

Economic Update

Highlight 2019 :

Tabel 1. Economic Indicator		
Indicator	2018	2019
Inflasi (yoy)	3.13%	2.72%
Inflasi (mtm)	0.62%	0.34%
Trade Balance (USD Billion)	-8.7	-3.2
Foreign Reserves (USD Billion)	120.65	129.2

Tabel 2. Economic Indicator		
Indicator	2018	2019
GDP	5.17%	5.02%
Balance of Payment (USD Billion)	(7.10)	4.7
CAD	(30.6)	(30.4)

Tabel 3. Comodity		
Comodity	2018	2019
Brent Oil (USD/Barrels)	53.80	66.00
WTI (USD/Barrels)	45.41	61.06
CPO (MYR/Metrictons)	2,004.00	3,041.00
Batu bara (USD/Metrictons)	92.51	67.70
Emas (USD/troy oz)	1,282.49	1,513.80

Economic Growth

Indonesia's economic growth in 2019 grew at 5.02%. Although it is still able to grow in the range of 5%, but that realization slowed from economic growth in 2018 which amounted to 5.17%. The decline also occurred when seen from the period of economic growth in the fourth quarter of 2019 which was only 4.97%. Lower than the growth in quarter IV-2018 of 5.17%, as well as the growth in quarter III-2019 which amounted to 5.02%. Indonesia's declining economic growth is inseparable from the four main trading partner countries whose economies have slowed down throughout 2019, namely Singapore, China, South Korea and the United States.

The slowdown in Indonesia's economic growth was accompanied by slowing growth in household consumption which was the main pillar of growth. Household consumption contributed 57.32% to Indonesia's Gross Domestic Product (GDP). In the fourth quarter of 2019 household consumption was only able to grow by 4.97%. Slowing down from the same period in 2018 which was able to reach 5.08%. And investment growth is only 4% far below what the government expects at around 6%.¹

Indonesia's spatial economic structure in 2019 is dominated by provincial groups in Java and Sumatra. Java Island gave the biggest contribution to Gross Domestic Product, which was 59.00 percent, followed by Sumatra Island with 21.32 percent and Kalimantan Island 8.05 percent.

Consumer Price Index Inflation (CPI)

Badan Pusat Statistik (BPS) released the Consumer Price Index (CPI) in December 2019 recorded inflation of 0.34 percent, so that inflation throughout 2019 reached 2.72 percent. Year-on-year inflation was 2.72%. Month-on-month inflation was recorded at 0.34% or the lowest compared to inflation in 2017 and 2018.

In annual terms, inflation in 2019 was recorded lower than in 2017 and 2018 which were 3.16% and 3.13% respectively. The inflation rate is far below the government's target of 3.5% ± 1. For 2020 the government's inflation target is 3.0% ± 1.

Indonesia's Balance of Payment

In line with inflation that remained controlled and stable, Indonesia's balance of payments throughout 2019 recorded a surplus, far different

¹ Laporan BI February, 2020

Tabel 4. Currencies			
Currencies	2018	2019	% Change
USD/IDR	14,390	13,866	3.64%
USD/HKD	7.8319	7.7914	0.52%
USD/SGD	1.3629	1.3459	1.25%
USD/MYR	4.1335	4.0910	1.03%
USD/CNY	6.8785	6.9632	-1.23%
USD/JPY	109.69	108.61	0.98%
AUD/USD	1.4187	1.4242	-0.39%
EUR/USD	0.8721	0.8919	-2.27%
GBP/USD	0.7841	0.7543	3.79%

Tabel 5. Interest Rate			
Indicator	2018	2019	March
BI 7DRR	6.00%	5.00%	4.75%
Fed Funds Rate	2.50%	1.75%	1.25%

from the previous year. According to BI, the annual balance of payments in 2019 recorded a surplus of USD 4.7 billion, far better than the previous year which experienced a deficit of USD 7.0 billion.

This development was driven by an improved current account deficit and a significant increase in the capital and financial account surplus. This development was also supported by the goods trade balance which recorded a surplus, different from the previous year which experienced a deficit. Bank Indonesia noted, the surplus was influenced by falling oil imports in line with import control policies such as the B20 program, a 20 percent bio diesel program made from crude palm oil.²

The improved performance of the balance of payments is also supported by a capital and financial transaction surplus that increased significantly to USD36.3 billion, up from USD25.2 billion in 2018, supported by long-term capital inflows amid continued uncertainty in global financial markets.

Current Account Deficit

In annual terms, the current account deficit (Current Account Deficit) in 2019 was recorded at 2.72 percent of GDP, a slight improvement over the previous year of 2.94 percent of GDP.³

It is predicted by Bank Indonesia (BI) that the current account deficit is estimated to be under control in 2020 in the range of 2.5-3.0 percent of GDP. The reason is that the prospect of foreign capital inflows is also expected to remain large driven by positive investor perceptions of Indonesia's prospective economic prospects.

Indonesia's Trade Balance

The trade balance recorded a deficit of 3.20 billion US dollars throughout 2019. Realization during 2019 was better than 2018 which was a deficit of up to 8.6 billion US dollars.

Throughout 2019 the oil and gas balance recorded a deficit of 9.34 billion US dollars throughout 2019, down from the oil and gas deficit in 2018 of 12.69 billion US dollars. oil and gas balance deficit caused by the crude oil balance which experienced a deficit of 4 billion US dollars, as well as oil products that experienced a deficit of 11.72 billion US dollars. As for the gas trade performance recorded a surplus of 6.39 billion US dollars. Overall, oil and gas exports throughout 2019 were recorded at 12.53 billion US dollars and import performance was recorded at 21.88 billion US dollars. However, the non-oil and gas balance still recorded a surplus of 6.15 billion US dollars. The

² Laporan BI February, 2020

³ Laporan BI February, 2020

performance of non oil and gas imports reached 148.83 billion US dollars and exports were recorded at 154.98 billion US dollars.⁴

Capital Flow

Foreign investors still put their trust in Indonesia throughout 2019. This can be seen from the flow of foreign capital into Indonesia until the end of 2019, which reached Rp 224.2 trillion. The flow of capital flows to government bonds or state securities (SBN) of Rp 168.6 trillion, to shares worth Rp 50 trillion. Foreign funds also flowed into corporate bonds totaling Rp 3 trillion and Rp 2.6 trillion into Bank Indonesia Certificates (SBI). This indicates the achievement of an external stability that has been maintained with a large capital inflow.

Interest Rate

The income of foreign capital also contributed to the stability of the Rupiah exchange rate throughout 2019. Even the rupiah is one of the best currencies in Asia throughout 2019. The appreciation of the Rupiah exchange rate is supported by increased supply of foreign currencies and reduced stability of interest and low inflation as well influence government bonds.

In January, the Rupiah took advantage of the moment of weakening of the USD. The USD was shaken by a statement from Federal Reserve Chair Jerome Powell who said it would be flexible on rising interest rates while indicating a 'dovish' attitude. The main factor influencing the strengthening of the Garuda currency was due to the decision of the US Central Bank, the Fed, which kept its benchmark interest rate at 2.25 percent-2.50 percent.

But the strengthening of the Rupiah did not last long. On March 11, 2019, the Rupiah collapsed against the USD to resign to 14,324. At that time, the USD continued to strengthen due to positive manufacturing data in the US. and rising world oil prices. Geopolitical factors such as the failure to reach US and North Korea agreements, until the Brexit ambiguity also influenced the strengthening of the USD. Meanwhile, ahead of the 2019 concurrent elections, the Rupiah began to rise. But it did not last long, there was May 22, 2019 USD went berserk again and dragged the Rupiah to a level of 14,525. The main trigger, besides being overshadowed by global factors, many say, the collapse of the Garuda currency exchange rate due to political turmoil in the country. The US-China trade war that never found a bright spot made the USD lackluster. Even on July 15, the Rupiah was bright at 13,885. However, until entering the third quarter, the movement of the Rupiah is like a roller coaster. During October 2019, the Rupiah appreciated 1.18

⁴ Laporan BI January, 2020

percent. BI Governor, Perry Warjiyo said the strengthening was in line with Indonesia's balance of payments performance remained good. Finally the Rupiah closed at Rp 13,866 per US dollar. the strengthening of the rupiah at the end of this year is due to the strengthening value of the global currency and the weakening dollar index. Easing worries about the trade war helped strengthen positive sentiment in risk assets.⁵

Exchange Rate

Throughout 2019, BI has lowered the benchmark interest rate four times. First in July, then consecutively in August and continued in September twice a month.

Although in 2019 Bank Indonesia has reduced the benchmark interest rate (BI 7 day Reverse Repo Rate) four times to 5 percent, but BI still has space to lower interest rates again.

2019 Issues⁶ :

January

There was a Government shutdown in the United States that began on 22 December 2018 until 25 January 2019 on the background of a conflict between the United States Congress and President Trump, who was reluctant to approve the current year's 2019 budget allocation or temporary emergency budget.

March

Hong Kong, extradition laws and socio-economic inequality sparked demonstrations, sparked massive demonstrations since March and began to cause the Hong Kong economy to contract.

April

In WEO April 2019, the projected volume of trade and global economic growth again experienced a correction. And the presidential crisis in Venezuela.

July

There was a trade war between Japan and Korea. Triggered because of the Japanese government's decision to limit some chemical exports to South Korea on July 1, 2019.

August

Argentina proposed a debt restructuring of US \$ 101 billion and re-entered the crisis period after Mauricio Macri suffered a major defeat in the initial election.

⁵ Jawapos.com/ekonomi/31/12/2019

⁶ Laporan Kemenkeu-2020 Economic Outlook

Aramco's oil facilities in Saudi Arabia were attacked which resulted in a 5% reduction in global supplies and pushed global crude oil prices to rise by up to 15% immediately.

October

In Bolivia, political turmoil resulted from the election results and the resignation of President Morales.

A wave of protests in Chile was triggered by rising subway ticket prices and the issue of inequality.

Macroeconomics Indicator and Forecast

	2015	2016	2017	2018	2019	2020f
National Account						
GDP	4,88%	5,03%	5,07%	5,17%	5,02%	4,90%
Inflasi (yoy)	3,35%	3,58%	3,61%	3,13%	2,72%	2,90%
Other						
FFR	0,50%	0,75%	1,50%	2,50%	1,75%	0,75%
BI7DRR	7,50%	4,75%	4,25%	6,00%	5,00%	4,50%
USD/IDR	13.792	13.461	13.554	14.394	13.866	14.270

Our View

Achievement of **GDP or economic growth** is projected to be in the range of under 5% throughout 2020 due to the outbreak of COVID or Corona virus that broke out earlier in the year and has entered the first quarter of 2020. With this outbreak of the Corona virus, of course, it disrupts the flow of trade and the movement of people. Therefore Indonesia's manufacturing and tourism sector is contracted. The affected sectors come from investment and trade balance.

Inflation set by Bank Indonesia for 2020 fell to $3.0 \pm 1\%$. For 2020 it is projected that the annual inflation rate will be slightly higher than in 2019 with consideration of volatile food prices that have increased due to distribution that is hampered by flooding in several cities and due to the spread of the corona virus which has caused a number of commodity prices to rise.

The Fed Fund Rate cut that occurred in March 2020 was taken by the Fed as a step to encourage maximum job creation and maintain price stability effects to minimize the risks that the corona virus might pose to economic activity in the United States is quite surprising. There are still opportunities for a rate cut at least one more time through 2020.

Bank Indonesia has already lowered interest rates at the Bank Indonesia Board of Governors' Meeting (RDG) on 19-20 February 2020 where the Deposit Facility rate was 25 bps to 4.00%, and the Lending Facility rate was 25 bps to 5.50%. It is predicted that there is still room for another rate cut in 2020.

The Rupiah exchange rate was quite depressed throughout 2020 in line with pressure from global sentiment. Compact Asian currencies are powerless against the strong US dollar, holding out in the red zone as the spread of the corona virus outside China gets worse. During the year 2020 there is also not a single Asian currency that has an impressive performance. All Asian currencies move in the red zone on a year to date basis. It is predicted that until the first quarter of 2020 the Rupiah will continue to be depressed.