

20 May 2020

Macroeconomics Indicator

	2019	2020F
GDP growth (%YoY)	5.02	2.45
Inflation (%YoY)	2.72	2.5
BI rate (% Year-end)	5.00	4.00
Rp/US\$ (Year-end)	14,55	15,500
CA balance (% of GDP)	2.82	2.00
Fiscal balance (% of GDP)	2.21	2.07

1Q20 BOP: saved by the pick-up in FDI

- Current account deficit (CAD) improved to 1.4% of GDP in 1Q20 (2.6% of GDP in 4Q19), due to better goods trade balance at US\$4.4bn.
- Financial account reversed to -US\$2.9bn (vs +US\$12.6bn in 4Q20) due to portfolio outflow, but alleviated by higher FDI at US\$3.5bn.
- Rupiah may remain stable at around Rp14.5k/US\$ as external financing requirement may be offset by the capital inflow.

CAD improvement was attributed to lesser oil imports

Current account deficit (CAD) narrowed to 1.4% of GDP in 1Q20, from -2.6% of GDP in 4Q19. The improvement in CAD was mostly due to better goods trade balance following the decline in oil imports by 19.1% QoQ or 2.3% YoY largely due to lower oil price during the quarter (around -20% YoY). This was offset by the persistent high primary income deficit at US\$8.1bn in 1Q20 (US\$8.3bn in 4Q19), due to sustained dividend repatriation at US\$5.0bn (US\$5.2bn in 4Q19). This suggests stable revenue at foreign companies in Indonesia during 1Q20.

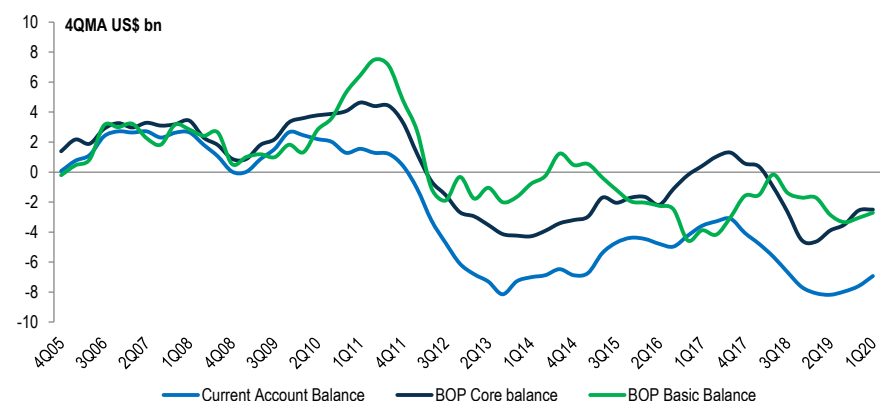
Better than expected FDI

Meanwhile, the surplus in the financial account reversed to -US\$2.9bn in 1Q20 from +US\$12.6bn in 4Q19. This was due to outflow in both portfolio and other investments at -US\$5.8bn and -US\$0.5bn (+US\$7.1bn & +2.4bn in the 4Q19), but alleviated by surplus in FDI at US\$3.5bn (relatively flat qoq). The FDI surplus is quite a surprise as incoming fund from Emerging Asia (Hongkong & Korea) and Japan is rising at US\$2.0bn and US\$1.2bn in 1Q20 vs. US\$1.9bn & US\$0.3bn in 4Q19. The investment from Emerging Asia was coming to the manufacturing sector, while investment from Japan is in the form of additional ownership to one of Indonesian banks.

Indonesia external stability will remain robust in 2020

In overall, the balance of payment (BOP) recorded an outflow of US\$8.5bn in 1Q20 from an inflow of US\$4.3bn in 4Q19. We are on the view that the CAD will be around 2% of GDP and the financial account will be back to record surplus at around US\$16bn in 2020. We believe the external stability will remain strong in 2020, as monetary authorities have taken many measures to counter the global turmoil following the virus outbreak. In addition, we also believe that Rupiah will continue to appreciate along with the weakening of global oil price and solid capital inflows.

Fig. 1: External stability will continue to improve as domestic economy grew less



Sources: BI, IndoPremier

Luthfi Ridho

PT Indo Premier Sekuritas
luthfi.ridho@ipc.co.id
+62 21 5088 7168 ext. 721

Desty Fauziah

PT Indo Premier Sekuritas
desty.fauziah@ipc.co.id
+62 21 5088 7168 ext. 722

Improving CAD, appreciating IDR

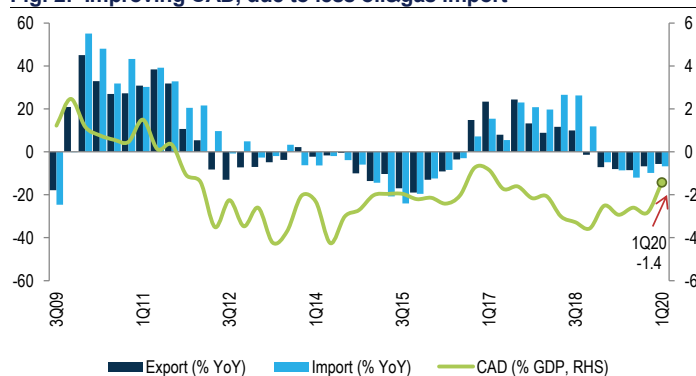
CAD improved to 1.4% of GDP in 1Q2020, from -2.6% of GDP in 4Q19. The narrowing of the CAD was mostly due to lesser oil imports following the decline in oil imports by 19.1% QoQ or 2.3% YoY caused by lower oil price during the quarter (around -20% YoY). The goods account then booked a higher surplus of US\$ 4.4bn in 1Q20 from a surplus of US\$0.3bn in 4Q19.

In addition, the primary-income still recorded a deficit of -US\$8.1bn in 1Q20, vs. -US\$8.3bn in 4Q19 mainly from dividend repatriation of US\$4.2bn in 1Q20 relatively flat on qoq basis.

Furthermore, the service account deficit edged-down slightly to US\$1.9bn in 1Q20 from a deficit of US\$2.0bn in 4Q19. This was due mostly to higher surplus in travel account at US\$1.5bn from US\$1.3bn in 4Q19. Meanwhile, the transport account was stable at US\$2.4bn in both 1Q20 and 4Q19. The travel account will likely be challenging, as the impact of the virus will dampen incoming tourist from abroad.

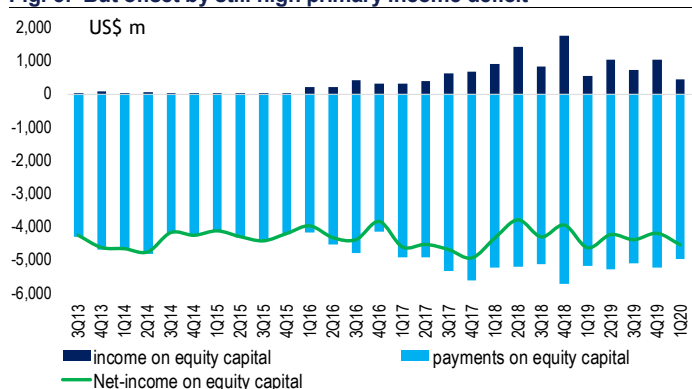
We think the key to current account improvement shall come from the pick-up in export, particularly on manufacturing exports. In the near term, however, the global environment still looks gloomy as China still trying to recover from the outbreak.

Fig. 2: Improving CAD, due to less oil&gas import



Source: BI, CEIC, Indo Premier

Fig. 3: But offset by still high primary income deficit



Source: BI, CEIC, Indo Premier

Fig. 4: Lesser oil & gas imports in the goods trade account will improve the CAD further

Components	2017	2018	2019	2020F	2018				2019				2020
					1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
I. Current Account	-17.3	-31.1	-30.4	-24.4	-4.9	-7.8	-8.4	-9.5	-6.6	-8.2	-7.5	-8.1	-3.9
(% of GDP)	-1.7	-3.0	-2.7	-2.0	-1.9	-2.9	-3.2	-3.7	-2.5	-3.0	-2.6	-2.6	-1.4
A. Goods, net	18.9	-0.4	3.5	4.0	2.3	0.3	-0.4	-2.5	1.3	0.6	1.4	0.3	4.4
B. Services, net	-7.9	-7.1	-7.8	-4.0	-1.3	-1.7	-1.8	-1.6	-1.6	-1.9	-2.3	-2.0	-1.9
C. Primary Income, net	-32.8	-30.4	-33.8	-30.0	-7.4	-8.0	-8.0	-7.4	-8.1	-8.9	-8.4	-8.3	-8.1
D. Secondary Income, net	4.5	6.9	7.6	5.6	1.4	1.6	1.8	2.0	1.8	2.0	1.8	2.0	1.6

Sources: BI, IndoPremier

Promising FDI and portfolio inflows

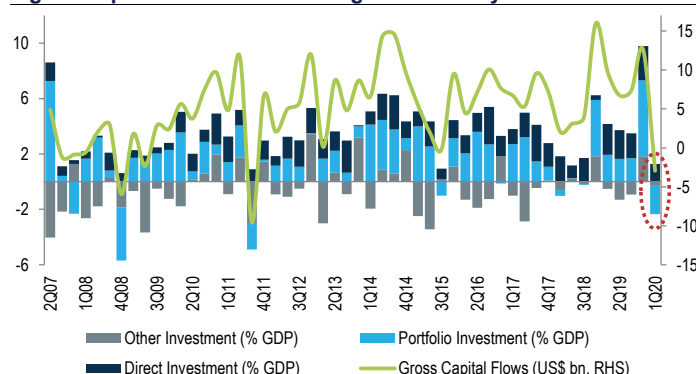
The financial account reversed to book an outflow of -US\$2.9bn in 1Q20 from an inflow of USD\$12.6bn in 4Q19. This was due to a combination of high outflow in portfolio and other investment accounts at -US\$5.8bn and -US\$0.5bn in 1Q20, from an inflow of US\$7.1bn and US\$2.4bn in 4Q19. These were mitigated by higher FDI at US\$ 3.5bn in 1Q20, from US\$3.2bn in 4Q19.

The higher FDI surplus is quite a surprise as incoming fund from Emerging Asia (Hong Kong & Korea) and Japan is rising to US\$2.0bn and US\$1.2bn (US\$1.9bn & US\$0.3bn in 4Q19). The investment from Emerging Asia was coming to the manufacturing sector, while investment from Japan is in the form of additional ownership to one of the Indonesian banks. Moreover, anecdotal evidence suggest that the investment from China was mainly directed to the smelter business.

The outflow in the portfolio investment mainly come from the sell-off in the government bonds by US\$7.9bn in 1Q20, while on the contrary corporate bonds still recorded an inflow of US\$3.3bn. In parallel, other investment reversed to record an outflow of US\$0.5bn in 1Q20, from an inflow of US\$2.4bn in 4Q19. This was mainly due to external debt repayment from private sector.

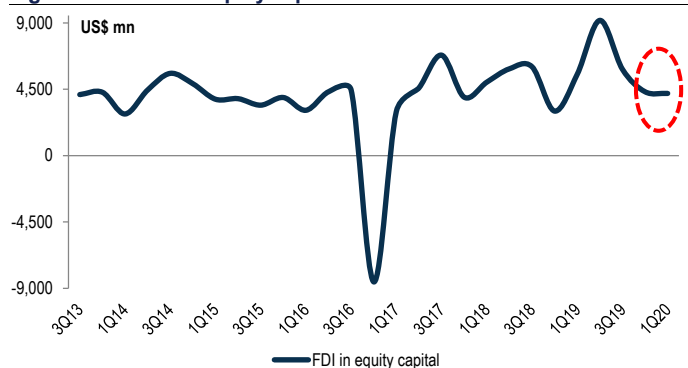
We believe the financial account will be back to record a surplus at around US\$16bn in 2020. The inflows will be largely coming from FDI and portfolio investments as the monetary authorities have taken measures to counter the negative impact of the global turmoil following the virus outbreak. We believe the external stability will remain strong in 2020, as the nation's external financing requirement will still be cushioned by the incoming capital inflows.

Fig. 5: Capital flows slides due to global volatility



Source: BI, CEIC, Indo Premier

Fig. 6: ...but FDI in equity capital still stable



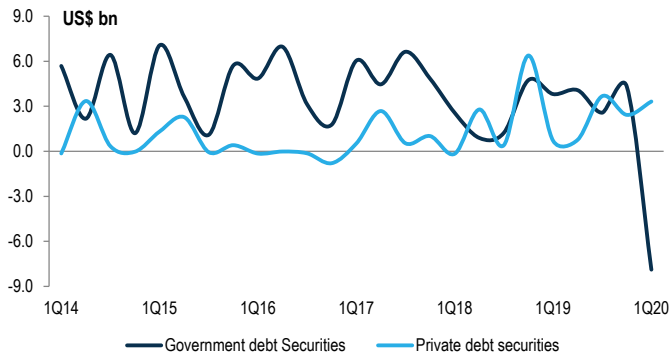
Source: BI, CEIC, Indo Premier

Fig. 7: FDI inflows surprisingly sustained in times of global volatility

Components	2017	2018	2019	2020F	2018				2019				2020
					1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
II. Capital and Financial Account	29.9	25.2	36.7	16.0	2.2	3.1	4.0	15.9	9.9	6.8	7.5	12.6	-2.9
A. Capital account	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
B. Financial account	29.8	25.1	36.7	16.0	2.1	3.1	4.0	15.9	9.9	6.8	7.5	12.6	-2.9
1. Direct investment, net	20.2	13.8	20.1	7.0	4.7	2.4	4.5	0.9	6.0	5.8	5.2	3.2	3.5
2. Portfolio investment, net	20.7	9.3	21.7	10.0	-1.1	0.1	-0.1	10.5	5.2	4.6	4.9	7.1	-5.8
3. Other investment, net	-10.9	2.0	-5.4	-1.0	-1.5	0.6	-0.5	4.7	-1.4	-3.6	-2.7	2.4	-0.5

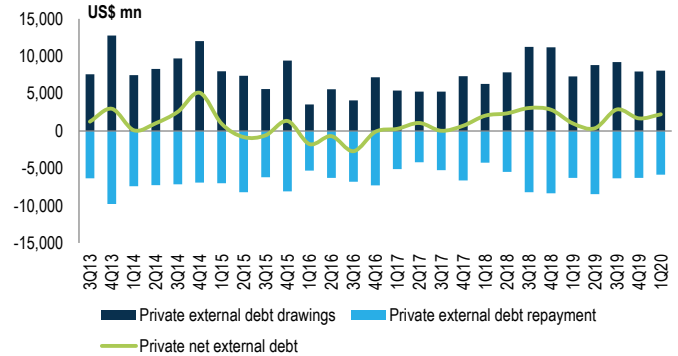
Sources: BI, IndoPremier

Fig. 8: Sell-off in Government bond



Source: BI, CEIC, Indo Premier

Fig. 9: Private external debt increased



Source: BI, CEIC, Indo Premier

Fig. 10: Balance of payment recorded an outflow (US\$ bn)

Components	2017	2018	2019	2020F	2018				2019				2020
					1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
I. Current Account	-17.3	-31.1	-30.4	-24.4	-4.9	-7.8	-8.4	-9.5	-6.6	-8.2	-7.5	-8.1	-3.9
(% of GDP)	-1.7	-3.0	-2.7	-2.0	-1.9	-2.9	-3.2	-3.7	-2.5	-3.0	-2.6	-2.6	-1.4
A. Goods, net	18.9	-0.4	3.5	4.0	2.3	0.3	-0.4	-2.5	1.3	0.6	1.4	0.3	4.4
B. Services, net	-7.9	-7.1	-7.8	-4.0	-1.3	-1.7	-1.8	-1.6	-1.6	-1.9	-2.3	-2.0	-1.9
C. Primary Income, net	-32.8	-30.4	-33.8	-30.0	-7.4	-8.0	-8.0	-7.4	-8.1	-8.9	-8.4	-8.3	-8.1
D. Secondary Income, net	4.5	6.9	7.6	5.6	1.4	1.6	1.8	2.0	1.8	2.0	1.8	2.0	1.6
II. Capital and Financial Account	29.9	25.2	36.7	16.0	2.2	3.1	4.0	15.9	9.9	6.8	7.5	12.6	-2.9
A. Capital account	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
B. Financial account	29.8	25.1	36.7	16.0	2.1	3.1	4.0	15.9	9.9	6.8	7.5	12.6	-2.9
1. Direct investment, net	20.2	13.8	20.1	7.0	4.7	2.4	4.5	0.9	6.0	5.8	5.2	3.2	3.5
2. Portfolio investment, net	20.7	9.3	21.7	10.0	-1.1	0.1	-0.1	10.5	5.2	4.6	4.9	7.1	-5.8
3. Other investment, net	-10.9	2.0	-5.4	-1.0	-1.5	0.6	-0.5	4.7	-1.4	-3.6	-2.7	2.4	-0.5
III. Total (I + II)	12.6	-5.9	6.3	-8.4	-2.7	-4.7	-4.4	6.4	3.3	-1.4	0.0	4.5	-6.9
IV. Net Errors and Omissions	-1.0	-1.3	-1.6	-2.5	-1.1	0.4	0.0	-1.0	-0.8	-0.5	0.0	-0.3	-1.7
V. Overall Balance (III+IV)	11.6	-7.1	4.7	-10.8	-3.9	-4.3	-4.4	5.4	2.4	-2.0	0.0	4.3	-8.5
Reserves Position (EoP)	130	121	129	118	126	120	115	121	125	124	124	129	121

Sources: BI, IndoPremier

ANALYSTS CERTIFICATION

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

DISCLAIMERS

This research is based on information obtained from sources believed to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendations contained in this document do not have any regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is not and should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell any securities. PT Indo Premier Sekuritas or its affiliates may seek or will seek investment banking or other business relationships with the companies in this report.