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INDONESIA ECONOMIC STATUS



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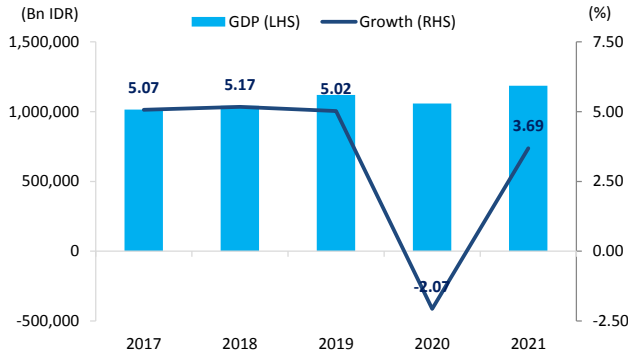
Economic Status

General Information

August, 2022

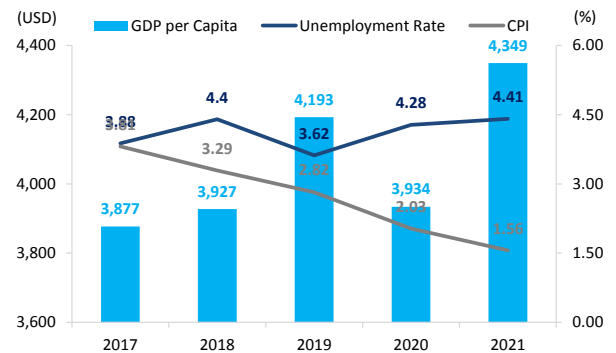
1. Indonesia's Economy

Indonesia's GDP and Annual GDP Growth (YoY)



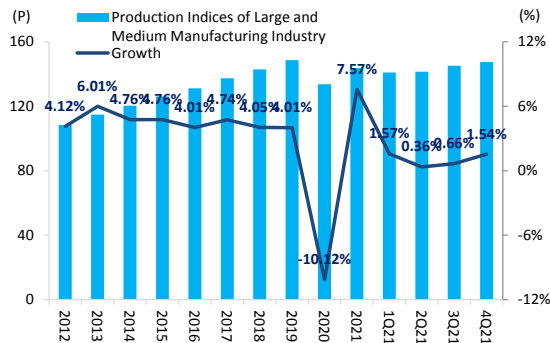
Source: Statistics Indonesia

GDP per Capita, Unemployment, and Inflation Rate



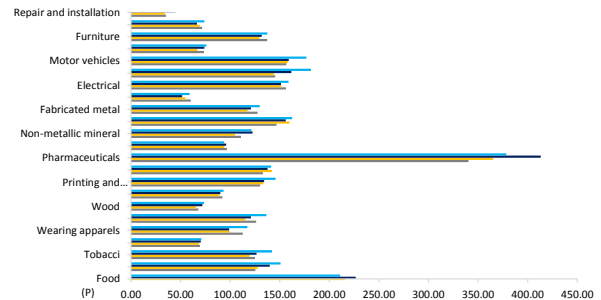
Source: Trading Economics

Production Indices of Large and Medium Manufacturing Industry



Source: Statistics Indonesia,

Production Indices of Large and Medium Manufacturing Industry by Sector



Source: Statistics Indonesia

Gross Domestic Product. Indonesia's economy based on Gross Domestic Product (GDP) at current prices in 2Q22 reached IDR 4,919.9trn and at constant prices (2010) reached IDR 2,923.7trn. Indonesia's economy grew by 5.44% YoY in 2Q22. From production side, Transportation and Storage experienced the highest growth at 21.27% YoY. Meanwhile, on the expenditure side, Export of Goods and Services experienced the highest growth at 19.74% YoY. Indonesia's economy in 2Q22 grew by 3.72% QoQ. From the production side, the highest growth occurred in the Agriculture, Forestry, and Fishing at 13.15% QoQ. Meanwhile, on the expenditure side, General Government Final Consumption Expenditure (GGFCE) component experienced the highest growth at 32.00% QoQ. The boosting of Indonesia's economy in 2Q22 was seen in all regions.

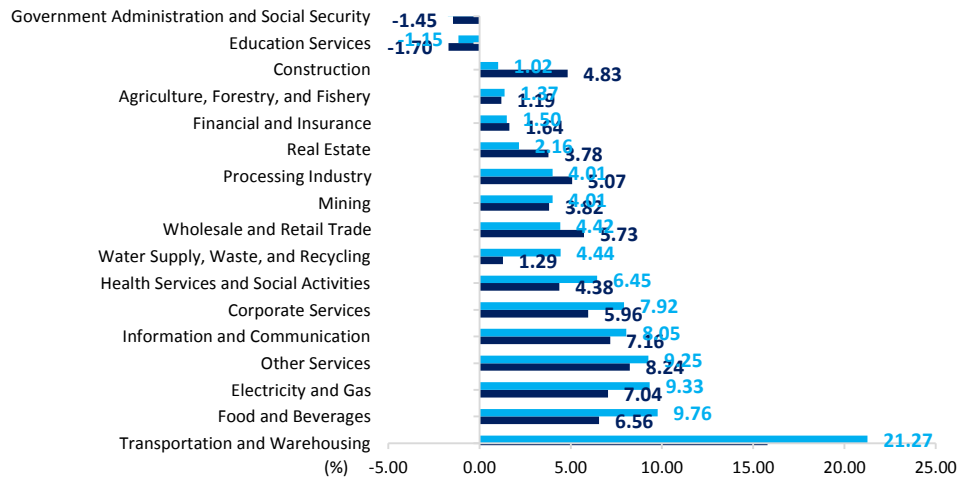
Easing mobility restriction and maintained purchasing power encourage acceleration of public consumption and production activities. The rapid increase of people's mobility following the easing of travel conditions and the festive session during the Eid al-Fitr period became the drivers of increased economic activity in 2Q22. Number of passengers across all modes of transportation experienced an increase, while the number of foreign tourist grew by 1,250.65% YoY. The increased spending on energy subsidies and social assistance in 2Q22 help to maintaining purchasing power and the condition of business activities. The government increased spending on energy subsidies and social assistance in 2Q22 by 11.34% YoY and 56.17% YoY, respectively. In addition, there's also tax incentives in order to encourage business activities. From the monetary side, BI also maintain the benchmark interest rate.

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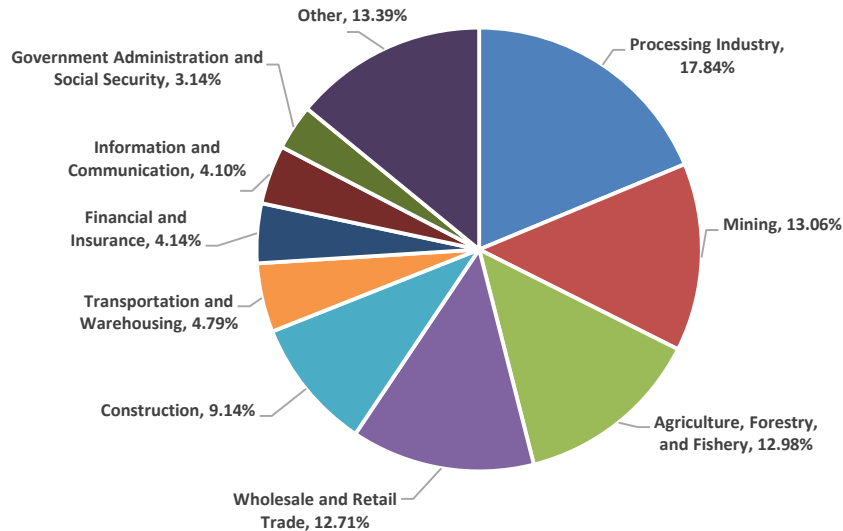
August, 2022

GDP Growth by Sector (2Q22)



Source: Statistics Indonesia

Distribution of GDP by Industry (2Q22)



Source: Statistics Indonesia

Indonesia's economy in 2Q22 compared to 2Q21 grew by 5.44 %. Growth occurred in almost all industries that experienced significant growth which Transportation and Storage by 21.27% and Accommodation and Food Service Activities by 9.76%. Meanwhile, the Manufacturing, which has a dominant contribution, also grew by 4.01%. The structure of Indonesia's GDP according to industries based on current prices in the second quarter of 2022 did not show any significant changes. The Indonesian economy is still dominated by the Manufacturing of 17.84%, followed by Mining and Quarrying by 13.06%, Agriculture, Forestry and Fishing by 12.98%, and Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles by 12.71%. The contribution of these four industries in the Indonesian economy reached 56.59%.

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Production Index. The Quarterly Production Index of Large and Medium Manufacturing Industry on 4Q21 was estimated to have increased by 1.54% QoQ from the previous quarter to 147.41. Meanwhile, this index increased by 6.25% YoY. This was caused by the increased in the efficient of some subsectors, especially Manufacture of machinery and equipment (42.67%), Manufacture of Other Transport Equipment (34.14%), and manufacture of motor vehicles, trailers and semi-trailers (33.52%). In addition, several sub-sectors experienced a decline in performance, Repair and installation of machinery and equipment (41.95%), Manufacture of rubber and Plastic Products (5.54%), and Manufacture of Computers Electronic and Optical Products (4.88%). Manufacturing activities that reflected from the Bank Indonesia's Prompt Manufacturing Index reached 53.61% in 2Q22, or higher than 51.45% in 2Q21, in line with the use of production capacity in the Processing industry that grew by 0.54%.

Unemployment Rate. The labor force in February 2022 was 144.01 million people, a 4.20 million increase over February 2021. Similarly, the labor force participation rate increased by 0.98 percentage points. Compared to February 2021, the number of employed people increased by 4.55 million to 135.61 million in February 2022. Agriculture, Forestry, and Fishery experienced the greatest rise in employment (0.37 percentage points). The informal sector employed 81.33 million people (59.97%), a 0.35 percentage points increase from February 2021. The February 2022 unemployment rate was 5.83%, a decrease by 0.43 percentage points from the February 2021 rate. There were 11.53 million people (5.53% of the working-age population) who were affected by the Covid-19, with 0.96 million people being unemployed, 0.55 million people being exited from the labor force, 0.58 million people being temporarily absent from work, and 9.44 million people having their hours worked reduced.

Key Economic Indicators

	2017	2018	2019	2020	2021	Unit
GDP	1,015,620	1,042,270	1,119,090	1,058,690	1,186,090	100 million USD
GDP per Capita	3,877	3,927	4,193	3,934	4,349	USD
Economic Growth Rate	5.07	5.17	5.02	-2.07	3.69	%
Unemployment Rate	3.88	4.4	3.62	4.28	4.41	%
CPI	3.81	3.29	2.82	2.03	1.56	%

Source: Statistics Indonesia, Trading Economics, Statista

Economic Indicators of ASEAN Countries

Country	GDP Dec-21	GDP per Capita Dec-21	Inflation Rate	Unemployment Rate	Interest Rate	Exports	Imports	Natural Resources Scale
	(Bn USD)	(USD)	(%, YoY)	(%)	(%)	(USD Mn)	(USD Mn)	(% of GDP, Avg.)
Brunei	14	29,927	3.80%	7.40%	5.50%	7,039	5,103	27.83%
Cambodia	27	1,400	7.20%	0.61%	0.73%	14,825	20,279	4.17%
Indonesia	1,186	3,856	4.94%	5.83%	3.75%	167,683	171,276	9.60%
Laos	19	2,582	25.62%	1.30%	3.10%	5,809	5,797	7.44%
Malaysia	373	10,827	3.40%	3.80%	2.25%	238,089	204,906	17.67%
Myanmar	65	1,292	17.78%	1.79%	7.00%	18,106	18,611	8.84%
Philippines	394	3,413	6.40%	6.00%	3.75%	70,927	117,247	2.09%
Singapore	397	66,176	7.00%	2.10%	1.56%	390,332	358,975	0.00%
Thailand	506	6,270	7.61%	1.53%	0.75%	233,674	216,805	1.73%
Vietnam	363	3,373	3.14%	2.46%	4.00%	264,610	253,442	7.39%

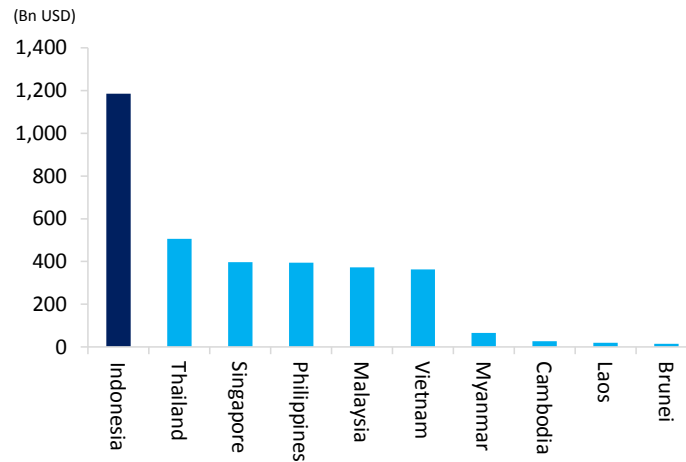
Source: Statistics Indonesia, Trading Economics, Statista

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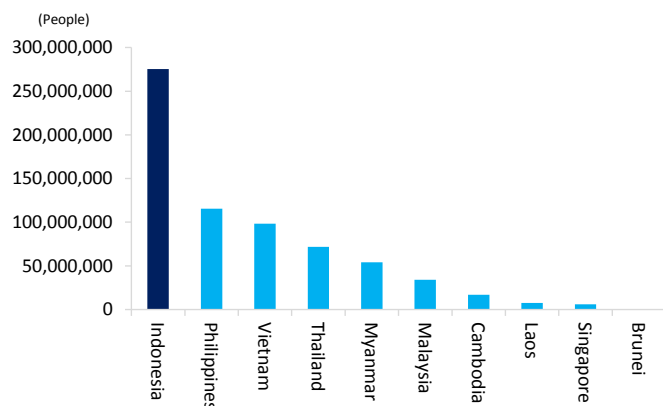
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Indonesia as the largest economy in ASEAN



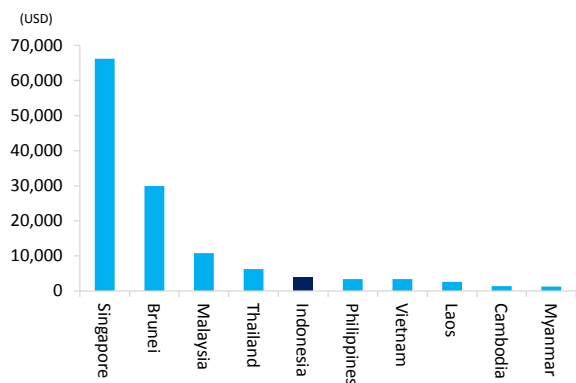
Source: Statistics Indonesia, Trading Economics, Statista

Indonesia as the biggest population in ASEAN (2022)



Source: Statistics Indonesia, Trading Economics, Statista

Indonesia among the top 5 of GDP per capita in ASEAN



Source: Statistics Indonesia, Trading Economics, Statista

2. Key features of Indonesia's economy

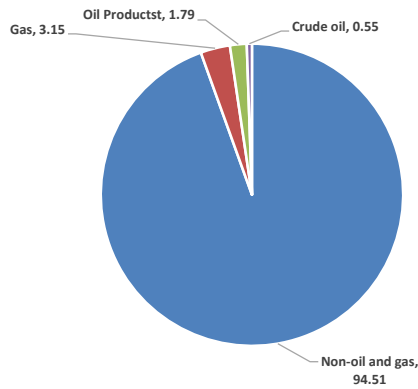
The potential of economic growth and business opportunities in Indonesia is measured by the total size of the economy. Indonesia's GDP is the largest in ASEAN while the total population is also the biggest in this region. By assuming the population growth of at 0.7% per year in every 3 years and the USD 9,600 GDP per capita (categorize of middle income), the new Singapore has been found. The big size with the low market penetration as the factor that supports the thesis of bright investment opportunities in Indonesia. Along with the current workforce that is growth 7,000 people, adding an estimated 21 million people to its workforce by over the next decade. This is second only to India as Asia's fastest growing workforce. This growth has given birth to a burgeoning middle class willing to spend money on durable goods. Currently, household consumption accounts for more than half of Indonesia's GDP. Moreover, increased foreign investment and a rising middle class have kept Indonesia's economy afloat despite the turmoil in global markets. Indonesia coming out ahead of peers largely thanks to high prices for Indonesia's commodity products that turning the country into an inflation hedging country. While other emerging markets like India have suffered from the high energy prices brought upon by the war in Ukraine, Indonesia became the beneficiary due to its production of coal and palm oil. The Rupiah also has outperformed most peers in Asia.

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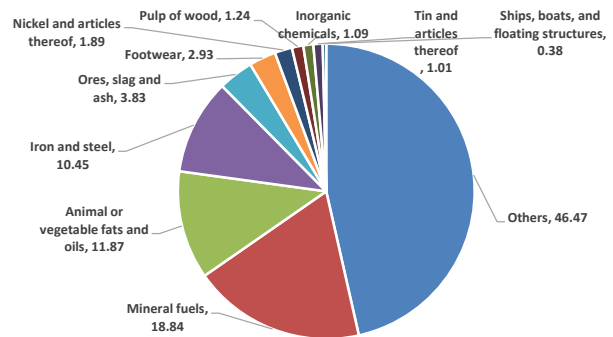
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Oil and gas & Non-oil and gas Exports of Indonesia (January-July 2022)



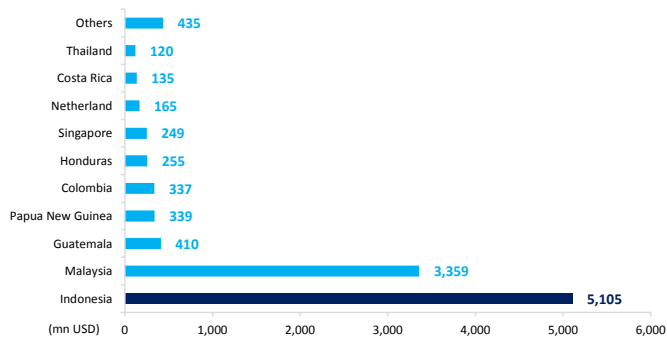
Source: Statistics Indonesia

Non-oil and gas Exports of Indonesia by 10 Commodities Groups (January-July 2022)



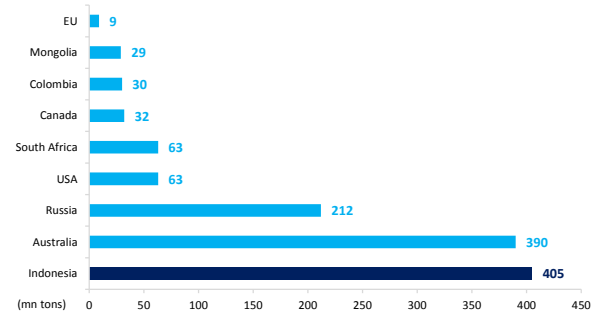
Source: Statistics Indonesia

Top 10 CPO Exporter in the World (Indonesia: 46% of the total global exports of CPO)



Source: OEC World

World's Largest Coal Exporting Countries



Source: Databoks

Export and Natural Resources. Indonesia's total exports in July 2022 decreased by 2.20% MoM from USD 26,150.1 million to USD 25,573.5 million. However, compared to July 2021, the total exports increased by 32.03% YoY. The decrease of exports in July 2022 compared to June 2022 was due to the decrease of oil and gas export and non-oil and gas export by 11.24% and 1.64%, respectively. The decrease of oil and gas exports was due to the decrease of crude oil exports (60.06%) to USD 105.8 million and oil products (8.87%) to USD 402.3mn, while gas increased (2.86%) to USD 867.0 million. Cumulatively, Indonesia's exports in January-July 2022 reached USD 166.70 billion or increased by 36.36% YoY, while non-oil and gas exports reached USD 157.55bn or increased by 36.45%. The highest decrease in non-oil and gas exports in July 2022 was iron and steel commodity in amount of USD 257.4 million or decreased 11.51% from June 2022, whereas the highest increase was mineral fuels in amount of USD 354.2 million or increased 6.86%. Table 2 shows the figure of exports commodities that experienced high increase or decrease. The other exports commodities which decreasing were tin and articles thereof by 54.02% (USD 145.5 million), nickel and articles thereof 15.53% (USD 94.9 million), ships, boats and floating structures 82.30% (USD 73.7 million), and footwear 7.57% (USD 53.9 million). On the other hand, the other exports commodities which increasing were animal or vegetable fats and oils by 5.31% (USD 179.5 million), pulp of wood 48.54% (USD1 22.9 million), ores, slag, and ash 5.51% (USD 45.2 million), and inorganic chemicals 9.887% (USD 25.0 million). During the period of January to July 2022, exports of the 10 commodities groups contributed to 53.53% of total non-oil and gas exports. In terms of growth, exports of those 10 commodities groups increased by 56.91% compared to the same period in 2021.

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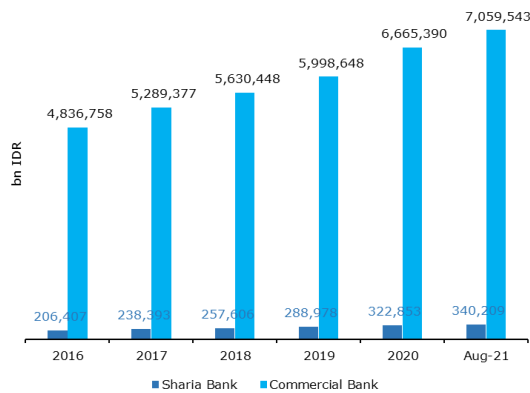
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Islamic Finance. The loan growth in sharia market was slightly above the conventional market. The growth of the loan was about 19% CAGR for Sharia bank compared to 13% of conventional bank. The shifting to the sharia loan was driven by the awareness to comply the sharia value among the people. This made the portion of the sharia loan improved to 4.3% in 2021 compared to 5 years ago at 3.9%. The digitalization of the bank services is believed would also increase the access for bankable and also for the un-bankable people going forward.

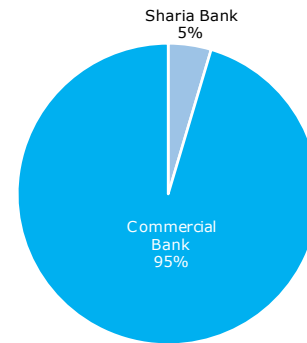
Adult with digital bank account in Indonesia. Based on the survey conducted by Finder.com, Indonesia is the 2nd the largest country that own digital bank account after Brazil. About 47.7 million people in Indonesia has digital bank account or representing 25% of the total population. The report also noted that the number of account is estimated to grow to 59.9mn in 2022 or representing 31% of the population and will increase further to 74.7mn in 2026 or reflecting 39% of the total population. This was on the back of the seamless platform and the digital literate to use the smartphone as the mode of daily transaction activity.

Sharia third party fund increase more than the conventional bank CAGR (28% vs 20%)



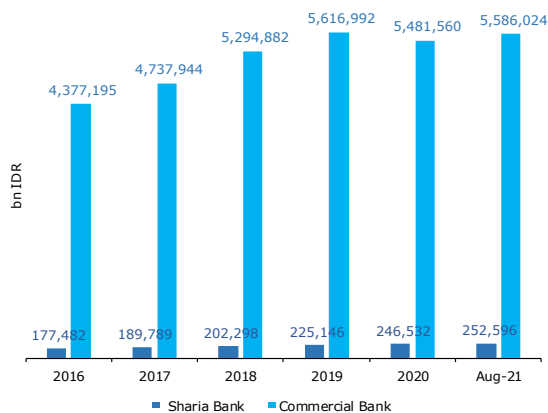
Source: Bank Indonesia

The portion of Sharia deposit was 5% in 2021



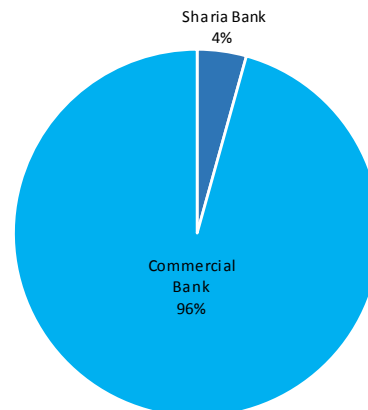
Source: Bank Indonesia

Sharia loan grows more than the conventional bank CAGR (19% vs 13%)



Source: Bank Indonesia

The portion of Sharia loan was 4% in 2021



Source: Bank Indonesia

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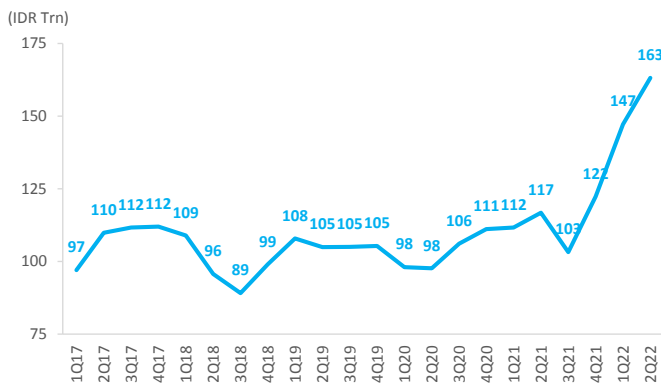
3. Foreign Investment Status

Indonesia has launch a series of policies to increase the easiness of doing business through the omnibus law. Omnibus law and the development of the investment as the policy breakthrough to accelerate the investment. Many companies revised their expansion plan while reviewing the upcoming uncertainty regarding global demand and the impact on the domestic side. To address the investment problem and also to trigger the investment both direct domestic and foreign investment, President Jokowi at his second ruling mentions the Omnibus Law as the tool to simplify the conflict and the inconsistency of the regulation that hamper the business.

The omnibus law is also known as the omnibus bill which is often found in countries that adopt a common law system such as the United States in making regulations. Through the omnibus law, a new law will be issued which will amend several laws at once. This is important considering that in several sectors and levels both central and regional are often found overlapping regulations that ultimately hamper investment. Conflict of regulations can occur horizontally between sectors and hierarchically at the central and regional levels.

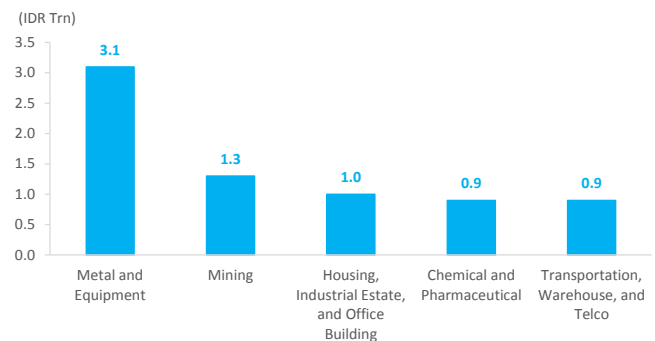
Foreign direct investment in Indonesia has been increased significantly and reach Rp163tn in 2022 from the pre-Covid 19 level that at the range of Rp100tn. Metal and mining is the top sector that attract the foreign investment in Indonesia. The Indonesia as the largest nickel producer the government aims to develop the down streaming of the Electric Vehicle industry ecosystem by inviting the international player in the Battery, automaker, mining and nickel smelter. One of the prominent nickel producer from China has started to develop the nickel smelter in Morowali, while another name such as Hyundai as the South Korea automaker has also invested in the Indonesia and aiming to expand its EV-Cars in Indonesia as the production based in Asia. Hyundai is planning not only targeting Indonesia as the target market but also as the production base. To realize this plan, the government has consolidated its State Owned Enterprise that set to partnering with the international corporation in each electrical vehicle supply chain from the up to downstream to make sure the down-streaming and the ecosystem in the EV industry is working without any substantial constrain in investment, regulation and also in the execution level. China and Singapore as the top FDI Investor in Indonesia this year.

Foreign Direct Investment in Indonesia (FDI)



Source: BKPM

FDI by Economic Sector; Metal Mining still the Dominates



Source: BKPM

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Top 5 FDI Realization (1H22)

Top 5 FDI Realization (1H22)		
Country	Amount (Bn USD)	% of Total
Singapore	6.7	31.1
China	3.6	16.8
Hongkong	2.9	13.4
Japan	1.7	8.1
USA	1.4	6.5

Source: Statistics Indonesia

4. Indonesia's Economic Risks

Indonesia headline inflation head reach 4.94% yoy. The inflation was creeping up merely due to the several factors that mainly came from the supply shock rather than demand shock. In term of demand, Indonesia was remaining in the early stage of the recovery and the risk of overheating is still low. This was seen in the credit growth at 10% that remain far from its peak level at above 15%. Despite the potential pressure from the pent up demand due to the higher economic activity is gradually increase as shown in the core inflation, however the administrated and volatile foods have pushed the inflation higher. The administrated price item is consisting of the item price that regulated by the government such as electricity, water, diesel oil, fertilizer, toll road. The adjustment of the tariff as the consequence of the higher cost pressure and the government policy to protect the fiscal deficit has triggered the higher administrated price to 6.51%yoy. The core inflation that reflected the constellation of the demand pull inflation has also creeping up to 2.86%yoy. The inflation target previously was set at around 4% for 2022, however the adjustment of the oil price is estimated will increase the Indonesia inflation rate at around 4% to 5% this year. Compared to the other country, Indonesia inflation is relatively soft due to its capacity to absorb the shock in the commodity price as the windfall profit for the government tax revenue and to use it as the subsidy to maintain the inflation at the acceptable level.

Loan Growth (% YoY)



Source: Bloomberg

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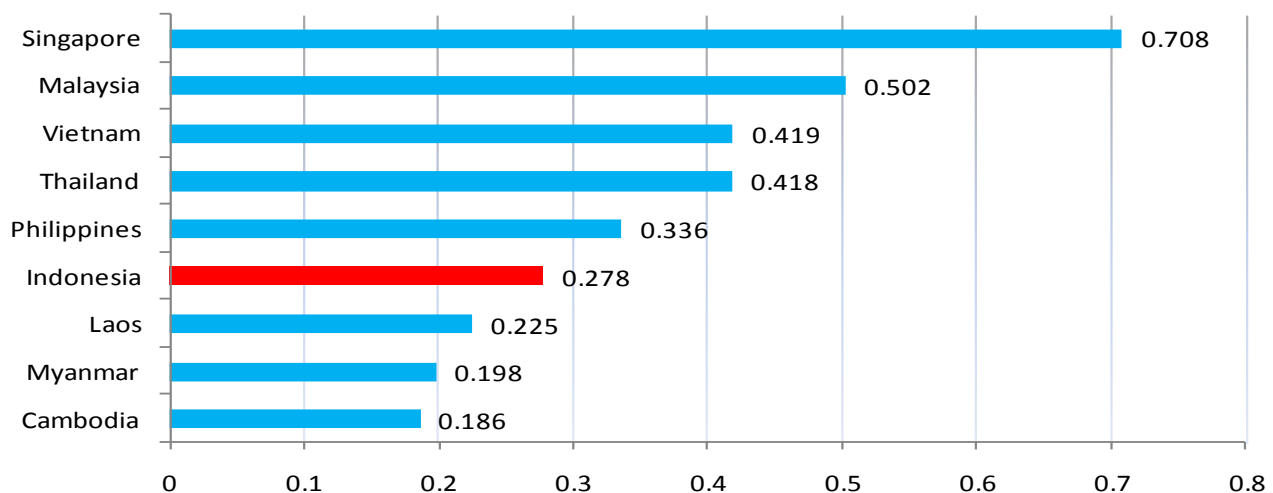
Wage increase in line with inflation. The minimum wage in Indonesia is regulated by the government to protect the minimum labor standard of leaving. The factor that used by government and the industry to set the minimum wage is based on several factor such as decent living needs (KHL), inflation, economic growth, labor market conditions, cost of living, the ability to develop business continuity, comparison of wages prevailing in other areas. The supply and demand for labor is also part of the consideration to ensure that the industry has a capacity to absorb the labor given that the number of worker and population in Indonesia is large. Total number of worker or employed person in Indonesia increased to 135.6mn people from 131mn people from 2021 or there was additional 4.6mn people that absorbed by the market. During the pandemic, the unemployment surged to 7.07% in 2020 and gradually improved to 5.83% in 2022 as the economic and the social activity has started to normalize on the back of massive vaccination rate. The economic recovery is expected will have a positive impact in the labor abortion as well as in the lower unemployment rate.

Industrial infrastructure

Government of Indonesia is on the pace of accelerating its infrastructure development to spur the growth by developing the connectivity, lowering logistic cost, developing the energy supply to support the industry as the basis to increase its competitiveness amid the challenges it has steaming from the current account deficit. More foreign direct investment and export is necessary to reduce the vulnerability toward the external challenges that would deteriorate the rupiah stability.

The quality of the physical access for infrastructure in Indonesia is lacked behind several Southeast Asia countries as recorded by UNESCAP. The Indonesia's access to physical infrastructure index (APII) score was at 0.278 or lower than Philippines (0.336), Thailand (0.418), Vietnam (0.419), Malaysia (0.502), and Singapore (0.708). Port and road contributes to the lowest score, which implying the lower competitiveness in the logistic and supply chain. The acceleration of the public spending in the infrastructure thus remains the government priority in the near future to support the GDP growth that currently trap at 5.2% or below its historical level at beyond 6%.

Access to physical infrastructure index; Indonesia still lagging behind



Source: UNESCAP

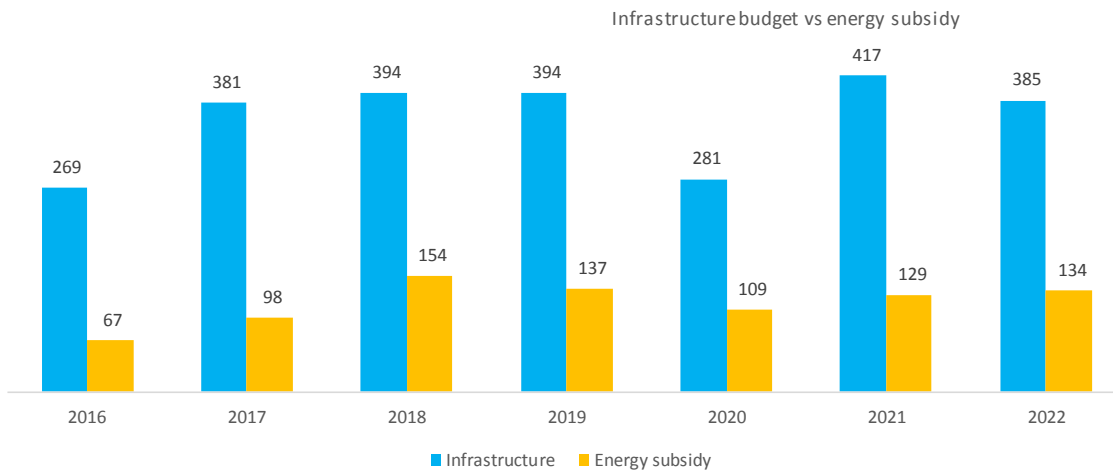
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The improvement of government spending in the infrastructure has been shown through the structural reform in fiscal side by cutting the energy subsidy and reallocate it to the infrastructure spending since 2015. However, the Covid 19 has postpone the private and also government projects due to the budget reallocation or rearrangement of the priority for the health and social spending. This made the revenue on the construction company lower. However, the sign of the economic recovery has been seen in the economic activity and also the business sector. The higher degree of vaccination as the precondition to expect the strong economic growth due to the lower possibility of the social restriction going forward. The higher people mobility, the pent up demand and strong global economic demand will have a positive impact on the GDP. Government has adjusted the infrastructure spending and the portion of the infrastructure spending in the budget that has gradually restored. This would be the growth driver for the construction company especially State Owned Enterprise (SOE) that mandated to accelerate the government program.

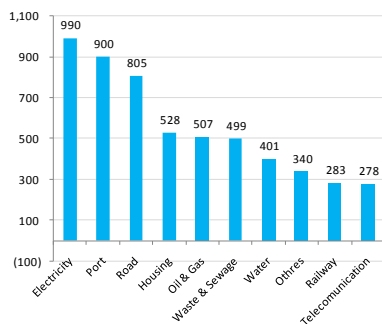
Reallocation from energy subsidy to infrastructure spending since 2015 (in IDR tn)



Source: Ministry of Finance

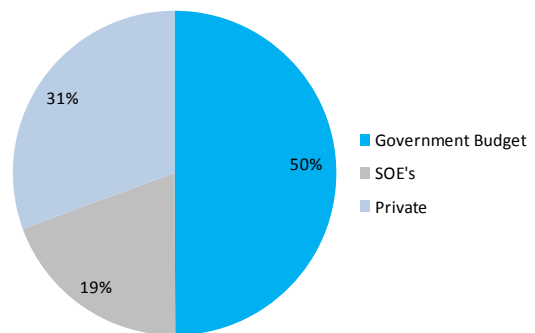
The Indonesia total infrastructure investment was about IDR 5,529tn and the government and SOE dominates the total portion with 69% shares while the rest or 31% of the infrastructure project was owned by private sector. Electricity, port and road were the top three infrastructure investment that has been built in the last 3 years.

Infrastructure Investment



Source: RPJM

Project by Ownership



Source: RPJM

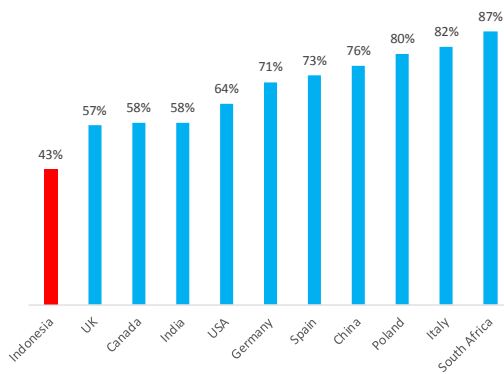
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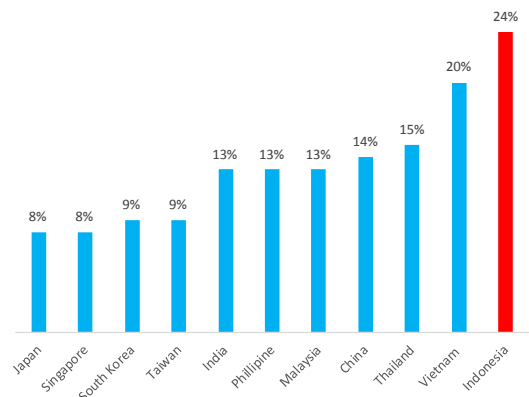
The infrastructure will remain the priority of the government spending due to the condition of the Indonesian infrastructure that would not favorably support the strong GDP growth ahead. This is reflected in the lower infrastructure stock compared to its peer that at 43%. More infrastructure building is needed to support the capacity to cater the higher output that could generate higher GDP growth. **The lack of infrastructure stock is also seen in the higher logistic cost in Indonesia that is higher than the peer. The cost is about 24% of GDP compare to the other Asian countries at below 20%. The efficiency issue is the factor that burden the economic activity that obstruct the productivity to generate better inclusive growth.**

Indonesia Infrastructure Stock is below International; More infrastructure building is needed



Source: ISER, World Bank

Logistic cost as % of GDP

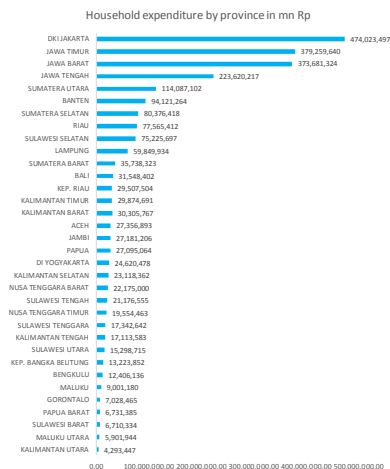


Source: ISER, World Bank

Regional and income disparities

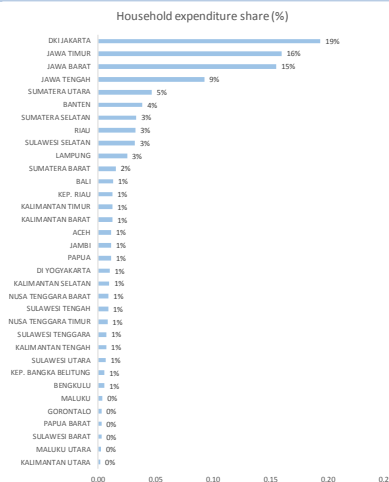
Regional development imbalances in Indonesia was reflected in the household expenditure by province. The household expenditure shares in Java Island (5 Province) was 60% of the total Indonesia household expenditure totaling (34 Province).

Household expenditure by province in mn Rp



Source: ISER, World Bank

Share of household expenditure in % by region. Java island (the top 5) contributes 69% of the total Indonesia GDP



Source: ISER, World Bank

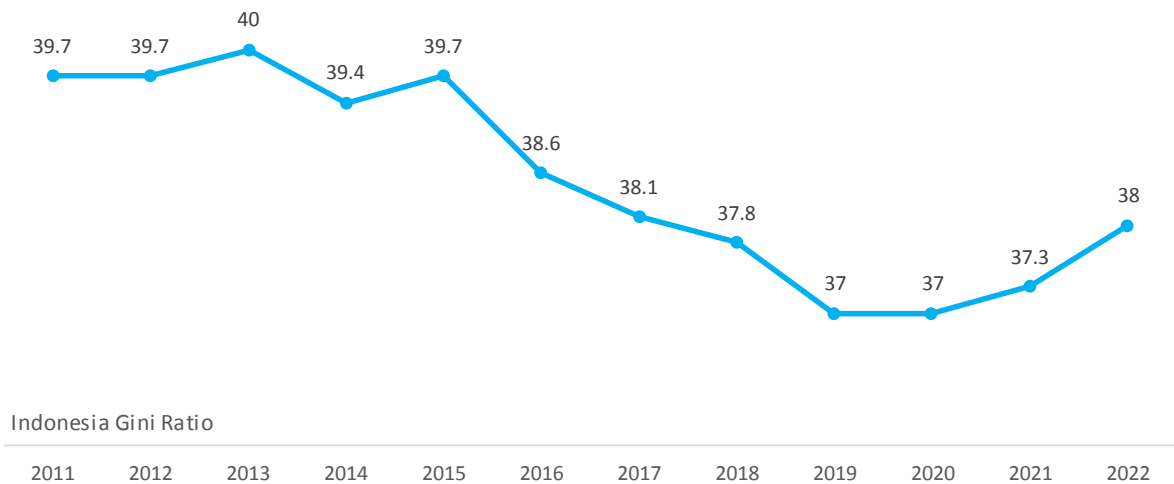
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The regional disparities that dominates by Java Island describe the population spread on which 60% of population was live in Java Island. This describe the lack of infrastructure outside Java Island which contributes to the easiness of doing business for Industry. The people came to the island make the living in the island that could generates income for their living. This made the circulation and the economic activities in the Java was dominance compares to its peers. The government effort to build the infrastructure outside the Java and move the capital cities to Kalimantan island from Jakarta is one of the policies to rebalance the economic disparities that could create the new central attractive economic outside Java. The fiscal spending is also the tools the government have to relocate the spending and redistributes the income to create more fair income distribution. The pro-poor and affirmative policy through the education and social spending while harmonizing the income tax is gradually would translated into the better income disparities. This was shown in the GINI ratio that move to the lower level.

Disparities between income growth improves as reflected in the GINI Ratio



Source: Fred Economic Data & Indonesia Statistic Biro

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