



ASIA PERSPECTIVE

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Indonesia Economic Update Report

This Issue:

Indonesia's Economic Performance in Q3
Indonesia – Australia Trade Deal officially
came into force

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Indonesia's economy shows strengthening signs despite economic contraction in Q3

The Indonesian economy showed signs of recovery from its deep shrinkage in the second quarter thanks to the government's support programs.

Indonesia entered the first recession since 1998 as its GDP growth in Q3 shrank 3.49% (YoY), which is worse than the market consensus of 3% but still an improvement from the 5.23% contraction in Q2. Economic activities started stirring again in the third quarter as regions began to gradually lift the large-scale social restrictions, raising hopes for a further improvement in the fourth quarter.

Indonesia experienced the lowest inflation (YoY) in two decades in August with 1.32%. The Consumer Confidence Index dipped 3.5% in September compared to previous month, which is the lowest since May.

The government has set out a budget of 695.2 trillion IDR (47.4 billion USD) for the handling of COVID-19 and the National Economic Recovery Program, which pushed the 2020 State Budget deficit by 6.34%, in order to revive the economy.

The economy is expected to recover strongly in the fourth quarter, but 2020 as a whole is anticipated to hit a contraction of 0.6% to 1.7%. This was revised from the previous forecast of around 1% GDP growth for the full year due to the uncertainty of the pandemic.

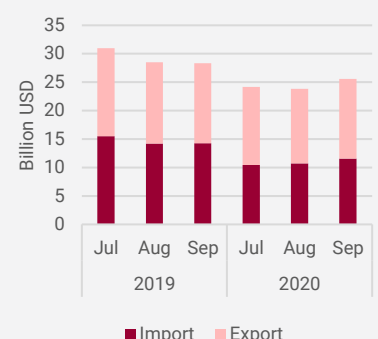
Indonesia continues to record a trade surplus in Q3

Indonesia posted a positive trade balance of 8.03 billion USD in Q3 2020, improved significantly from the deficit of 0.14 billion USD last year. This is mainly due to the decline of imports by 25% (YoY) during the coronavirus outbreak. Exports in this quarter dropped slightly, by 6.9%, compared to previous year.

In July, the trade gap expanded remarkably to 3.24 billion USD from 1.25 billion USD in the previous month. Then, it narrowed down to 2.44 billion USD in September, marking the 5th consecutive month of trade surplus.

Regarding the first 9 months of the year, the trade balance recorded a surplus of 13.51 billion USD.

Trade balance of Indonesia in Q3 2019 & Q3 2020



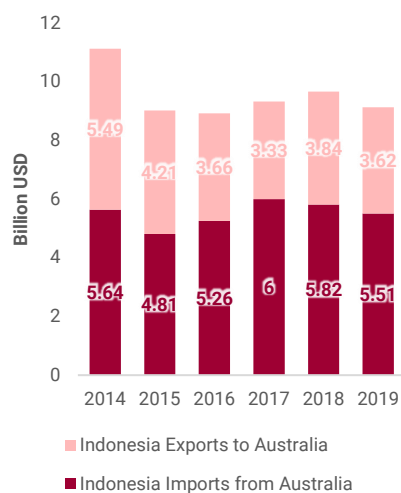
Source: Statistics Indonesia, Trading Economics

Indonesia's and Australia's new trade deal officially in force

The Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) officially came into force on the 5th of July 2020. The agreement was signed in March 2019 and ratified by Indonesia's Parliament in February 2020, with the aim of boosting the bilateral trade, that reached more than 8 billion USD in 2019.

The new trade deal is built on the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA), which will continue to operate in parallel with IA-CEPA. Importers and exporters have the option of selecting which agreement is best suited to them.

Although both Australia and Indonesia rank in the world's top 20 biggest economies, and have a close geographical location, the countries are not included in each other's top 10 trading partners. Therefore, the IA-CEPA creates a framework for Australia and Indonesia to unlock the potential of the bilateral economic partnership, fostering economic cooperation between businesses, communities and individuals.

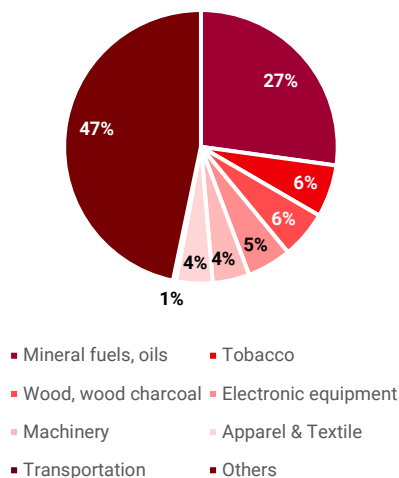


Source: Trading Economics

Under IA-CEPA, 99% of Australian goods (by value) will enter Indonesia duty-free or under significantly improved preferential arrangements (compared with 85% under AANZFTA). Indonesia will issue import permits automatically and without seasonality for key products such as live cattle, frozen beef, sheep meat, feed grains, rolled steel coil, citrus products, carrots and potatoes.

The IA-CEPA is expected to curb Indonesia's trade deficit of 3.2 billion USD with Australia in 2019 and reduce the input cost of many Indonesian businesses that buy their raw materials or intermediate goods from Australia (such as the food and beverage industry). The Trade Ministry of Indonesia also expects an export boost of some Indonesian products to Australia, including textiles, automotive products, electronics and communication tools. Especially Indonesian export of electric and hybrid cars as they will be subject to very liberal rules of origin requirements.

Indonesia's Imports from Australia, by category, 2019



Source: Trading Economics

Additionally, Indonesia and Australia have agreed to a skill development package, which includes a 6-month skill exchange program in the other's market. Along with the increase in the number of Australian work and holiday visas for Indonesians, these initiatives will provide useful work experience for young Indonesians as well as assist Australia to meet seasonal labor demands.

However, despite all the promising outcomes of the IA-CEPA, researcher's from Indonesia Institute for Development of Economics and Finance are still concerned that the trade deal would only widen the trade deficit given the fact that Indonesia's exports to Australia are still fragmented, and the utilization of the AANZFTA is considered inefficient as only 35% of the country's business players was able to utilize AANZFTA to boost their exports.

Indonesia launched wage subsidy assistance program for 15.7 million workers



Since May 2020, more than three million Indonesians have been laid off work as a result of the pandemic, bringing the economy into a virtual standstill. Along with the economic recession came the decrease in consumer spending and retail sales throughout the third quarter, causing difficulties for the economy to recover.

In response to the on-going crisis, Indonesia's Minister of Manpower issued a regulation on the 14th of August this year, which introduces a new wage subsidy program for selected employees in Indonesia's private sector. The government has allocated around 37 trillion IDR (10.7 billion USD) into the program, hoping that this initiative can boost household consumption for 15.7 million workers throughout the archipelago.

According to this new regulation, employees with a monthly income of less than 5 million IDR (342 USD) will be eligible to receive a total subsidy of 2.4 million IDR (164 USD), disbursed over four months and divided by payments of 1.2 million IDR (82 USD) every two months. For application of the subsidy, companies' human resource department is responsible for collecting employees' data and providing them for Indonesia's Social Security Administration Body for Employment. However, this incentive is not applicable to civil servants as well as employees of state-owned companies.



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