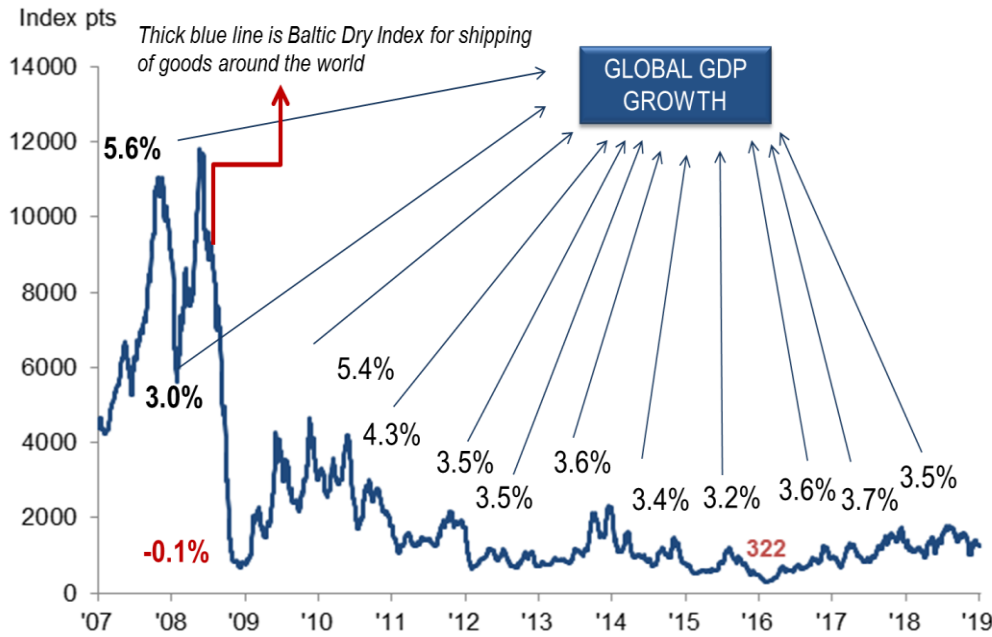


Indonesia Economic Outlook

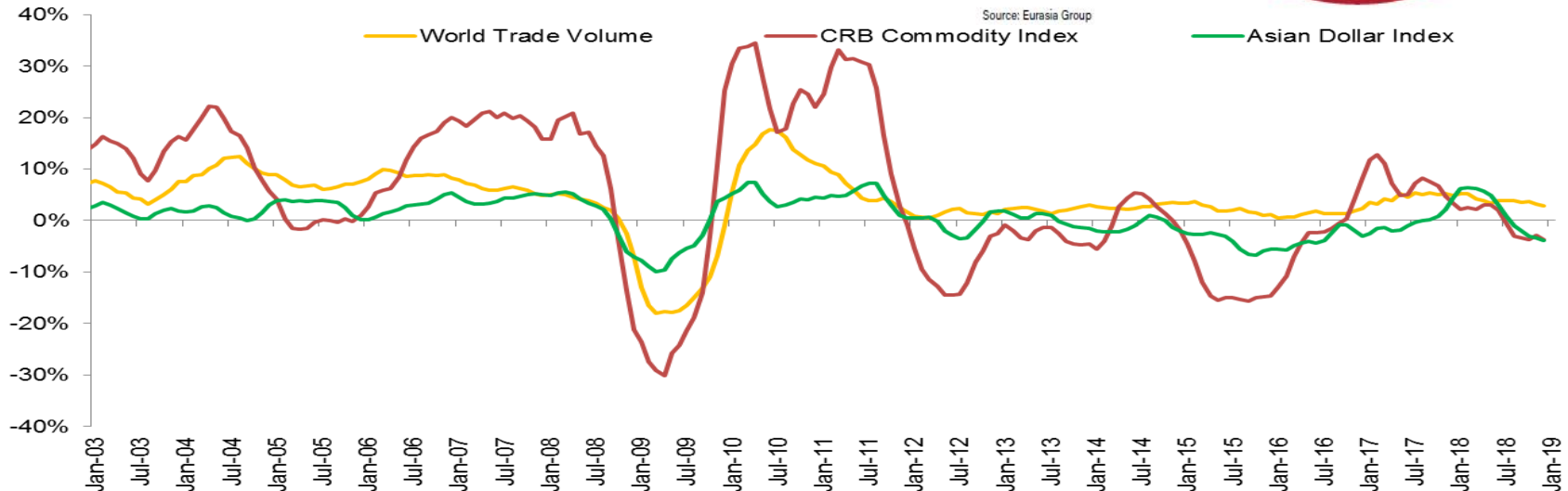
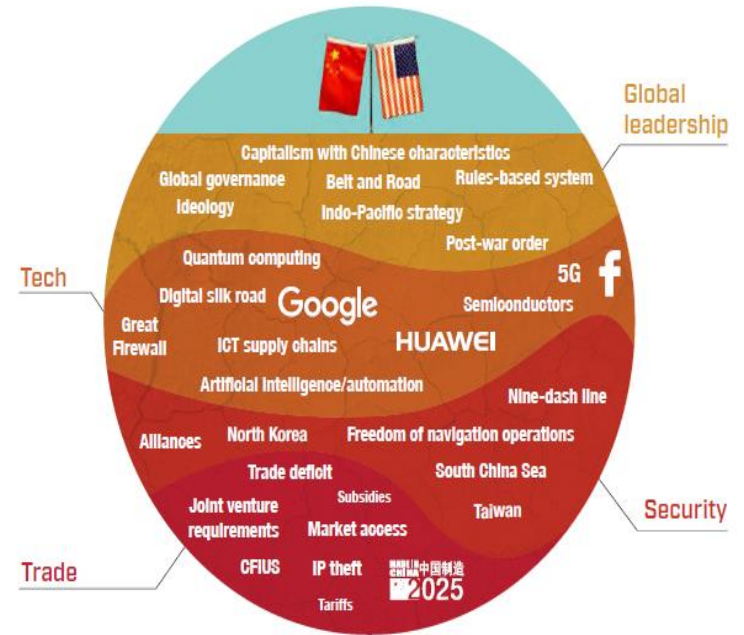
What's in store for 2019?

Enrico Tanuwidjaja – UOB Indonesia Economist
Presentation for Adminkom
Jakarta, 13 February 2019

- **Global economy:** Weaker global growth prospects in 2019
- **US-China trade tension:** Quick resolution or long-drawn affair?
- **Indonesia outlook:** Resilient despite headwinds, progressive amidst challenges
- **Monetary policy:** US Federal Reserve rate hikes in 2019 may be reaching its end, Asian central banks will follow, but at lesser pace.
- **Rate and foreign exchange (FX) outlook:** Expecting neutral USD and possibly end of rate hiking cycle in 1H 2019



The many layers of US-China tensions



Key Timeline Of US-China Trade Tensions In 2018

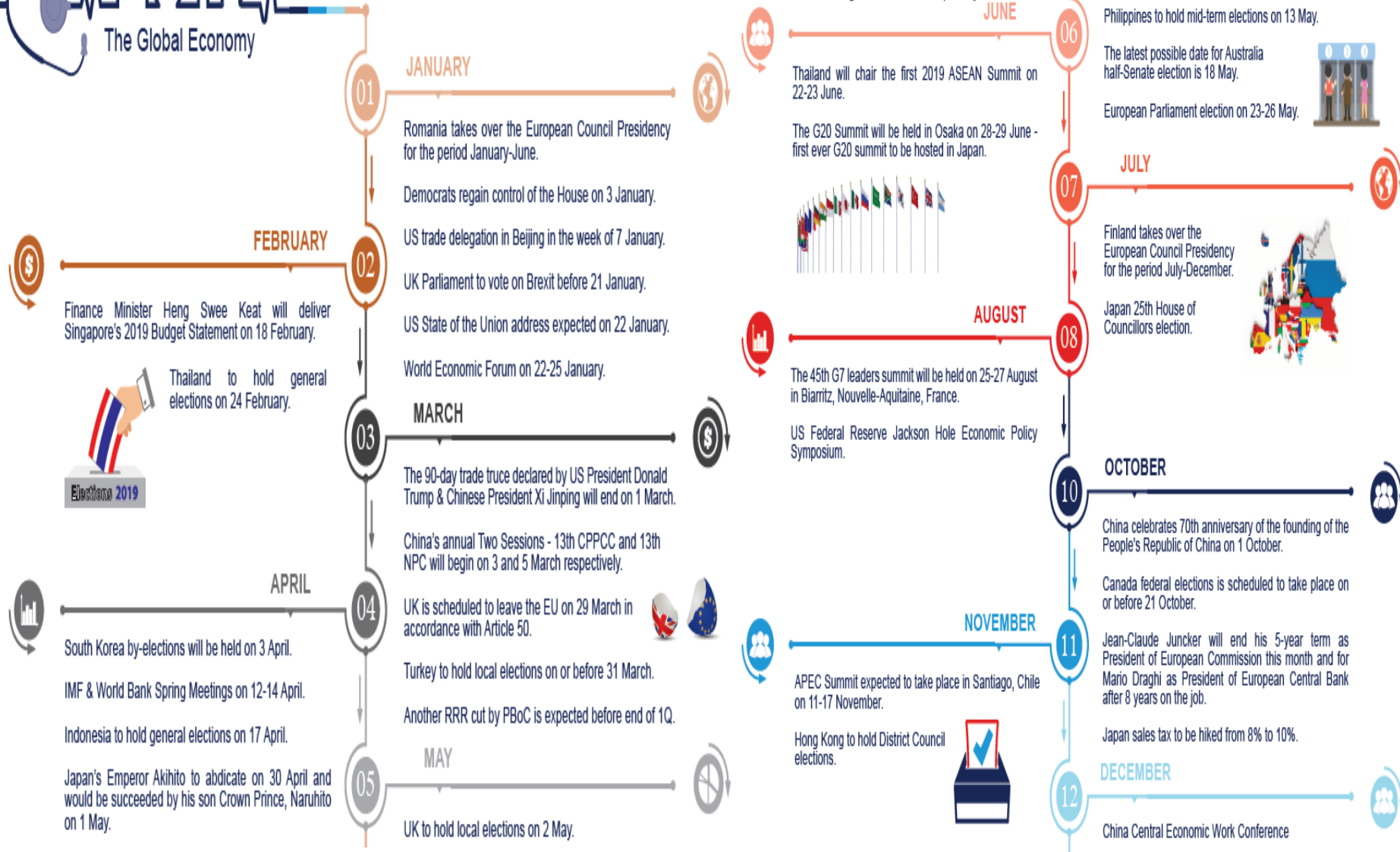


Jan - Mar	Apr	May	Jun	Jul	Aug	Sep	Oct & Nov
<p>23 Jan Trump announced tariff rates of 20% on imported washing machines and 30% on solar panels and cells, under Section 201 of the 1974 Trade Act.</p> <p>22 Mar USTR completed and released its "Section 301" report on China. US Trump on the same day proposed 25% tariffs on certain products that are supported by China's "unfair industrial policy", for public comment.</p>	<p>3 Apr USTR proposed list of US\$50bn of Chinese goods subjected to additional tariffs, for public comment and consultation.</p> <p>6 Apr Trump instructs USTR to consider additional tariffs on US\$100bn of Chinese goods due to China's "unfair retaliation"</p>	<p>4 May US trade delegation to Beijing led by Treasury Secretary Steven Mnuchin</p> <p>29 May White House said US to proceed with 25% tariffs on US\$50bn of Chinese imports (including those related to 'Made in China 2025'). List to be published on 15 Jun</p>	<p>15 Jun US announced additional 25% tariffs on 818 Chinese imports worth US\$34bn, from 6 Jul. The 2nd set of \$16bn on a future date</p> <p>18 Jun Trump instructs USTR to identify US\$200bn of Chinese products for additional 10% tariff and threatens to impose tariff on another US\$200bn after that if China retaliates</p>	<p>6 Jul US imposed 25% tariff on US\$34bn of Chinese goods takes effect.</p> <p>7 Jul USTR releases new round of 10% tariffs on new list of Chinese goods valued at US\$200bn. Public hearing & comment period until 5 Sep (which was raised to 25% rate subsequently)</p>	<p>23 Aug US imposed 25% tariff on next US\$16bn of Chinese goods takes effect.</p> <p>24 Aug 4th round of US trade talks led by mid-level officials on both sides ended without any breakthrough</p> <p>30 Aug Bloomberg reported Trump ready to impose tariffs on US\$200bn imports as soon as public comment period ends 5/6 Sep. Also looking at "formula" to determine FX manipulation.</p>	<p>6 Sep USTR ended its public comment period for proposed US\$200bn of Chinese goods targeted next for additional 25% tariffs</p> <p>13 Sep US invites China for 5th round of talks</p> <p>24 Sep USTR imposes 10% tariff on US\$200bn of Chinese goods, and will increase to 25% by Jan 2019</p>	<p>17 Oct US Treasury FX report did not name China as FX manipulator but directed most of its commentary and the harshest words in the report towards China.</p> <p>19 Oct US Treasury Sec Mnuchin said to be open to changing how USD determines which nations are 'currency manipulator'</p> <p>6 Nov US mid-term elections</p>



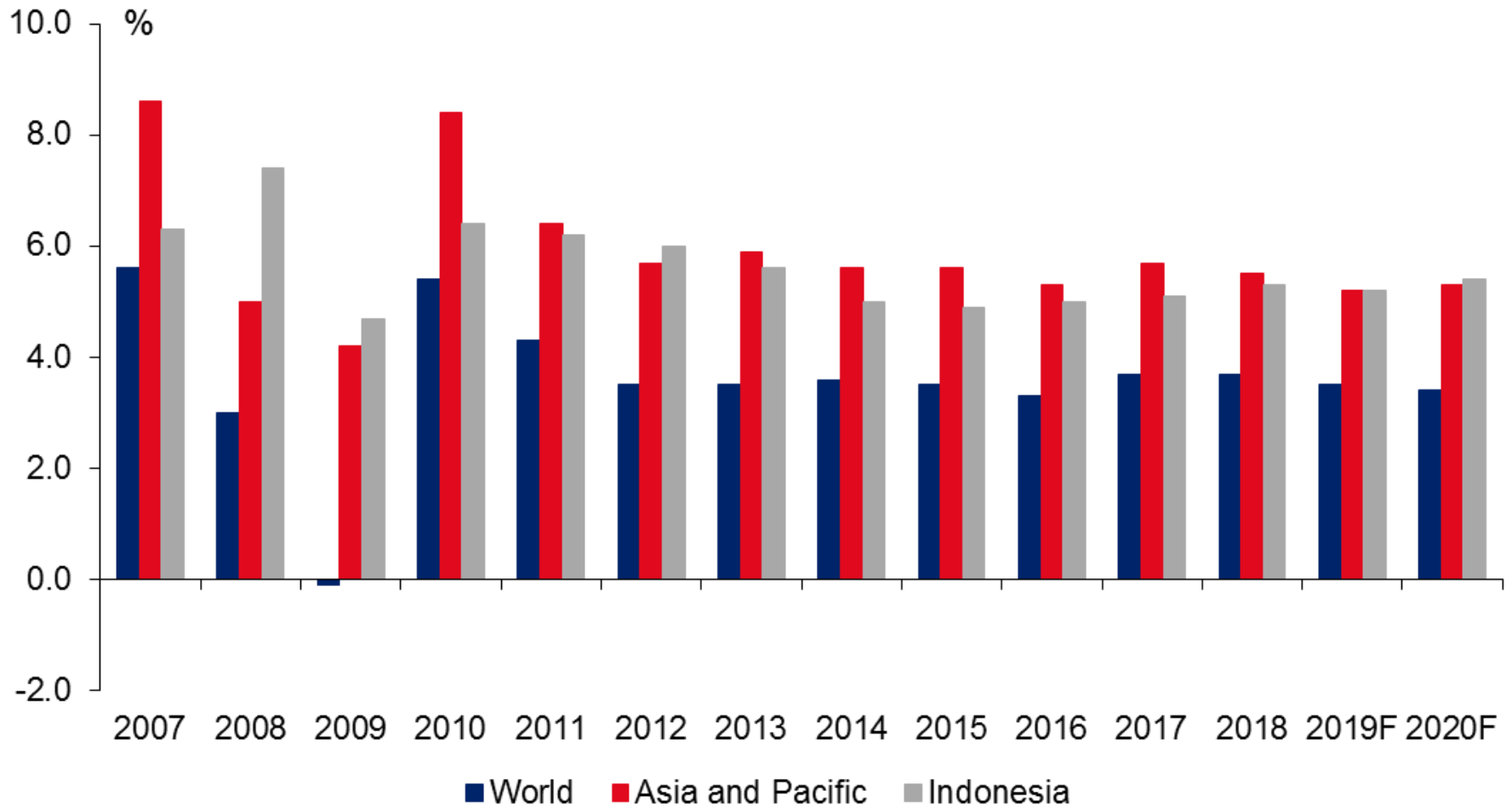
<p>23 Mar China proposed tariffs targeting US\$3bn of US goods in response to US' steel and aluminum tariffs, to be effective from 2 April 2018</p>	<p>4 Apr China announced plans to impose a 25% tariff on US\$50bn worth of US exports, including cars & soybeans.</p> <p>10 Apr At Boao, China's Xi said China will lower import tariffs on autos and other products and pledged to protect IP of foreign firms</p>	<p>17-18 May China trade delegation led by Liu He in Washington</p> <p>20 May Both sides announced ceasefire after 2 rounds of talks. In joint state, China said would "significantly increase" purchase of US agricultural and energy goods</p>	<p>3 Jun China warned after the 3rd round of trade talks that it would not honor its pledge to expand purchases of US goods if tariffs imposed.</p> <p>16 Jun China responded with "equal scale & intensity" of 25% tariffs applied on 659 US imports worth US\$34bn from 6 Jul, while a second round of tariffs on US\$16bn of US goods at later date</p>	<p>6 Jul China imposed 25% tariff on US\$34bn of US goods takes effect.</p>	<p>3 Aug China announced it will impose tiered tariff rates of 5% to 25% on US\$60bn of US goods, though the timing of implementation was not specified. We estimate the "blended" tariff rate of approx. 18.6% on the total US\$110bn of goods subjected to tariffs.</p> <p>23 Aug China imposed 25% tariff on US\$16bn of US goods takes effect, in reaction to US' move.</p>	<p>13 Sep China welcomes US invitation for further talks (but no details on who will lead the Chinese delegation)</p> <p>22 Sep China Liu He formally rejected US' offer for talks</p> <p>24 Sep China levies 5-10% tariff on US\$60 bn worth of US goods (5,207 products) in response to US tariff.</p>	<p>29 Nov Chinese President Xi and US President Trump have tentatively agreed to meet on 29 Nov on the sidelines of the G20 leaders' summit, in what would be the first face-to-face meeting in nearly a year.</p>
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Event-driven volatility could be higher in **H1 2019**



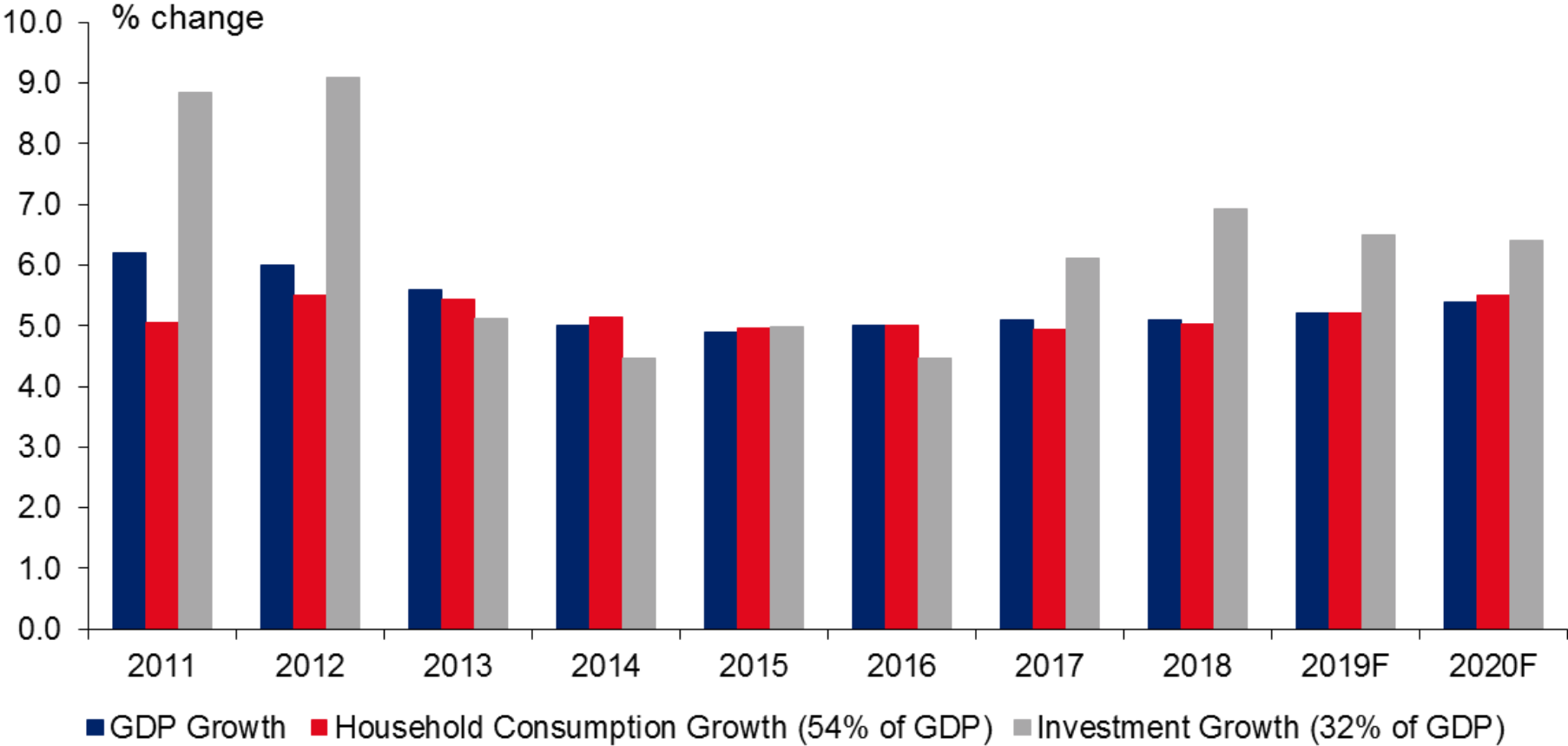
GDP Growth (annual percent change)

Source: IMF, Bloomberg 2018



Indonesia - Growth of key GDP Component

Source: CEIC





Stability First, Then Growth...

Key Indicators	2017	2018 (P)	2019 Outlook
Real GDP Growth	5.1	5.2-5.3	5.2-5.4 ↑
Loans Growth	8.2	9-11	10-13 ↑
Inflation	3.8	3.2	3.8 ↑
Current Account Deficit (% of GDP)	-1.7	-2.8	-2.6 ↓
BI 7-D RR	4.25	6.00	6.50* ↑
Fiscal Position (% of GDP)	-2.42	-1.76	-2.25 ↓
USD/IDR (end- period)	13,568	14,390	14,500 ↓

Support Factors

- Private consumption
- **General elections and Potential Tourism Post AG & IMF/WB Global Events**
- Investment spending
- Supportive fiscal policy
- Attractive yield differentials
- Manageable current account deficit
- Manageable external debts
- Recovery in exports, tighter imports → Improve trade bal.

Banking System:

- Credit growth now outpaced that of deposit, suggesting more channeling to the real economy
- Liquidity is adequate but beware of tightening
- Loanable funds start to grow slower than the actual bank-wide credit extension. **Credit quality will continue to be a focus.**

Underlying Fundamentals

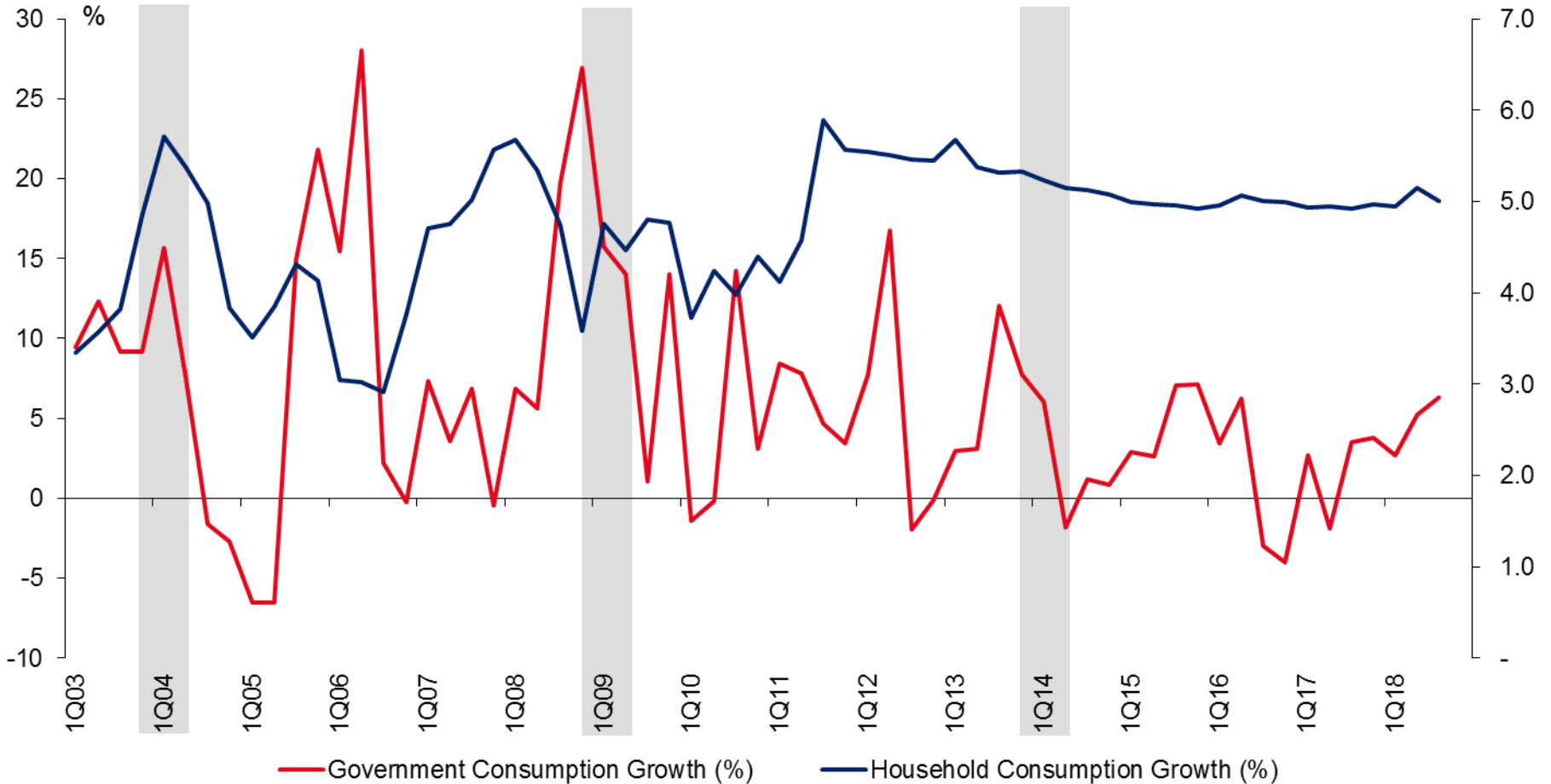
- Growth momentum stable and may down slow a little bit
- Stability over growth in the near-term
- Fiscal space remains prudent but leaning towards welfare-increasing measures while keeping steady momentum of investment spending
- Recovery in commodity prices yet to be seen
- Banks started to increase lending but quite cautiously
- **Stability in the external sector is key for the rupiah**
- Building up FX reserves is a good defense amidst volatility

Prepared as at 15 January 2019

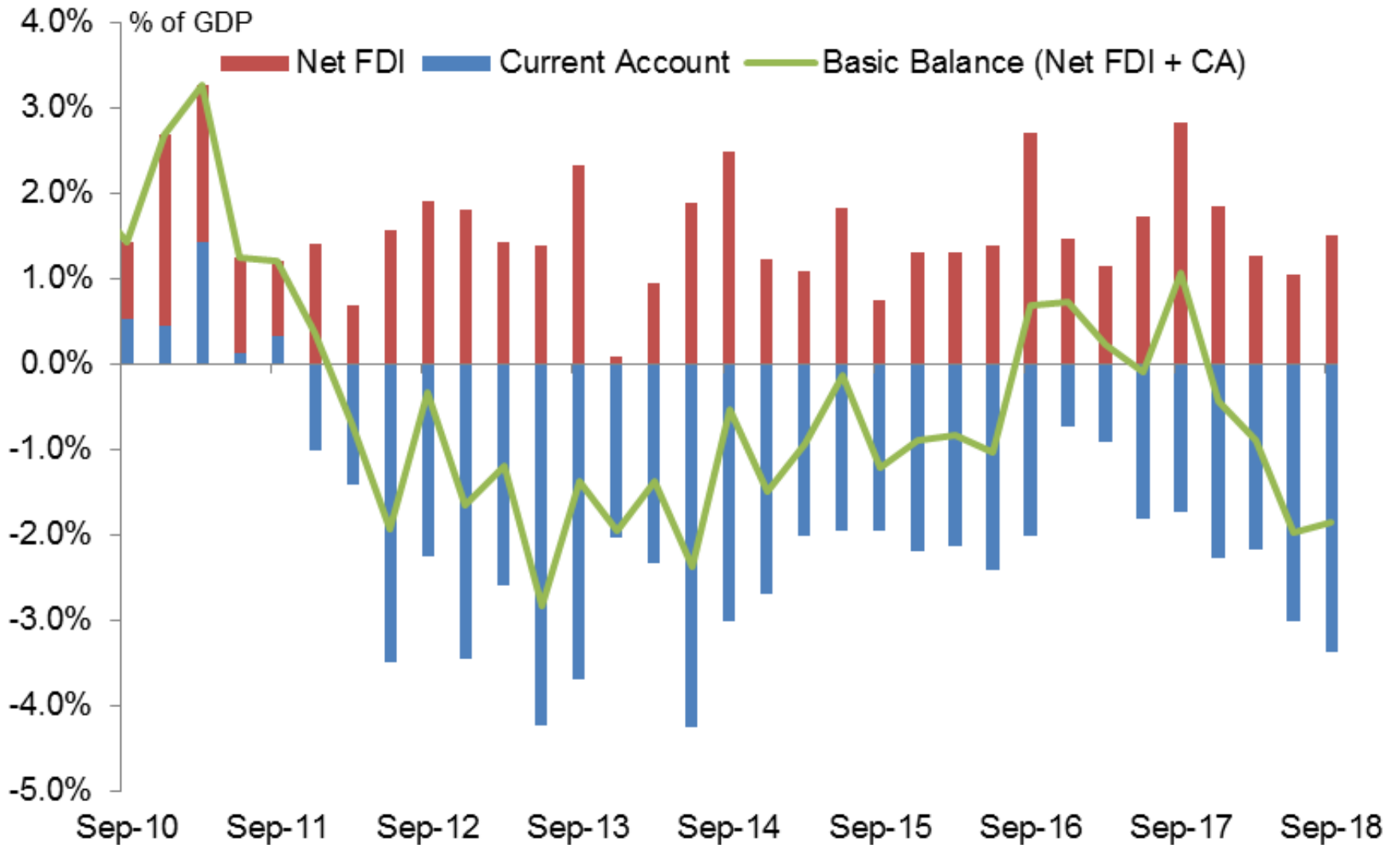
Source: BI, Bloomberg, UOB Indonesia Economics & Markets Research. *BI rate hike is data-dependent w.r.t Fed rate hike.

Quarterly Private Consumption & Government Consumption During Presidential Election

Source: CEIC, S&P Global Market Intelligence



Indonesia has a chronic current account deficit since 2011...



Source: CEIC, UOB Global Economics & Markets Research.

Table 1. Current Account And Key Components in 3Q 2018

Indonesia Balance Of Payment (USD billion)

Component (USD billion)	2016	2017	1Q18	2Q18	3Q18	4Q18F	2019F
Current Account	-17.0	-17.3	-5.6	-8.0	-8.8	-7.3	-27.7
1. Goods	15.3	18.8	2.3	0.3	-0.4	2.0	12.0
Exports	144.5	168.9	44.4	43.8	47.7	48.0	184.5
Imports	-129.2	-150.1	-42.1	-43.5	-48.1	-46.0	-172.5
Non oil & gas	20.1	26.1	4.4	3.2	3.4	-	-
Oil & gas	-4.8	-7.3	-2.4	-2.8	-3.5	-	-
2. Services, Primary and Secondary Income	-32.2	-36.1	-7.9	-8.3	-8.4	-9.3	-39.7
Capital and Financial Transaction	29.3	29.5	2.3	4.5	4.2	6.0	-
a. Direct Investment	16.1	19.3	2.9	3.2	3.9	4.3	-
b. Portfolio Investment	19.0	20.9	-1.2	0.1	-0.1	1.1	-
c. Other Investment	-5.8	-10.7	0.3	1.7	0.2	0.0	-
Balance Sheet	12.1	11.6	-3.9	-4.3	-4.4	-1.0	-
Memorandum:							
Foreign exchange reserves	116.4	130.2	126.0	119.8	114.8	-	-
in the month of import and payment of external goverment debt	8.4	8.3	7.7	6.9	6.3	-	-
Current Account (% of GDP)	-1.8	-1.7	-2.2	-3.0	-3.4	-2.7	-2.5

Source: BI, UOB Global Economics & Markets Research

Figure 1. Goods Trade Balance Turned Into Deficit

Source: BI, UOB Global Economics & Markets Research

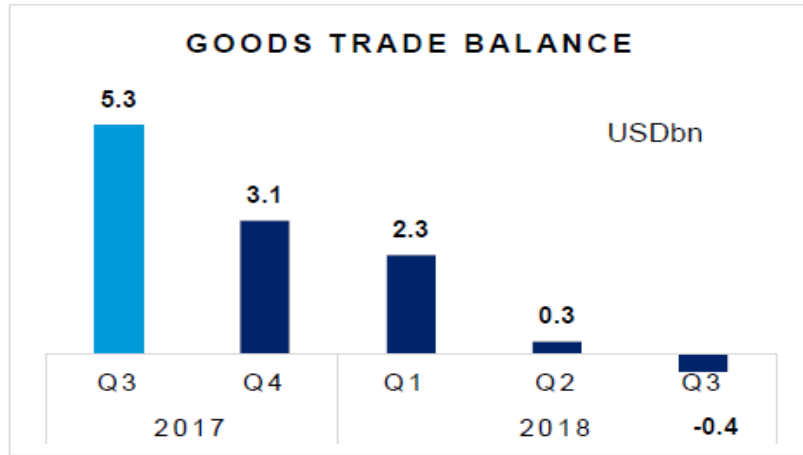


Figure 2. Service Deficit Widened

Source: BI, UOB Global Economics & Markets Research

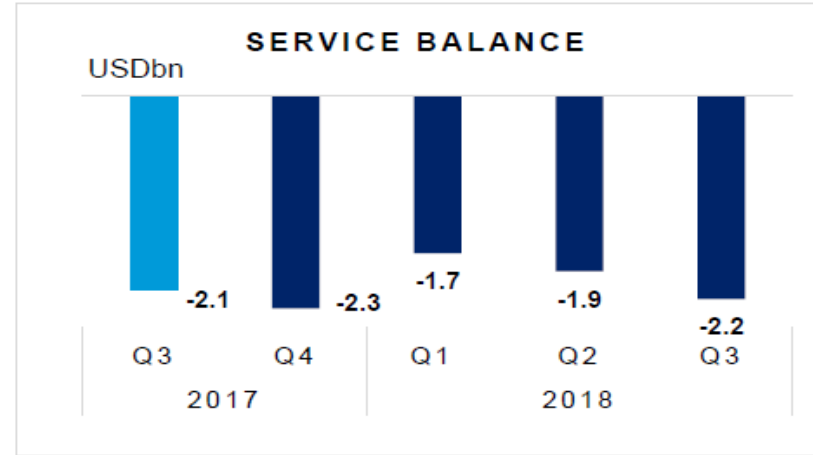


Figure 3. Deficit In Primary Income Remains Significant

Source: BI, UOB Global Economics & Markets Research

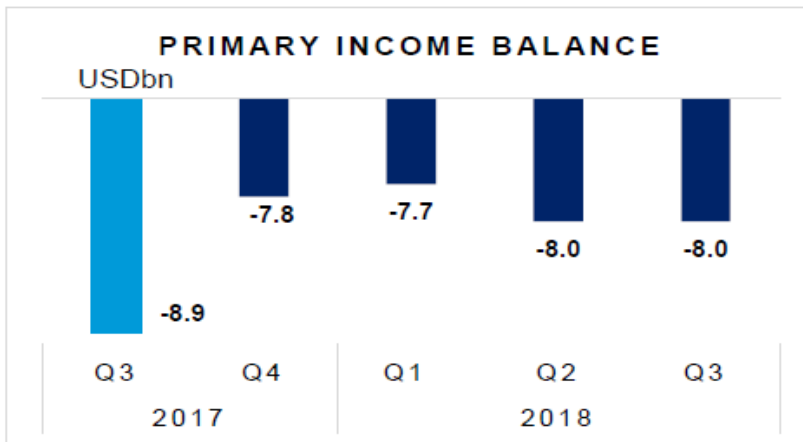
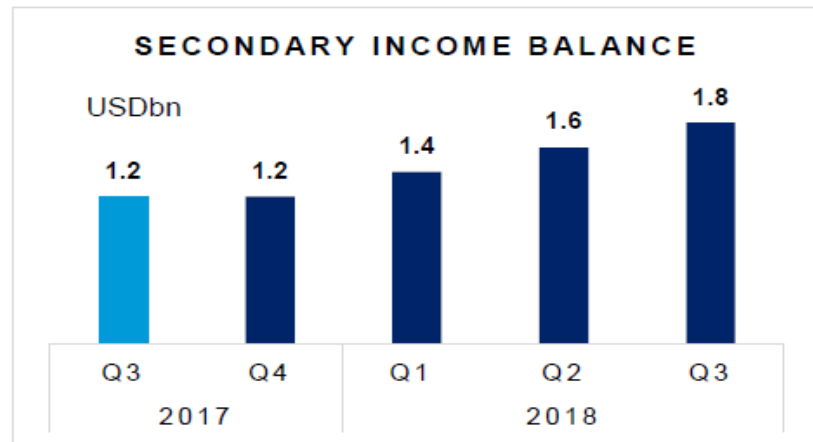
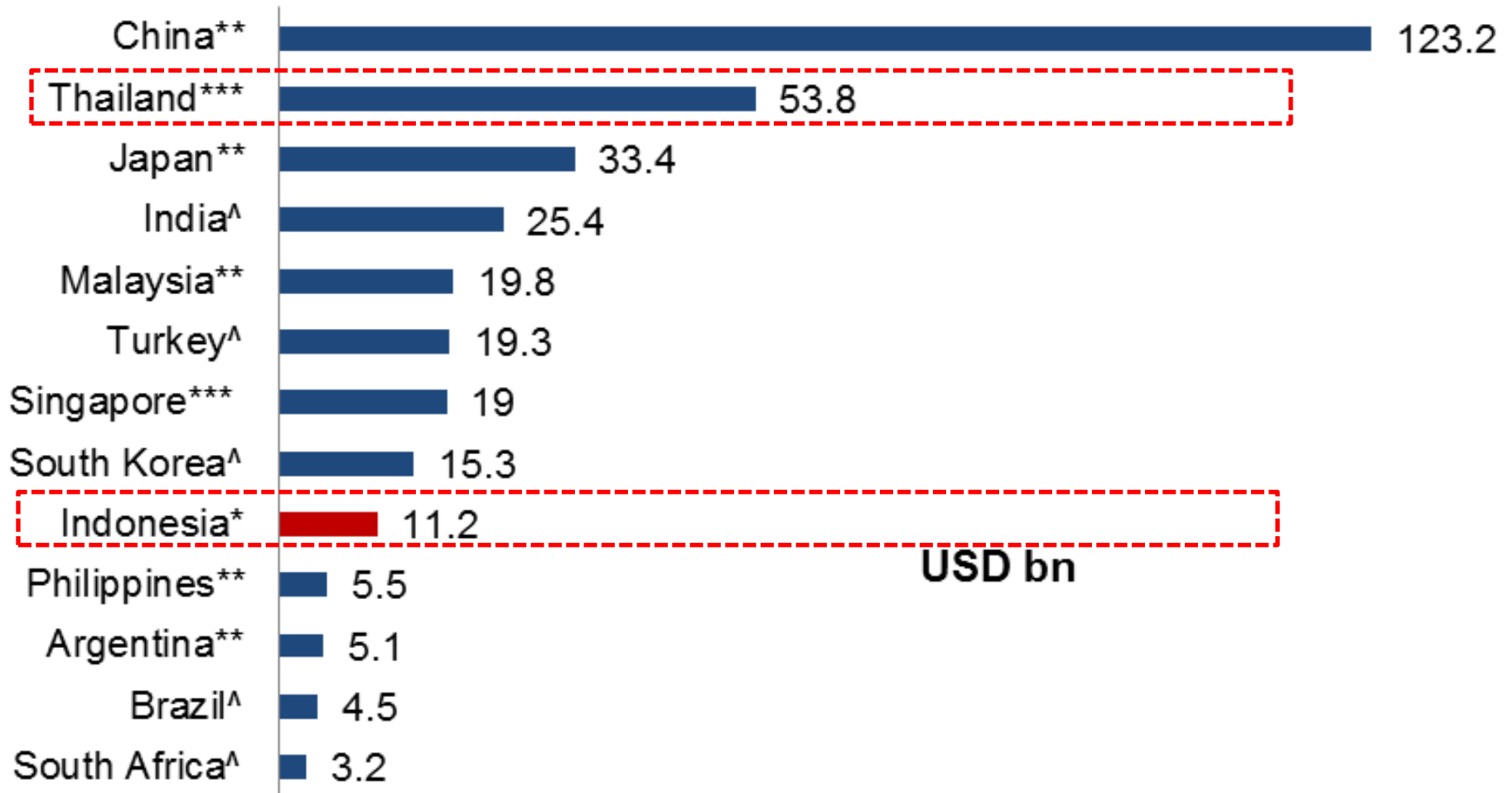


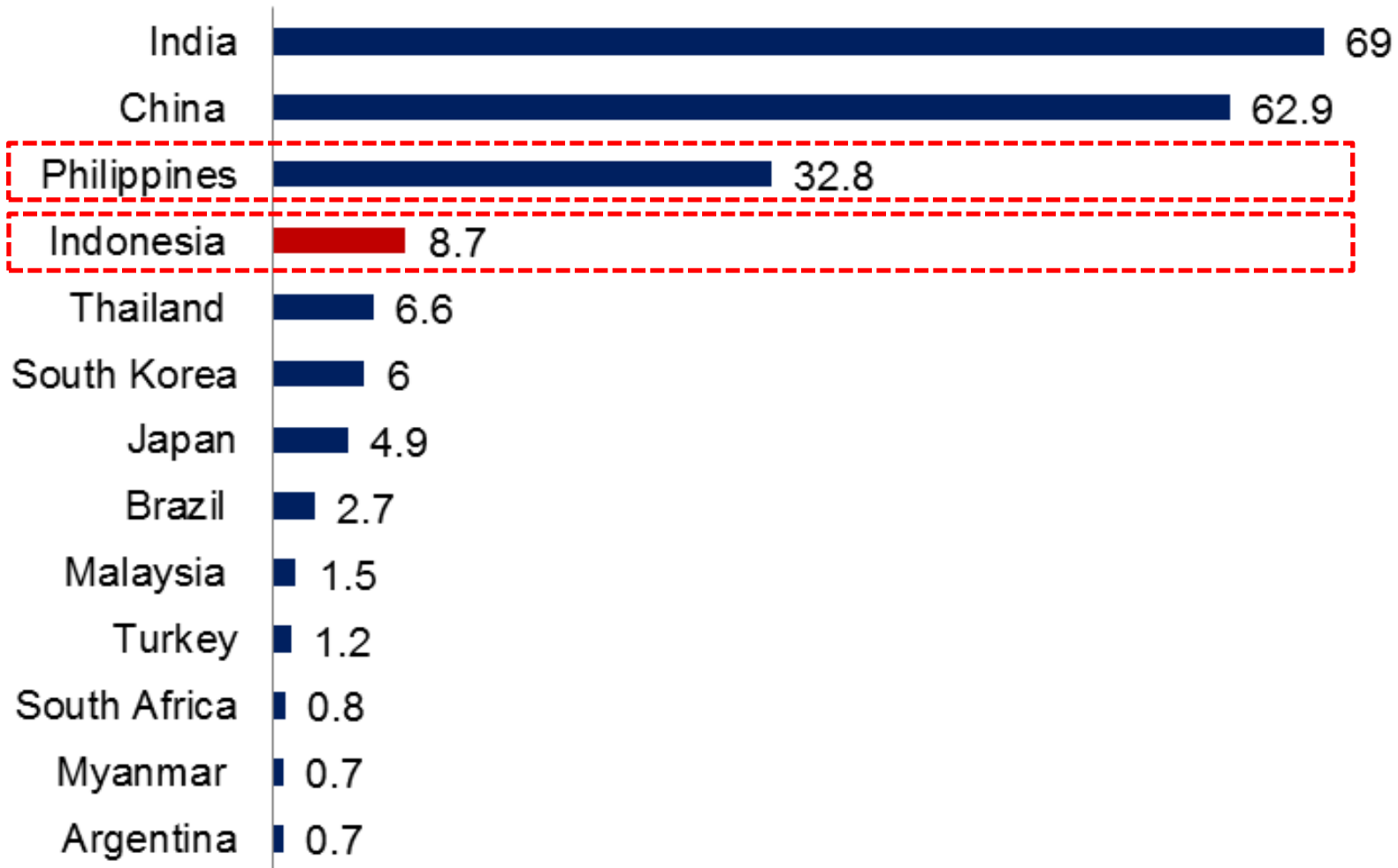
Figure 4. Secondary Income Surplus Improved

Source: BI, UOB Global Economics & Markets Research

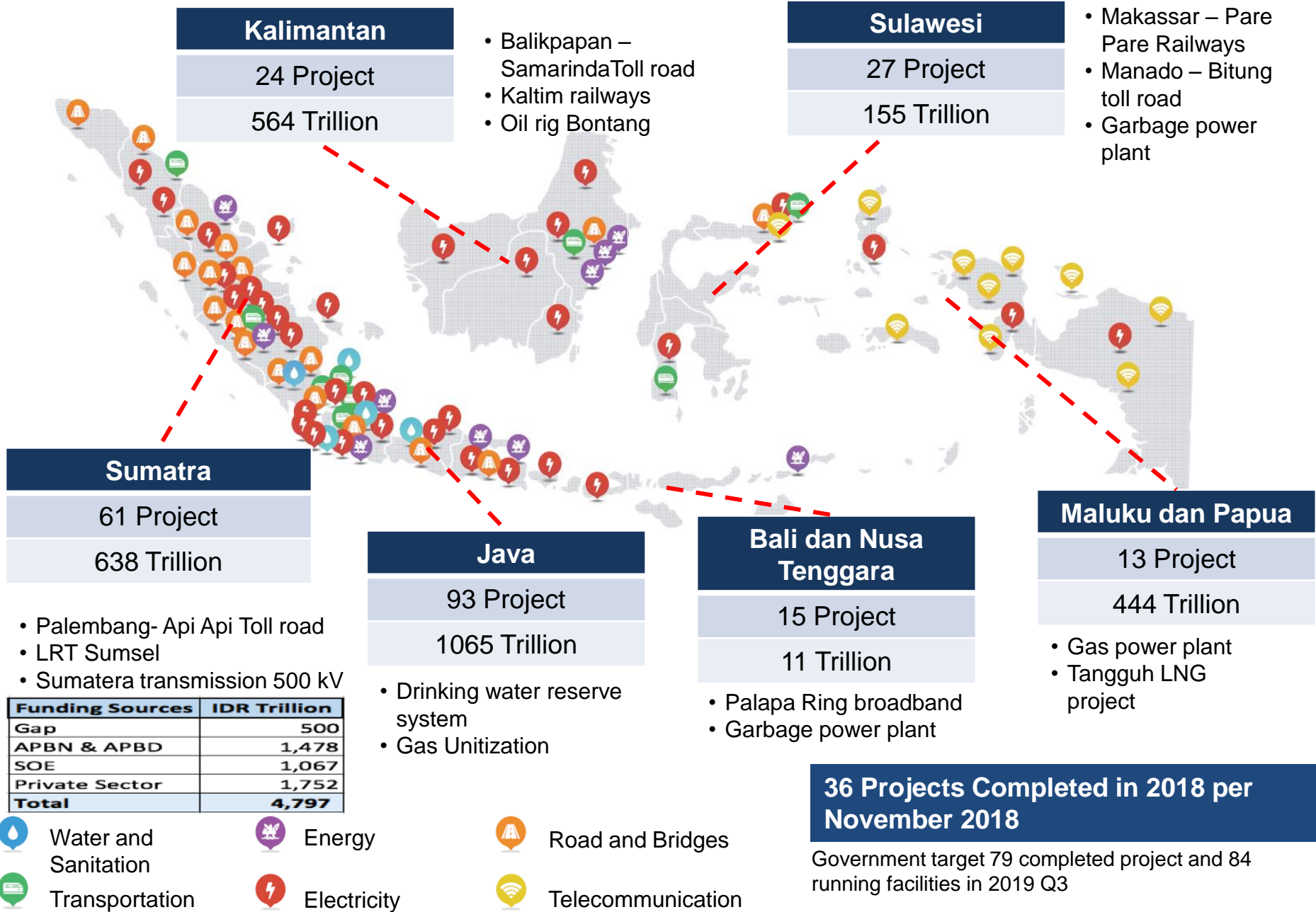




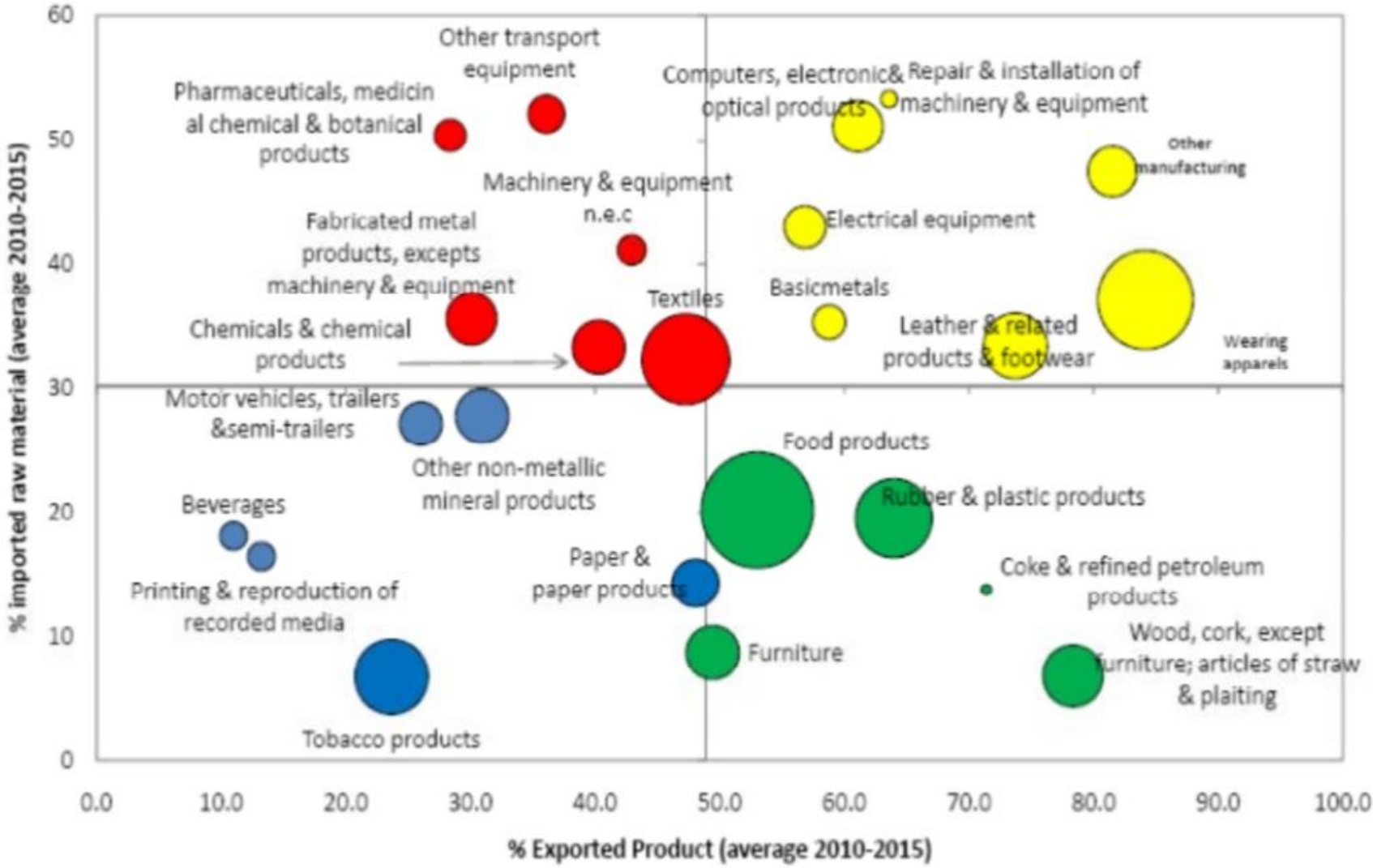
Source: CEIC, UOB Global Economics & Markets Research. *2014 data **2016 data ***2017 ^2018-interpolated



National Strategic Project

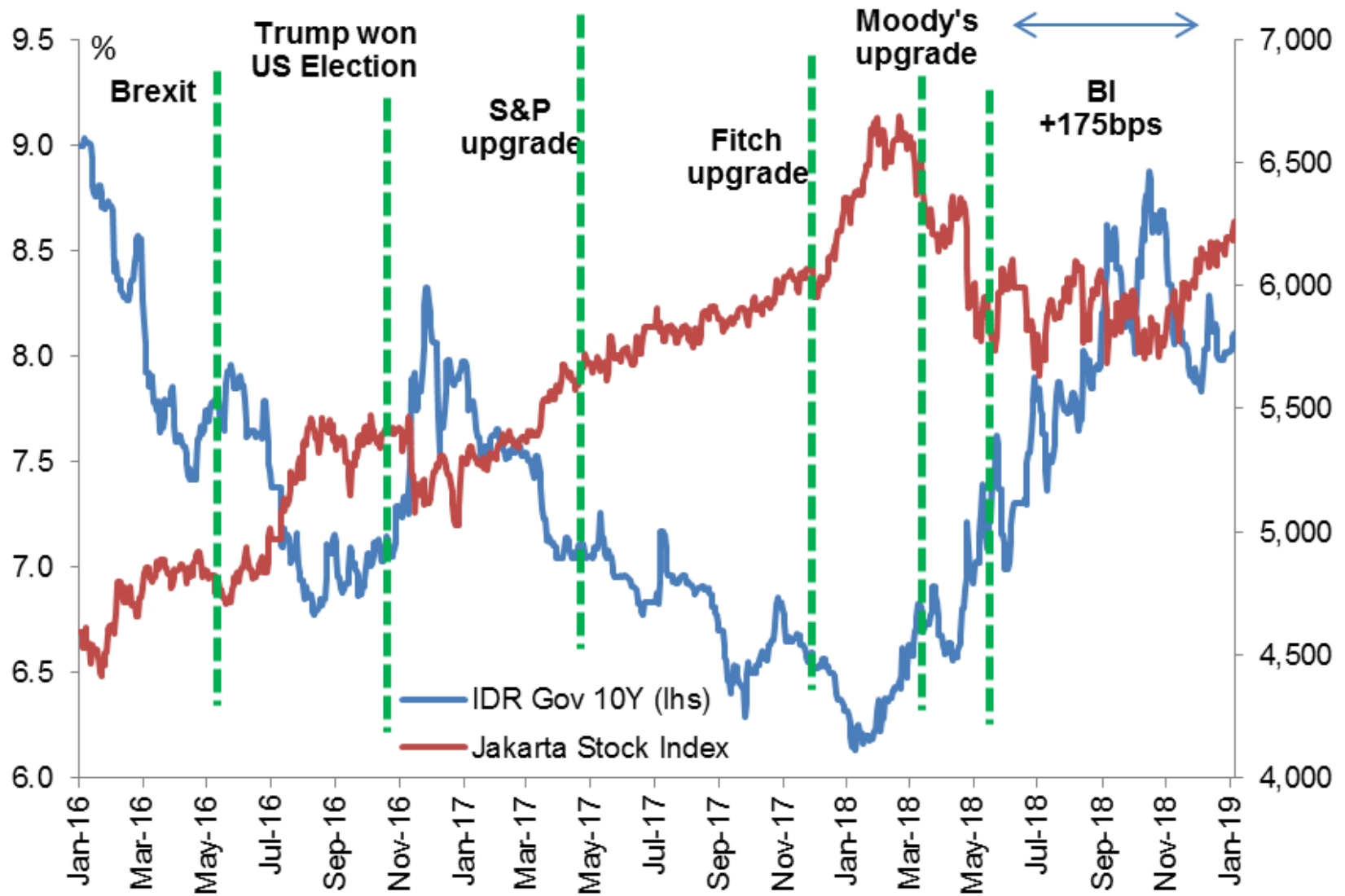


Threading Cautiously in 2019



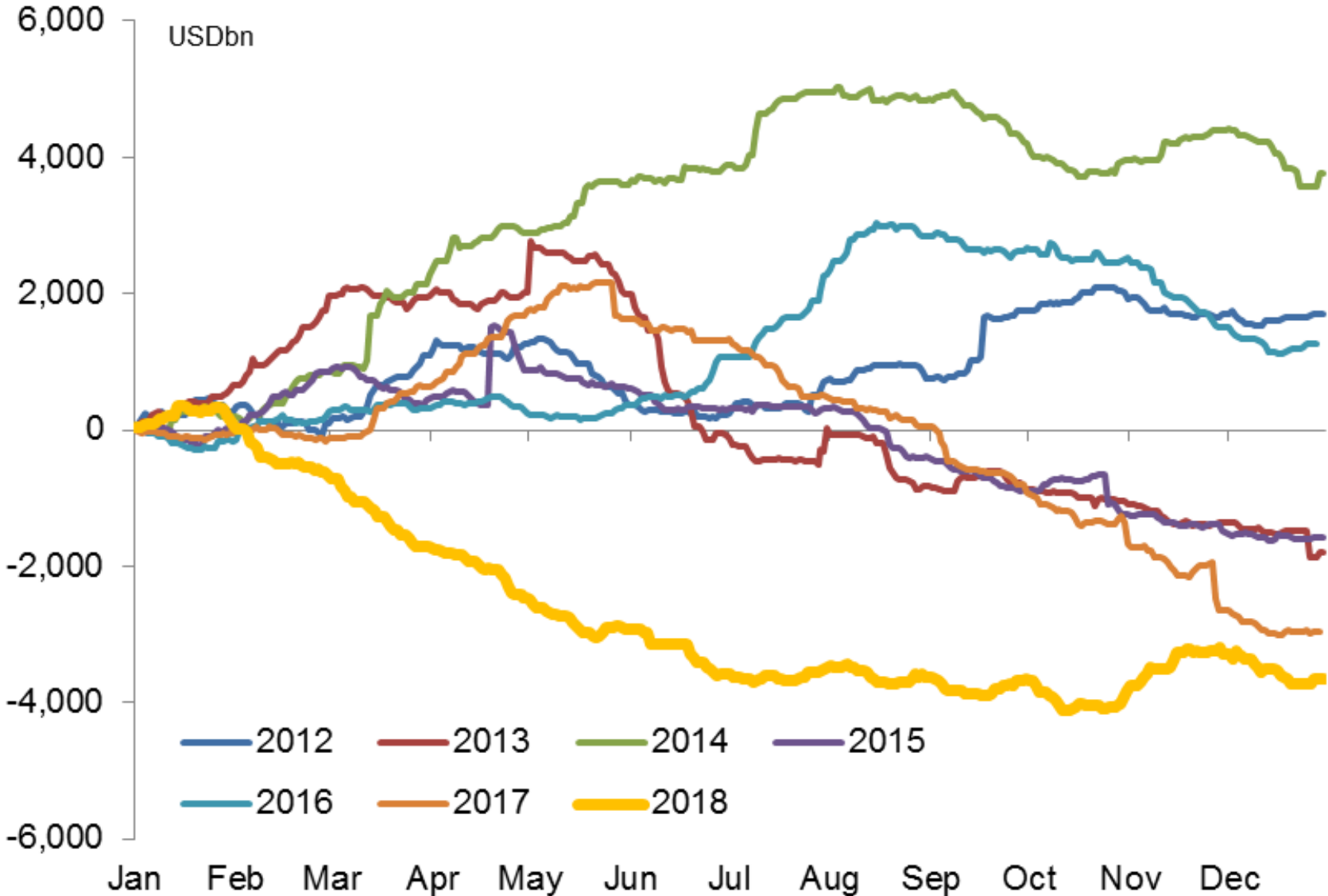
*Bubble Size show that total labor in average 2010-2015
 Source: Industrial Statistic, BPS

Sell-Off Since Trade War Recovering...



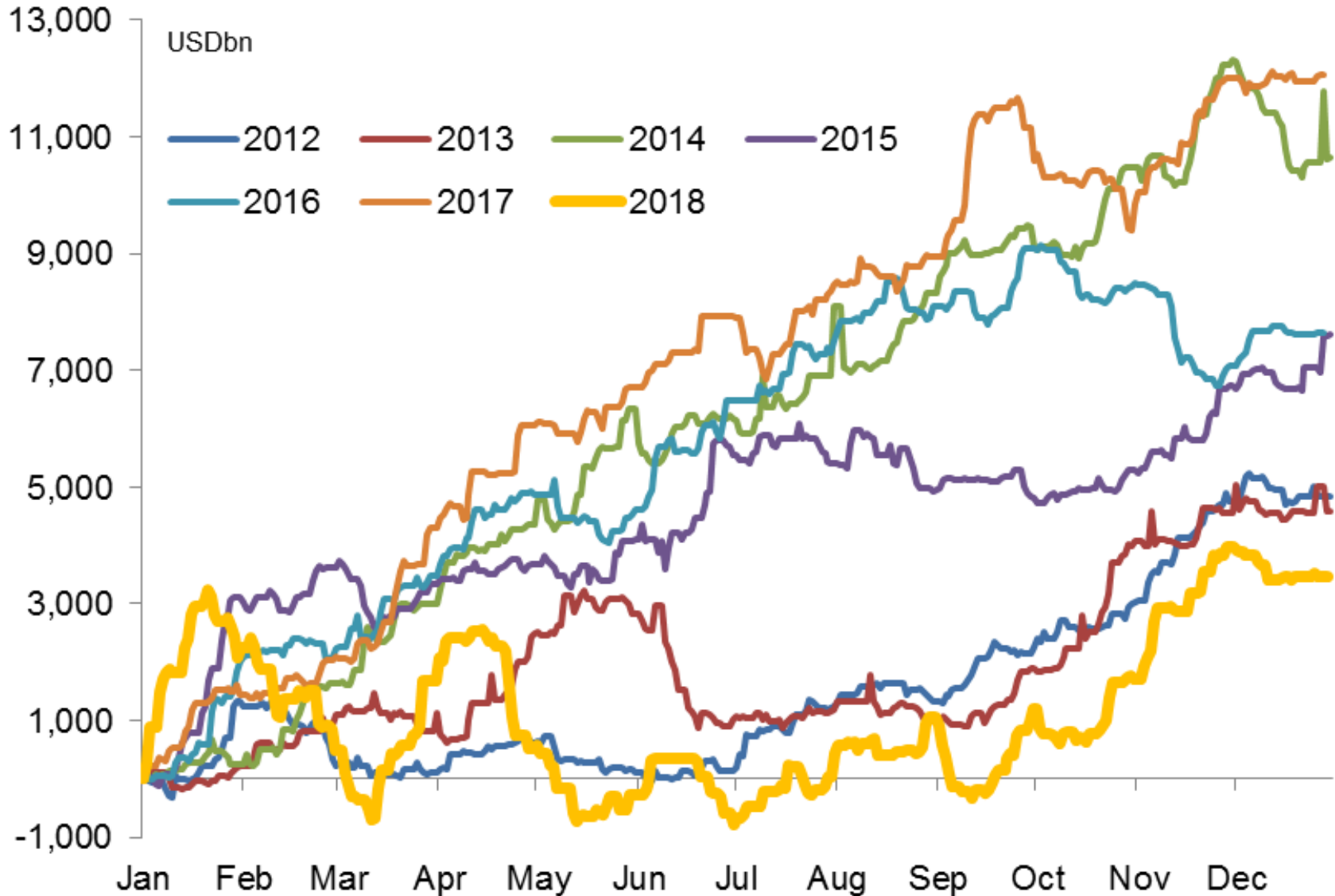
Source: Bloomberg, UOB Global Economics & Markets Research

2018 is not a good year for the stock market...



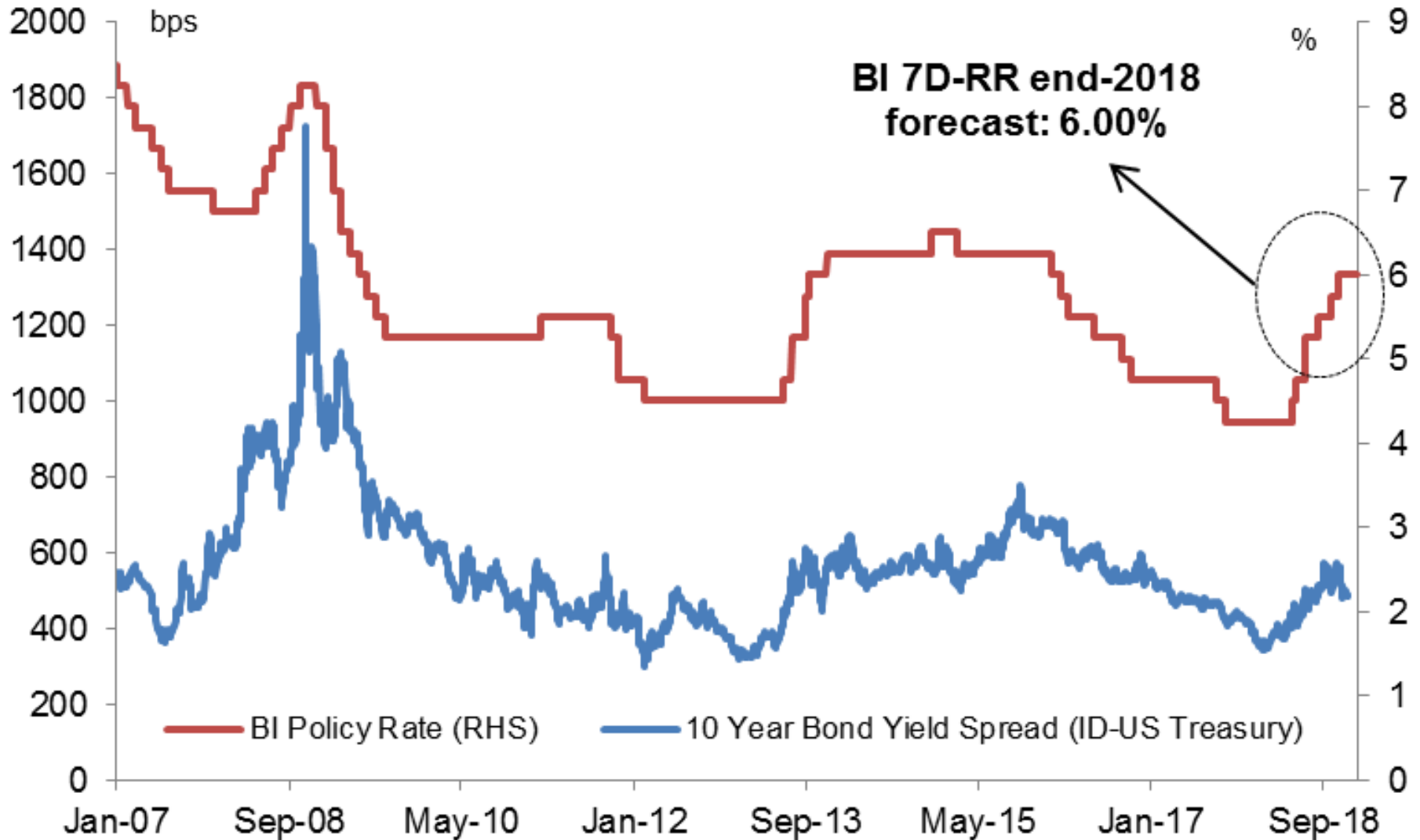
Source: Bloomberg, UOB Global Economics & Markets Research

Nor for the bond market...



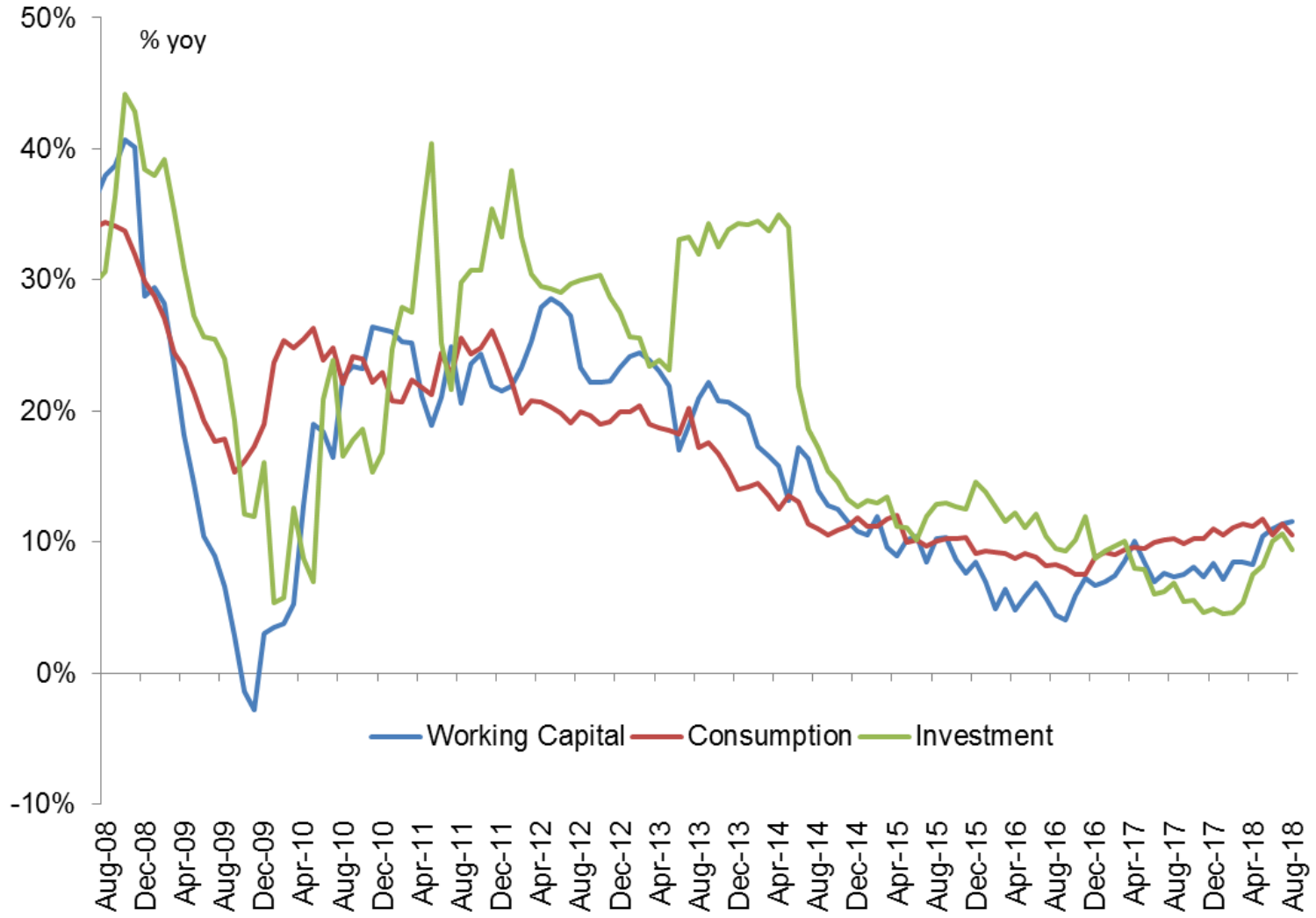
Source: Bloomberg, UOB Global Economics & Markets Research

Yield differentials must be higher to attract inflows



Source: Bloomberg, UOB Global Economics & Markets Research

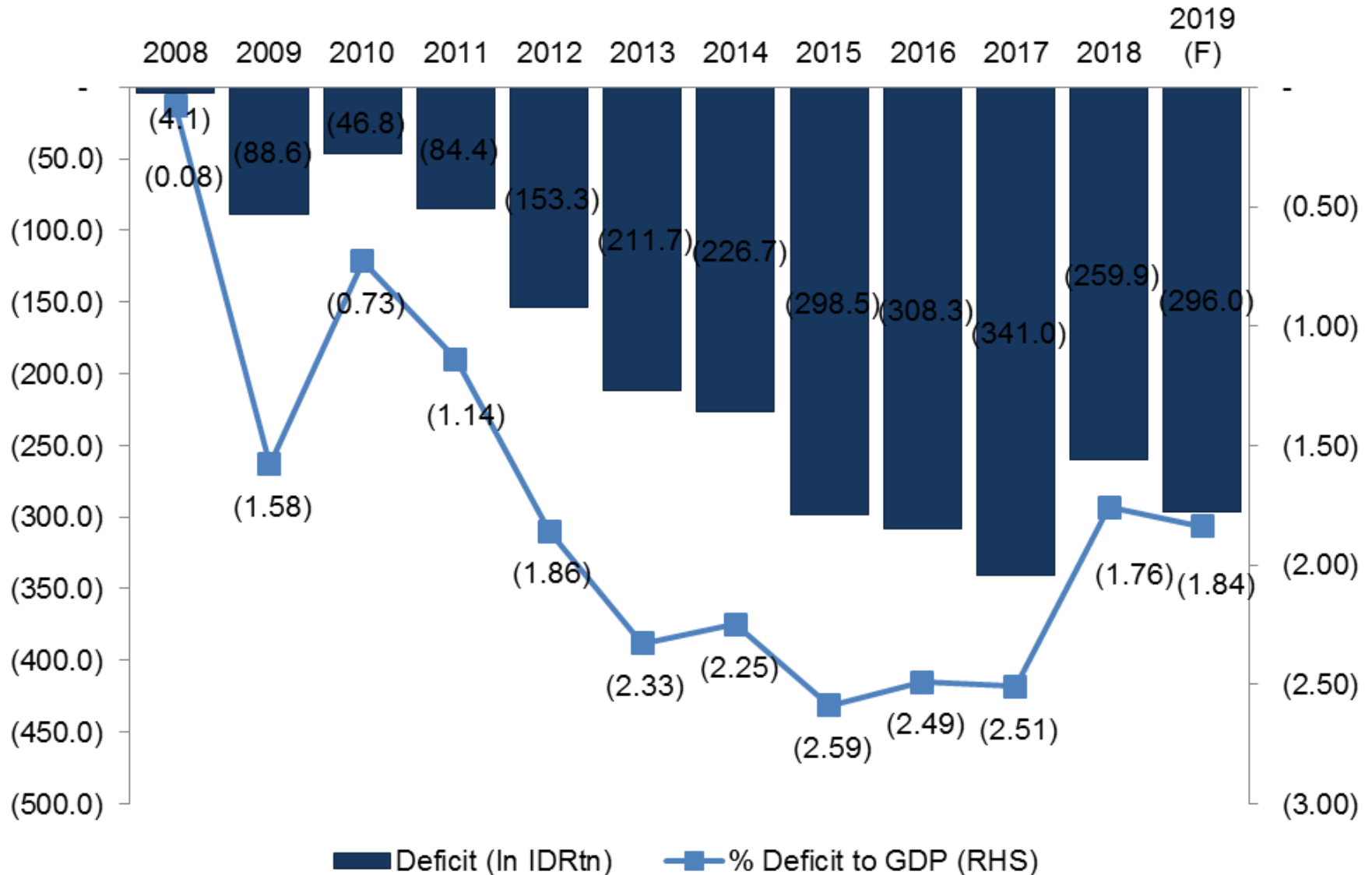
Loan demand across types have been falling...but showing tentative pick-ups in April 2018...



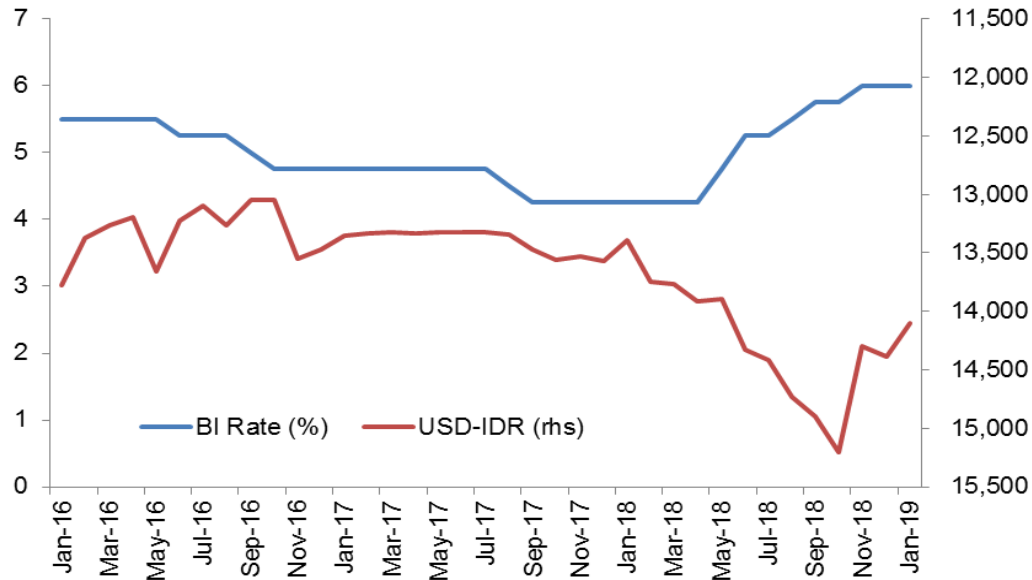
Source: CEIC, UOB Global Economics & Research

Note: Year-on-year percentage change suggests loan demand has been weakening for various reasons such as business outlook uncertainty, low commodity prices, and generally a more refrained consumption spending.

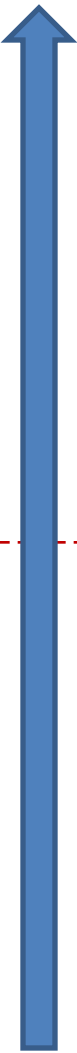
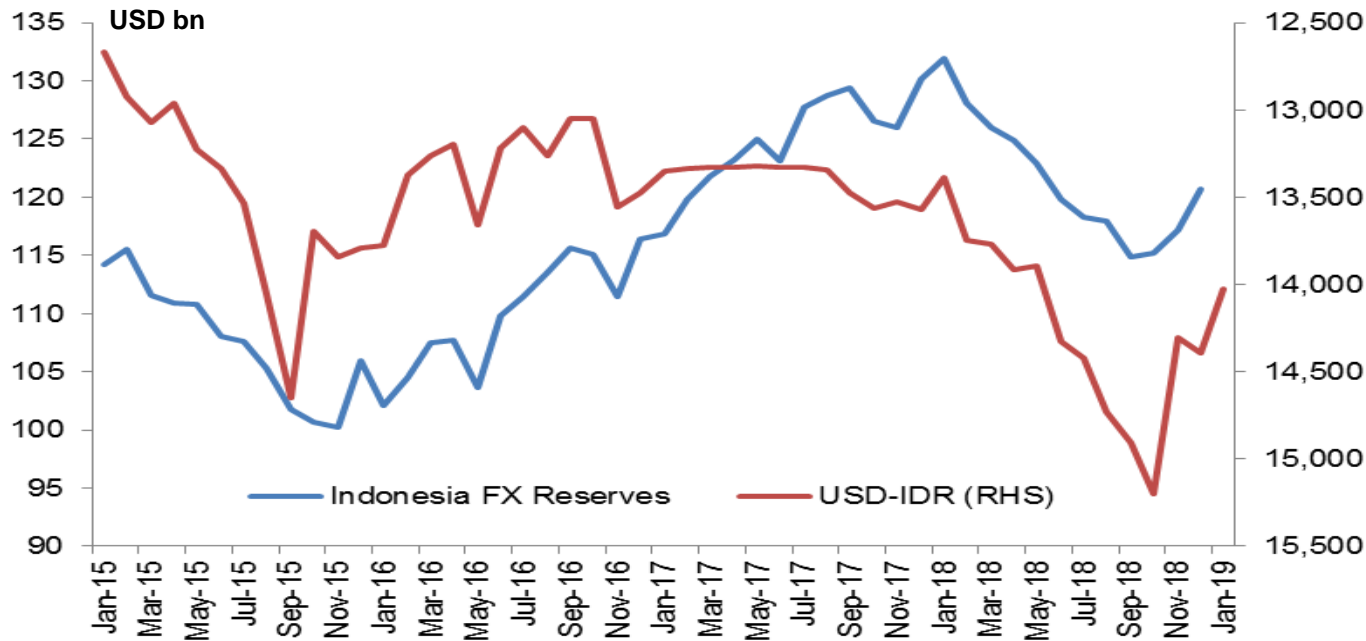
Fiscal is well under control



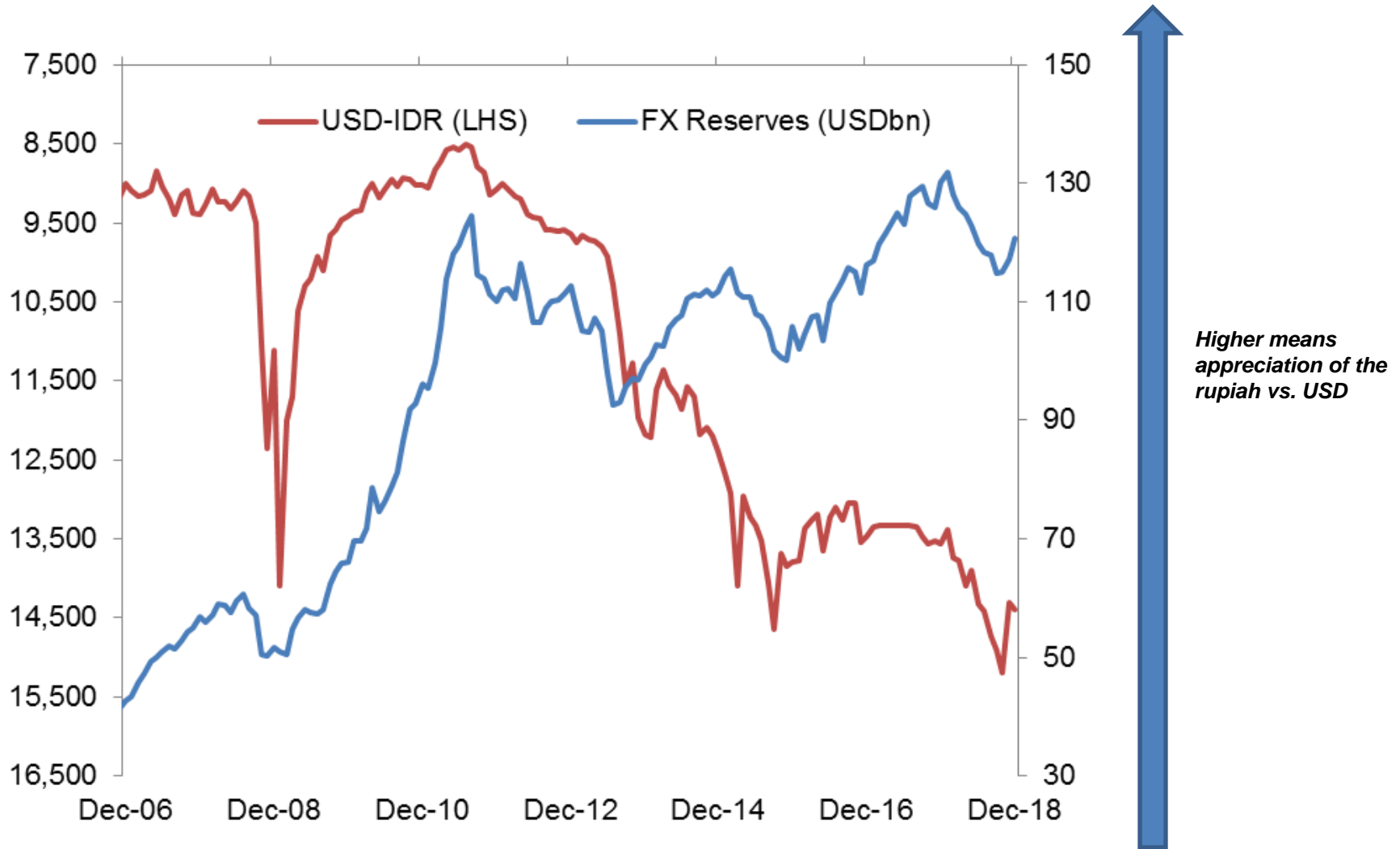
The rupiah and interest rate direction in 2019



Higher means appreciation of the rupiah vs. USD



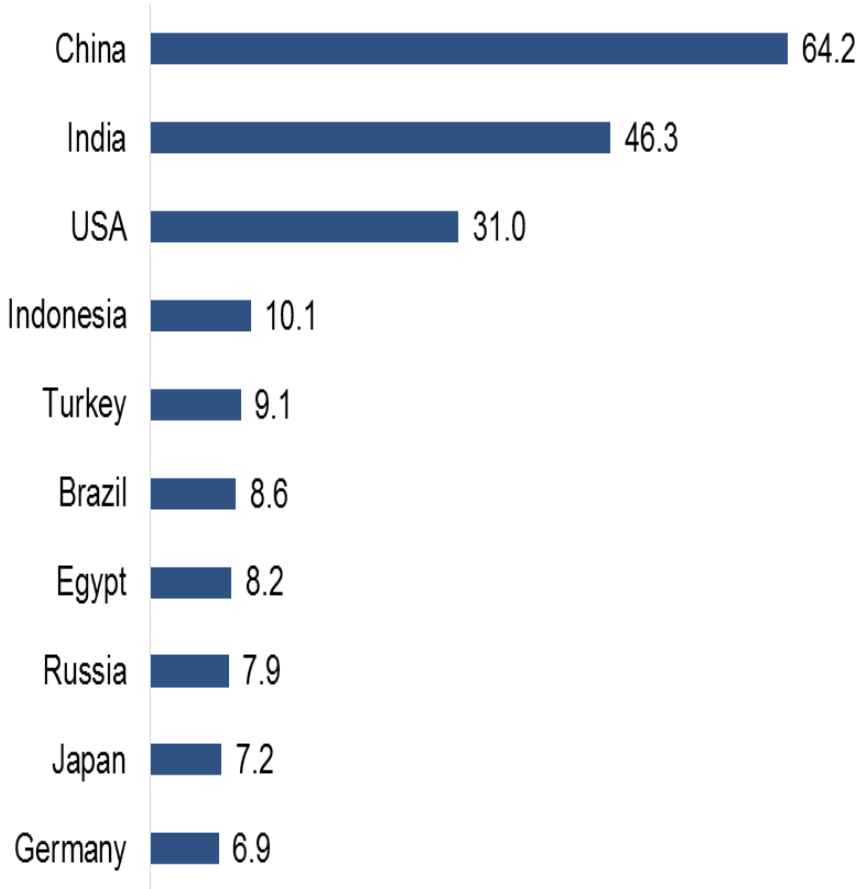
Long-term relationship between reserves and rupiah



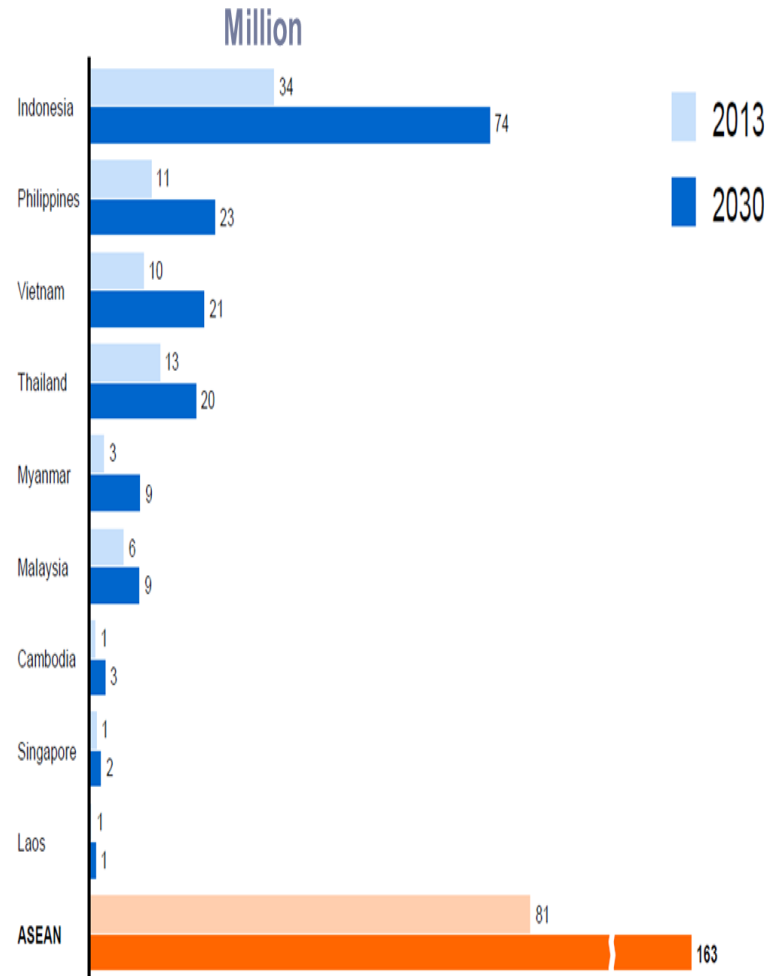
Higher means appreciation of the rupiah vs. USD

Top 10 countries by nominal GDP using PPP exchange rates by the year 2030

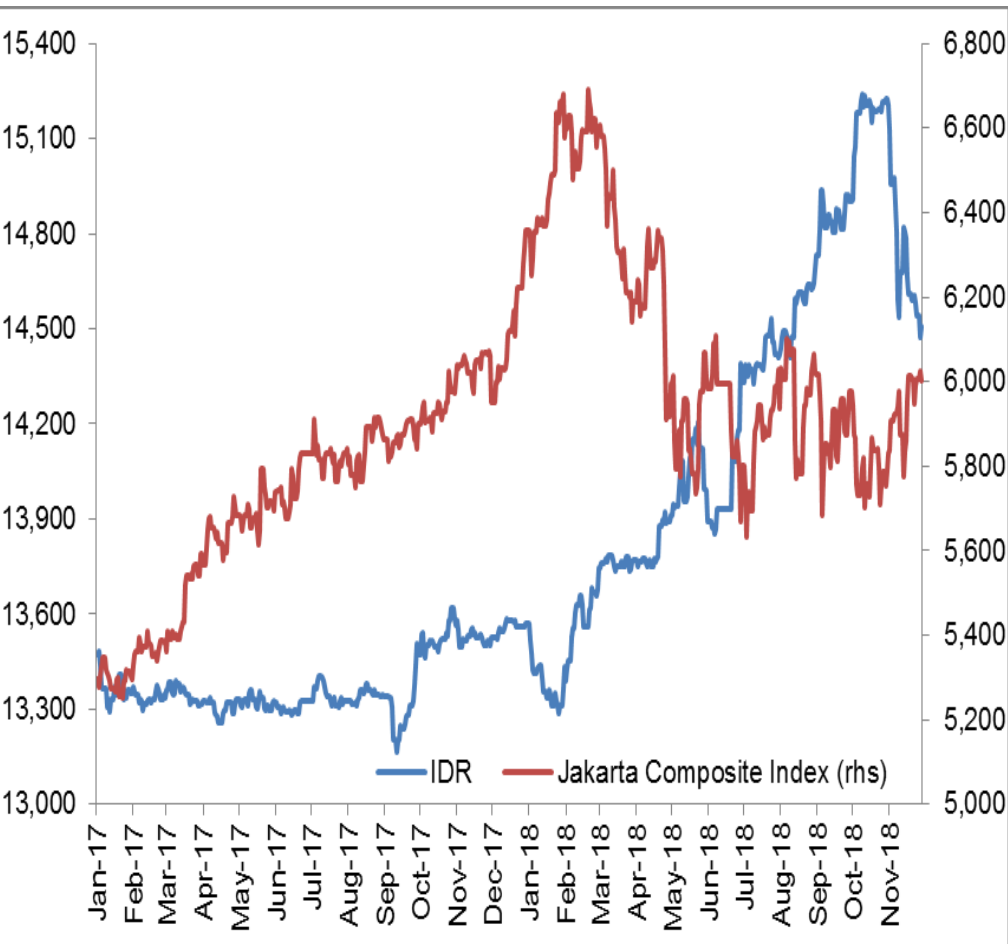
Note: Estimates are in trillions of international dollars
 Source: Market estimates



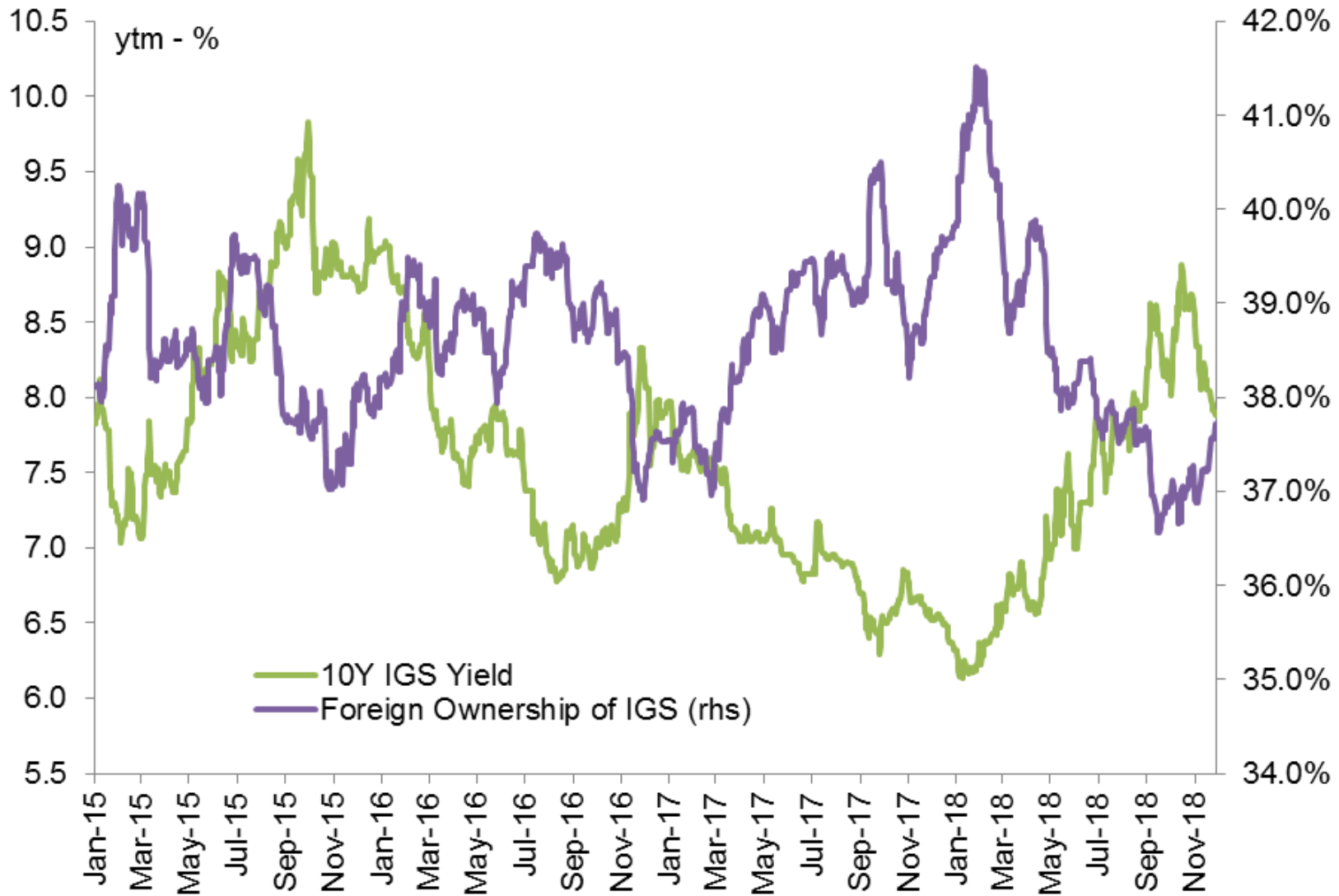
“Consumer Class” Households To Double By 2030



Financial Market Deepening (1)



Source: Bloomberg, UOB Global Economics & Markets Research.



Source: Bloomberg, UOB Global Economics & Markets Research.

Financial Market Deepening (Banks)

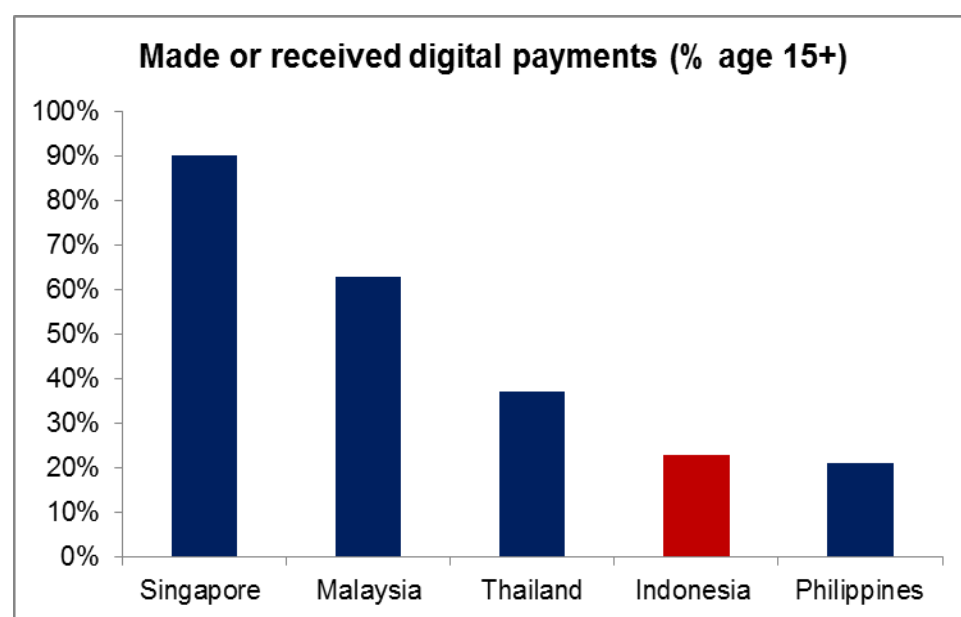
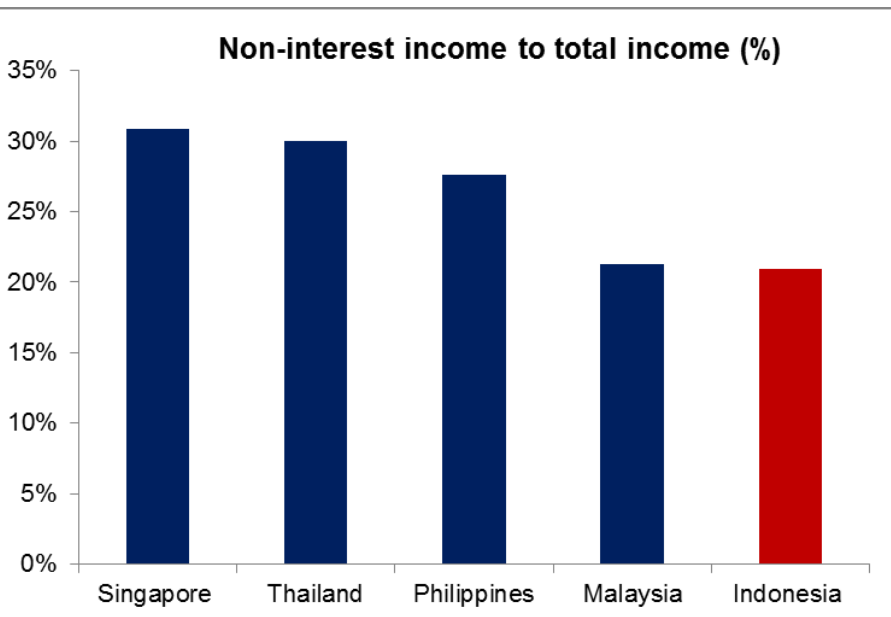
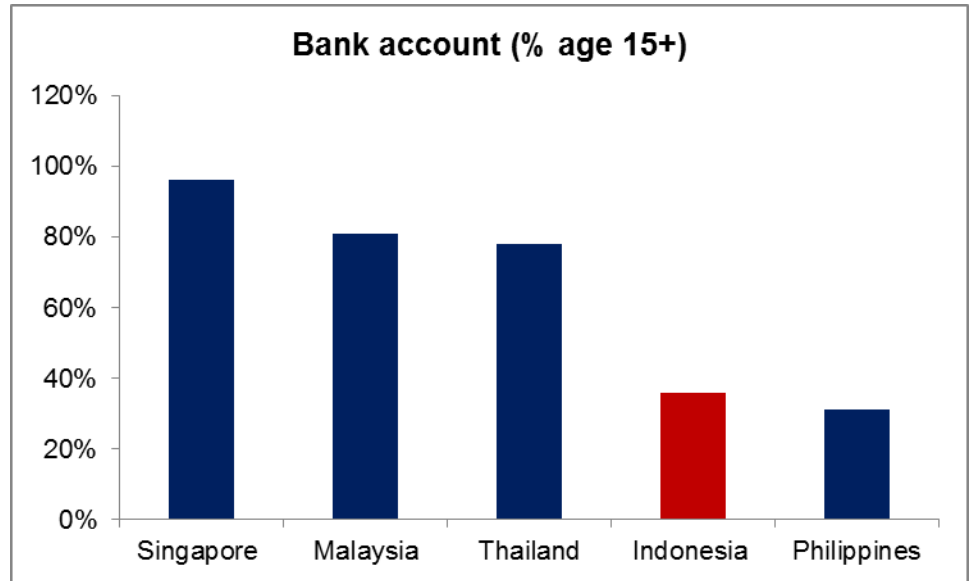
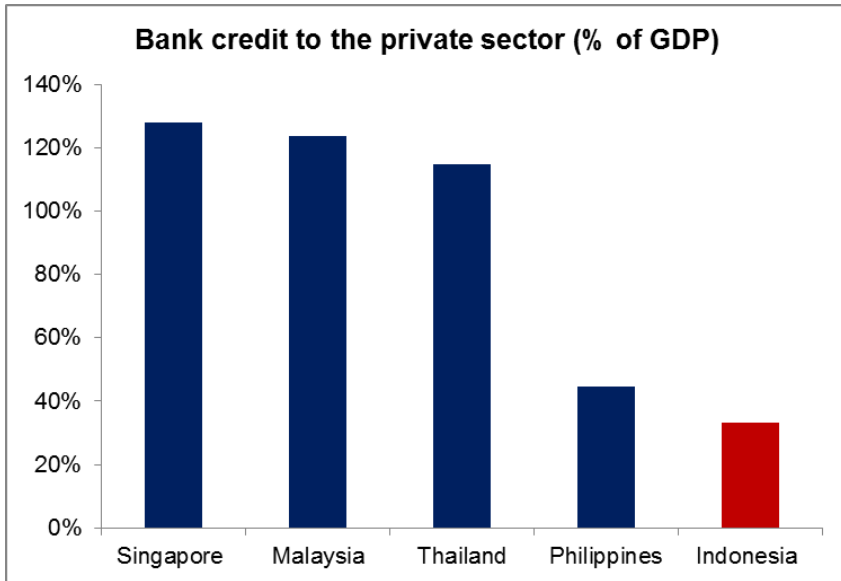
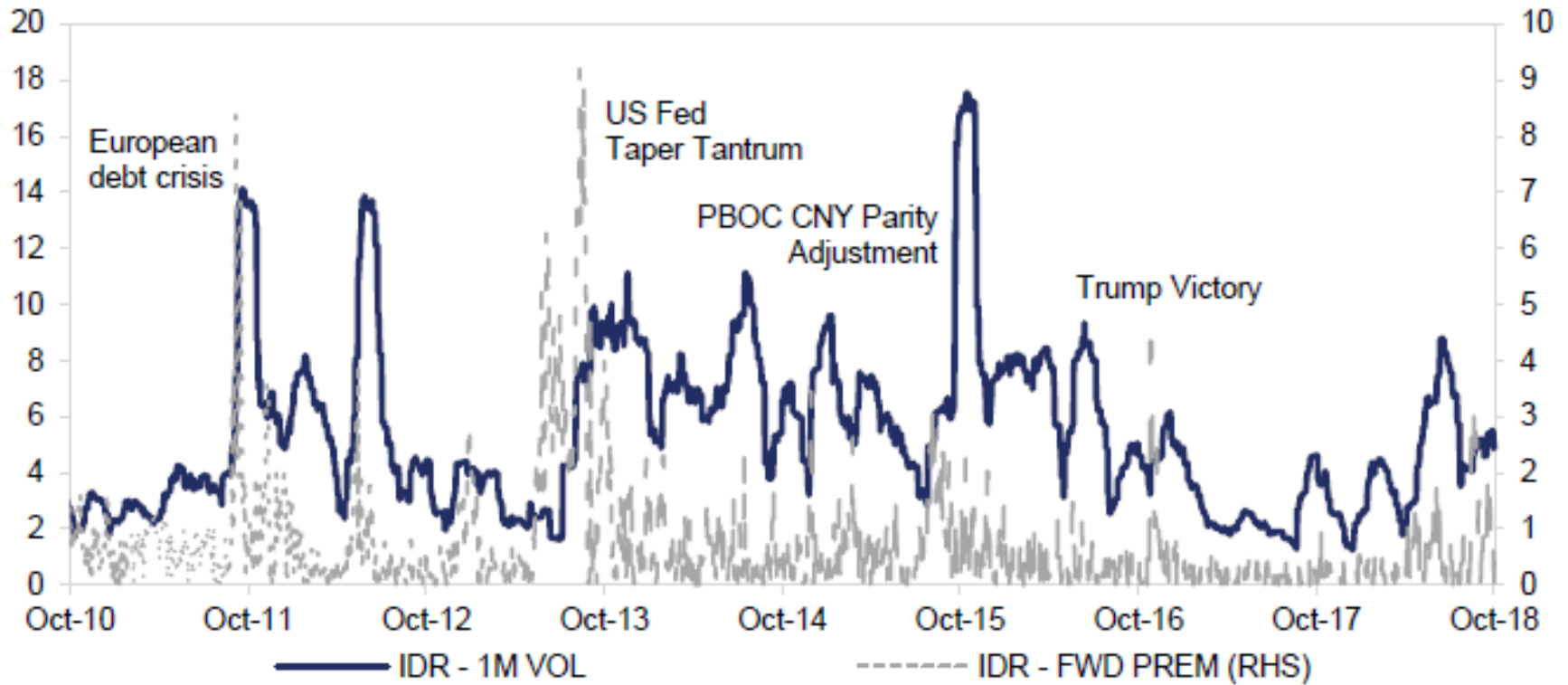


Figure 1. Relationship Between Rupiah Onshore Volatility And Offshore Forward Premium

Note: IDR-1M VOL is the historical realized volatility of the rupiah exchange rate, which measures how volatile the rupiah is over the course of 30 days. IDR-FWD PREM is a forward premium gap to proxy the offshore "stress" vs. onshore FX rates. It is calculated as the difference between the offshore NDF rates and the onshore forward rate as a percentage of spot price. The interpretation is that higher forward premium gap suggests offshore stress (via NDF prices) that may/may not spillover to onshore volatility

Source: Bloomberg, UOB Global Economics & Markets Research



Source: Bloomberg, UOB Global Economics & Markets Research.

Indonesia Forecasted Digital Economy Revenue in 2020



- Revenue in the digital economy amounts to **USD 30.3bn** in 2016.
- Revenue is expected to show an annual growth rate (CAGR 2017 - 2020) of **20.6%** resulting in a market volume of **USD 66.2bn** in 2021.
- The market's largest market is FinTech with a market volume of **USD 15 bn (49% of total digital economy)** in 2016.

Digital Media	Digital Advertising	e-Commerce	e-Travel	e-Service	FinTech
Video-on-Demand Digital Music Video Games ePublishing	Banner Advertising Video Advertising Search Advertising Soc Media Adversiting Classifieds	Fashion Electronics & Media Food & Personal Care Furniture & Appliances Toys, Hobby & DIY	Online Travel Booking Mobility Service	Event Tickets Fitness Dating Services Food Delivery	Digital Payment Business Finance Personal Finance

Fintech mapping in Indonesia

There are more than 140 Fintech players* in Indonesia in which Payment Category is the majority of its business area...













*Source: Fintechnews.sg

April 2018 – 40 P2P Lending Services registered with OJK



*Source: Fintechnews.sg

People need banking, but not banks...

<h2>Savings</h2>	<ul style="list-style-type: none"> • Mobile first savings 		
Banks domain			
<h2>Transact</h2>	<ul style="list-style-type: none"> • Payment gateways • e-Wallets 		
<h2>Invest</h2>	<ul style="list-style-type: none"> • Crowdfunding • Stock trading platforms • Insurance aggregator 		
<h2>Lending</h2>	<ul style="list-style-type: none"> • P2P lending 		
<h2>Lifestyle</h2>	<ul style="list-style-type: none"> • eCommerce • Financial comparison tools 		

We should trigger more transactions because Millennial behavior shows that if we get spending right, we can trigger savings as well.

Thank You



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