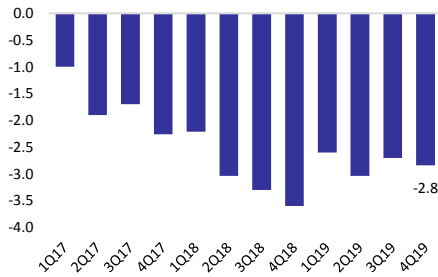


Friday, 21 February 2020

Strategy

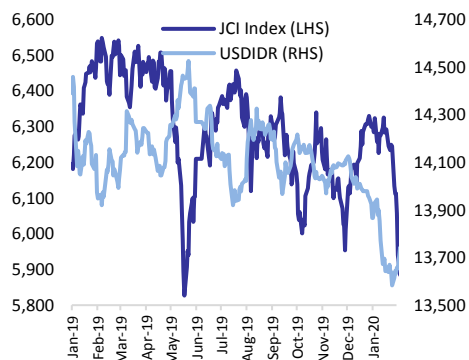
Battling the slowdown

CAD trends (as % to GDP)



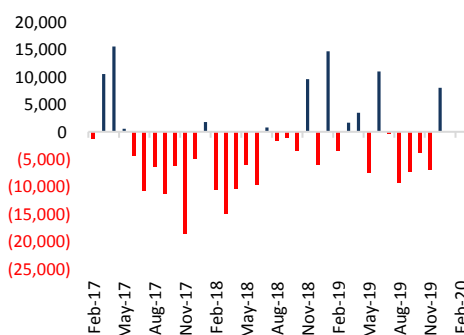
Source: Bank Indonesia

JCI vs USD



Source: Bloomberg

Net Foreign Flow (IDRbn)



Source: Bloomberg

Bank Indonesia remains firm on its accommodative stance, with another 25bps rate cut to 4.75%. In our view, this move will continue to cement the Central Bank's rapid pre-emptive response, especially with the recent inexorable impact from the worldwide coronavirus outbreak which has further restrained global growth. The outbreak will affect the domestic economy, especially the forex reserves, net exports, and investment, which will lead to sub 5% economic growth in 1Q20. Thereafter, economic growth is expected to recover, while the Omnibus Law would drive stronger investment flows.

Staying firm with pre-emptive measures. We are of the view that Bank Indonesia's (BI) rate decisions this year will mainly pivot on manageable domestic inflation as well as the need to propel economic growth momentum. As such, BI's decision to cut its 7-day Reverse Repo Rate by 25 bps to 4.75% truly reflects its prompt and pre-emptive response toward subdued global economic growth recovery in 2020 due to the coronavirus outbreak, the stable inflation rate, and external stability. BI also emphasized that policy rate decisions will be made independently from other countries' central banks, including the Fed's high probability of rate cuts in 2H, a view that we share. We expect another rate cut to materialise in 2020.

BI believes that the coronavirus outbreak will have an inexorable effect on Chinese economic slowdown in 1Q20, which will ultimately reduce the global economic growth projection from 3.1% to 3% this year. While assuming the coronavirus outbreak has a transient impact, BI expects to see a *v-shaped rebound in global economic growth* in 2021 of 3.4% from previously 3.2%. Hence, BI also revises down Indonesia's economic growth projection this year from 5.1%-5.5% to 5-5.4%. Accordingly, credit growth will be lower from 10-12% to 9-11% in 2020 before picking up in 2021 by 10-12%.

Inexorable coronavirus impact on growth. According to BI, there will be a notable impact from the coronavirus outbreak on Indonesia's economy this year: 1) There will be a severe impact for airline routes for 2 months and overseas tourists for 6 months. This may drag down the forex reserves from tourism by about USD1.3bn. 2) Exports and import activities will be down by around USD0.3bn and USD0.7bn, respectively, due to disruptions to logistics activities. 3) There will be subdued investment from China of USD0.4bn. As such, to maintain IDR and financial market stability, BI is purchasing more sovereign bonds from the secondary market as a tool to inject more liquidity into the system. As of 19 February 2020, BI has purchased IDR61.5tn of SBN, of which IDR59tn were from the secondary market, significantly higher compared to pre the coronavirus outbreak of only IDR22tn. All in all, BI expects to see below 5% growth in 1Q20 (~4.9%), picking up to above 5% in the following quarters. Effective front-loading policies will be essential to prevent far below 5% growth in 1Q20. In addition, BI also sees positive impacts from the Omnibus law on employment, small-medium enterprises, and investment, which will help to bring about v-shaped growth after 1Q20.

Coherent monetary and fiscal policy is imperative. By maintaining its accommodative stance, economic growth recovery remains as one of BI's objectives. We believe its fiscal stance also reflects the same goal, as seen in recent deficit expansion as counter-cyclical policies. These coherent policies would pave the way for greater currency and economic recovery, which would be imperative for investor confidence to return.



Helmy Kristanto

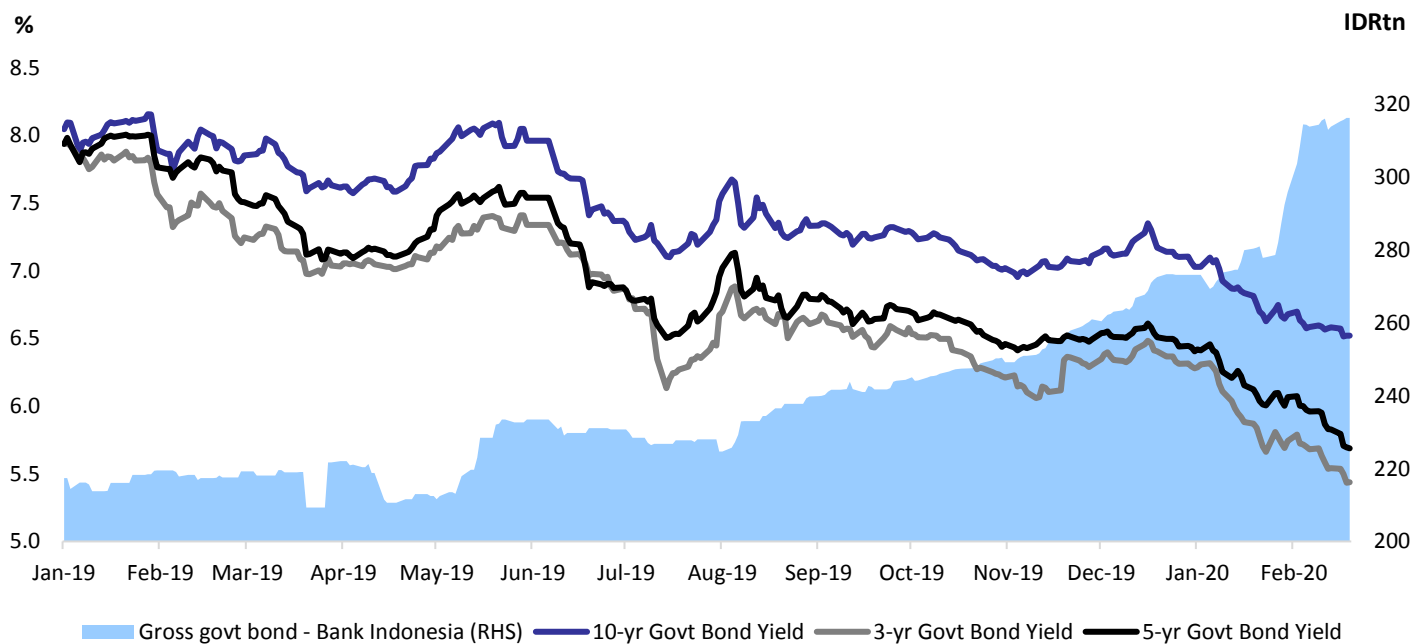
(62-21) 2955 5616

helmy.kristanto@danareksa.co.id

Exhibit 1. Balance of Payments (USDbn)

Items	2017				2018				2019			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Current Account	-2.3	-4.8	-4.3	-5.8	-5.7	-8.0	-8.6	-9.1	-7.0	-8.4	-7.6	-8.1
A. Goods	5.6	4.8	5.3	3.1	2.3	0.3	-0.5	-2.6	1.1	0.2	1.3	0.3
B. Services	-1.2	-2.2	-2.2	-2.2	-1.6	-1.8	-2.0	-1.6	-1.8	-2.0	-2.3	-2.1
C. Primary Income	-7.8	-8.6	-8.4	-7.8	-7.9	-8.2	-7.9	-7.0	-8.1	-8.7	-8.4	-8.3
D. Secondary Income	1.0	1.1	1.0	1.2	1.4	1.6	1.8	2.0	1.9	2.1	1.8	2.0
II. Capital Account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
III. Financial Account	7.1	5.8	10.4	6.9	2.4	4.0	3.9	15.7	10.1	7.1	7.6	12.4
- Assets	-3.7	-7.2	-2.5	-2.0	-4.5	-1.3	-7.6	-3.0	-4.8	-2.5	-2.7	-0.2
- Liabilities	10.9	13.1	12.9	8.8	6.9	5.3	11.5	18.7	14.9	9.6	10.4	12.6
1. Direct Investment	2.8	4.8	6.8	4.9	2.9	2.5	4.6	2.0	5.2	5.4	4.8	3.4
2. Portfolio Investment	6.6	8.1	4.1	2.0	-1.2	0.1	-0.1	10.4	5.4	4.5	4.8	7.0
a. Assets	-1.0	-0.2	-0.7	-1.4	-1.4	-1.3	-1.5	-1.0	0.1	0.0	0.0	0.4
b. Liabilities	7.6	8.3	4.7	3.3	0.3	1.3	1.4	11.5	5.3	4.5	4.9	6.6
3. Financial Derivatives	-0.1	0.0	0.0	0.0	0.1	0.0	0.1	-0.2	0.1	0.0	0.1	0.2
4. Other Investment	-2.1	-7.1	-0.4	0.0	0.6	1.5	-0.7	3.5	-0.6	-2.8	-2.1	2.1
a. Assets	-2.5	-7.3	-1.1	-0.1	-2.6	0.8	-4.1	-0.4	-4.5	-1.0	-2.4	0.5
b. Liabilities	0.4	0.1	0.7	0.2	3.1	0.7	3.4	3.9	-3.9	-1.8	0.3	1.6
IV. Total (I+II+III)	4.8	1.0	6.1	1.1	-3.3	-4.0	-4.7	6.5	3.1	-1.4	0.0	4.3
VI. Net Error and Omissions	-0.3	-0.3	-0.7	-0.1	-0.6	-0.3	0.3	-1.1	-0.7	-0.6	0.0	0.0
VI. Overall Balance (IV+V)	4.5	0.7	5.4	1.0	-3.9	-4.3	-4.4	5.4	2.4	-2.0	0.0	4.3
VII. Reserves and Related Items	-4.5	-0.7	-5.4	-1.0	3.9	4.3	4.4	-5.4	-2.4	2.0	0.0	-4.3
- Reserves Assets Position	121.8	123.0	129.4	130.2	126.0	119.8	114.8	120.7	124.5	123.8	124.3	129.2
In Months of Imports & Official Debt Repayment	8.6	8.6	8.6	8.3	7.7	6.9	6.3	6.5	6.8	6.8	6.9	7.3
- Current Account (%GDP)	-1.0	-1.9	-1.7	-2.3	-2.2	-3.0	-3.3	-3.6	-2.6	-3.0	-2.7	-2.8

Source: Bank Indonesia

Exhibit 2. Front-loading strategy from Bank Indonesia


Source: Ministry of Finance

Exhibit 3. GDP growth by Expenditure YoY(%)

	2012	2013	2014	2015	2016	2017	2018				2019			
							Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Household Consumption	5.49	5.43	5.15	4.96	5.01	4.95	4.95	5.14	5.01	5.08	5.02	5.17	5.01	4.97
Consumption of NPISHs	6.68	8.18	12.19	-0.62	6.64	6.91	8.09	8.77	8.54	10.79	16.95	15.27	7.44	3.53
Government Expenditure	4.53	6.75	1.16	5.31	-0.14	2.14	2.73	5.26	6.28	4.56	5.21	8.23	0.98	0.48
Gross Fixed Capital Formation	9.13	5.01	4.45	5.01	4.47	6.15	7.95	5.87	6.96	6.01	5.03	5.01	4.21	4.06
Export	1.61	4.17	1.07	-2.12	-1.57	9.09	6.17	7.70	7.52	4.33	-1.86	-1.81	0.02	-0.39
Less: Import	8.00	1.86	2.12	-6.25	-2.45	8.06	12.75	15.17	14.06	7.10	-7.36	-6.73	-8.61	-8.05
GDP	6.03	5.56	5.01	4.88	5.03	5.07	5.06	5.27	5.17	5.18	5.07	5.05	5.02	4.97

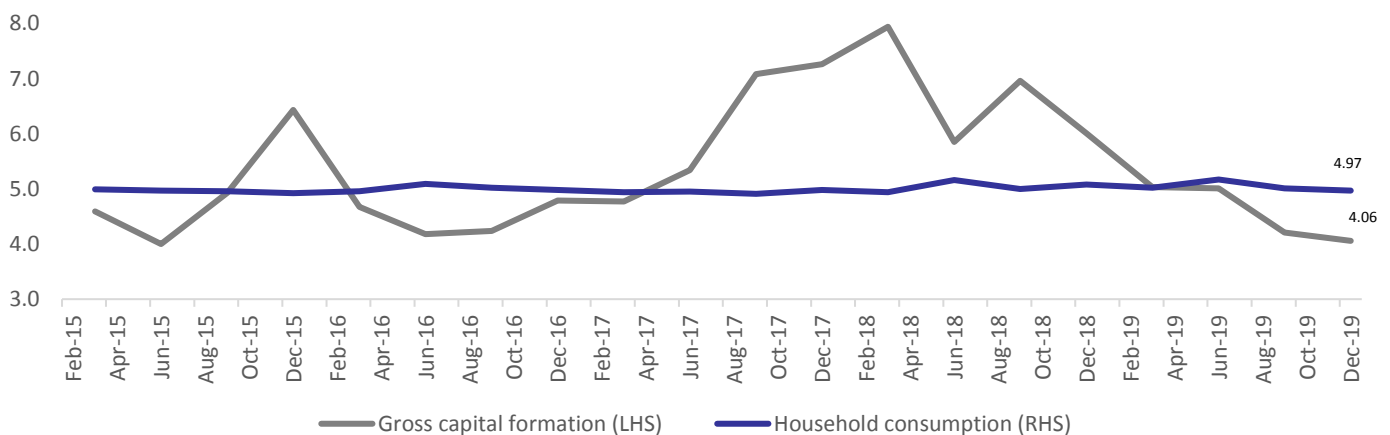
Source: The Indonesian Central Bureau of Statistics

Exhibit 4. GDP growth by Sector YoY(%)

	2012	2013	2014	2015	2016	2017	2018				2019			
							Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Forestry and fishery	4.59	4.20	4.24	3.75	3.37	3.87	3.34	4.72	3.66	3.87	1.83	5.33	3.12	4.26
Mining	3.02	2.53	0.43	-3.42	0.95	0.66	1.06	2.65	2.67	2.25	2.32	-0.71	2.34	0.94
Manufacturing	5.62	4.37	4.64	4.33	4.26	4.29	4.60	3.88	4.35	4.25	3.86	3.54	4.14	3.66
Electricity and Water	10.06	5.23	5.90	0.90	5.39	1.54	3.31	7.56	5.58	5.46	4.12	2.20	3.75	6.01
Water treatment and recycle	3.34	3.32	5.24	7.07	3.60	4.60	3.65	3.94	6.20	7.92	8.95	8.35	4.85	5.41
Construction	6.56	6.11	6.97	6.36	5.22	6.80	7.35	5.73	5.79	5.58	5.91	5.69	5.65	5.79
Trade	5.40	4.81	5.18	2.54	4.03	4.46	4.99	5.22	5.28	4.39	5.28	4.63	4.43	4.24
Transportation and storage	7.11	6.97	7.36	6.71	7.45	8.49	8.56	8.70	5.65	5.34	5.25	5.78	6.66	7.55
Accommodation, Food and Beverage	6.64	6.80	5.77	4.31	5.17	5.39	5.17	5.60	5.91	5.95	5.87	5.52	5.41	6.41
Information and communication	12.28	10.39	10.12	9.70	8.88	9.63	7.76	5.11	8.14	7.17	9.09	9.60	9.24	9.71
Financial services	9.54	8.76	4.68	8.58	8.93	5.47	4.23	3.06	3.14	6.27	7.31	4.55	6.15	8.49
Real Estate	7.41	6.54	5.00	4.11	4.69	3.66	3.19	3.07	3.82	4.24	5.43	5.74	5.97	5.85
Services	7.44	7.91	9.81	7.69	7.36	8.44	8.04	8.89	8.67	8.94	10.36	9.94	10.22	10.49
Governance, defense and social security	2.13	2.56	2.38	4.63	3.20	2.06	5.79	7.20	7.93	7.13	6.45	8.82	1.87	2.06
Education	8.22	7.44	5.47	7.33	3.84	3.70	4.84	5.04	6.60	4.97	5.58	6.29	7.81	5.46
Social and healthcare	7.97	7.96	7.96	6.69	5.16	6.84	6.06	7.07	7.54	7.80	8.57	9.09	9.19	7.82
Other Services	5.76	6.40	8.93	8.08	8.01	8.73	8.43	9.22	9.19	9.08	9.99	10.73	10.72	10.78
GDP	6.03	5.56	5.01	4.88	5.03	5.07	5.06	5.27	5.17	5.18	5.07	5.05	5.02	4.97

Source: The Indonesian Central Bureau of Statistics

Exhibit 5. Consumption and Investment growth (YoY%)



Source: Bloomberg, The Indonesian Central Bureau of Statistics

DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof.

We expressly disclaim any responsibility or liability (express or implied) of P.T. Danareksa Sekuritas, its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Danareksa Sekuritas, its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission therefrom which might otherwise arise is hereby expressly disclaimed.

The information contained in this report is not to be taken as any recommendation made by P.T. Danareksa Sekuritas or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regard to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.