 2018**
Announced tariffs on \$50 billion of goods, rolled out between July and August on imports
 - July 6, 2018**
Tariffs on \$34 billion of goods (25%)
 - August 23, 2018**
Tariffs on \$16 billion of goods (25%)
 - September 24, 2018**
10% tariff on \$200 billion Chinese exports began and remained effective till the end of 2018, with potential to rise to 25% after
 - December 1, 2018**
U.S. and China agreed to talks/halt new tariffs for 90 days
 - March 1, 2019**
Trump extended 90-day deadline
 - May 5, 2019**
Trump tweeted intent to raise tariffs to 25% on goods worth \$325 billion
 - May 10, 2019**
Tariffs raised to 25% on \$200 billion of Chinese goods
 - August 1, 2019**
Additional 10% tariff on \$300 billion worth of goods and products announced for September 1st
- Total tariffs**
25% on \$250 billion worth of Chinese products;
10% tariff on \$300 billion worth of Chinese goods
- April 2, 2018**
Tariffs on \$3 billion of goods
 - April 17, 2018**
Began collecting anti-dumping tariffs on sorghum imports from the U.S. worth \$1 billion
 - June 15, 2018**
Responded with announcement of \$50 billion in tariffs, rolled out between July and August
 - July 6, 2018**
Tariffs on \$34 billion of goods (25%)
 - August 23, 2018**
Tariffs on \$16 billion of goods (25%)
 - September 24, 2018**
Retaliated with 5-10% tariffs on \$60 billion of goods, with option of a raise
 - December 1, 2018**
U.S. and China agree to talks/halt new tariffs for 90 days
 - May 10, 2019**
Intention to retaliate by raising tariffs up to 25% on \$60 billion of U.S. goods
 - May 13, 2019**
Tariffs raised to 25% on \$60 billion U.S. goods, effective June 1
- Total tariffs**
25% tariffs on \$110 billion worth of U.S. products

Commodity price will remain flat

| | Spot Price | End of Period Price | | Average Price | | 2019 | | | | | 2020 | | | | | |
|------------------------------|-------------|---------------------|--------|---------------|--------|------------|------------|--------------------------------|------------------------------------|------------------------------------|------------------------------|------------|--------------------------------|------------------------------------|------------------------------------|------------------------------|
| Jenis Komoditas | 6 Sept 2019 | 2017 | 2018 | 2017 | 2018 | 2019 (ytd) | OCE F'cast | Bloomberg Consensus (Dec 2018) | Bloomberg Consensus (Apr-Jun 2019) | Bloomberg Consensus Jul – Aug 2019 | Forward Price (Jul 15, 2019) | OCE F'cast | Bloomberg Consensus (Dec 2018) | Bloomberg Consensus (Apr-Jun 2019) | Bloomberg Consensus Jul – Aug 2019 | Forward Price (Jul 15, 2019) |
| Oil (Brent) USD/bbl | 61,5 | 66,9 | 53,8 | 54,8 | 71,7 | 64,8 | 65,6 | 69,8 | 67,7 | 66,2 | 65,6 | 67,6 | 71,8 | 68,4 | 66,8 | 62,8 |
| CPO* (FOB Malaysia) USD/Ton | 506,2 | 601,8 | 484,8 | 647,7 | 559,5 | 494,8 | 510,0 | 503,9 | 508,5 | 502,8 | 503,7 | 540,0 | 512,7 | 537,4 | 525,9 | 574,4 |
| Coal (Newcastle) | 66,3 | 100,8 | 102,1 | 88,1 | 107,2 | 83,3 | 82,4 | 85,3 | 79,8 | 81,4 | 78,3 | 80,7 | 84,3 | 75,3 | 75,5 | 81,1 |
| Gold (USD/Troy Ounce) | 1.506 | 1.309 | 1.281 | 1.259 | 1.268 | 1.350 | NA | 1.263 | 1.331 | 1.359 | 1.425 | NA | 1.306 | 1.372 | 1.409 | 1.451 |
| LME Nickel Price (USD/Ton) | 17.685 | 12.714 | 10.623 | 10.420 | 13.127 | 13.096 | NA | 13.225 | 12.527 | 12.650 | 13.051 | NA | 13.804 | 12.940 | 12.882 | 13.801 |
| LME Aluminum Price (USD/Ton) | 1.765 | 2.258 | 1.823 | 1.968 | 2.112 | 1.812 | NA | 2.120 | 1.849 | 1.847 | 1.839 | NA | 2.118 | 1.892 | 1.859,8 | 1.927 |

Sources: Bloomberg and OCE's forecast

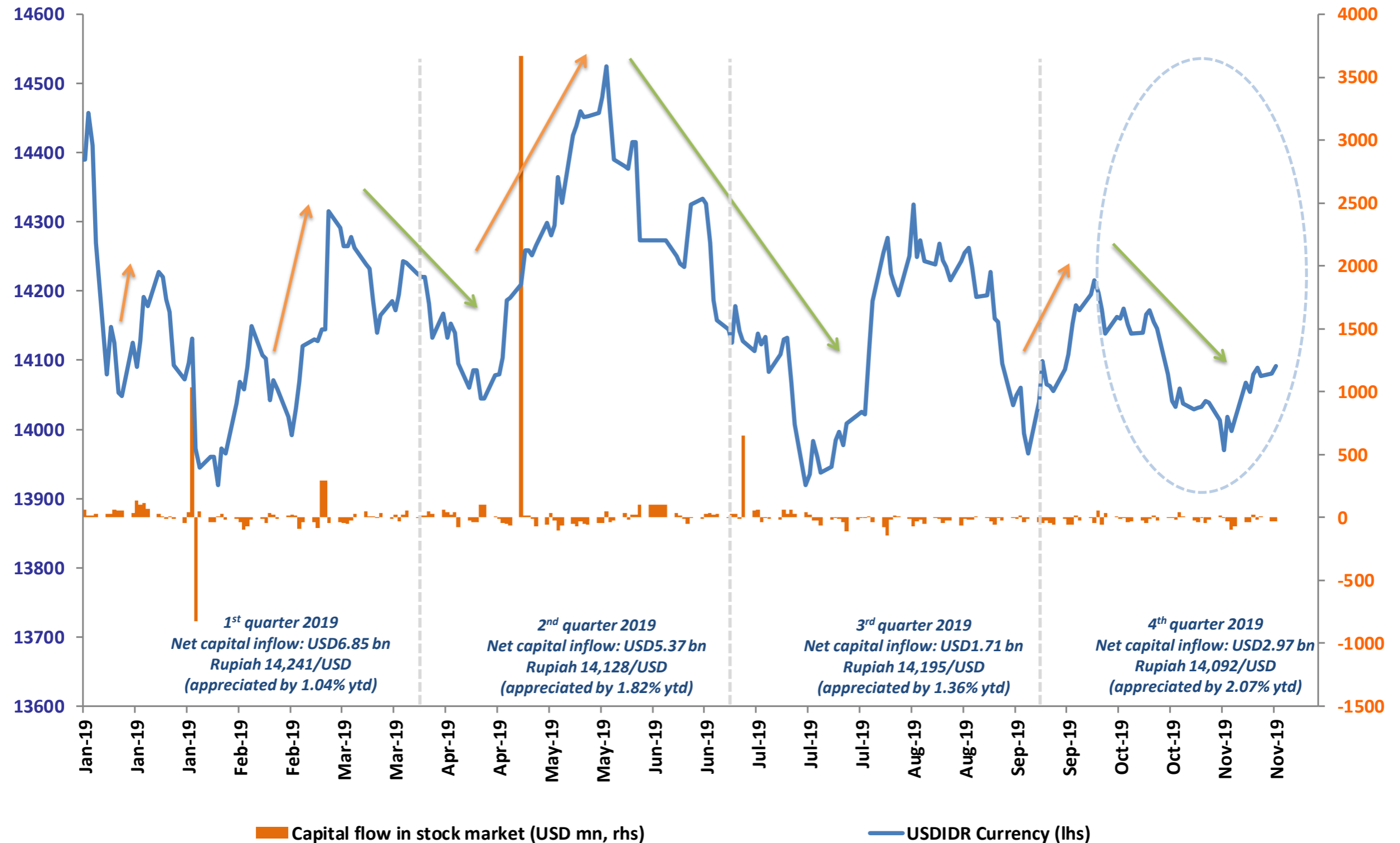
Indonesia is among the stable countries due to high contribution from HH spending

| Country | Average GDP growth in 5 years | Average GDP growth in 10 years | Current Account Balance (%of GDP 2018) | Fiscal Balance (%of GDP 2018) | External Debt to GDP | Inflation (YoY) | CDS 5Y |
|--|-------------------------------|--------------------------------|--|-------------------------------|----------------------|-----------------|--------------|
|  Indonesia | 5.0% | 5.5% | -3.04% | -1.1% | 36% | 3.49% | 86.2 |
|  Malaysia | 5.2% | 4.3% | 2.3% | -2.7% | 58% | *1.40% | 49.9 |
|  Thailand | 3.2% | 3.3% | 8.1% | -0.8% | 27% | 0.52% | 32.0 |
|  India | 7.0% | 7.4% | -2.8% | -6.6% | 22% | *3.15% | 68.1 |
|  Turkey | 4.9% | 5.3% | -5.0% | -4.9% | 60% | 15.01% | 402.7 |
|  Brazil | -0.8% | 1.2% | -1.0% | -7.3% | 36% | *3.22% | 132.3 |
|  South Africa | 1.2% | 1.5% | -3.3% | -3.9% | 46% | *4.00% | 174.6 |

Source: Heat Map EM Vulnerabilities IIF, as of Dec-18
 Indonesia fiscal balance and CAD as of July 2019 and 2Q19
 Inflation as of Aug 2019 and CDS as of Sep 3, 2019
 *)Inflation data as of Jul 2019

Rupiah vs. Capital Flow

Rupiah started to appreciate in Oct-19 due to trade war tension increase



Source: Bloomberg *as of 27 November 2019

Several factors affecting Rupiah forecast

Rupiah will fluctuate between 13,900 – 14,400 in 2020



Downside trend of USD index (below 100 level; around 96 - 98 level)



Easing trade war tension between US and country's trading partner (China, India, etc)



No more "hawkish tone" on The Fed policy. FFR target projections at 1.5%.



Government and **Bank Indonesia policy mix** (Economic packages, BI rate hike, Open Market Operation, DNDF transaction, etc.)



Bilateral swap agreement will **reduce USD transaction**



Foreign funds flow will enter the domestic market due to the weakening of the global economy

USD/IDR FORECAST *

| Macro Indicator | 4Q19 | 1Q20 | 2Q20 | 3Q20 | 4Q20 |
|------------------|--------|--------|--------|--------|--------|
| Bank Mandiri | 14,248 | 14,152 | 14,264 | 14,279 | 14,296 |
| Market Consensus | 14,102 | 14,230 | 14,250 | 14,200 | 14,200 |

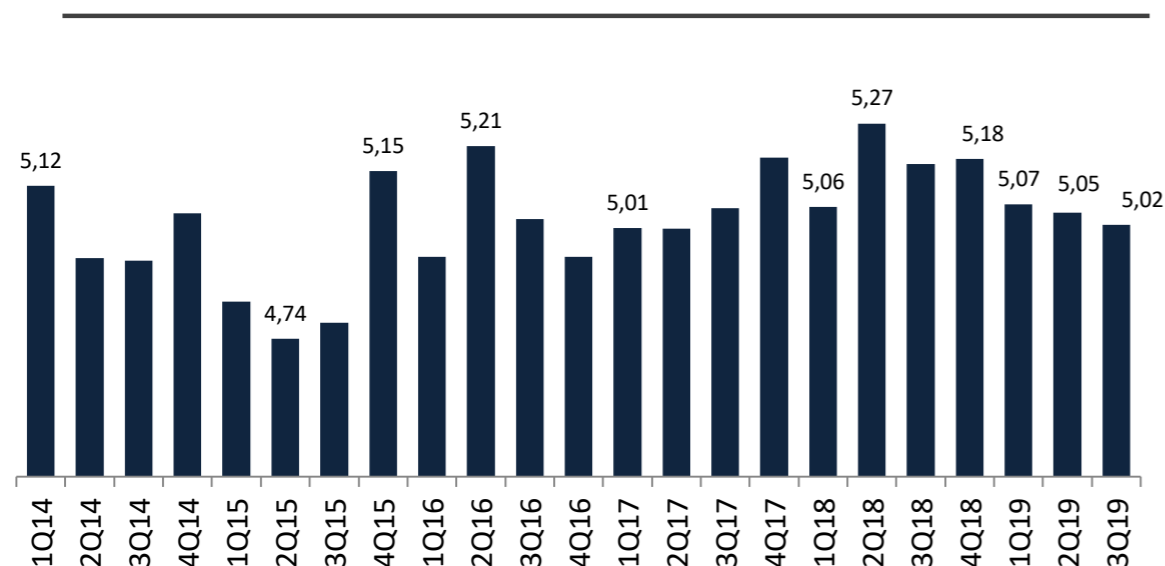
notes : * as of November 2019
Source: OCE Bank Mandiri, Bloomberg

Indonesia economy : Needs more stimulus

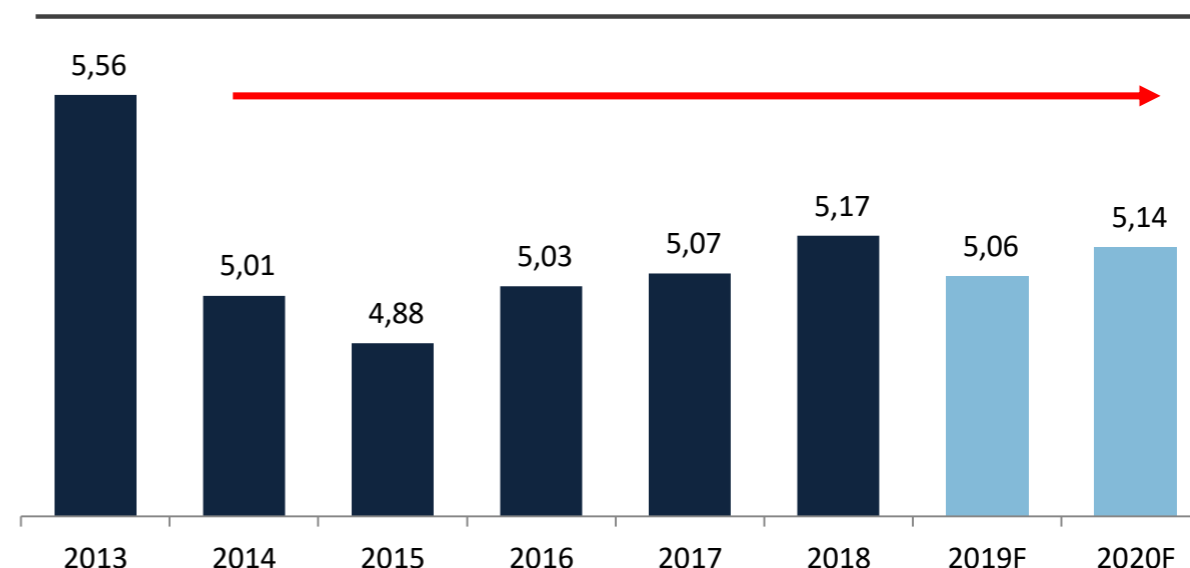


Indonesia GDP growth : Investment is the key in the midst of unfavor global economic condition

Quarterly GDP growth (% yoy)



Annual GDP growth (% yoy)



GDP growth by components (% yoy)

| GDP component (% yoy) | 2017 | | | | 2018 | | | | 2019 | | | 2016 | 2017 | 2018 | % of GDP* |
|-------------------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|-------|-----------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | | | | |
| Real GDP | 5.01 | 5.01 | 5.06 | 5.19 | 5.06 | 5.27 | 5.17 | 5.18 | 5.07 | 5.05 | 5.02 | 5.03 | 5.07 | 5.17 | 100 |
| Household spending | 4.94 | 4.95 | 4.91 | 4.98 | 4.94 | 5.16 | 5.00 | 5.08 | 5.02 | 5.17 | 5.01 | 5.01 | 4.94 | 5.05 | 56.52 |
| Non-Profit Institutions | 8.08 | 8.53 | 6.04 | 5.26 | 8.10 | 8.75 | 8.59 | 10.79 | 16.95 | 15.27 | 7.44 | 6.64 | 6.93 | 9.08 | 1.25 |
| Government spending | 2.69 | -1.94 | 3.46 | 3.80 | 2.71 | 5.20 | 6.27 | 4.56 | 5.21 | 8.23 | 0.98 | -0.14 | 2.13 | 4.80 | 8.36 |
| Investment | 4.77 | 5.34 | 7.08 | 7.26 | 7.94 | 5.85 | 6.96 | 6.01 | 5.03 | 5.01 | 4.21 | 4.47 | 6.15 | 6.67 | 32.32 |
| Exports | 8.36 | 2.73 | 16.48 | 8.42 | 5.94 | 7.65 | 8.08 | 4.33 | -1.86 | -1.81 | 0.02 | -1.66 | 8.91 | 6.48 | 18.75 |
| Imports | 4.78 | 0.18 | 15.40 | 11.91 | 12.64 | 15.17 | 14.02 | 7.10 | -7.36 | -6.73 | -8.61 | -2.41 | 8.06 | 12.04 | 18.81 |

Source: BPS

* Proportion in 2Q19

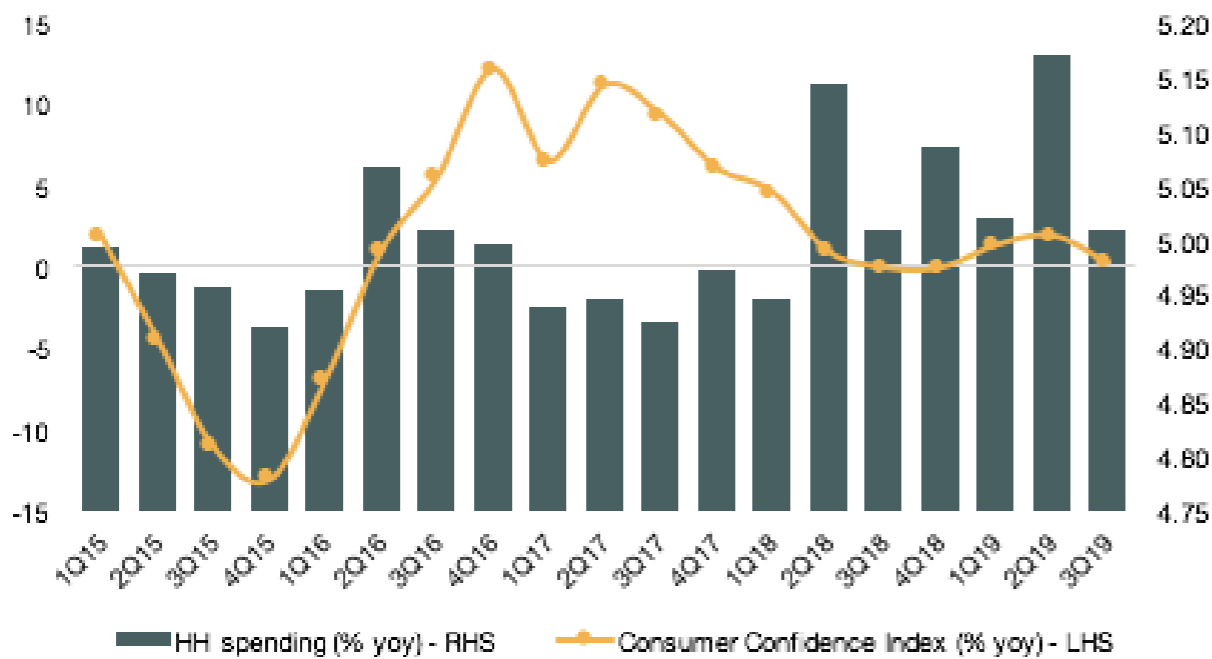
Manufacturing and other domestic oriented sectors should be accelerated to support growth in the coming years

| Sektor | 2014 | 2015 | 2016 | 2017 | 2018 | 1H18 | 1H19 | 2019F | 2020F |
|--|--------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| A. Pertanian, Kehutanan, dan Perikanan | 4.24 | 3.75 | 3.37 | 3.87 | 3.91 | 4.06 | 3.66 | 3.72 | 3.81 |
| B. Pertambangan dan Penggalian | 0.43 | -3.42 | 0.95 | 0.66 | 2.16 | 1.85 | 0.79 | 1.08 | 1.17 |
| C. Industri Pengolahan | 4.64 | 4.33 | 4.26 | 4.29 | 4.27 | 4.24 | 3.70 | 3.72 | 3.80 |
| D. Pengadaan Listrik dan Gas | 5.90 | 0.90 | 5.39 | 1.54 | 5.47 | 5.42 | 3.15 | 3.21 | 3.31 |
| E. Pengadaan Air, Pengelolaan Smph Limbah & Daur Ulang | 5.24 | 7.07 | 3.60 | 4.60 | 5.46 | 3.79 | 8.65 | 8.72 | 8.81 |
| F. Konstruksi | 6.97 | 6.36 | 5.22 | 6.80 | 6.09 | 6.53 | 5.80 | 5.91 | 6.02 |
| G. Perdagangan Besar & Eceran; Reparasi Mbl & Spd Mtr | 5.18 | 2.54 | 4.03 | 4.46 | 4.97 | 5.11 | 4.95 | 4.91 | 4.92 |
| H. Transportasi dan Pergudangan | 7.36 | 6.71 | 7.45 | 8.49 | 7.01 | 8.63 | 5.52 | 5.61 | 5.71 |
| I. Penyediaan Akomodasi dan Makan Minum | 5.77 | 4.31 | 5.17 | 5.39 | 5.66 | 5.39 | 5.69 | 5.82 | 5.80 |
| J. Informasi dan Komunikasi | 10.12 | 9.70 | 8.88 | 9.63 | 7.04 | 6.41 | 9.33 | 9.29 | 9.31 |
| K. Jasa Keuangan dan Asuransi | 4.68 | 8.58 | 8.93 | 5.47 | 4.17 | 3.64 | 5.93 | 5.93 | 6.01 |
| L. Real Estate | 5.00 | 4.11 | 4.69 | 3.66 | 3.58 | 3.13 | 5.60 | 5.71 | 5.81 |
| M,N. Jasa Perusahaan | 9.81 | 7.69 | 7.36 | 8.44 | 8.64 | 8.47 | 10.15 | 9.26 | 9.27 |
| O. Adm. Pemerintahan, Pertahanan & Jaminan Sosial Wajib | 2.38 | 4.63 | 3.20 | 2.06 | 7.02 | 6.50 | 7.62 | 7.56 | 7.61 |
| P. Jasa Pendidikan | 5.47 | 7.33 | 3.84 | 3.70 | 5.36 | 4.94 | 5.95 | 6.05 | 6.10 |
| Q. Jasa Kesehatan dan Kegiatan Sosial | 7.96 | 6.69 | 5.16 | 6.84 | 7.13 | 6.56 | 8.84 | 8.91 | 8.93 |
| R,S,T,U. Jasa lainnya | 8.93 | 8.08 | 8.01 | 8.73 | 8.99 | 8.83 | 10.37 | 8.95 | 8.97 |
| Tax Minus Subsidi | 5.08 | 32.55 | 19.06 | 13.33 | 10.58 | 11.83 | 8.16 | 7.21 | 6.23 |
| PDB | 5.01 | 4.88 | 5.03 | 5.07 | 5.17 | 5.17 | 5.06 | 5.06 | 5.14 |

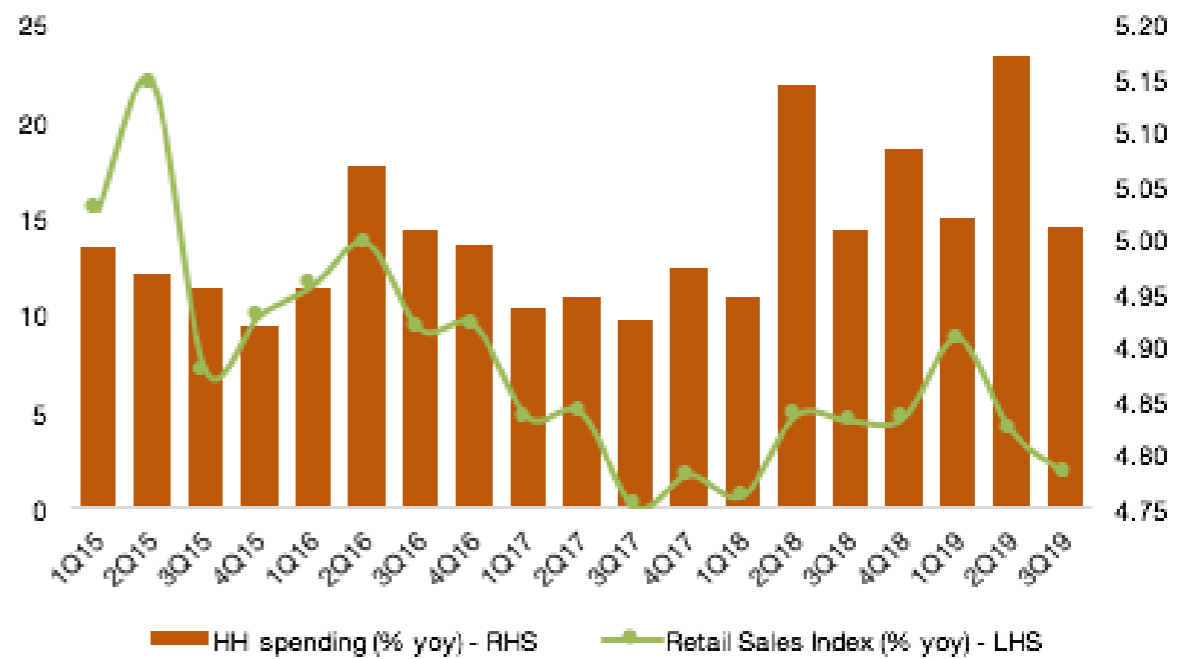
Indonesia's Household Consumption

Main Indicators

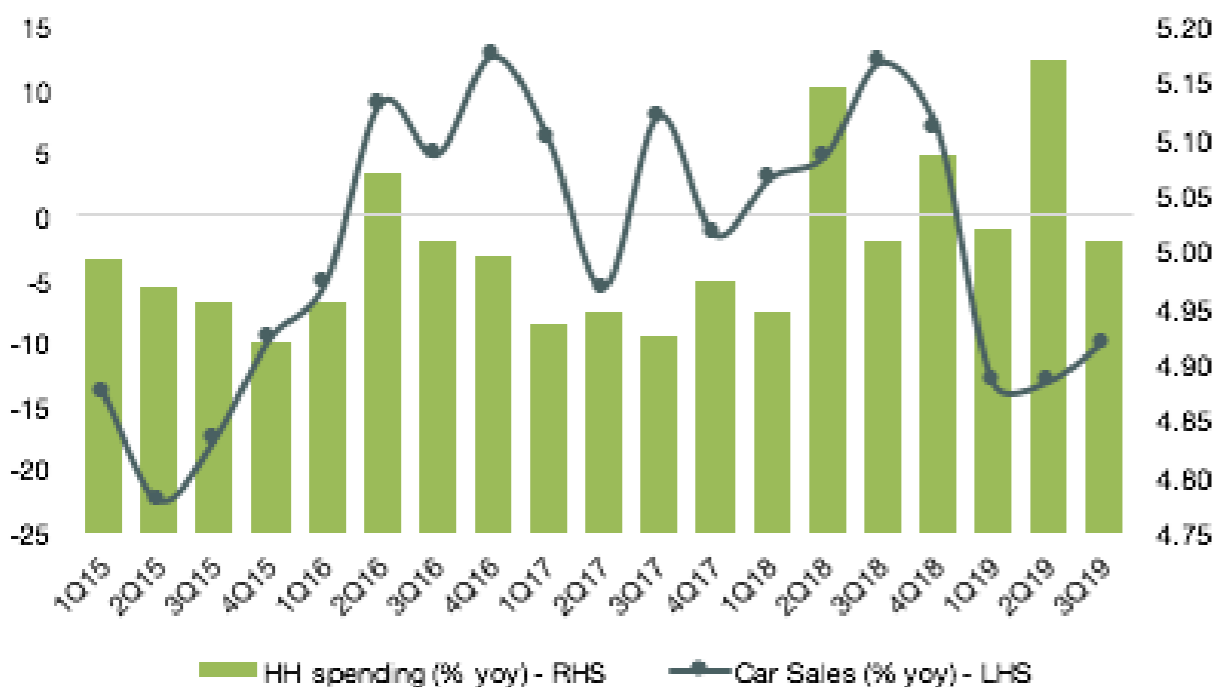
Weakening Consumer Confidence Index (CCI)...



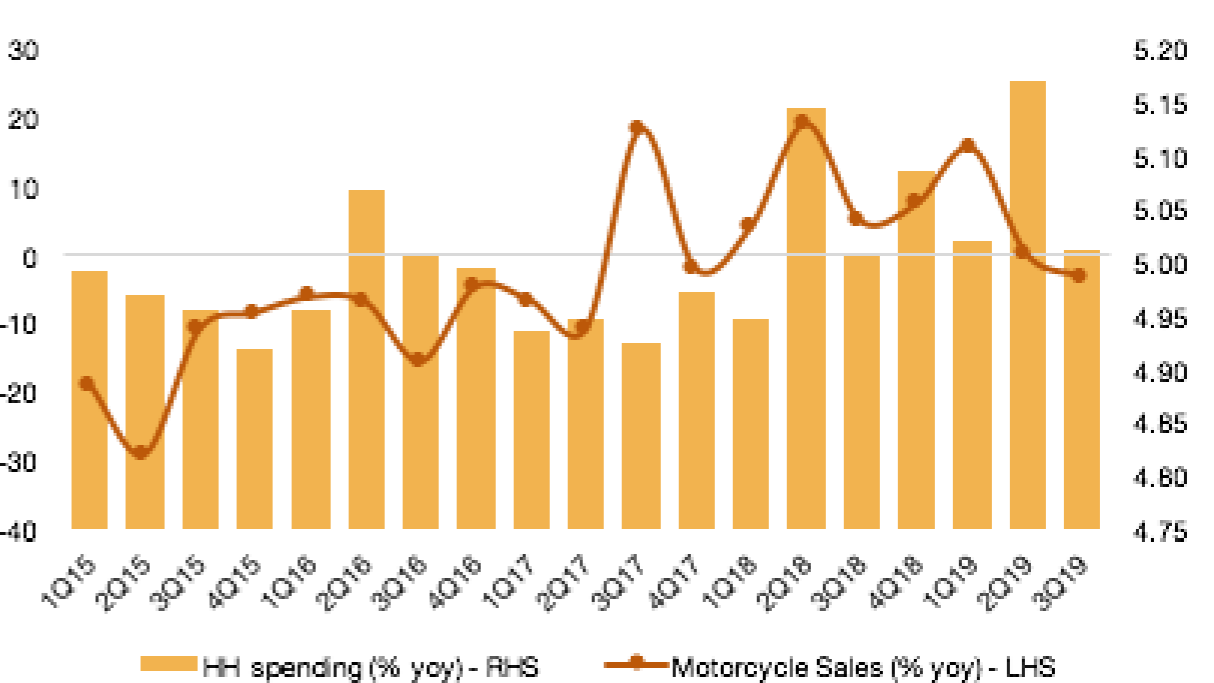
Declining Retail Sales Index (RSI)...



...plummeting number of car sales.



...lower motorcycle sales.



Five main focus on central government spending in 2020

Supporting the implementation of development priorities and the administration of government → Effectively and Efficiently



High quality human resources

- increasing human resource productivity/competitiveness
- Education sector → expanding access to education, increasing skills, entrepreneurship, improving ICT and supporting research activities.
- Health sector → accelerating stunting reduction, strengthening preventive acts and health promotion, and continuing the national health insurance program.

Education budget: IDR508.1

Health budget: IDR132.2 tn



Strengthening Social Protection Programs

- Accelerating poverty alleviation.
- Improving data accuracy and distribution mechanisms.
- Synergy/synchronization between programs.
 - More targeted and effective subsidies.

Social protection budget: IDR372.5 tn



Infrastructure Development Acceleration

- Increasing investment and export competitiveness.
 - Supporting industrialization (connectivity, food, energy and water) and anticipating urban social problems (clean water, sanitation, waste management and mass transportation).
 - Encouraging ministries/institutions to adopt creative financing schemes (PPP: VGF or AP).

Infrastructure budget: IDR423.3 tn



Bureaucracy that is efficient, serving and free of corruption

- Encouraging bureaucratic effectiveness: productivity, integrity and public service.
- Maintaining welfare of government apparatus and retirees (anticipating pension reform).
- Bureaucracy based on ICT progress.

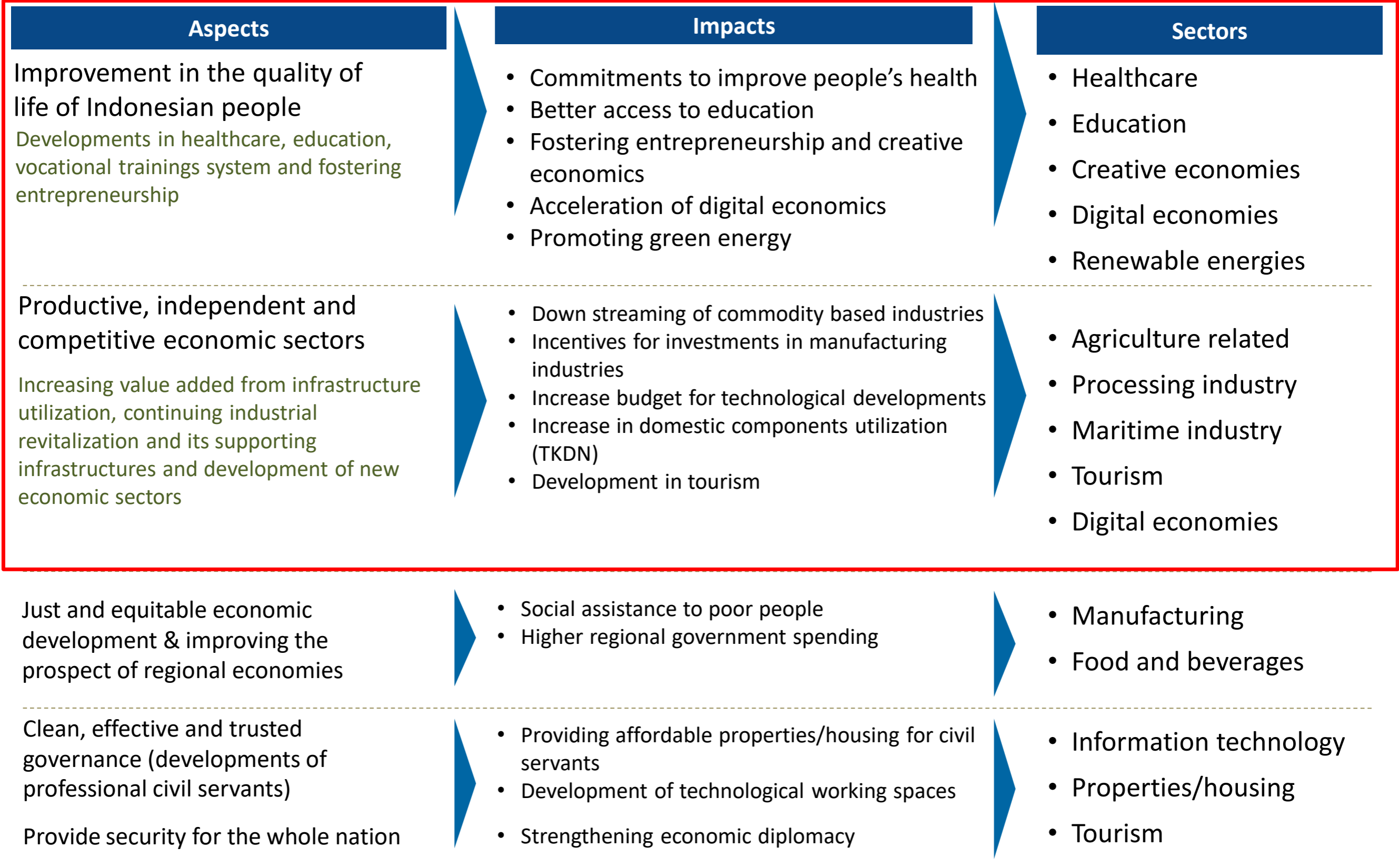
Bureaucracy budget: IDR261.3 tn



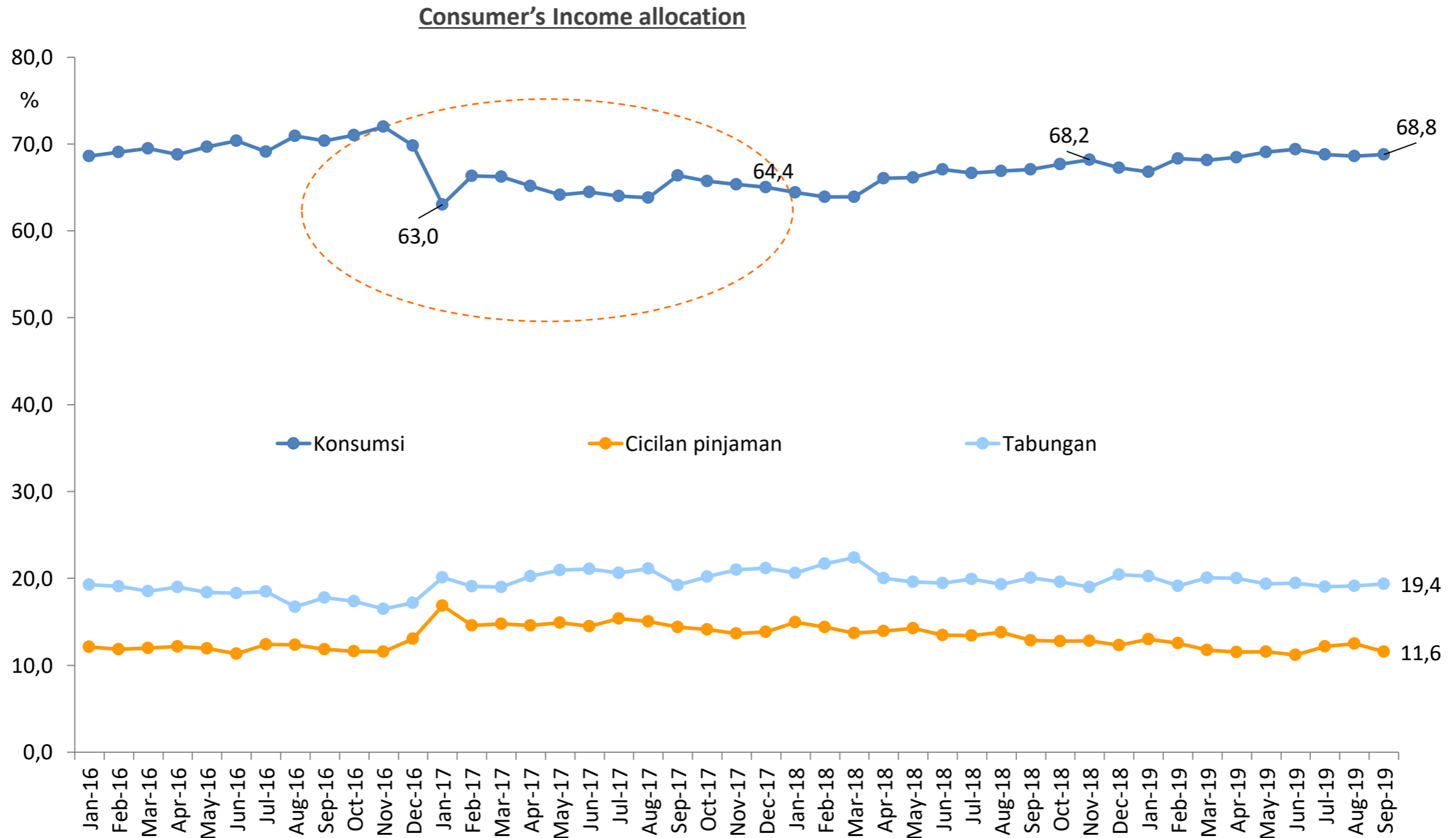
Anticipation for uncertainty

- Economic, security and political stabilities.
- Disaster risk mitigation, environmental preservation and EBT development.
- Strengthening the fiscal buffer.

Some actions needed for better and sustainable growth

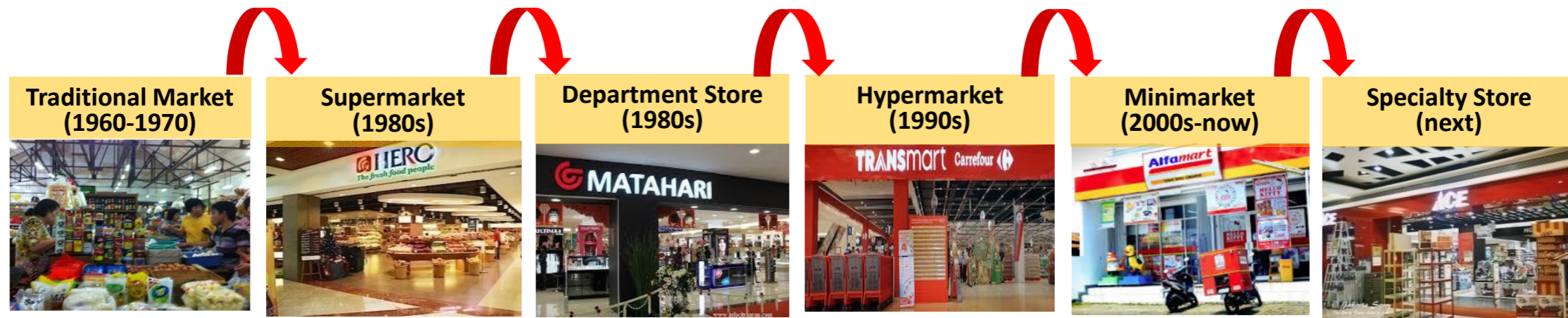


Positive news: Portion of Income allocation to consumption is still high...

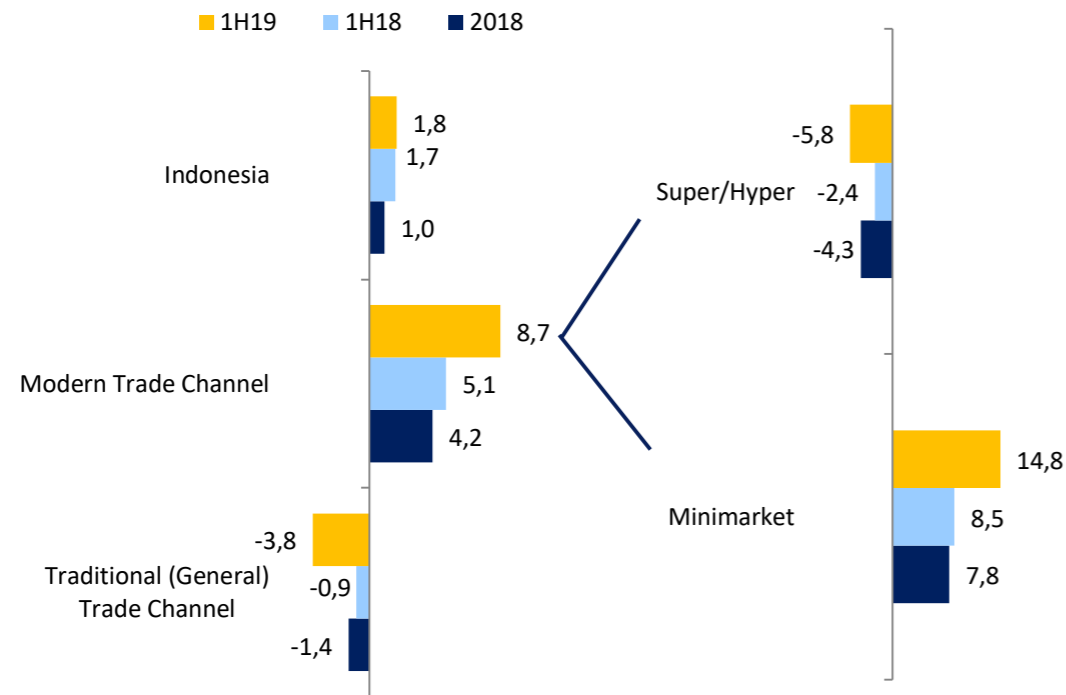


...drives sales of FMCG

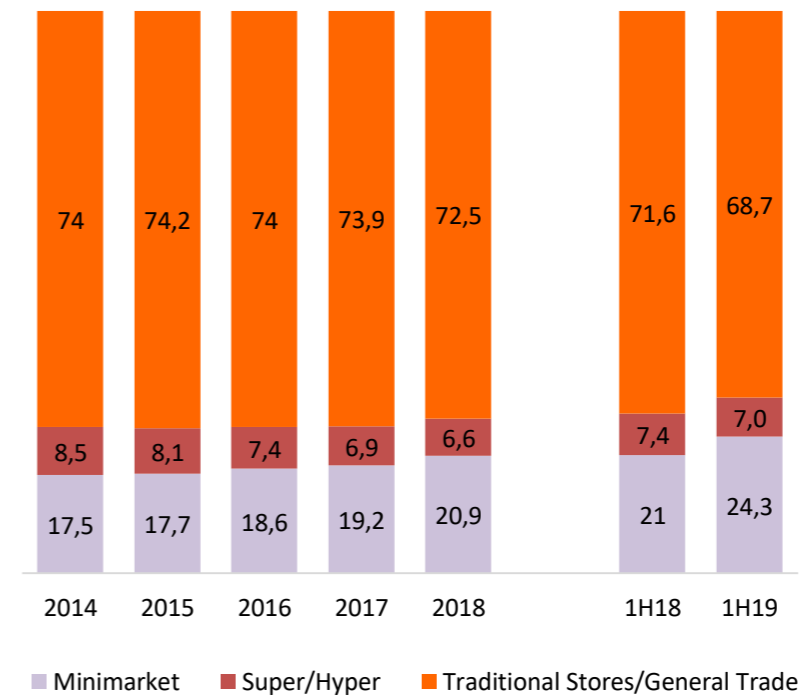
Retail Cycle in Indonesia



Value of Sales growth of 58 FMCG Products (% , yoy)



The contribution of channel of FMCG sales including cigarettes* (%)



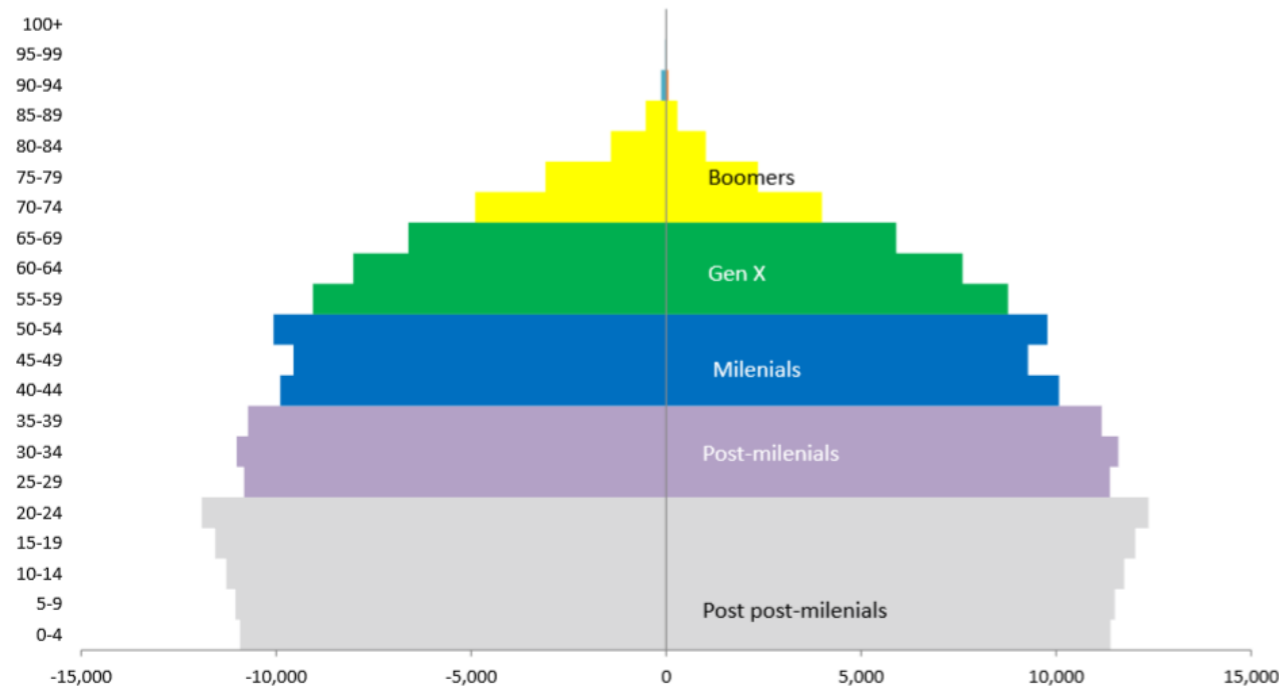
*Based on FMCG categories tracked by Nielsen

*Traditional trade channel mencakup pasar tradisional dan warung/kios kelontong

Sumber: Aprindo, PT Sumber Alfaria Trijaya Tbk, AC Nielsen

Property Demand: Tapping the Millennials market

Proporsi Millenials di Indonesia, 2035



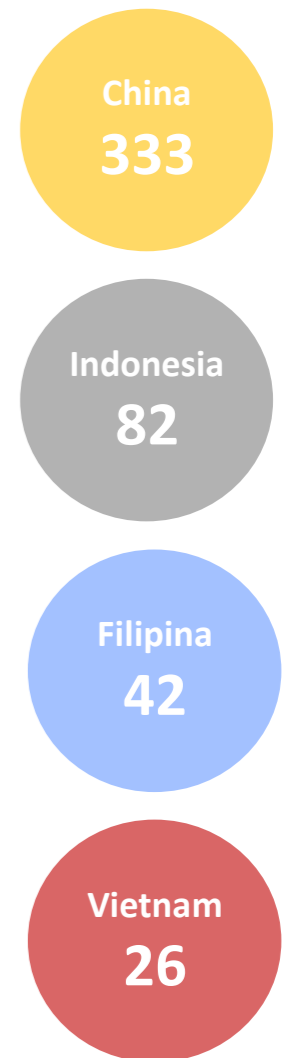
Sumber: LDUI (Bonus Demografi dan Human Capital di Era Digital), UNDESA, Toposophy
 Note: "Generations" follow American society's experiences

Pengeluaran Bulanan Millenials (%)



Sumber: IDN Millennial Report 2019

Jumlah Penduduk Usia 15-35, 2030 (juta orang)



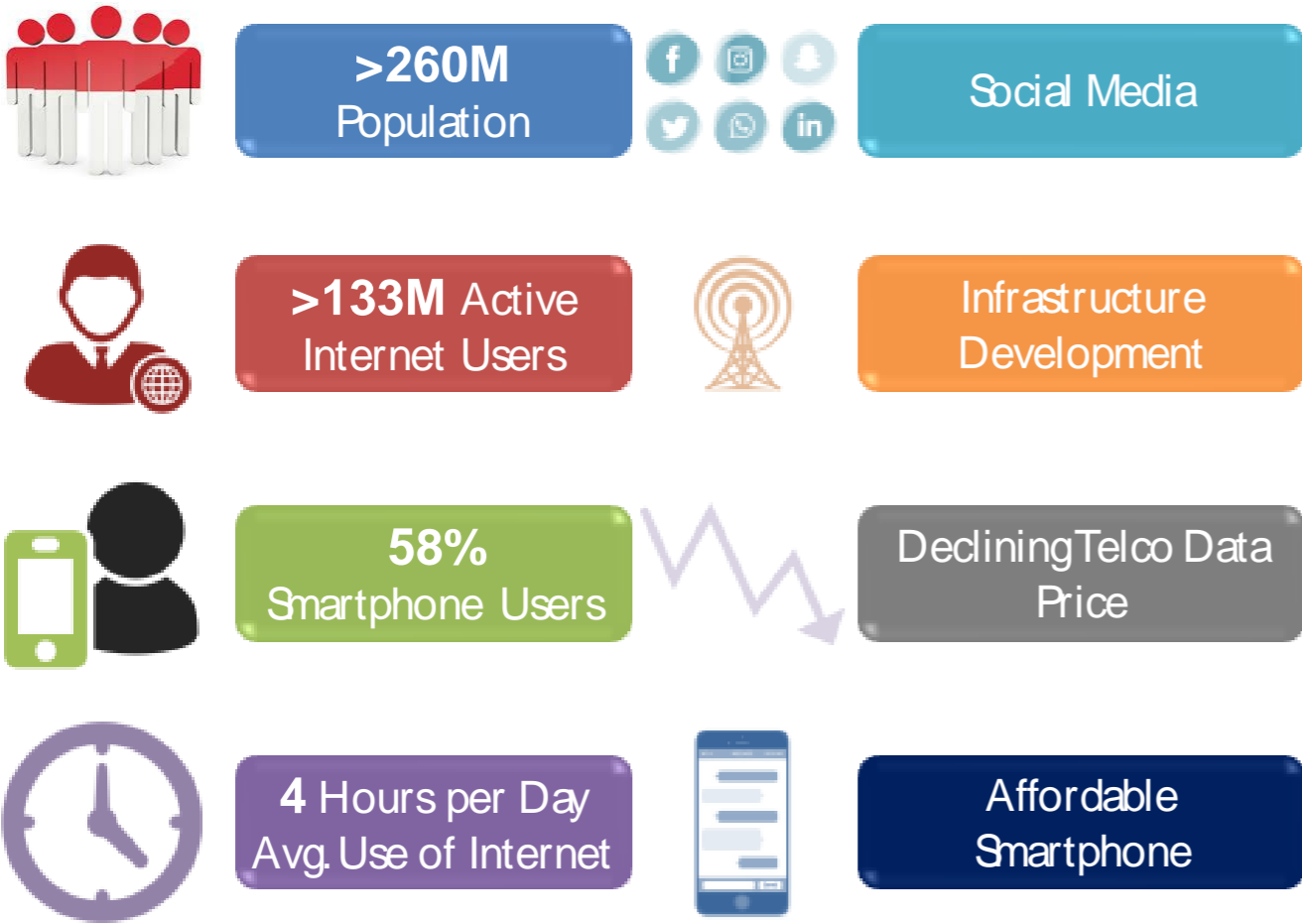
Prioritas Utama Millennials di Masa Depan (%)



Sumber: IDN Millennial Report 2019

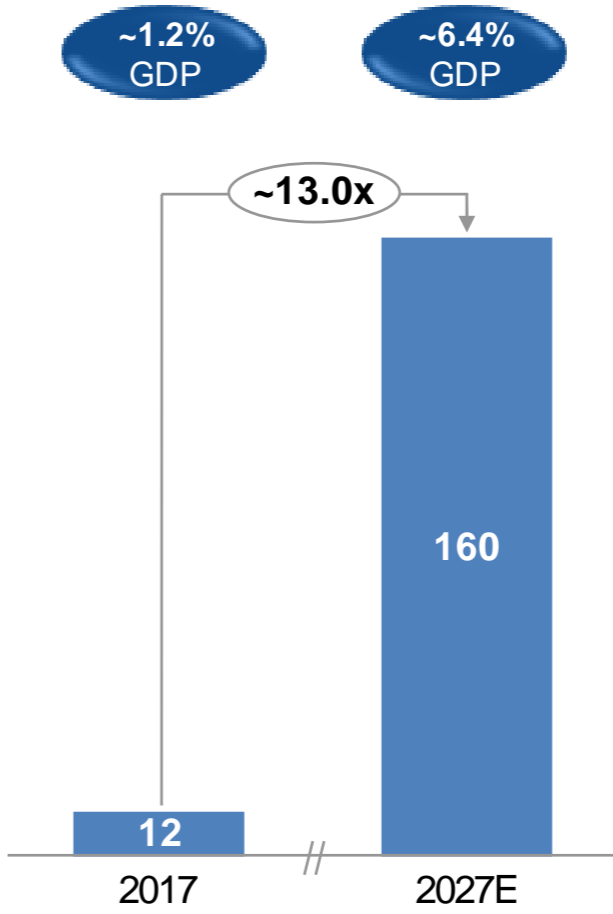
Digital Economy in Indonesia

UNDERLYING DRIVERS



DIGITAL MARKET SIZE¹⁾

(USD B)



TECH COMPANIES



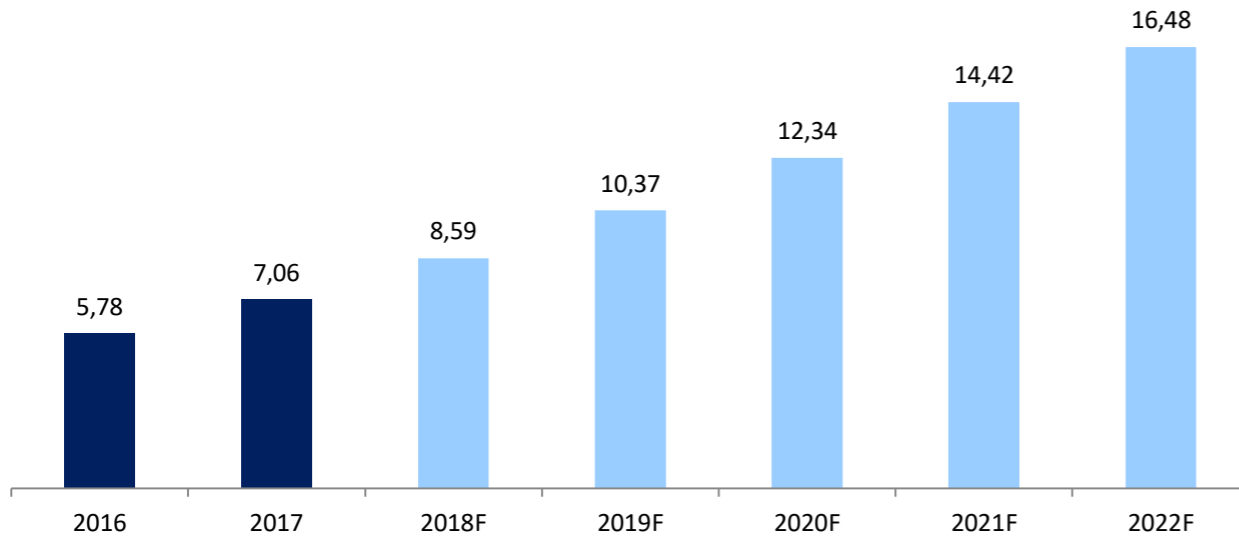
Note: 1) based on market size of e-money, e-travel, and e-commerce as proxy
Source: McKinsey, Morgan Stanley



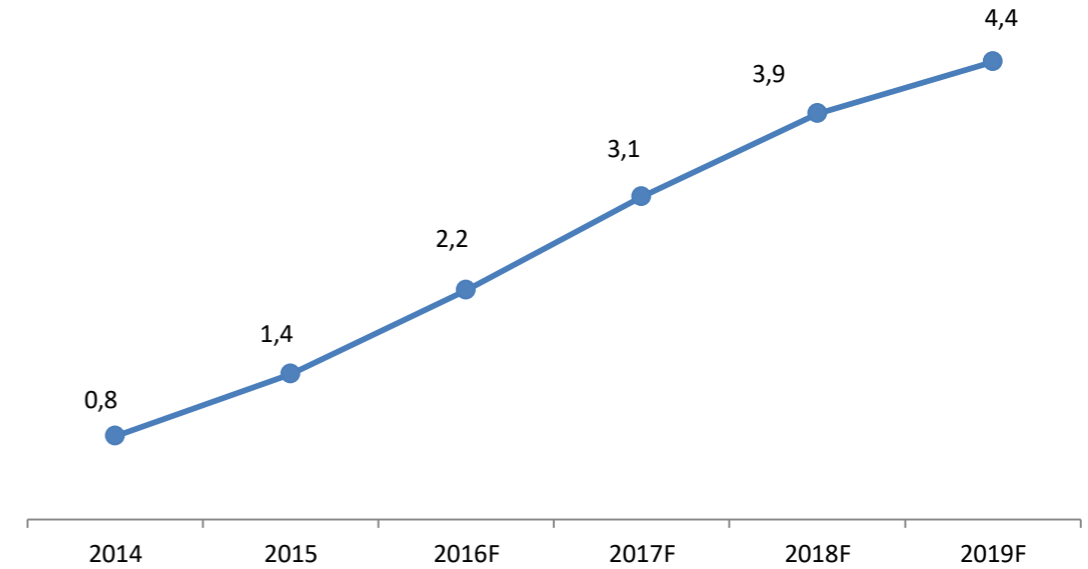
Accelerated growth presents abundant opportunities

The shift in consumption patterns towards e-commerce has also participated, facing problems that are still relatively small. The potential of e-commerce going forward is quite large.

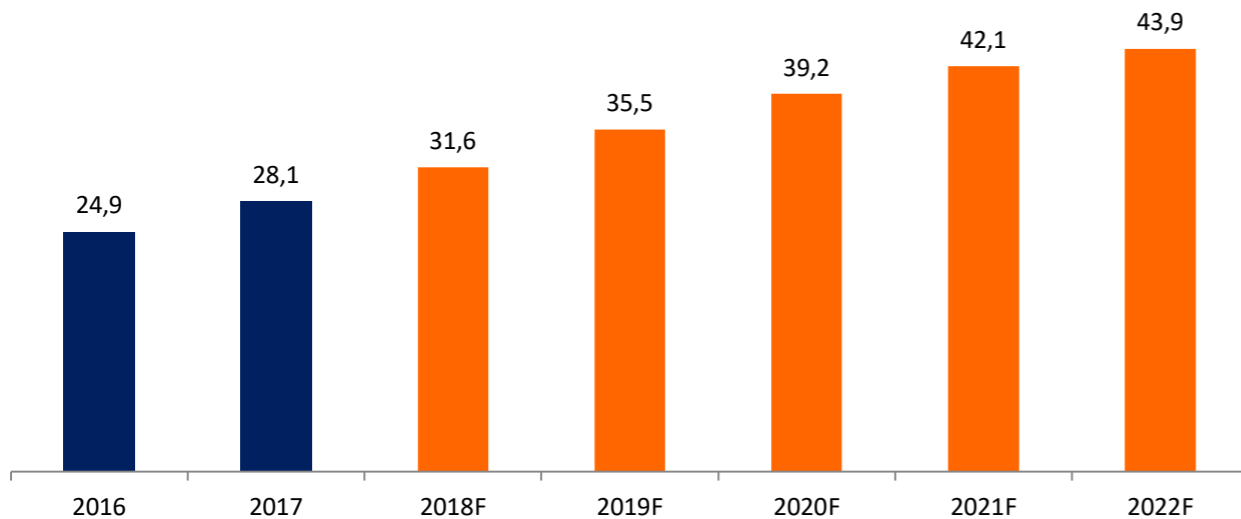
E-commerce Retail Sales in Indonesia
(USD Bn)



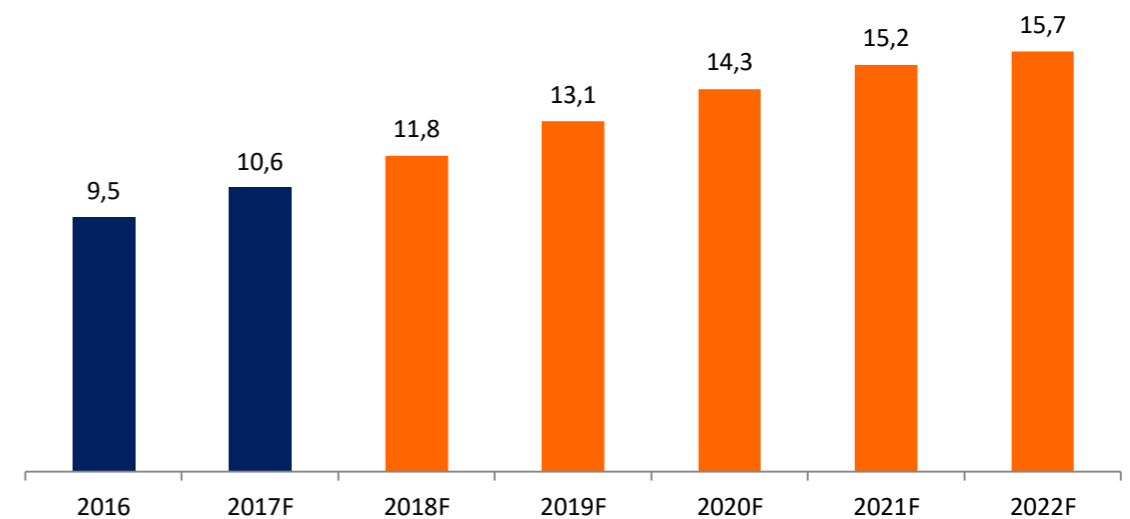
E-commerce Share of Total Retail Sales in Indonesia
(%)



Number of Digital Buyers in Indonesia
(Million People)



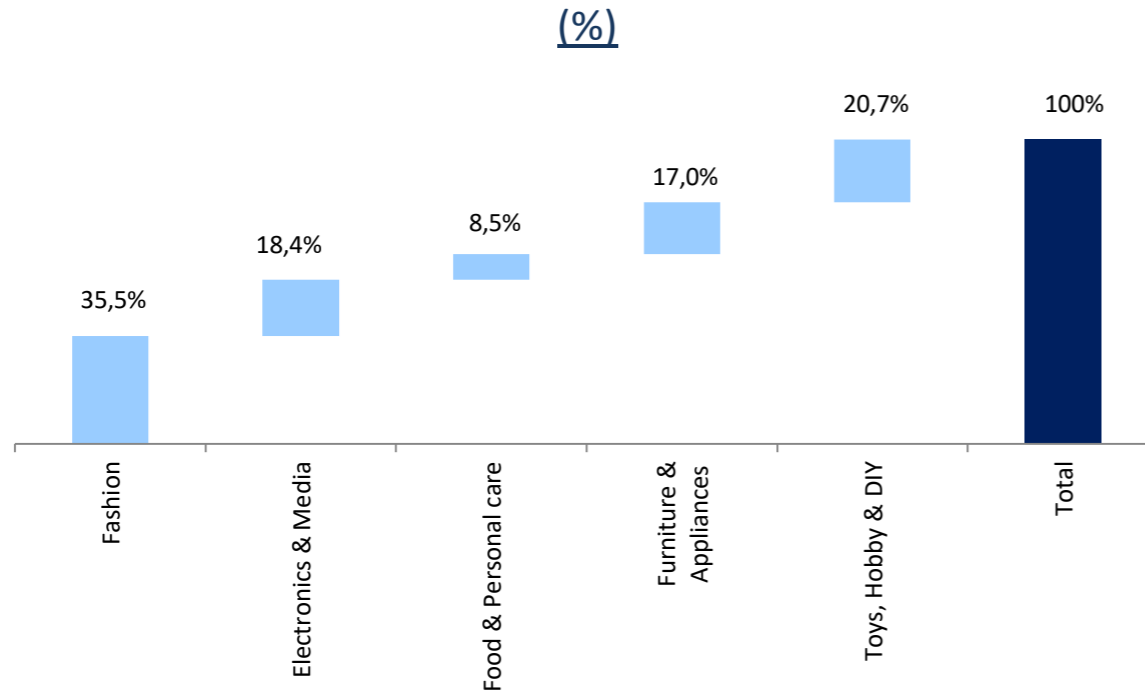
Digital Penetration Buyer in Indonesia
(%)



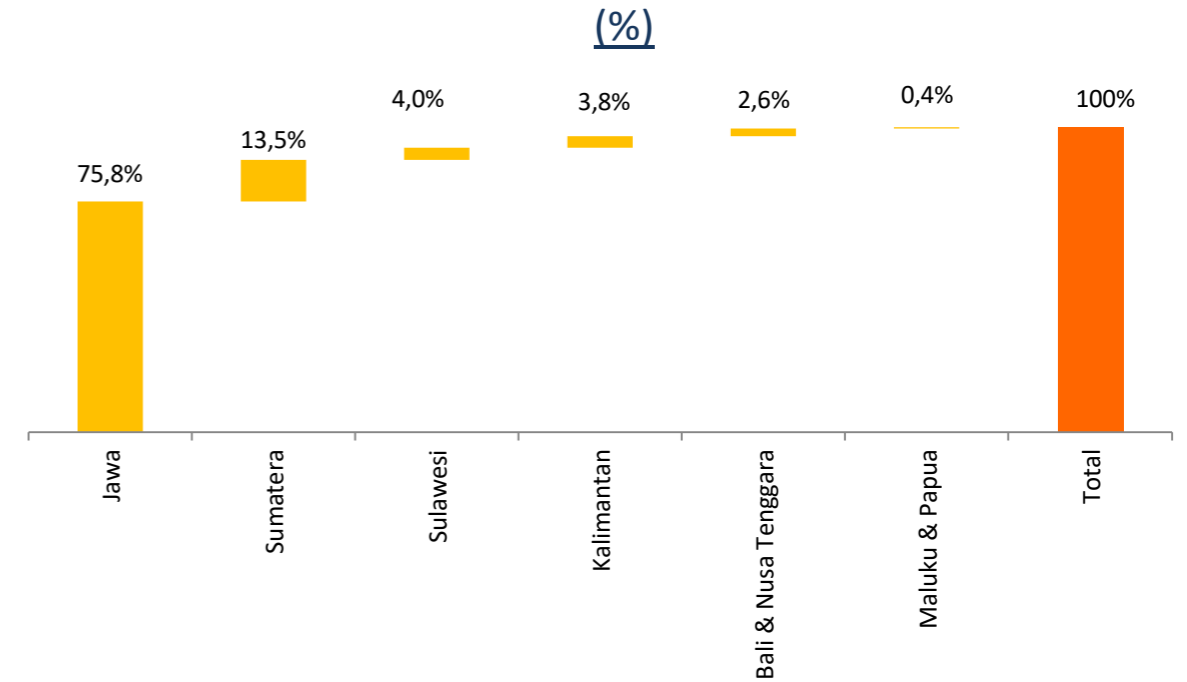
The biggest e-commerce sales for fashion and electronic products

Bank transfers still dominate e-commerce payment methods

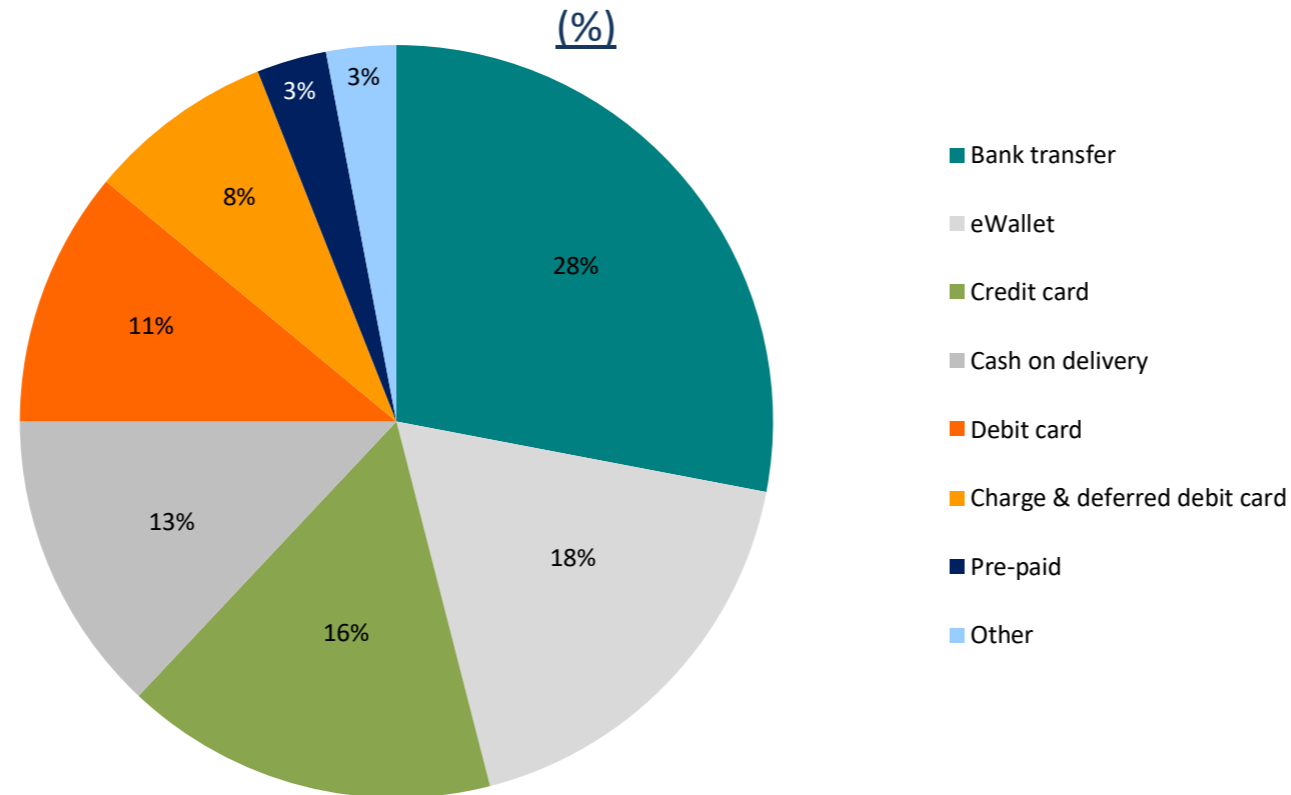
E-commerce Retail Sales by Product Category in Indonesia



Penetration of e-commerce in Indonesia by Region, 2018

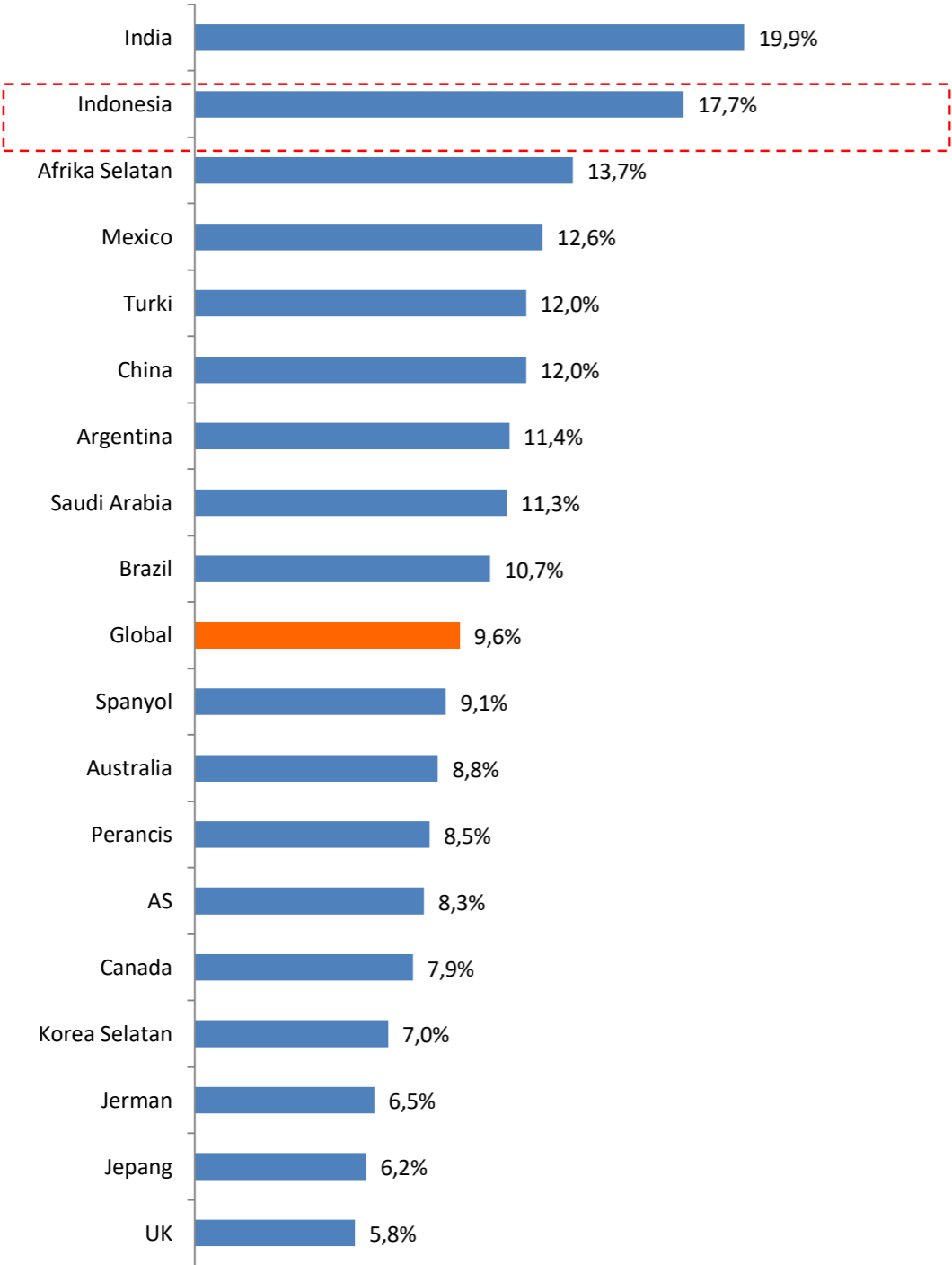


Composition of e-commerce Payment Methods in Indonesia, 2016

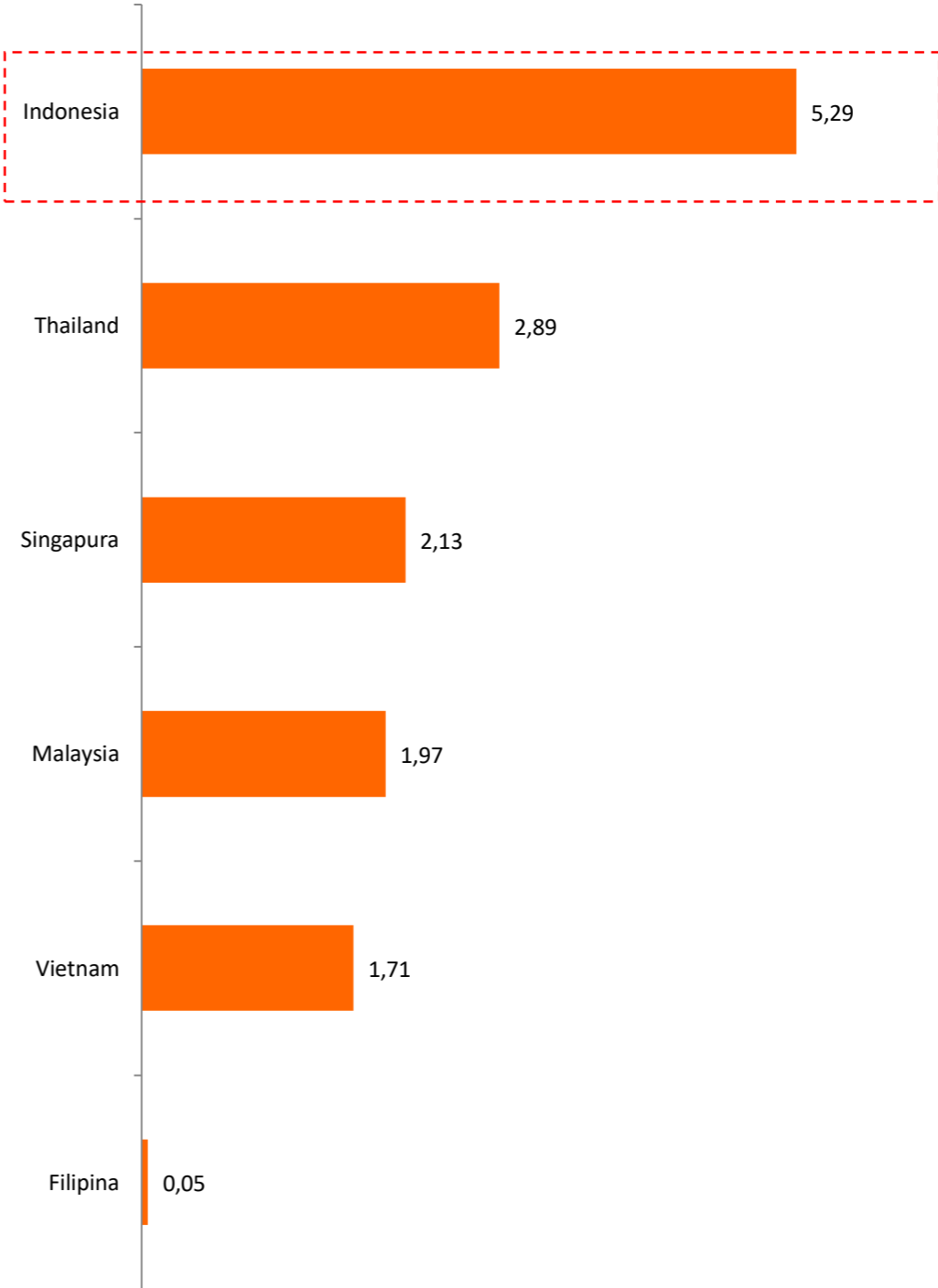


Indonesia's largest and highest e-commerce market and growth in Southeast Asia

Growth of E-commerce Retail CAGR in Several Countries
2018-2022









Comparison of e-commerce retail sales
in Southeast Asian Countries, 2016
(USD Billion)









Source: Statista

The average expenditure for shopping online is IDR 100,000-500 thousand.
While logistics is still a major issue of e-commerce effectiveness.

Average Spending on Online Shopping

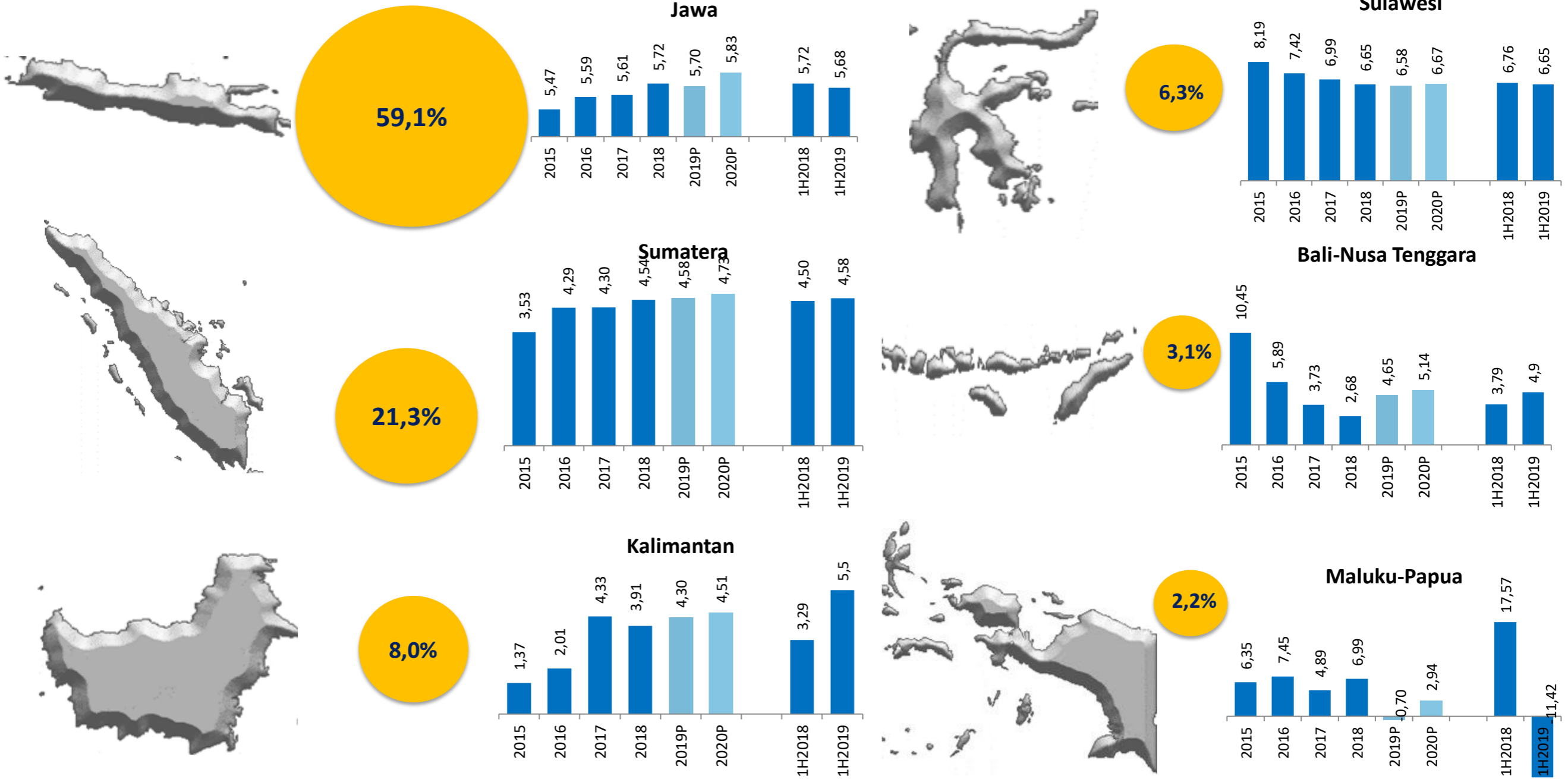
| |  |  |  |  |  |  |
|--------------------|---|---|---|---|---|---|
| More than IDR 2M | 8% | 5% | 10% | 3% | 2% | 8% |
| IDR 1,6M - 2M | 4% | 4% | 8% | 4% | 3% | 4% |
| IDR 1,1M - 1,5M | 23% | 6% | 6% | 3% | 1% | 5% |
| IDR 501K - 1M | 12% | 14% | 12% | 15% | 10% | 16% |
| IDR 100K - 500K | 46% | 59% | 56% | 61% | 75% | 62% |
| Less than IDR 100K | 8% | 12% | 10% | 13% | 8% | 5% |

Average Spending on Online Shopping

| |  |  |  |  |  |  |
|--------------------------------|---|---|---|---|---|---|
| User experience on the website | 10.6% | 15.8% | 13.8% | 11.3% | 12.7% | 12.9% |
| Time taken to deliver item | 27.7% | 19.9% | 30.8% | 25.6% | 22.4% | 21.7% |
| Payment process | 4.3% | 4.8% | 6.2% | 2.7% | 4.6% | 3.8% |
| Product selection | 14.9% | 13.0% | 12.3% | 9.8% | 12.7% | 13.1% |
| Product quality | 4.3% | 10.3% | 7.7% | 14.7% | 13.4% | 11.3% |
| Return policy | 8.5% | 15.1% | 10.8% | 16.7% | 17.6% | 16.3% |
| Customer service | 6.4% | 14.4% | 3.1% | 9.3% | 11.0% | 12.6% |
| Price of item | 23.4% | 6.8% | 15.4% | 10.0% | 5.6% | 8.4% |

Several provinces could grow way above national level

Economic Contribution and Growth by Island (%)



2019P&2020P: OCE Forecast
 Sumber: BPS

● Proportion of Economic Size
 ■ Economic Growth



Thank You