

Economic Update

Highlight :

- Predicted that Indonesia's economic growth in the fourth quarter of 2019 will improve compared to the third quarter. Looking at the various factors of economic growth, the first is household consumption, investment also import and export.
- The November's trade balance in November had a deficit of US \$ 1.33 billion, after a surplus of US \$ 0.16 billion a month before. This factor was mainly influenced by the increase in imports of consumer goods according to seasonal patterns towards the end of the year and the need for imports for productive activities.
- Rupiah exchange rate is fierce against the United States dollar (US) in the last trade of 2019, Tuesday (12/31/2019). Rupiah in the spot exchange trading closed up 59 points or 0.42% to the level of Rp13,866 per USD.
- The Federal Reserve decided to hold their interest rates in the range of 1.5 percent to 1.75 percent. The Bank Indonesia Board of Governors' Meeting (RDG) on 18-19 December 2019 decided to maintain the BI 7-Day Reverse Repo Rate (BI7DRR) at 5.00%, the Deposit Facility interest rate at 4.25%, and the Lending Facility interest rate at 5,75%.

Economic Growth

Indonesia's Economic Growth in the third quarter of 2019 against the third quarter of 2018 grew 5.02%. Slower than previous quarter which was 5.05%.

Predicted that Indonesia's

economic growth in the fourth quarter of 2019 will improve compared to the third quarter.

Looking at the various factors driving economic growth, the first aspect of household consumption is improvement in the fourth quarter due to the momentum of Christmas, New Year and school holidays. This momentum is driving consumption of households in addition to Ramadan-Eid. Evidenced by an increase in inflation in December. Inflation in December was recorded at 0.34% (mom), increasing compared to November's inflation of 0.14%. Then government consumption, as usual, will peak in the fourth quarter. Government spending patterns are still piling up at the end of the year. Quoting the APBN document, state expenditure as of the end of August 2019 was Rp 1,383.33 trillion or 56.4% of the ceiling. Then in **terms of investment**, especially foreign investment, looks to have recovered in the last two quarters after four consecutive quarters of contraction. Even foreign investment growth in the third quarter of 2019 was the highest since the fourth quarter of 2015. The factor is that the elections have passed so that the risk of political uncertainty has passed, even President Joko Widodo's (Jokowi) rival in the 2014 and 2019 Presidential Elections, Prabowo Subianto, has joined the government. Government stability will be stronger and provide comfort to investors.

Another one is exports which still seems to be an obstacle, due to a slowing trend since the third quarter of 2018. But there is hope that exports will improve in the fourth quarter of 2019. Even in the third quarter of 2019 there were already signs of recovery, because exports of goods and services have been able to grow positively even though it was thin at 0.02%. The recovery in exports is expected to come from improved relations between the United States (US) and China and even resulted in an agreement to sign a phase I trade peace agreement in the second week of January 2020.



Tabel 1. Economic Indicator

Indicator	November	December
Inflasi (yoy)	3.00%	2.72%
Inflasi (mtm)	0.14%	0.34%
Trade Balance (USD Million)	-1.33	*

Note : *unpublished

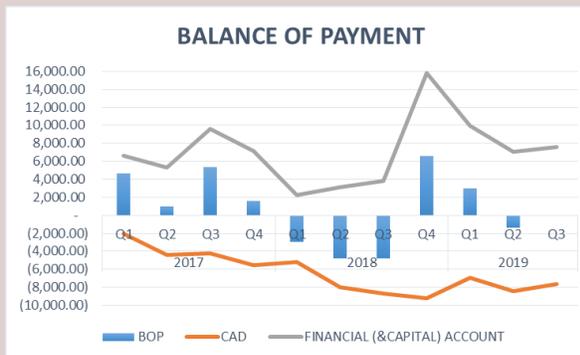
Tabel 2. Economic Indicator

Indicator	Q2	Q3
GDP	5.05%	5.02%
NPI (USD Million)	(1,346)	(0,46)
CAD	(8,400)	(7,700)

Tabel 3. Comodity

Comodity	November	December
Brent Oil (USD/Barrels)	62.43	66.00
WTI (USD/Barrels)	55.17	61.06
CPO (MYR/Metrictons)	2,620.00	3,041.00
Coal (USD/Metrictons)	67.85	67.70
Gold (USD/troy oz)	1,465.60	1,513.80

Balance of Payment



In line with inflation that controlled and stable, the balance of payments in the third quarter decreased the deficit than the second quarter. The third quarter

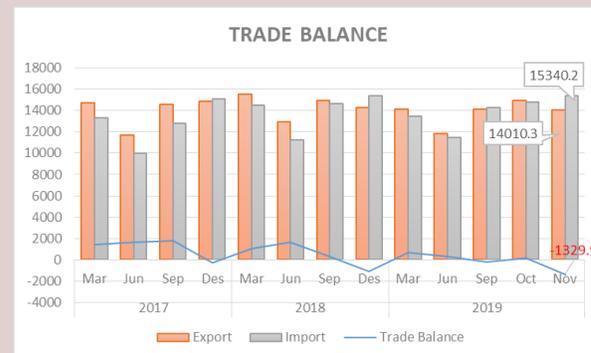
balance of payments deficit was US \$ 46 million, far lower than the deficit in the previous quarter of US \$ 2.0 billion due to an increased capital and financial transaction surplus. It is predicted that Indonesia's balance of payments in Quarter IV will also improve compared to the position at the end of 2018. As it is known, the Balance of Payments consists of the Current Account and Financial and Capital Accounts, where in the Third Quarter 2019, the current account deficit was 7.7 billion US Dollars or 2.7 percent of GDP declined compared to 2018 of 2.93 percent of GDP. Meanwhile, the Capital and Financial Transaction Balance Sheet reached a surplus of US \$ 7.6 billion, supported by heavy foreign capital inflows. So even though the balance of payments still recorded a deficit of 46 million US Dollars in the third quarter of 2019 but the amount decreased significantly compared to the second quarter of 2019 which amounted to 2 billion US Dollars.

Trade Balance

The trade balance recorded in November had a deficit of US \$ 1.33 billion, after a previous surplus of US \$ 0.16 billion.

This condition influenced by the increase in

imports of consumer goods according to seasonal patterns towards the end of the year and the need for imports for productive activities. In the midst of weak export performance in line with global conditions that have not yet recovered, these developments have resulted in a non-oil and gas trade balance deficit. Meanwhile, the oil and gas trade balance deficit also increased driven by an increase in oil and gas imports that were higher than the oil and gas exports in November 2019. The oil and gas trade balance deficit in November 2019



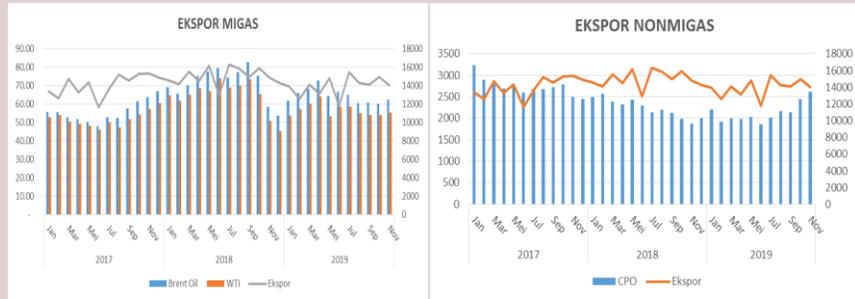
Tabel 4. Currencies			
Currencies	November	Desember	% Change
USD/IDR	14,108	13,866	1.72%
USD/HKD	7.8288	7.7914	0.48%
USD/SGD	1.3677	1.3459	1.59%
USD/MYR	4.1778	4.0910	2.08%
USD/CNY	7.0325	6.9632	0.99%
USD/JPY	109.49	108.61	0.80%
AUD/USD	1.4786	1.4242	3.68%
EUR/USD	0.9076	0.8918	1.74%
GBP/USD	0.7736	0.7543	2.49%

Tabel 5. Interest Rate		
Indicator	November	Desember
BI 7DRR	5.00%	5.00%
Fed Funds Rate	1.75%	1.75%

increased to 1.03 billion US dollars, from a deficit of 0.84 billion US dollars in the previous month.

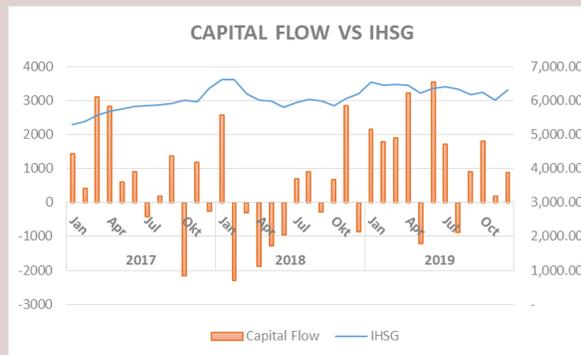
The non-oil and gas trade balance in November 2019 recorded a deficit of 0.30 billion dollars, down compared to the achievements of the previous month which recorded a surplus of 1.01 billion US dollars.

From Indonesia, exports are still dominated by oil and gas where the value of exports has risen in line with rising oil commodity prices. For non-oil exports in Indonesia, the dominant is CPO.



Capital Flow

The Minister Sri Mulyani Indrawati officially closed trading in the capital market ahead of the end of 2019. The movement of the Composite Stock Price Index (CSPI) on Monday (12/30/2019) was down 0.47 percent to 6,299 or minus 0.47%. Along with the increase



in capital flow to Indonesia, the CSPI's performance so far this year has recorded a slight increase of 1.70%, better than 2018 which is minus to 2.54%. In year to date, CSPI rose 1.70% and the last

3 years CSPI rose 17.51%. Year to date, foreigners enter the negotiable and cash market of Rp 68.02 trillion, while in the regular market there is a net sell of Rp 23.39 trillion so that net buy in all markets is Rp 44.63 trillion.

During the course of 2019, the index will continue to fluctuate. The index had touched the level of 6,547.88, its highest level in 2019 on February 6, 2019. However, towards the middle of the year the index was again depressed, even touching the level of 5828.86 in May. At the end of the year, the JCI was predicted to succeed in the range of 6,300-6,350, but in fact it was closed not according to predictions. The dynamics of the Indonesian economy throughout 2019 are considered to be heavy enough to affect the CSPI. It is expected that maintained

external conditions will be able to affect the flow of funds coming from foreign investors.

Exchange Rate

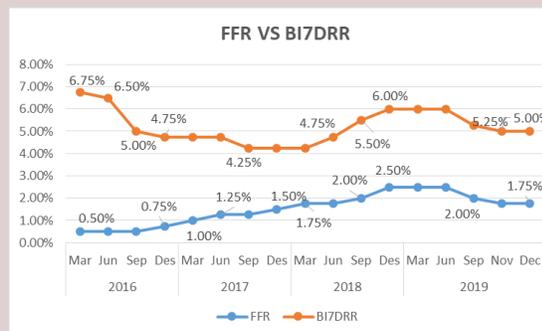
The exchange rate of the rupiah is fierce against the United States dollar (US) in the last trade of 2019, Tuesday (12/31/2019).

Opened a stagnant trade at Rp 13,920 / US \$, the rupiah



directly entered the green zone. The strengthening of the rupiah continues to thicken, even reaching 0.25% to the level of Rp 13,885 / US \$ before noon. This level is the strongest in 2019, previously achieved in February and July. Finally on Tuesday (12/31/2019) at 16.53 WIB, the Rupiah in spot exchange trading strengthened 59 points or 0.42% to the level of Rp13,866 per USD. Rupiah moves in the range of Rp. 13,865-Rp. 13,922 per USD. The factors that caused the Rupiah to strengthen were the sentiments of market players who were at good strength to provide strength for the rupiah to continue to strengthen. The latest news from the US-China phase I trade agreement is the main factor that makes market participants cheerful. In addition to the phase I trade agreement, economic data from China further increased market sentiment, and chased risky assets with high returns. Manufacturing purchasing managers' index (PMI) expanded again this month, the index figures released at 50.2 were the same as last November. Before November, China's manufacturing sector had contracted in the sixth straight month. Plus the improved performance of Indonesia's Balance of Payments.

Interest Rate



The Federal Reserve decided to hold their interest rates in the range of 1.5 percent to 1.75 percent based on a meeting held two consecutive days on December 12, 2019. In a press conference, US central bank

Governor Jerome Powell returned indicates that the era of the easing of the benchmark interest rate is over coupled with some Fed officials

worried that the benchmark interest rate at a relatively low level risks bringing a negative impact on the US economy.

As is well known, throughout 2019, the Fed has reduced the benchmark interest rate (Fed Funds Rate / FFR) for the third time this year to be in the range of 1.5% -1.75%.

With space to cut the benchmark interest rate in the US that seems almost completely closed, practical space for Bank Indonesia (BI) to execute the easing of the benchmark interest rate becomes limited. Evidenced by the **Bank Indonesia Board of Governors' Meeting (RDG) on 18-19 December 2019 decided to maintain the BI 7-Day Reverse Repo Rate (BI7DRR) at 5.00%, the Deposit Facility interest rate at 4.25%, and the Lending Facility interest rate by 5.75%**. Monetary policy remains accommodative and consistent with controlled inflation forecasts within the target range, maintained external stability, and efforts to maintain the momentum of domestic economic growth amid a slowing global economy. The monetary operations strategy continues to aim at maintaining adequate liquidity, particularly at the turn of the year, and supporting the accommodative transmission of the policy mix. Bank Indonesia's coordination with the Government and related authorities continues to be strengthened to maintain economic stability, encourage domestic demand, and increase exports, tourism, and foreign capital inflows, including Foreign Direct Investment (PMA).

Macroeconomics Indicator and Forecast

	2015	2016	2017	2018	2019	2020f
National Account						
GDP	4,83%	4,94%	5,18%	5,18%	5,05% <i>(forecast)</i>	4,90%
Inflasi (yoy)	3,35%	3,58%	3,61%	3,13%	2,72%	2,75%
Other						
FFR	0,50%	0,75%	1,50%	2,50%	1,75%	1,50%
BI7DRR	7,50%	4,75%	4,25%	6,00%	5,00%	4,75%
USD/IDR	13.792	13.461	13.554	14.394	13.866	14.270

Our View

Indonesia's GDP or economic growth is projected to remain stagnant at 5.05% until the end of 2019 and show a decline in 2020 because external factors are still dominant, namely there is no certainty of trade peace between the US-China. But there is hope that economic growth in the fourth quarter is optimistic to increase compared to the third quarter, supported by internal factors where there is household consumption that supports the resilience of national economic growth along with investment in building growth in line with the development of national strategic infrastructure projects. Coupled with improved export performance in several regions, including manufacturing exports such as automotive from Java and steel from Sulawesi.

Annual inflation is predicted to continue to fall in 2019 and 2020 but is still in line with the government's target of 3.0% ± 1 in 2020. Government efforts to stabilize prices so as not to experience price spikes and providing incentives to regions that are able to maintain inflation can reduce the number inflation is therefore neither too high nor too low and is still within the government's target.

The Fed Funds Rate cut was carried out 3 times in July, September and finally in October 2019. Seeing that US economic growth in the third quarter was better than expectations. Then almost all other activity indicators also remained, even though the FOMC made a slight change related to business investment and exports which remained weak. The committee's decision came the same day the government reported GDP growth of 3Q2019 of 1.9%, better than market predictions. Earnings for jobs have slowed in recent months but well above 109,000. Meanwhile the unemployment rate is currently at its lowest level for 50 years at only 3.5%. Besides solid performance in the job market and consumer spending, the stock market's average performance is also at a new high. There may be room for a rate cut even if it is thin in 2020.

In line with the Fed, BI7DRR has also experienced cuts, but more than the Fed. BI7DRR has been cut 4 times during 2019 and maintained at 5.00% in the November RDG. It is predicted that there will still be a chance for the rate cut to continue until 2020. The main reason for the rate cut is to stimulate slowing economic growth due to internal and external factors. Internally, the still high imports compared to exports which triggered the trade balance deficit slowed the increase in GDP and the trade war between the US-China that never stopped causing a slowdown in the global economy. So that BI stimulates GDP by reducing the benchmark interest rate.

The exchange rate of the Rupiah against the US Dollar is estimated to have the potential to strengthen in 2020 although it is still around Rp. 14,200-14,400. Where to watch out for by Indonesia is the stability of the Chinese economy because Indonesia's Current Account has recorded a deficit for 8 years with the majority of contributing imports are from China. So that the strengthening / weakening of the Indonesian currency is more vulnerable to movements of CNY for currencies throughout Asia.

The potential geopolitical tension between the US and Iran after the assassination of Major General Qassem Suleimani on 6 January 2020 affected Indonesia in terms of oil and gold commodity prices. It is predicted that crude oil prices will experience a turmoil if it is feared that there will be limited supply of crude oil due to tensions that continue to mount and rising gold prices which are considered safe investment assets amid the uncertainty of geopolitical turmoil.

Dokumen ini hanya bertujuan sebagai informasi. Segala hal yang tertulis dalam dokumen ini telah diperoleh dari sumber yang terpercaya, tetapi hal tersebut bukan merupakan jaminan keakuratan atau kelengkapan dan tidak boleh diandalkan sepenuhnya. Kondisi diatas dapat berubah setiap saat, dan hanya digunakan sebagai alat kelengkapan analisis yang tidak mengikat. Dilarang untuk menulis ulang apapun yang ada dalam dokumen ini tanpa izin tertulis dari Bank Jatim