



Indonesia's Economic Outlook 2019 and Key Economic Challenges



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Global economic and geopolitical uncertainties



Trumponomics

New tariffs → Trade war

- Washing machines (20%) and solar panels (30%)
- Aluminum (10%) and steel (25%)
- List of Chinese products worth USD34 bn (25%)
- List of Chinese products worth USD16 bn (25%)
- List of Chinese products worth USD200 bn (10%)

Trend of US Dollar appreciation

- Fiscal stimulus boost growth, making investments in USA more attractive
- USD appreciated mostly against EM currencies

Geopolitics

- Brexit prospect: soft Brexit or hard Brexit?
- Middle east tensions: Saudi-Turkey-Iran tensions and their impact to oil price
- Elections in emerging markets (India, Indonesia, Philippines, Thailand and South Africa)

US Monetary Policy

Monetary policy normalization

- 100 bps increase in total in 2018, two times year and no more in 2020

Balance sheet reduction

- Fed's balance sheet will shrink from USD4.5 tn to USD2.5 – 3 tn

Monetary Policy in EU and Japan

- ECB & BOJ will remain accommodative this year
- ECB is expected to hike rates next year
- BOJ is expecting inflation to reach 2% next year

China's Economy

Chinese economic slowdown

- Chinese GDP growth is expected to slow from 6.9% last year to 6.6% this year and 6.4% next year

Weakening Yuan

- Possibility of competitive devaluation on the brink of trade war with US

Excessive debt levels

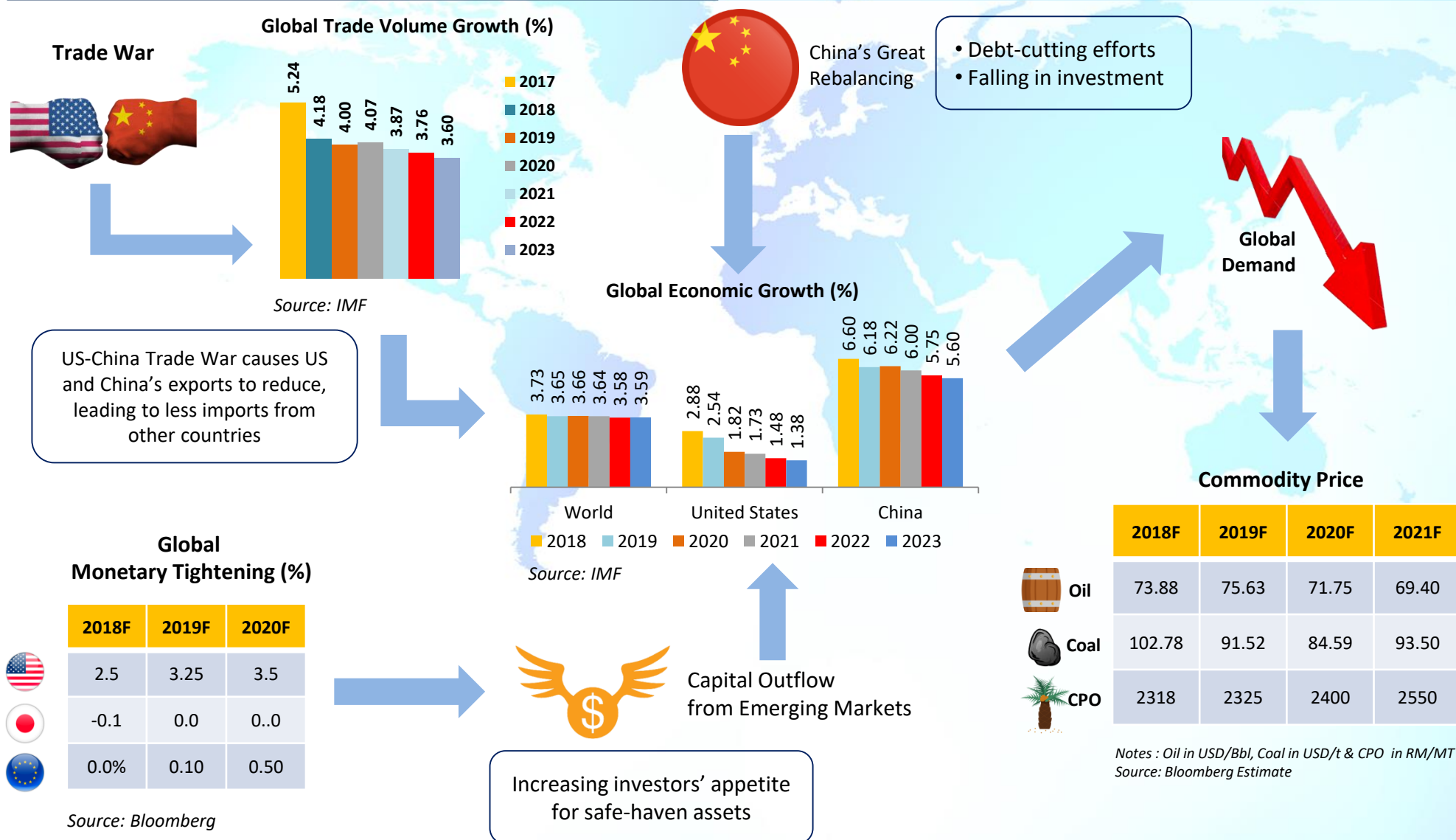
- Aggressive fiscal stimulus could add to excessive debt levels

China inclusions in several Global Financial Indices:

- Both on equity and bond markets → may lead to EMs' weight dilution
- Aramco IPO plan (big ticket size), may also dilute EM's weight in Indices.

Impact of Global Monetary Tightening and Trade War

Global monetary tightening and trade war will slow down global economic growth



Latest macroeconomic data and forecast

Macro indicators are mostly better than expected

Economic Data	Latest	YTD	Prognosis 2018	2018F	2019F
CAD (% to GDP)	3.02 ^a	2.63	2.88	3.0 – 3.1	2.5 – 2.6
GDP growth (% yoy)	5.17 ^b	5.17	5.18	5.16	5.20
Inflation (% yoy)	3.16 ^c	2.22	3.22	3.10	4.00
BI 7DRR (%)	6.00 ^c	6.00	6.00	6.00	6.50

Note: ^a) as of 2Q18 ^b) as of 3Q18 ^c) as of Nov-18

“Stability while maintaining the momentum of growth”

Facing a trade off: Current Account Deficit reduction (and thus tightening policies) versus maintaining strong economic growth

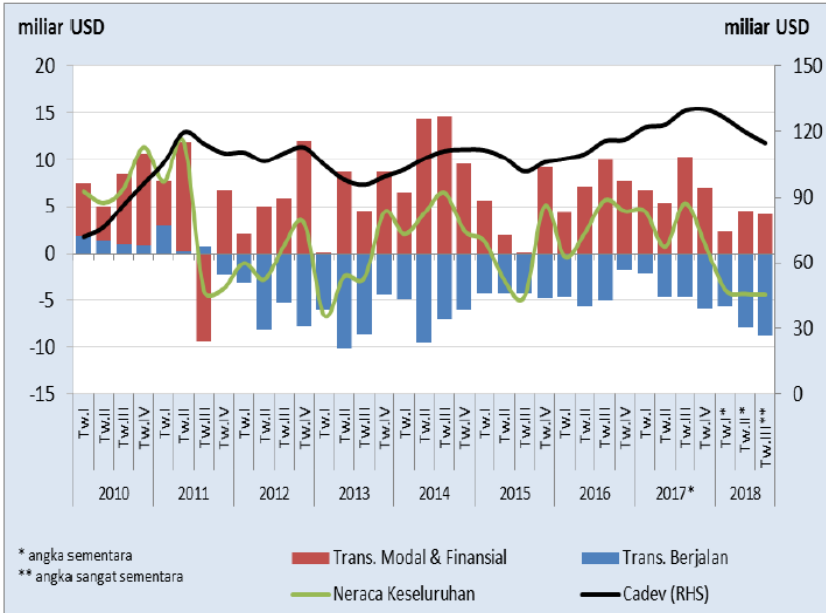
Indonesia looks better than some EM Peers (Argentina, Turkey, S. Africa)

	Argentina	Brazil	China	India	Indonesia	Korea	Malaysia	Philippines	South Africa	Thailand	Turkey
External Financing Vulnerability Index:	0.87	0.27	0.33	0.47	0.6	0.27	0.53	0.4	0.67	0.27	0.87
Current Account Balance/GDP (%; 2018f)	-5.2	-1	0.7	-2.8	-2.4	4.7	2.3	-1.9	-3.3	8.1	-5
(Current Account Deficit -Net FDI)/GDP (%; 2018f)	-3.1	2.9	2.2	-1.2	-0.6	5.5	4.2	1.5	-2.2	9.9	-3.8
Reserve Coverage Ratio (2018f)	0.4	2.5	2.9	1.6	0.8	1.6	1	2.5	0.8	1.7	0.3
Short-Term External Debt/Total External Debt (%; 2018f)	33	7	57	19	14	25	41	20	21	40	26
External Debt/GDP (%; 2018f)	60	36	15	22	34	29	58	23	46	27	60
Domestic Financial Vulnerability Index:	0.4	0.43	0.48	0.38	0.57	0.43	0.57	0.67	0.48	0.43	0.67
Non-Financial Corporate Debt/GDP (%; Δ in 2013-2018)	1	-1	28	-7	4	-5	8	14	7	2	27
Households Debt/GDP (%; Δ in 2013-2018)	1.3	0	19	2.1	1	16	3	5	-7	6	-2
Private Sector Real Credit Growth (% y/y; 2012-17 average)	3	1	14	4	8	5	6	13	0	6	12
Consolidated Foreign Claims/Domestic Credit (%; 2018)	52	17	5	15	42	13	39	19	23	29	70
Foreign Holdings of Local Currency Govt. Debt (%; Jun, 2018)		12	3	4	38	12	25		40	16	17
Foreign Holdings of Equities (%; Dec, 2017)	15	36	10	21	18	28	13	15	29	19	20
Nominal Home Prices (% y/y; 2013-2018 average)		2.2	3.7	11.4	6.1	1.7	8.1	10.7	5.9	3.8	14.1
Policy Vulnerability Index:	0.72	0.61	0.33	0.61	0.39	0.22	0.28	0.67	0.56	0.33	0.72
2018-End Inflation Forecast (vs. Central Bank Target)	47.3 (17.0)	4.2 (4.5±1.5)	2.0 (~3.0)	4.0 (4±2)	3.5 (4±1)	2.1 (2.0)	0.6 (2.5-3.5)	6.9 (3±1)	5.0 (3-6)	1.4 (2.5±1.5)	26.0 (5±2)
Current Real Interest Rates	12.7	2.3	1.1	2.7	2.5	-0.4	2.7	-2.1	1.8	0.4	-2
Fiscal Balance/GDP (%; 2018f)	-3.8	-7.3	-4.2	-6.6	-2.1	2.4	-2.7	-1.1	-3.9	-0.8	-4.9
Gross Government Debt/GDP (%; 2018f)	63	88	50	70	30	40	55	40	56	42	32
World Bank Worldwide Governance Indicators (2018 release)	0	-0.2	-0.3	-0.1	-0.2	0.8	0.3	-0.3	0.1	-0.3	-0.5
WEF Global Competitiveness Index (2017-18)	57.5	59.5	72.6	62	64.9	78.8	74.4	62.1	60.8	67.5	61.6
Parliamentary/Presidential Elections in 2019-20	19-Oct			19-May	19-Apr			19-May	19-May	19-Feb	

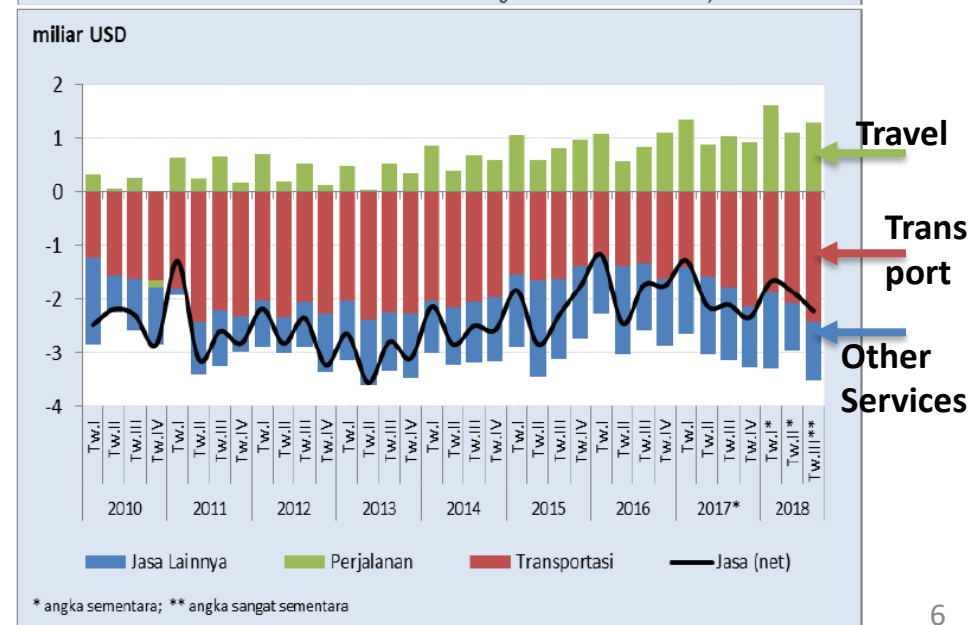
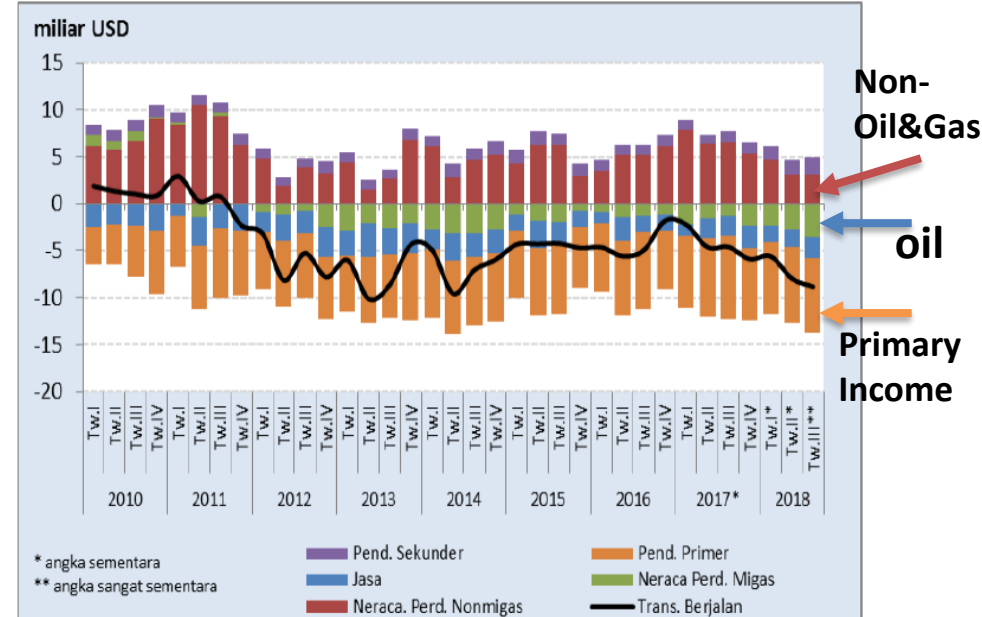
Source: IIF (2018) "Heat Map of Emerging Markets Vulnerabilities," Latest Update, December

Pressures on External Balances 1/2: rising CAD & de-industrialization

Setting the framework



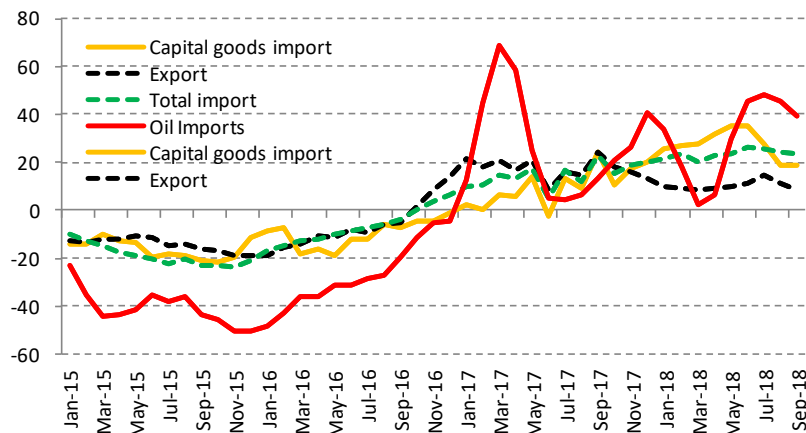
Rindan	Pangsa (%)		Pertumbuhan Tahunan (% yoy)							
	2017*	2018**	2017*					2018		
			Tw. I	Tw. II	Tw. III	Tw. IV	Total	Tw. I*	Tw. II*	Tw. III**
Barang Konsumsi										
Nominal	10,2	10,6	1,0	19,7	17,4	19,9	14,4	22,3	22,1	36,0
RIII	9,2	9,4	-6,7	8,4	2,8	9,9	3,6	8,9	10,9	31,6
Indeks Harga	-	-	8,3	10,4	14,2	9,0	10,5	12,3	10,0	3,4
Bahan Baku										
Nominal	70,0	68,3	9,0	5,6	25,2	17,8	14,3	21,0	17,4	17,2
RIII	72,5	69,9	2,1	-2,8	16,2	7,3	5,6	9,6	7,2	11,4
Indeks Harga	-	-	6,7	8,7	7,8	9,8	8,3	10,4	9,5	5,3
Barang Modal										
Nominal	18,8	19,2	6,0	-4,4	24,1	19,6	11,6	26,7	38,2	22,7
RIII	17,5	18,8	-3,6	-10,7	14,6	14,1	3,8	24,1	34,4	26,9
Indeks Harga	-	-	9,9	7,1	8,3	4,9	7,5	2,1	2,8	-3,4
Total										
Nominal	100,0	100,0	8,1	5,2	25,0	17,4	13,9	22,8	23,5	21,2
RIII	100,0	100,0	0,5	-3,1	15,1	8,1	5,1	12,9	14,2	17,4
Indeks Harga	-	-	7,5	8,6	8,5	8,6	8,3	8,8	8,1	3,2



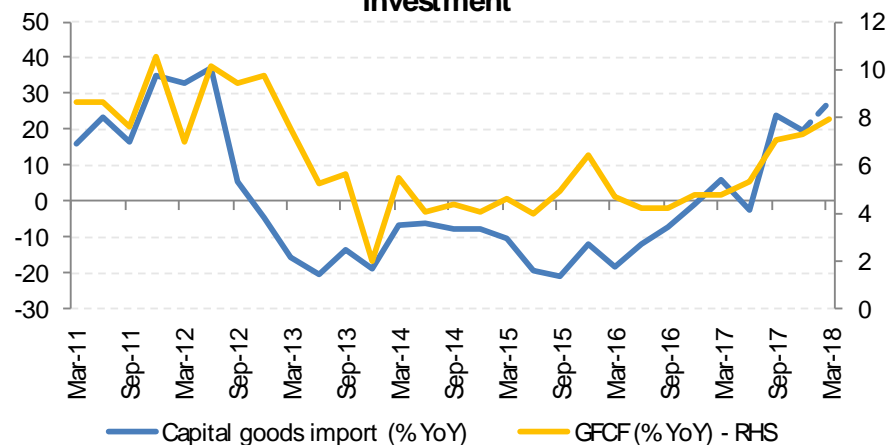
The BoP pressure: is the factor global, domestic, or both?

Investment has caused capital goods imports to increase, while higher oil prices made the oil imports to shoot up, higher than the total export and import growth

YoY of 3mma (%)



Correlation between capital goods import and investment



Total Top 10 Imports (USD bn)

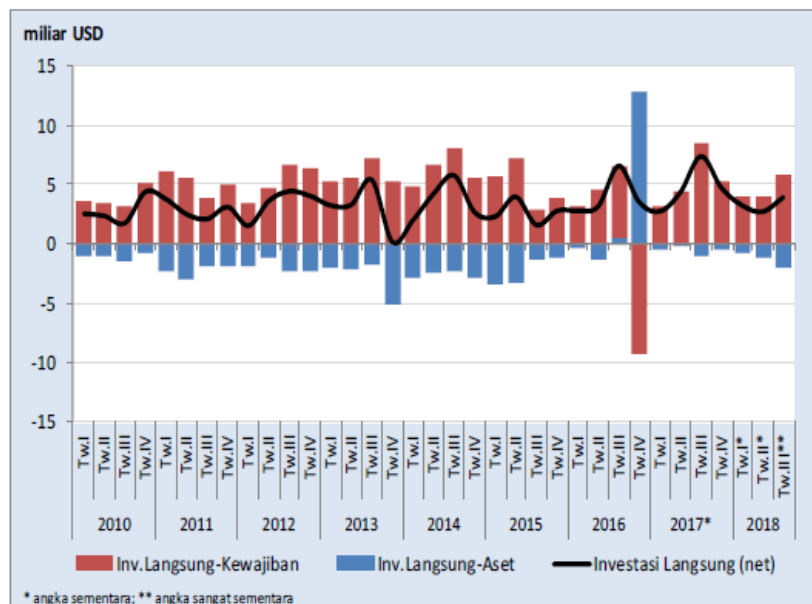
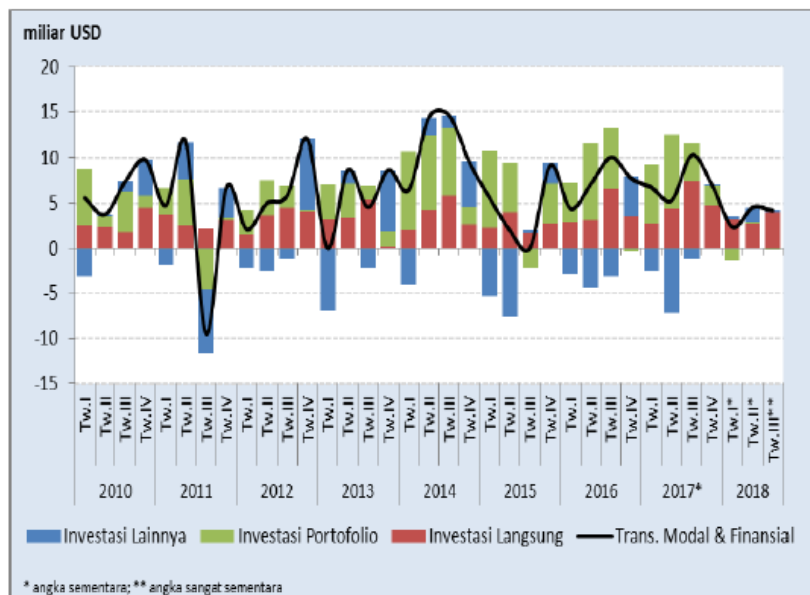
No. Sorted (in billions)	7M16	7M17	7M18	Proportion to total import (%)
1 Petroleum and Petroleum Products	9.3	12.1	15.4	14.4%
2 Electrical Machinery and Apparatus	4.7	5.0	6.5	6.1%
3 Iron and Steel	3.8	4.5	6.1	5.7%
4 General Industrial Machinery and Equipments	4.8	4.6	5.6	5.2%
5 Road Vehicles	3.0	4.0	5.0	4.7%
6 Telecommunication and Reproducers Apparatus	3.0	3.9	4.9	4.5%
7 Machinery Specialized for Particular Industry	3.5	3.5	4.8	4.4%
8 Textile Yarns, Fabrics, and Their Products	3.5	3.5	3.9	3.7%
9 Organic Chemicals	2.7	3.3	3.8	3.6%
10 Plastics In Primary Forms	2.7	3.0	3.4	3.2%
Total Imports	75.0	86.2	107.3	

Total Top 10 Exports (USD bn)

No. Sorted (in billions)	7M16	7M17	7M18	Proportion to total export (%)
1 Coal, Coke, and Briquettes	7.5	11.1	14.1	13.5%
2 Fixed Vegetable Oils/fats	8.6	12.4	10.8	10.4%
3 Gas; Natural and Manufactured	3.9	4.9	6.1	5.9%
4 Metalliferous Ores and Metal Scraps	2.5	2.8	5.2	5.0%
5 Clothing	4.3	4.7	5.1	4.9%
6 Petroleum and Petroleum Products	3.7	4.2	4.3	4.1%
7 Road Vehicles	3.2	3.8	4.1	4.0%
8 Electrical Machinery and Apparatus	3.1	3.4	3.6	3.5%
9 Organic Chemicals	2.5	3.5	3.6	3.4%
10 Iron and Steel	1.2	1.8	3.5	3.3%
Total Exports	79.1	93.6	104.3	

Source: CEIC

Pressures on External Balances 2/2: declining financial & capital inflows



Indikator Sustentabilitas Eksternal

	2015	2016	2017*					2018		
	Total	Total	Tw. I	Tw. II	Tw. III	Tw.IV	Total	Tw. I*	Tw. II*	Tw. III**
Transaksi Berjalan/PDB (%) ¹⁾	-2.22	-1.82	-0.92	-1.82	-1.75	-2.28	-1.70	-2.17	-3.02	-3.37
Ekspor - Impor Barang dan Jasa / PDB (%) ¹⁾	0.6	0.9	1.8	1.1	1.2	0.3	1.1	0.3	-0.6	-1.0
Ekspor + Impor Barang dan Jasa / PDB (%) ¹⁾	39.2	35.1	36.7	34.4	36.8	40.4	37.1	39.5	38.7	43.1
Posisi ULN Total/PDB ²⁾ (%)	36.1	34.3	34.4	34.4	34.6	34.7	34.7	34.8	34.2	34.5
Posisi ULN Jangka Pendek ³⁾ /PDB ²⁾ (%)	6.4	5.9	5.9	5.9	5.6	5.4	5.4	5.6	5.1	5.5
Posisi ULN Total/Cadangan Devisa (%)	293.3	275.0	270.9	274.1	266.8	271.1	271.1	285.4	297.5	313.3
Posisi ULN Jangka Pendek ³⁾ /Cadangan Devisa (%)	52.4	47.0	46.0	47.2	43.0	42.1	42.1	45.8	44.8	49.6

Keterangan:

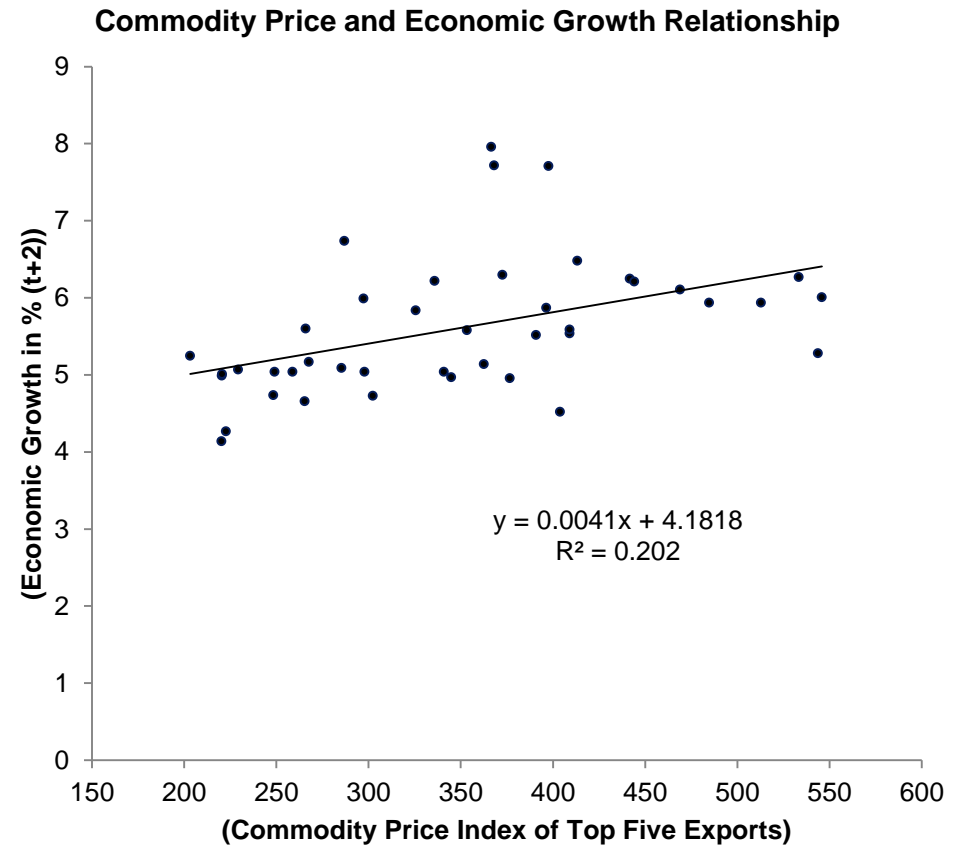
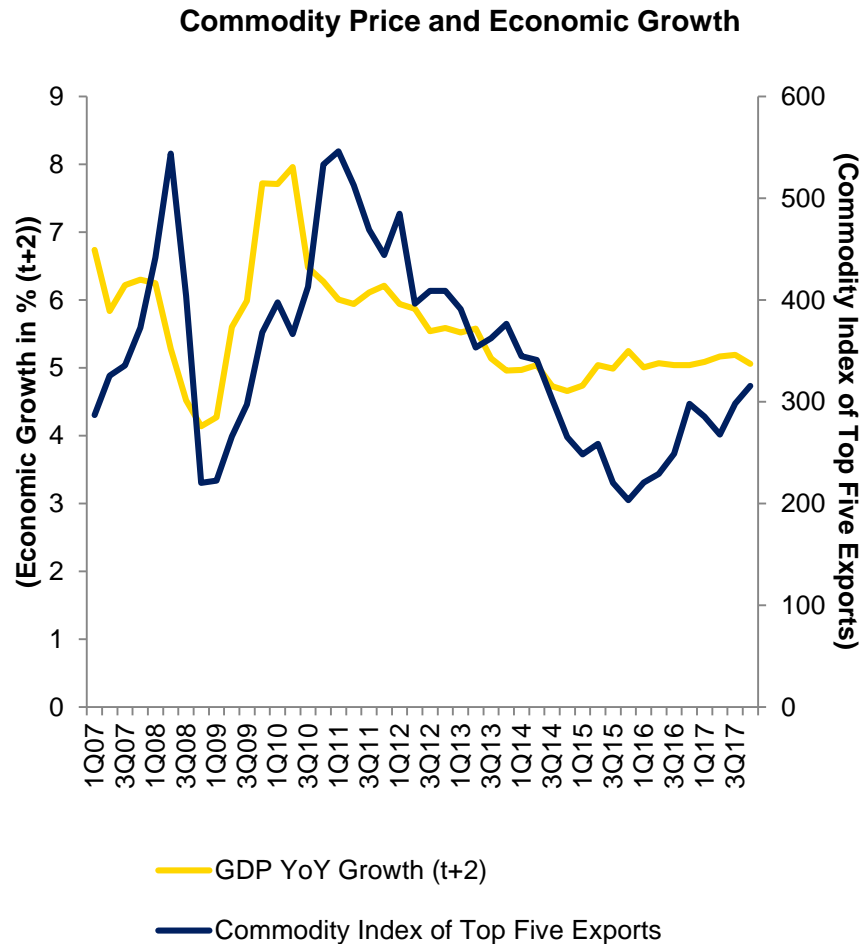
¹⁾ Menggunakan PDB harga berlaku kuartalan ²⁾ Menggunakan PDB harga berlaku *annualized* (penjumlahan PDB empat triwulan ke belakang)

³⁾ menurut jangka waktu sisa

* Angka sementara ** Angka sangat sementara

Indonesia's economic growth still heavily dependent on the prospects of commodity prices

Every 1 point increase in commodity price index contributes to 0,004% increase in Indonesian economic growth



Sources: Trade Map, CEIC, Bank Mandiri calculation

Three Domestic Concerns:

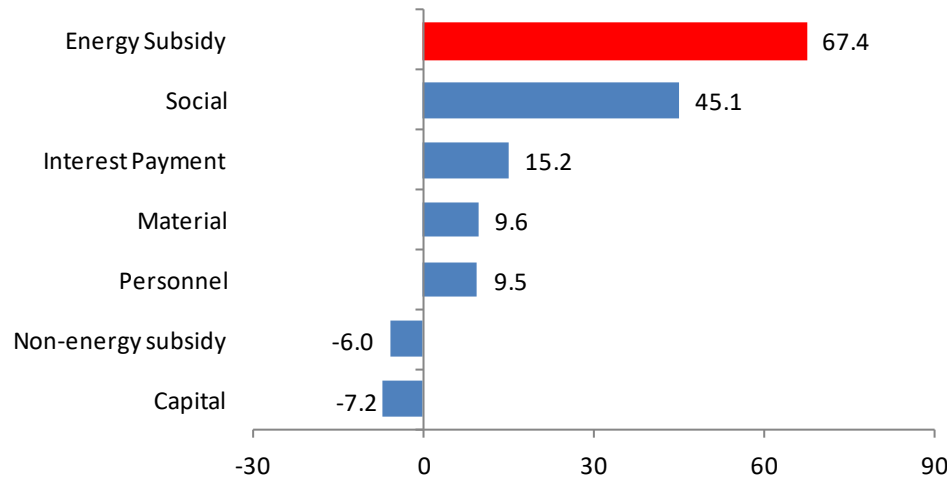
- **Economic Slowdown amid low level of productivity**
 - Despite improving EoDB, but lacking industry strategy
 - **External Balance Pressures:** rising imports (raw materials) and trade wars, amid tightening global liquidity
 - **Pressures on Financial Markets:** volatile markets, risks of contagion & weakening banks' asset quality
-

Five Changes in Paradigm:

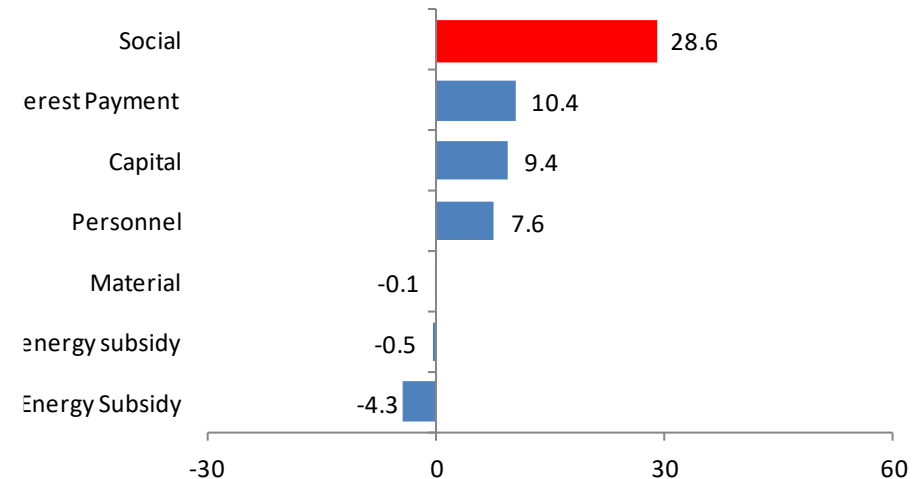
- **Archipelagic Concept:** inter-connectivity, reducing logistics costs & regional development, thus building infrastructures (starts from the periphery)
- **Reducing Dependency on Raw Commodities:** down-streaming, including looking for areas of exports expansion and new sources of fiscal revenues
- **Reallocation of Scarce Resources:** transforming general price subsidy program into directly targeted subsidy program → Social Security program
- **Rising Role of SOEs in Economic Development:** in part to speed up infrastructure projects and to go beyond the fiscal rule
- **Promoting Maritime Economy:** fishery (industries) and tourism services

2019 Spending focus: Supporting the bottom 40% of the income group

2018 Central Government Expenditure (YoY%)



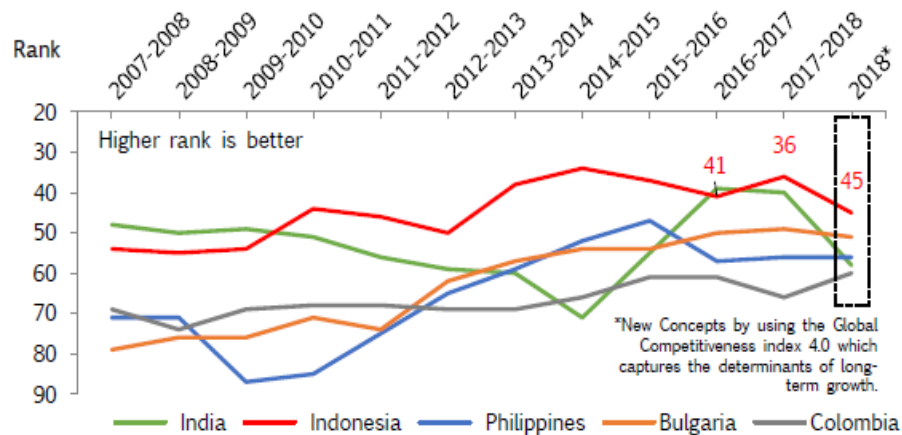
2019 Central Government Expenditure (YoY%)



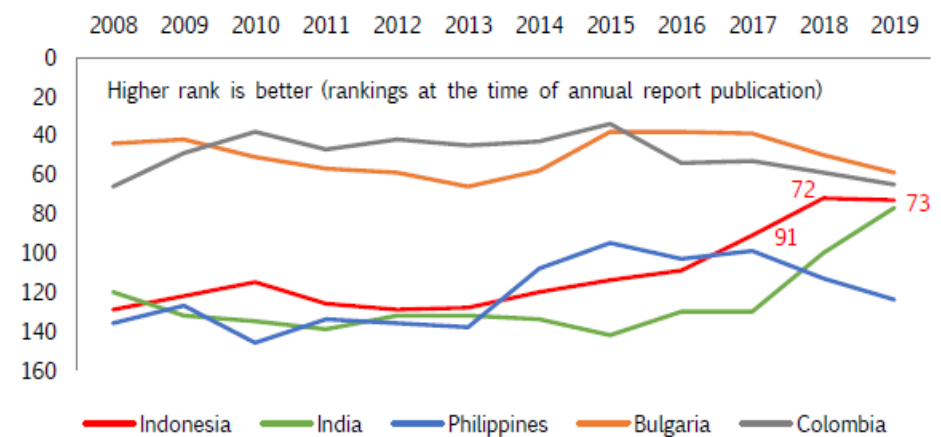
No.	Programs to support the bottom 40% of the population	APBN 2018		RAPBN 2019	
		Amount (Rp tn)	Target	Amount (Rp tn)	Target
1	Village Fund	60	74,957 villages	73.0	74,957 villages
2	PKH (Family Hope Program)	17.3	10 mn families	34.4	10 mn families
3	JKN (National Health Insurance)	25.5	92.5 million persons	26.7	98 mn persons
4	BPNT (Non-cash food program)	20.8	15.6 mn families	20.8	15.6 mn families
5	PIP (Indonesia Smart Program)	10.5	19.7 mn students	10.8	20.1 mn students
6	College program fund (Bidik Misi)	4.1	401.5 thousand college students	4.4	471.8 thousand college students
7	Ultra micro financing	-	0.8 mn	3.0	1.4 mn debitor
Total		138.2		173.1	

Improving investment climate (1/2)

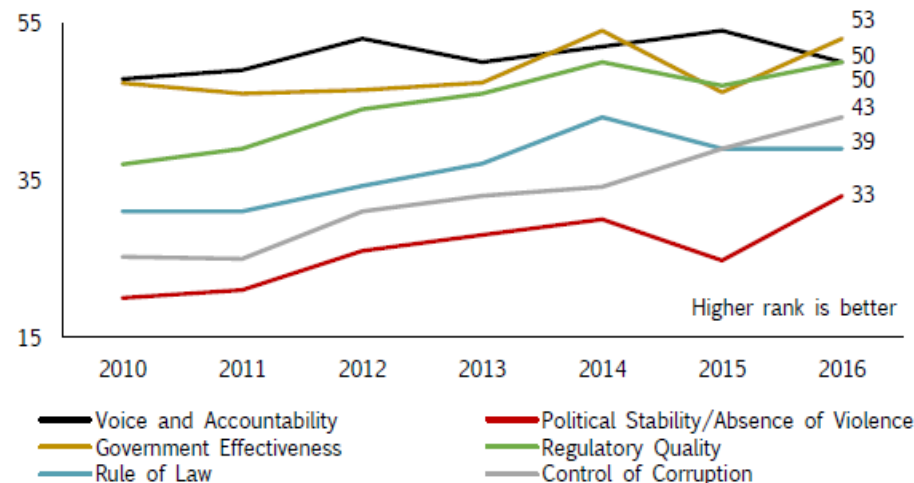
Global Competitiveness Index¹



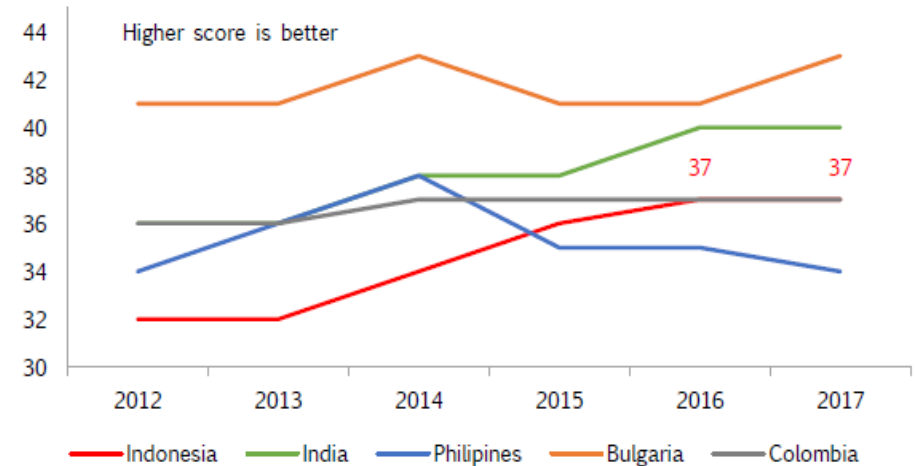
Ease of Doing Business²



World Governance Indicators³



Corruption Perception Index⁴



1. Source: World Economic Forum -The Global Competitiveness Report 2018;

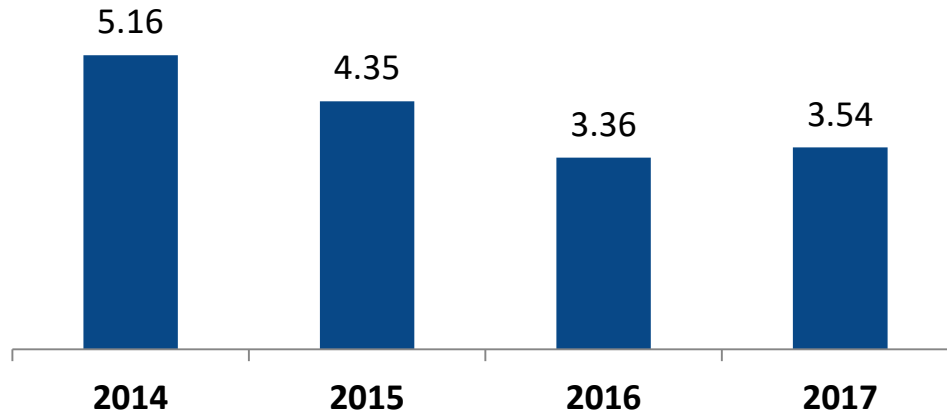
2. Source: World Bank - Doing Business 2019 Report;

3. Source: World Bank;

4. Source: Transparency International - Corruption Perceptions Index 2017 Report

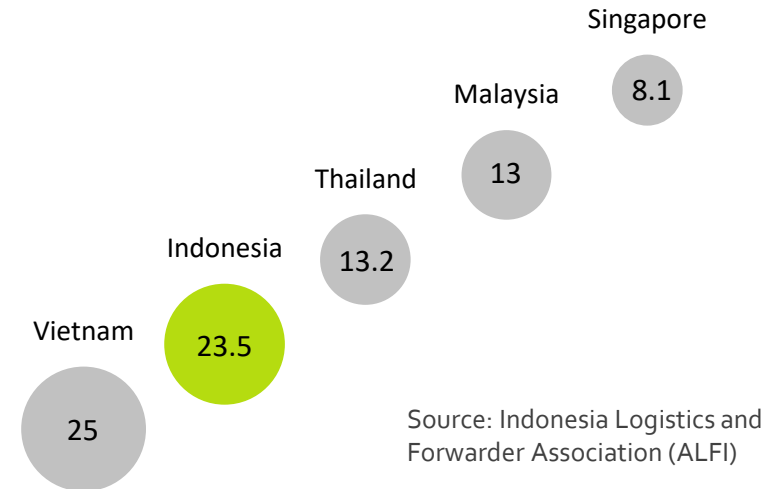
Improving investment climate (2/2)

1 Dwelling Time in Jakarta International Container Terminal (days)



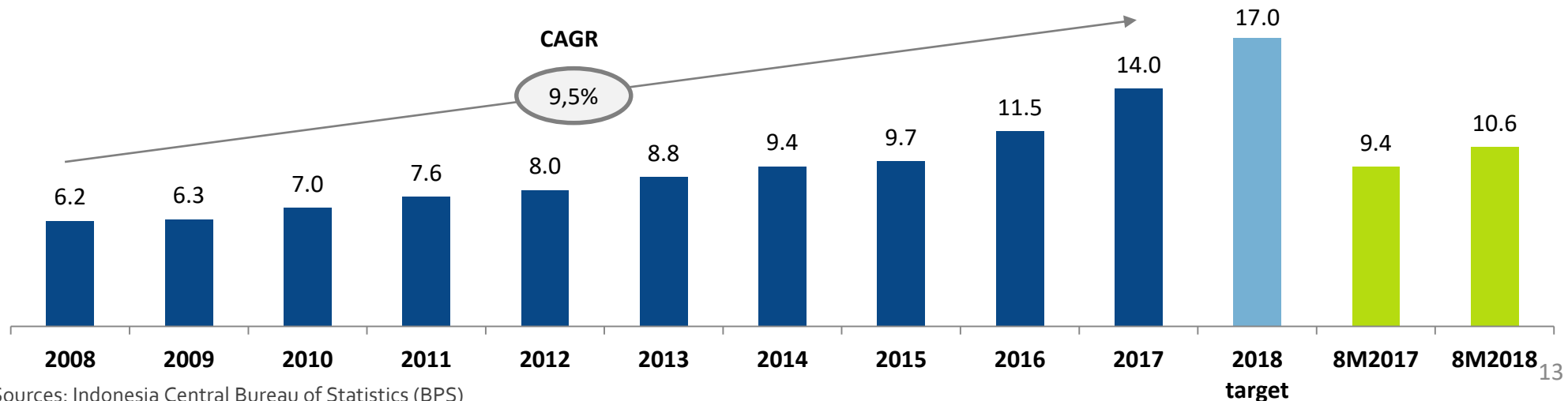
Sources: Pelindo II, Ministry of Transportation

2 Logistic Cost in South East Asia Countries (% to GDP)



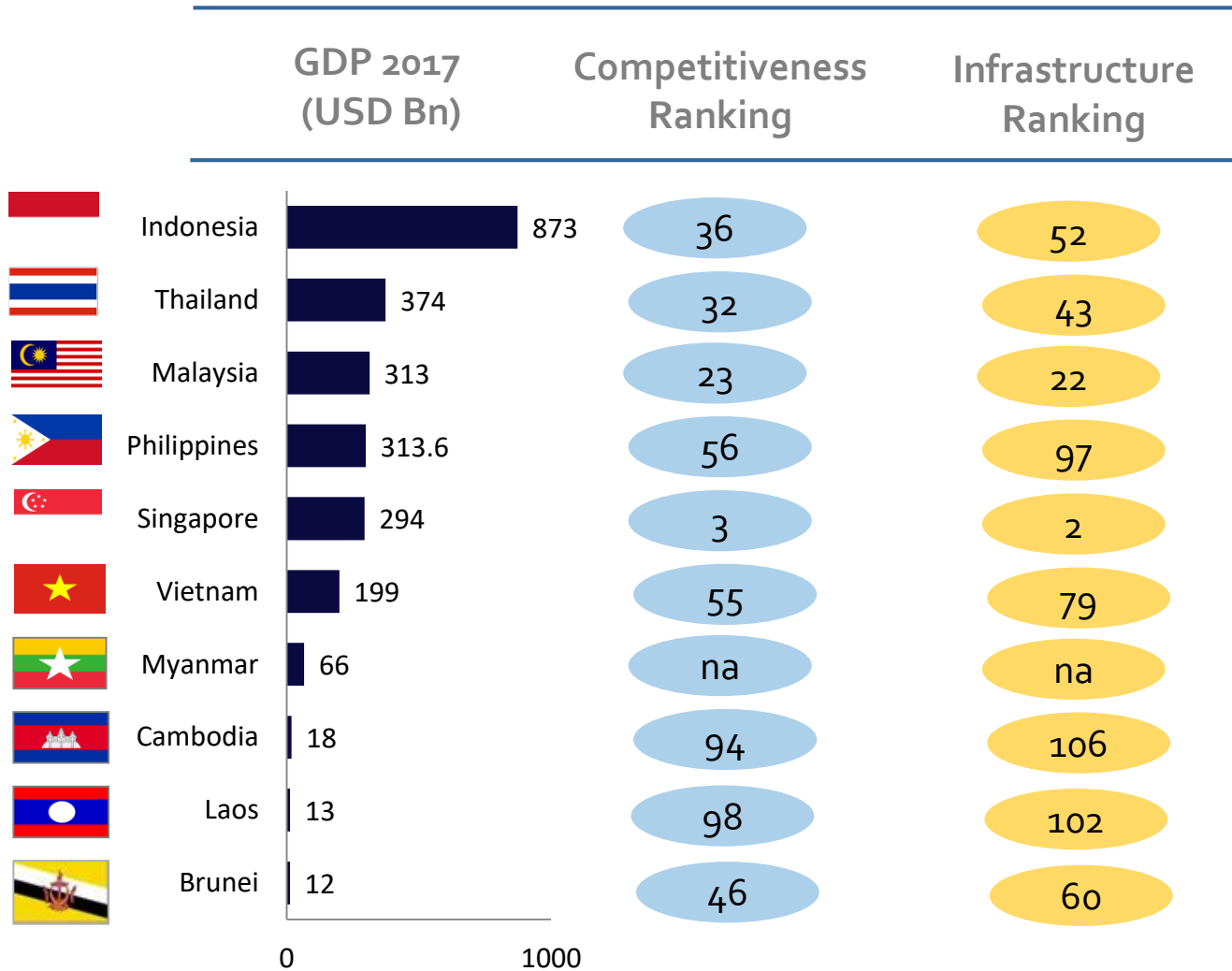
Source: Indonesia Logistics and Forwarder Association (ALFI)

3 Number of Foreign Tourists Visiting Indonesia



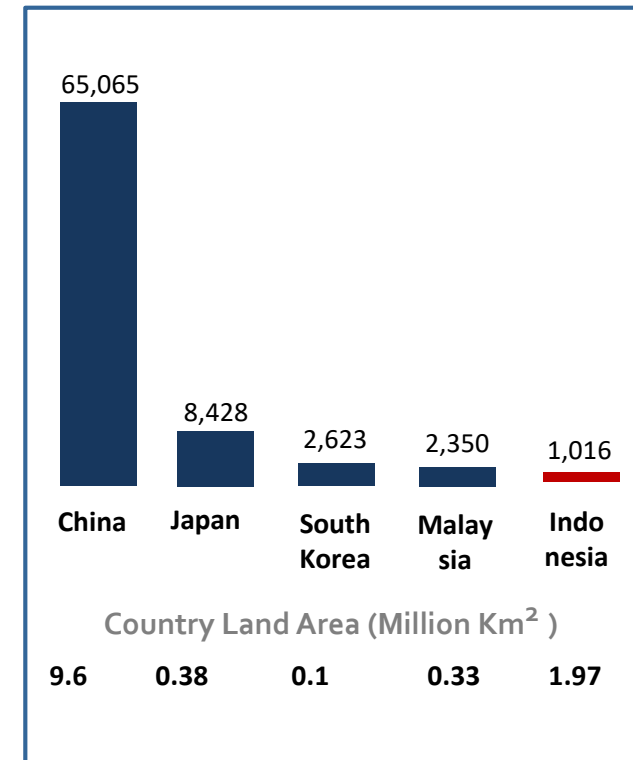
Sources: Indonesia Central Bureau of Statistics (BPS)

Indonesia still needs to further improve infrastructure quality



Sources: The Global Competitiveness Report 2017 - 2018

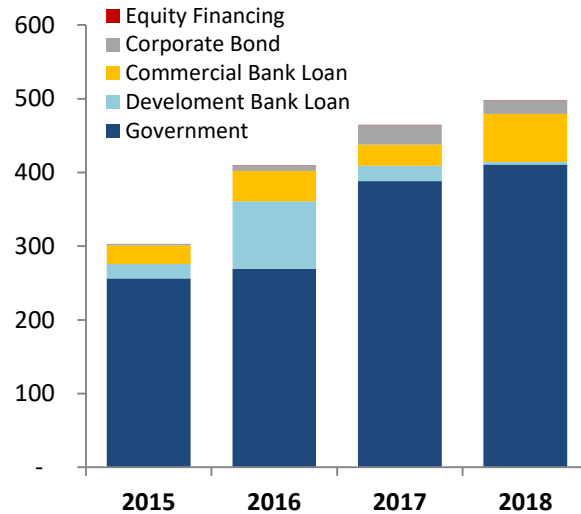
Toll Road Length
Among Asian Countries
(Km)



Sources: BJPT

Government is currently still the major source of infrastructure financing development

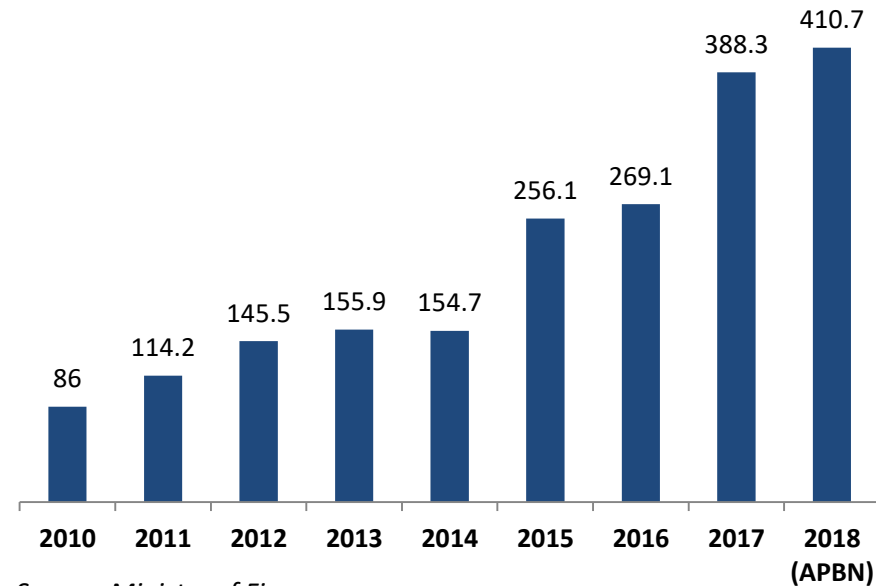
Sources of infrastructure financing



Sources: OJK, Bloomberg, ADB, WB, JICA, IDB

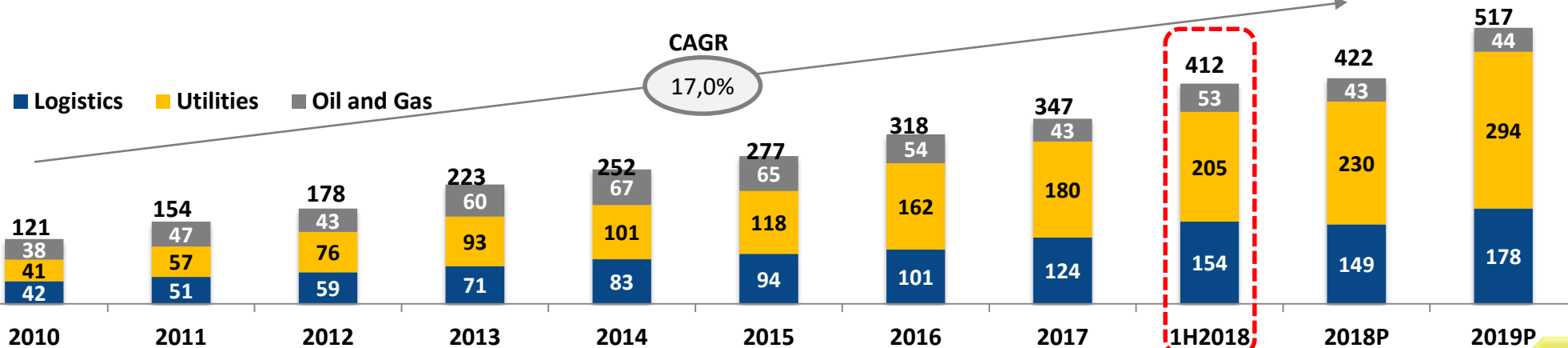
Notes: Donors Disbursement in 2017 and 2018 are incomplete

Government Infrastructure Spending (IDR Trillion)



Source: Ministry of Finance

Bank Loan to Infrastructure Projects

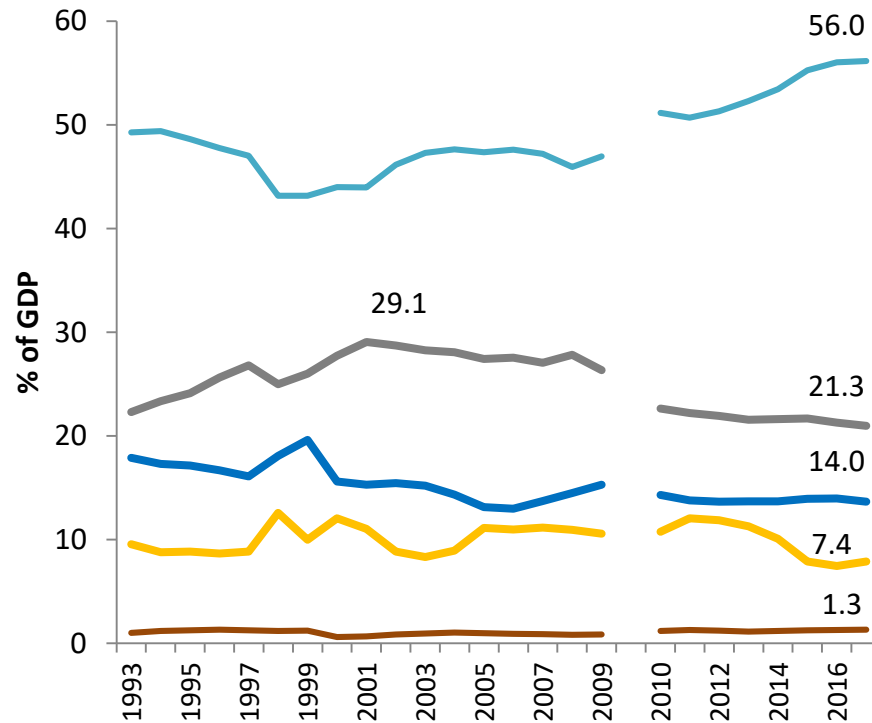




Structural Problems: Pre-mature De-industrialization

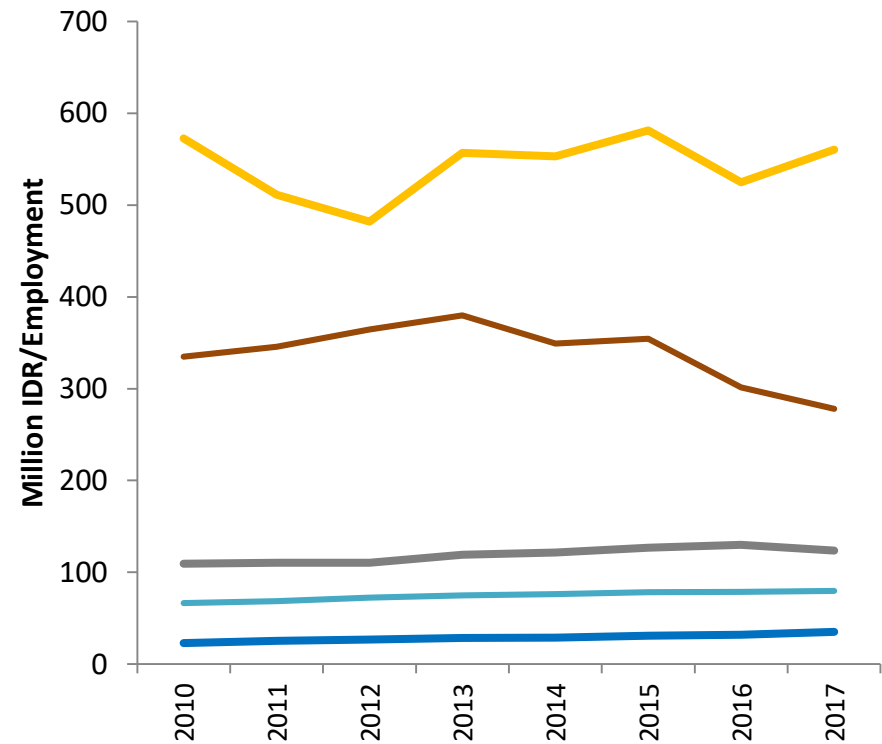
Proportion of manufacturing sector to GDP tend to decrease

Indonesia's GDP Structure By Sector



— Agriculture (% of GDP) — Mining (% of GDP)
— Manufacturing (% of GDP) — Utilization (% of GDP)
— Services (% of GDP)

Value Added Constant Per Employment in Indonesia By Sector



— Agriculture — Mining
— Manufacturing — Utilisasi
— Services

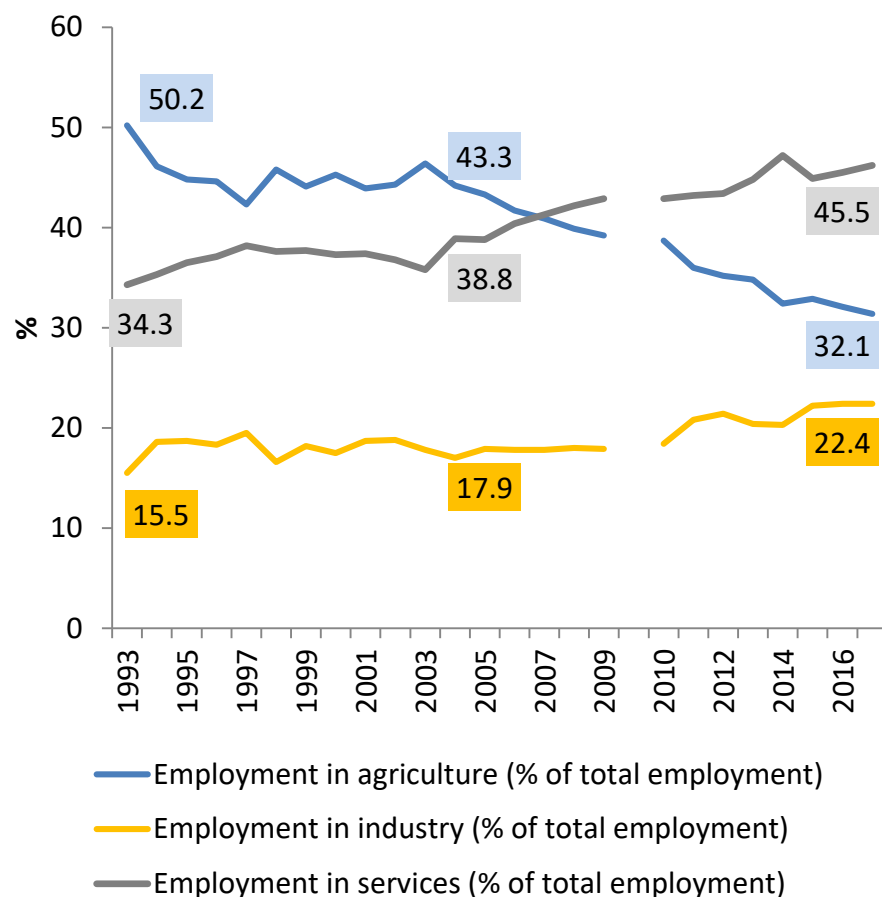
*Utilization sector includes Electricity, gas, water

Source: CEIC

Share of employment in industry sector increase but at low speed

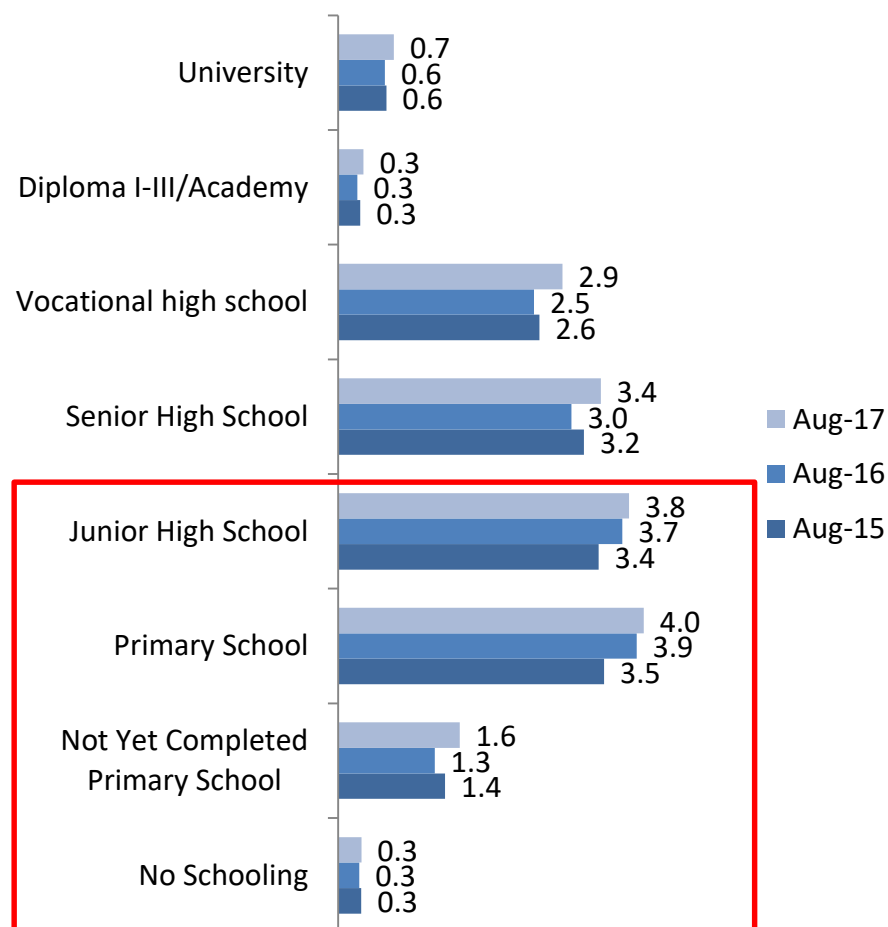
Employment quality in manufacturing sector relatively low. 57% of employment in manufacturing sector educated **below Senior High School**

Employment Structure in Indonesia By Sector



Source: World Development Indicators, World Bank

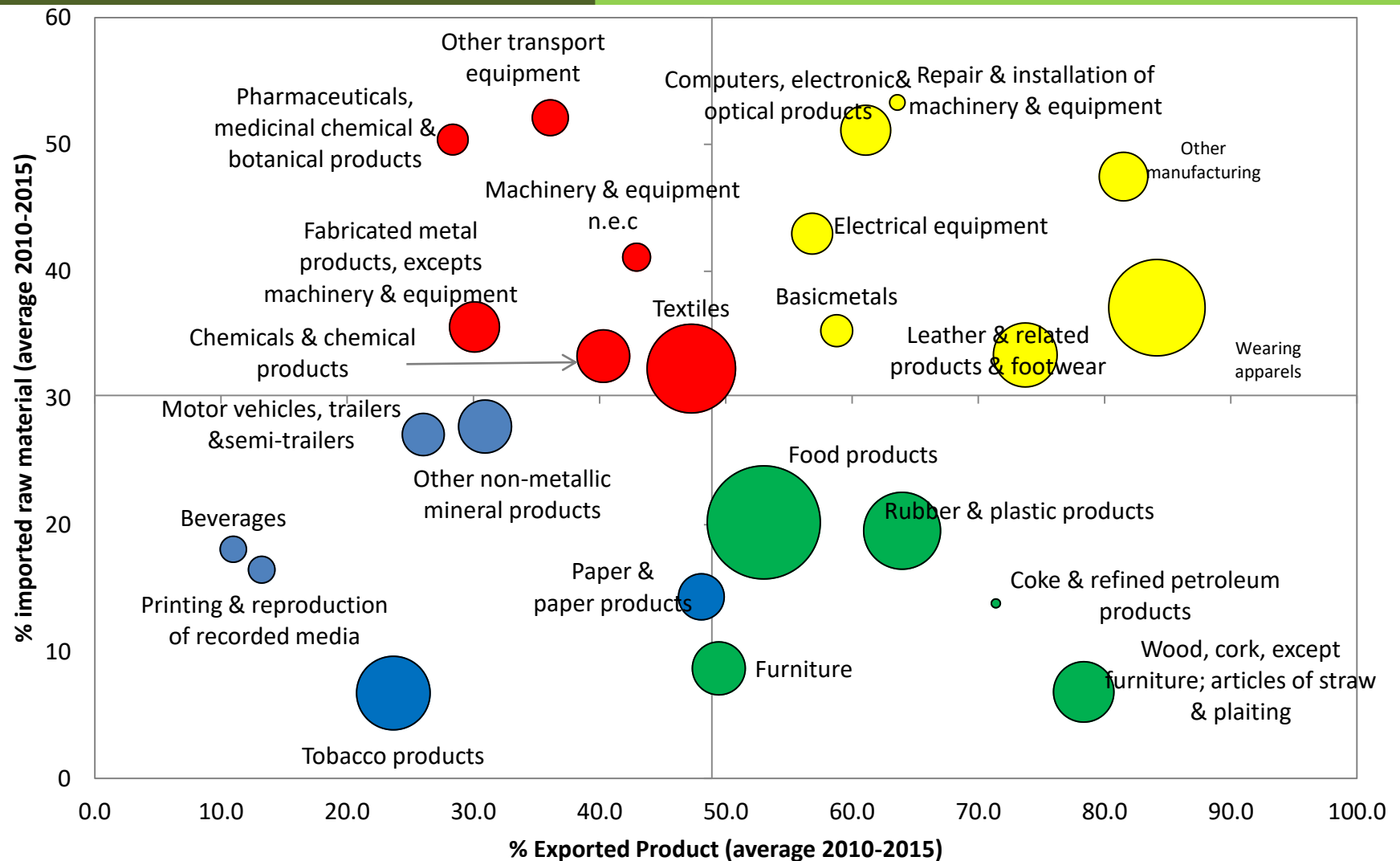
Total Employment in Manufacturing Sector By Education (Million People)



Source: Sakernas, BPS

Mapping of Medium and Large Manufacturing Industry 2010-2015

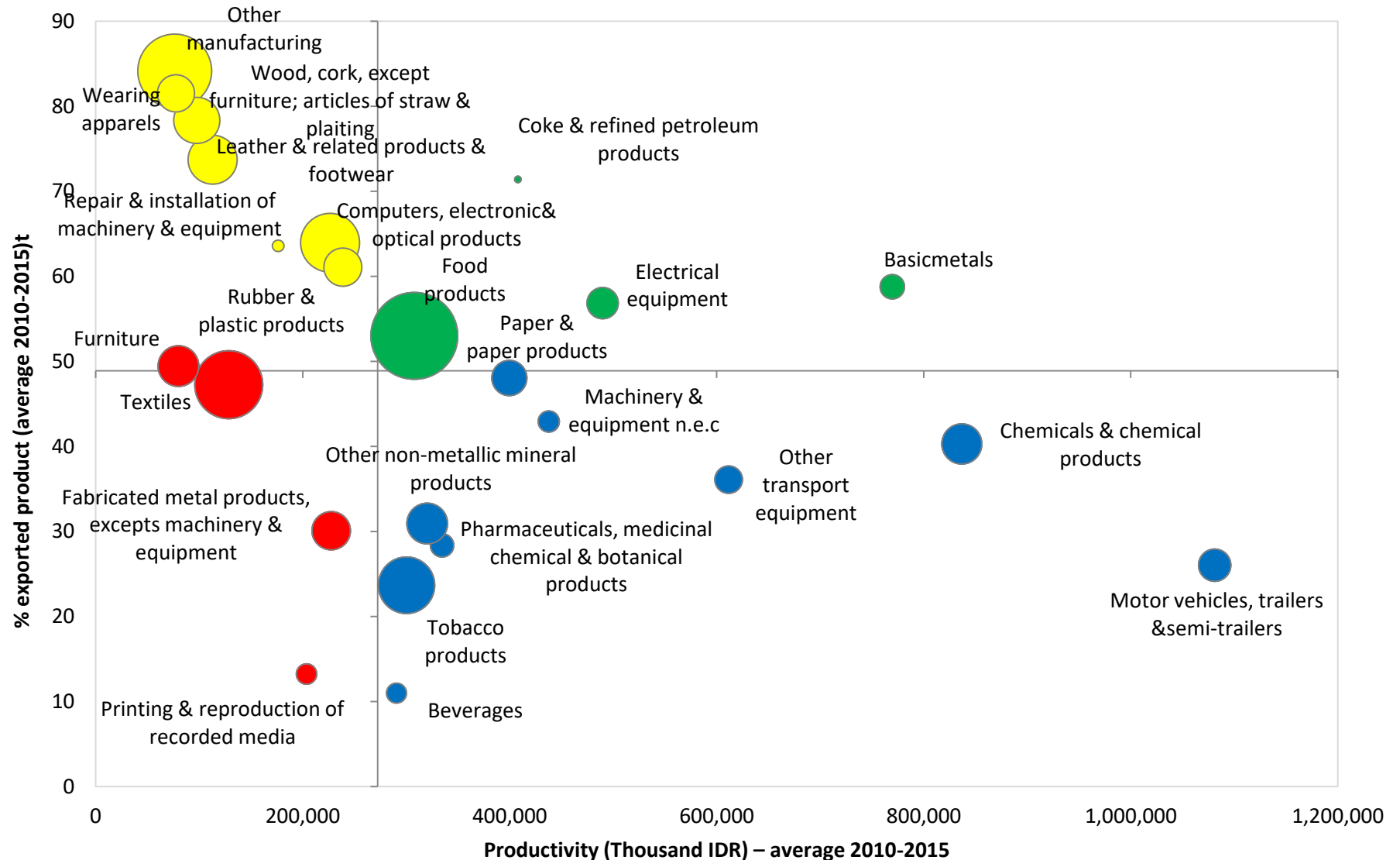
% Imported Raw Material Vs % Exported Product



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

Mapping of Medium and Large Manufacturing Industry 2010-2015

% Exported Product vs Productivity



Source: Industrial Statistics, BPS

Better freight logistics can connect resources producing regions in outer islands with markets and manufacturing concentrations in Java and Sumatera

- Developing a vertically integrated industrial structure with more domestic value added has been a high priority in Indonesia's development agenda
- However forcing producers to invest in processing facilities in outer island is not economically sustainable if existing freight logistics cannot help producers to access market (domestic and international)
 - Despite potentials in cattle farming and meat packaging in Nusa Tenggara, poor freight logistics infrastructure and local fees are preventing the industry to be more competitive
 - Lack of energy and cold storage facility are also preventing Nusa Tenggara and other regions in Eastern Indonesia to fully develop competitive fishery industries
- **Better freight logistics can link outer regions with market and processing industries in Java and Sumatera**
- Between 2001 and 2011 **95% of medium size manufacturing firms emerged in Java and Sumatera** where 4 out of 5 Indonesia's population and economic activities are concentrated

Agglomeration of new manufacturing activities



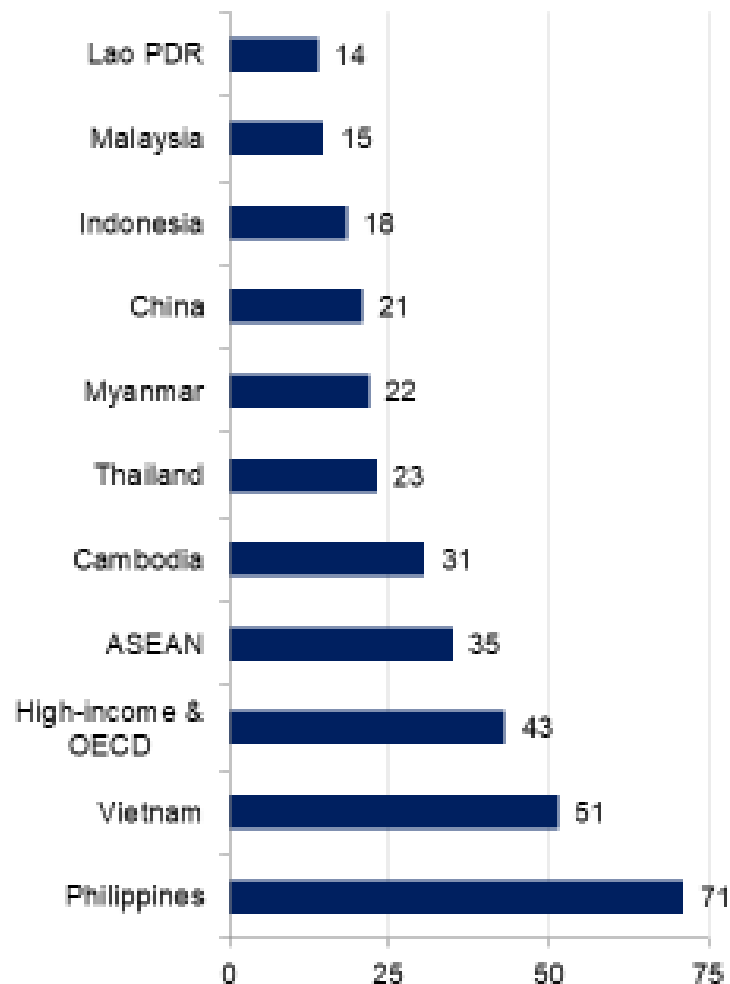
Source: Manufacturing census data



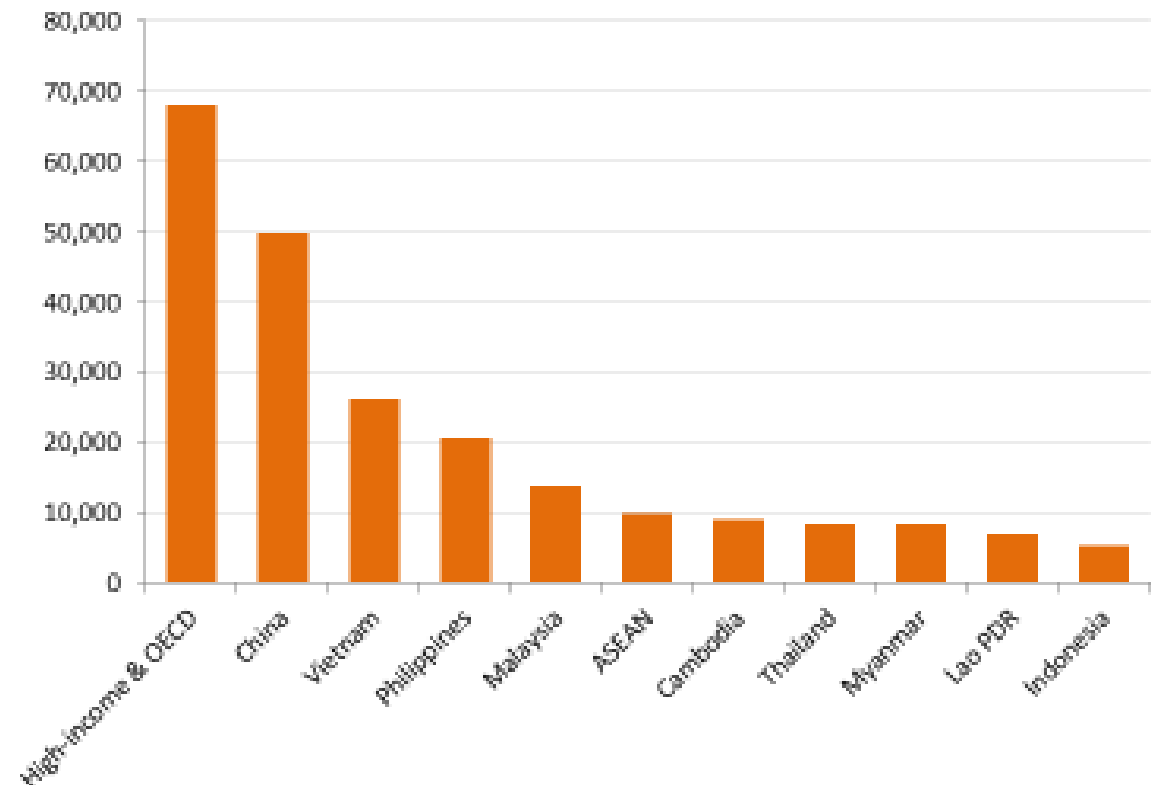
Challenges & Opportunities: Labour Force & Underemployment

Labour Productivity of Indonesia is among the lowest in ASEAN

Ratio of 90th percentile and 10th percentile of distribution



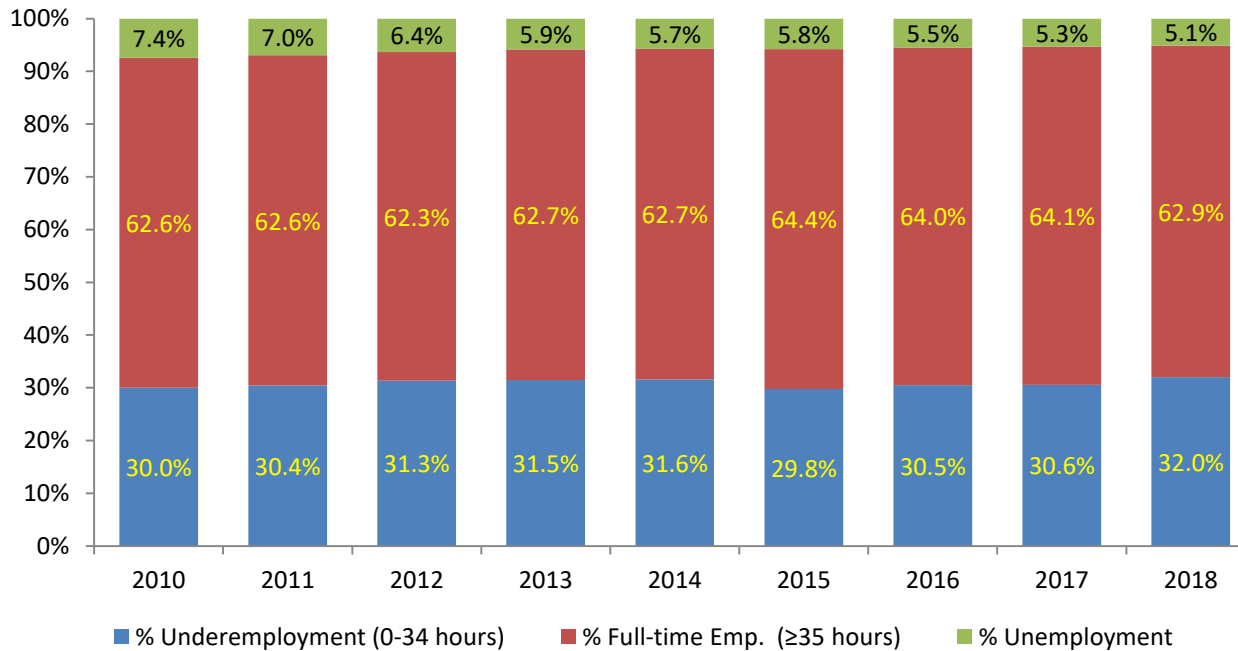
Medians



Indonesia labour productivity has low dispersion compare to its peers in ASEAN. However, Indonesia is less-productive compare to Lao, Myanmar, and Cambodia.

Declining unemployment rate, but mainly because of higher underemployment

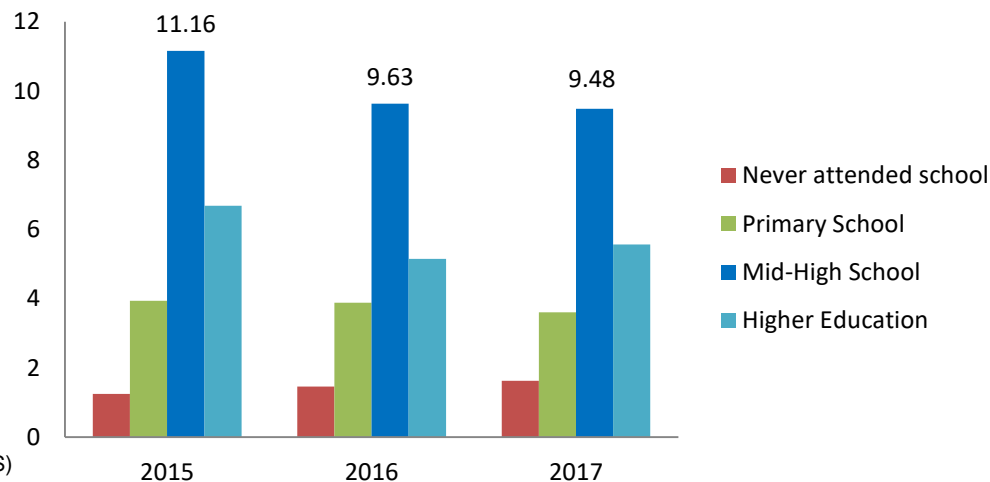
Labour Force Composition (%)



While % of full employment rate decreasing, underemployment contribute more to labour force

- **Employment:** 64% (2016) → 62.9% (2018)
- **Underemployment:** 30.5% (2016) → 32% (2018)

Unemployment Rate by Level of Education (%)

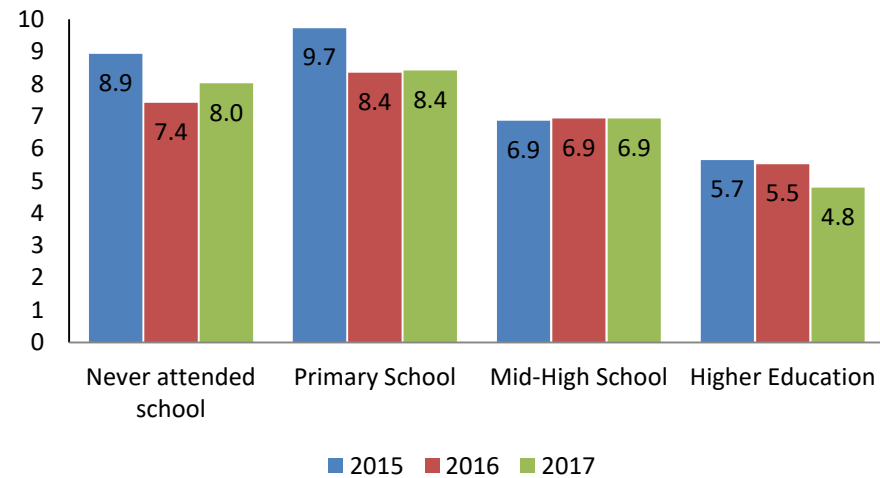


Secondary graduates (Middle & High School) posses greater risk for not entering job market

Why? Lack of skills?

Zoom-in underemployment: Dominated by young ages in rural areas

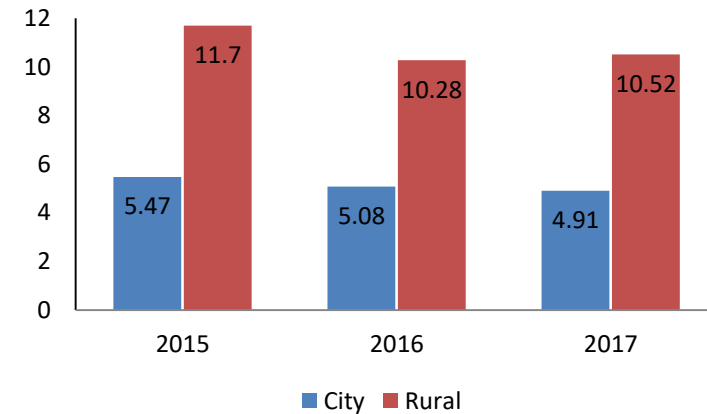
Underemployment Rate by Level of Education (%)



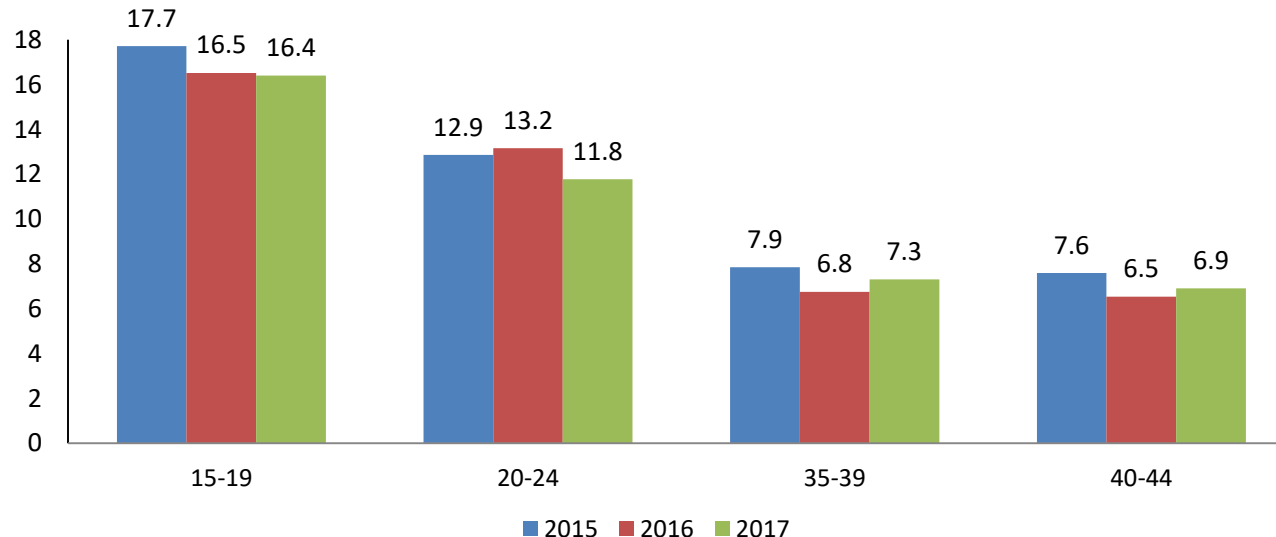
Underemployment is dominated by uneducated and primary schools.

Bring more evidence that not enough skills obtained from Secondary Schools

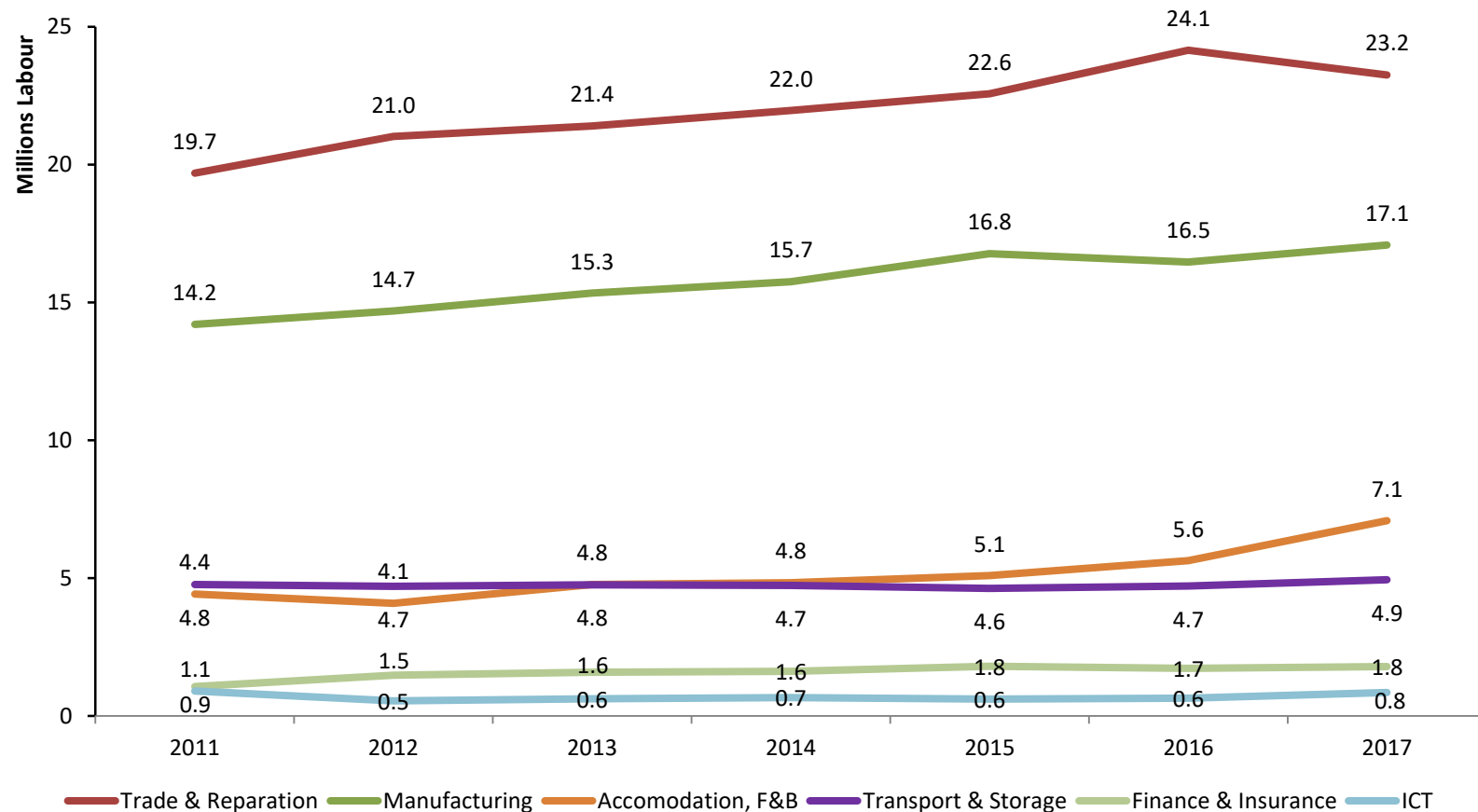
Underemployment Rate (%) by Location



Underemployment Rate by Age (%)



What type of skills? Start from sectors demand more labour



Source: Sakernas (BPS)

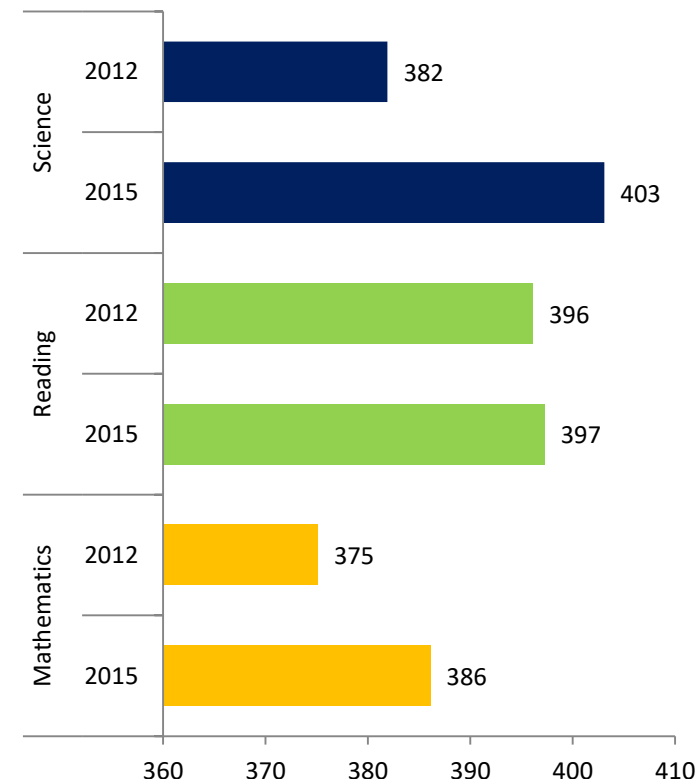
Service sectors (except trade & reparation) absorb more employment in the last 3 years:

- ❑ Accommodation, F&B: 5.1 mio (2015) → 7.1 mio (2017)
- ❑ Transport & Storage: 4.6 mio (2015) → 4.9 mio (2017)
- ❑ ICT: 0.6 mio (2015) → 0.8 mio (2017)

Indonesia score improving in 2015, but still below OECD and it peers

Country	Mathematics	Reading	Science
International Average (OECD)	490	493	493
Singapore	564	535	556
China	531	494	518
Switzerland	521	492	506
Netherlands	512	503	509
Viet Nam	495	487	525
Russia	494	495	487
Australia	494	503	510
Italy	490	485	481
United States	470	497	496
Malaysia	446	431	443
Thailand	415	409	421
Indonesia	386	397	403
Brazil	377	407	401
Tunisia	367	361	386

Indonesia PISA Score, 2015 vs 2012



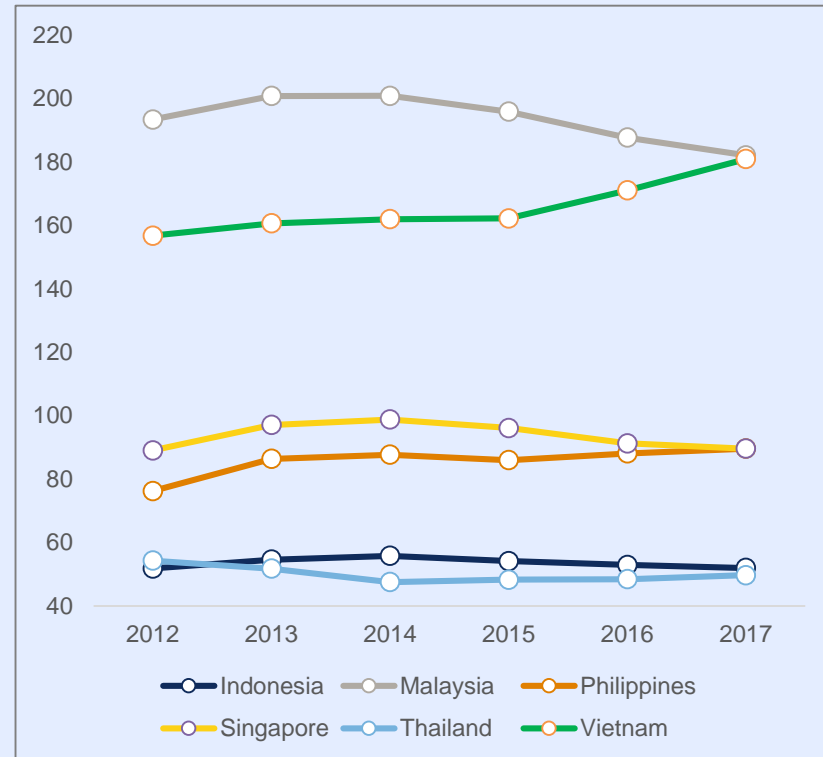
Indonesia improve significantly in science and mathematics, and has the chance to match other developed countries in 2030 (the year of SDGs Target for quality education)



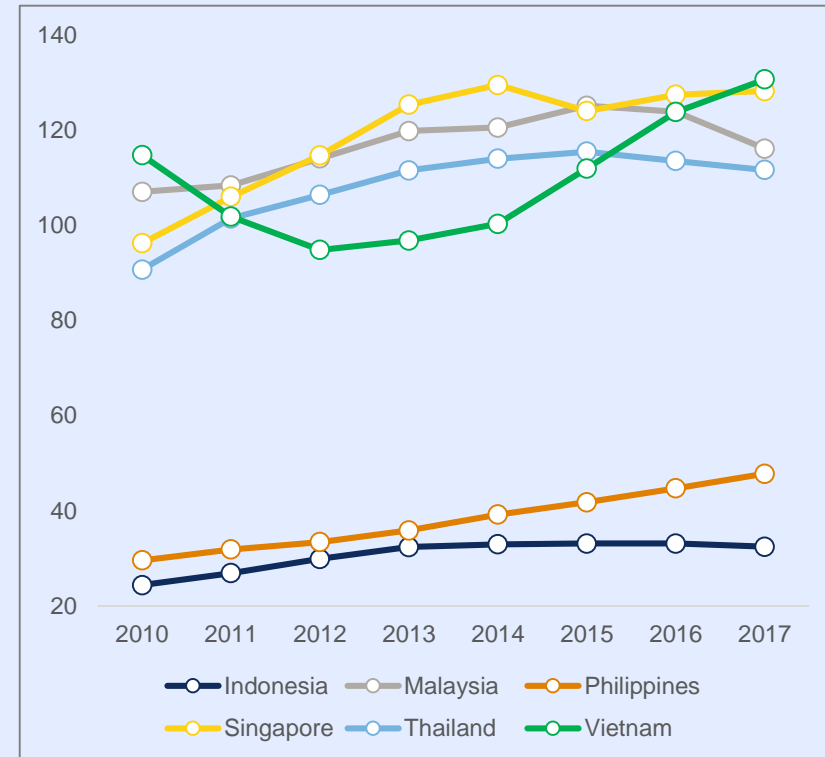
Challenges & Opportunities: **Shallow Financial Sector Constraining the Development Financing**

Relative to GDP, Indonesia's banking assets and lending to the private sector tend to be stagnant and considered the lowest in ASEAN

Bank asset to GDP ratio (%)

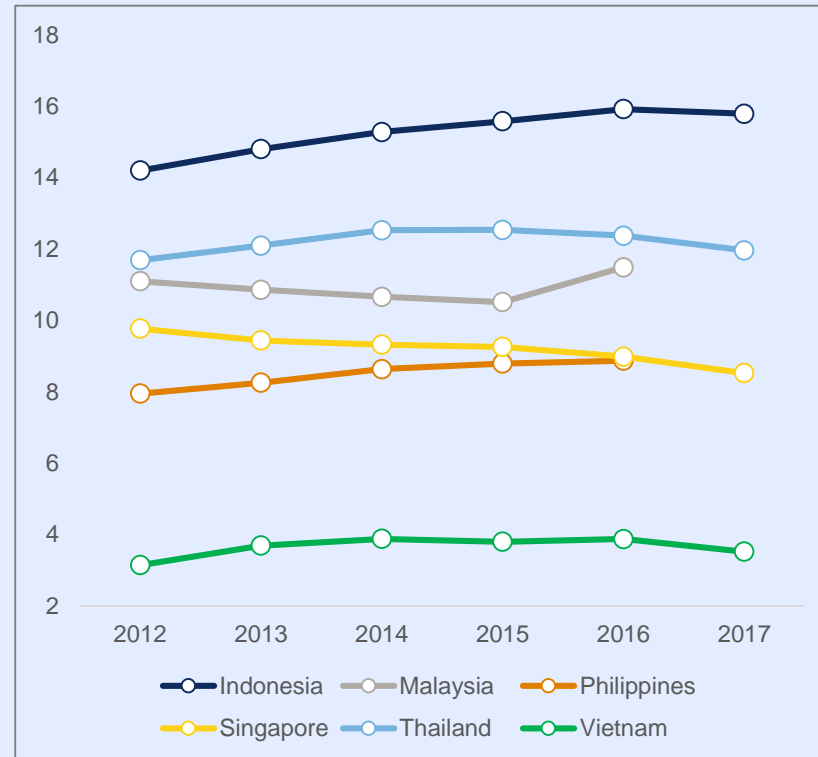


Domestic credit to private sector by banks (% of GDP)

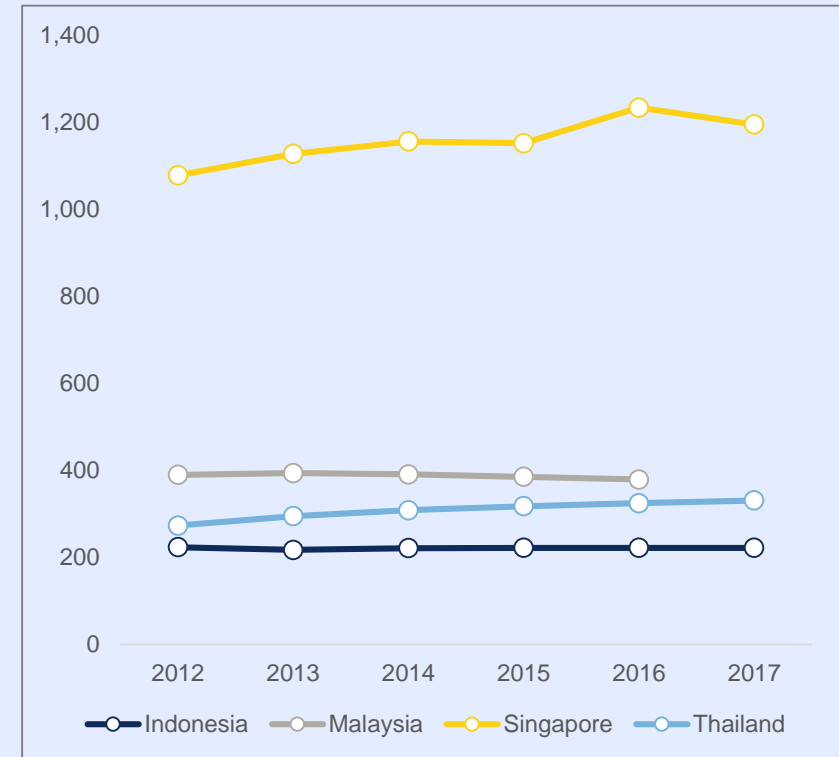


Bank office coverage is increasing and the highest in ASEAN, but the proportion of borrowers covered tends to be stagnant and is the lowest in ASEAN

Commercial bank branches (per 100,000 adults)



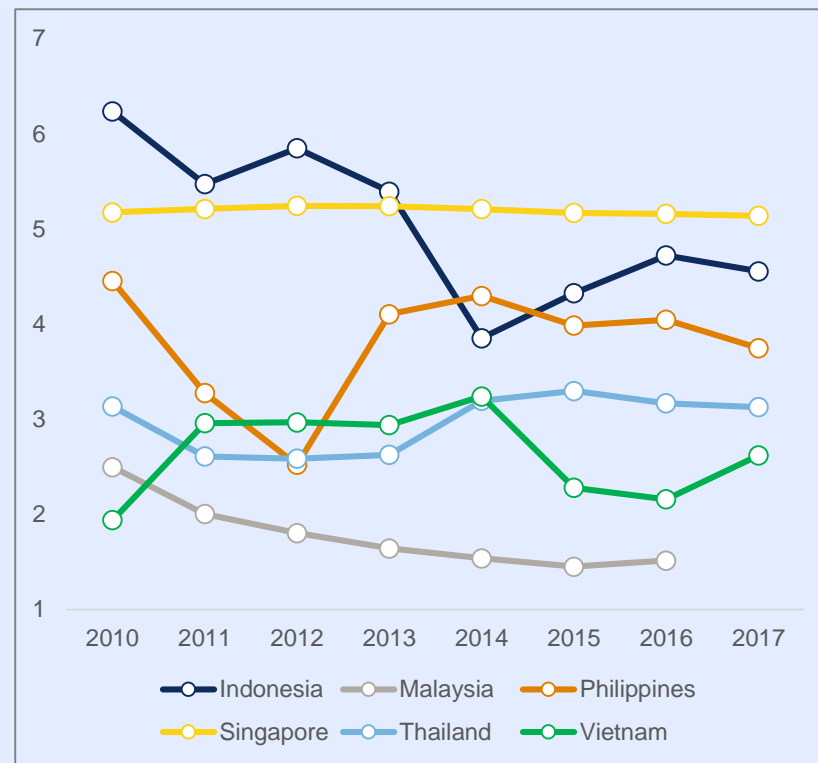
Borrowers from commercial banks (per 1,000 adults)



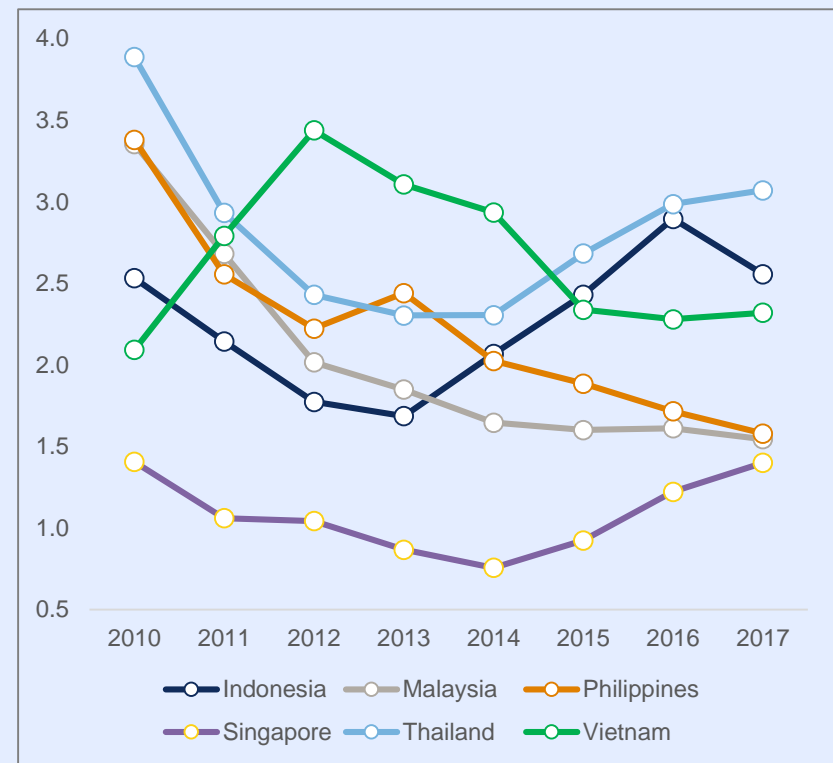
Bank interest rate spread in Indonesia, as an indicator of efficiency in intermediation, relatively higher compared to peers

Lower proportion of borrowers partly contributed by less efficient in bank's transaction costs and increasing number of bad loans

Interest rate spread (%)*



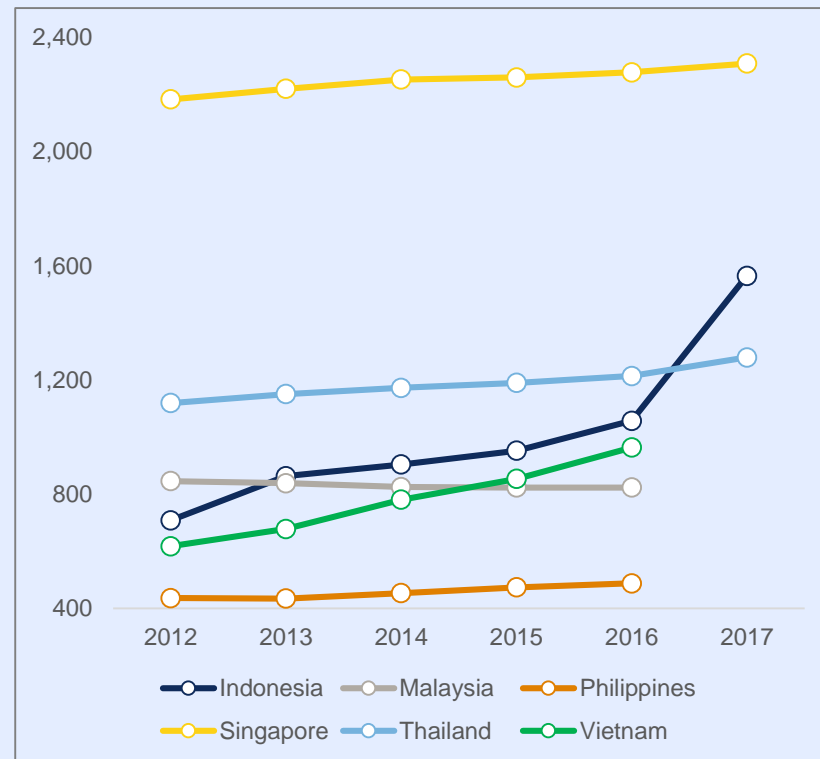
Bank nonperforming loans to total gross loans (%)



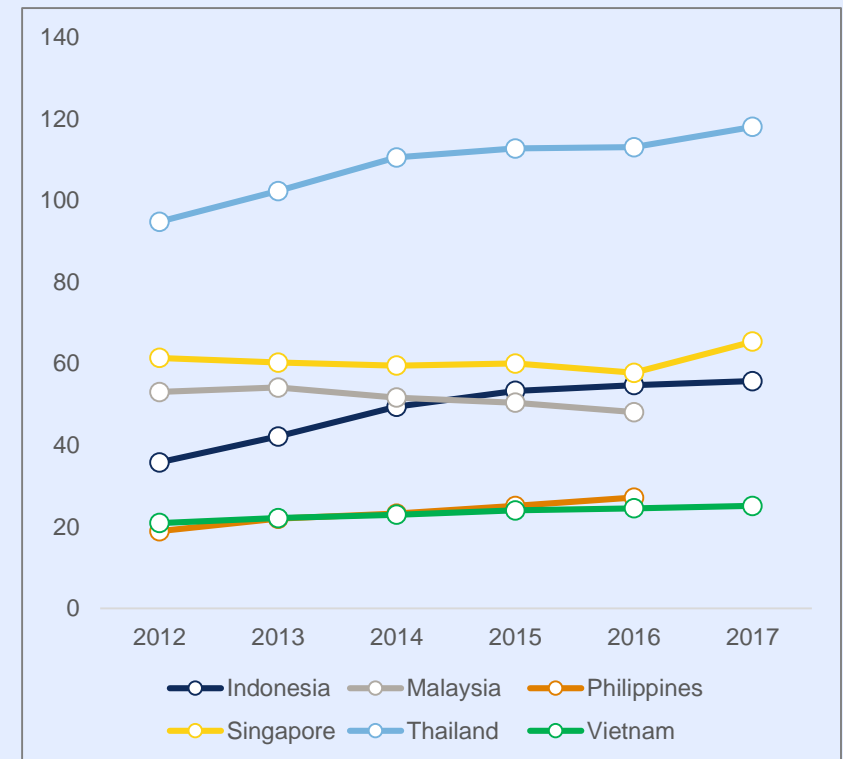
Conversely, banks as a place to deposit money tends to increase. This makes banks increasingly invest in ATMs to provide convenience for customers.

Increased customer funds in banks must be accompanied by an increase in lending to private sector

Depositors with commercial banks (per 1,000 adults)

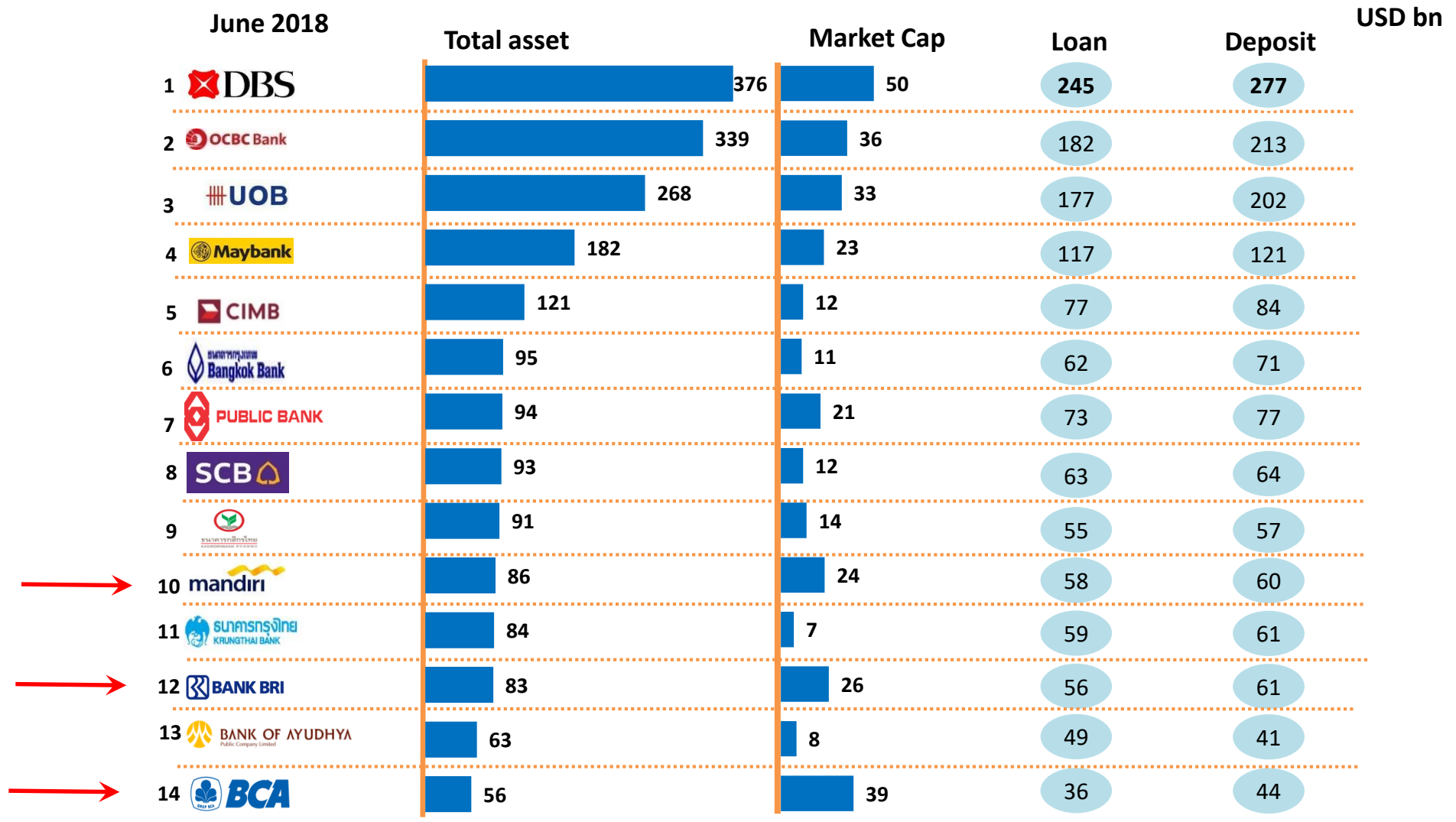


ATM (per 100,000 adults)



Comparison of asset, market cap, loan, and Deposit of ASEAN banks

Singaporean banks still dominate in terms of total asset, loan and deposit













Assessment on current financial deepening indicates Indonesia shown improvement across most dimensions of the financial market ecosystem (1/2)

DIMENSION	MATRIX FOR ASSESSMENT	CURRENT STATUS	RECENT TREND
Capital users	Number of issuers (stock)		
	Number of issuers (bond)		
Capital providers	Relative share of bank funding to bonds and equity		
	Ratio of foreign to local ownership (Bonds, Equity)		
Intermediaries	Mutual funds asset to GDP		
	Insurance asset to GDP		
Instruments	Market volume to GDP (Bonds, Equity)		
	Interbank lending to GDP		
	Turnover (Bonds)		
	Turnover (Equity and FX)		
	Bid-ask spread		
Market infrastructure	Credit bureau coverage		
	World Bank – depth of credit information index		

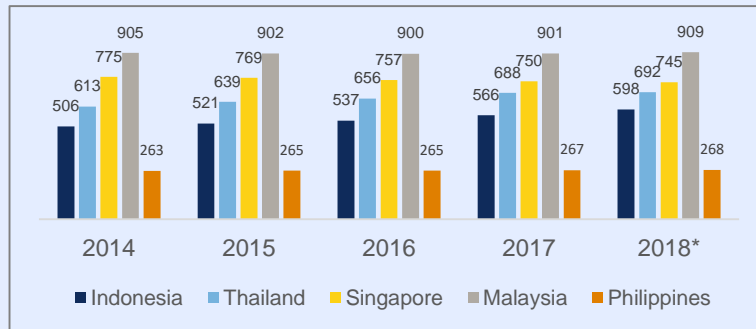
2015 Current status relatively same as in 2015
 Current

Assessment on current financial deepening indicates Indonesia shown improvement across most dimensions of the financial market ecosystem (2/2)

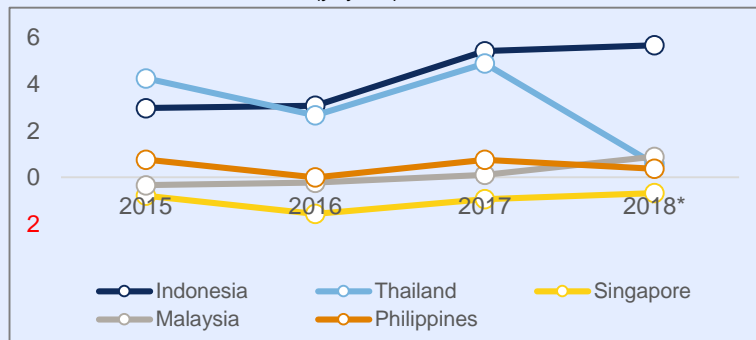
DIMENSION	MATRIX FOR ASSESSMENT	CURRENT STATUS	RECENT TREND
Regulatory, legal, and macro environment	Level of inflation		
	World Bank – ease of doing business index		
	World Bank – strength of legal rights index		
	Time for issuance		
	Tax related regulation		

Growth of issuers for the stock market in Indonesia is highest compared to other ASEAN countries

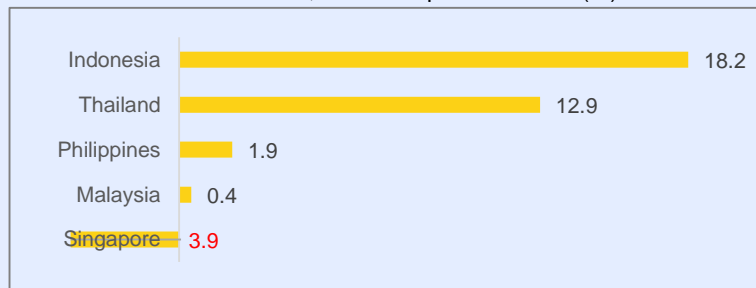
Metrics Number of issuers Issuers (equity market)



Growth in number of issuers (yoy, %)



Growth in number of issuers, 2018 compared to 2015 (%)



Current status



Remarks

POJK No 7/POJK.04/2017, March 2017

- OJK cut a number of documents in the securities registration statement and prospectus. The simplification was made to make it easier for issuers to enter the capital market, while at the same time making it easier for prospective investors to see the profile of the issuers who will conduct a public offering.
- The prospectus is sufficient to use only last 3 years financial data where previously requested last 5 years.

POJK No 53/POJK.04/2017, July 2017

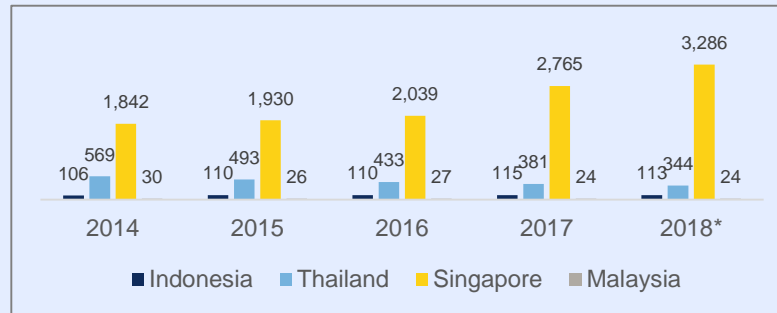
- The objective is to provide wider opportunities for issuers with small scale assets or issuers with medium scale assets obtain funding through capital market.
- Previously, SME issuers are listed on the development board which requires prospective issuers to have a minimum of IDR 5 billion in net physical assets. By this regulation, acceleration board will be a place for SME issuers who are still in the early stages of operations, such as resource-based companies like plantations, minerals, and oil and mining that have not recorded profits.

Meanwhile, the number of issuers in the bond market does not grow significantly

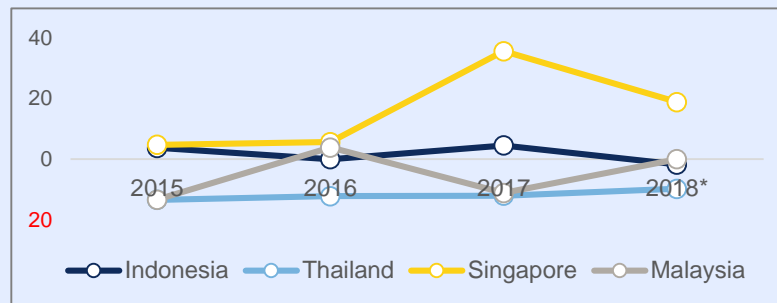
Metrics

Issuers (bonds market)

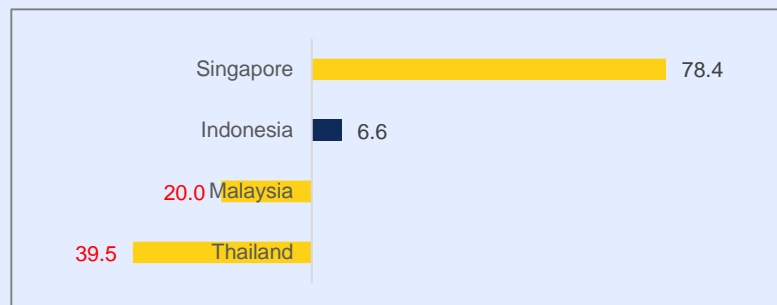
Number of issuers



Growth in number of issuers (yoy, %)



Growth in number of issuers, 2018 compared to 2015 (%)



Current status

● Current status relatively same as in 2015

Remarks

- The process of issuing bonds is considered more complicated than borrowing from a bank.
- In a certain period, interest rate of bonds issued are relatively not much different than bank loans. Hence, companies tend to choose banking because the process is simpler.
- Not all companies can issue bonds. Only companies that get investment grade can issue bond, which is relatively limited.
- Lack of knowledge from domestic companies regarding the way and process of issuing bonds or accessing the capital market. The lack of education from regulators contribute to this.
- Not all companies are willing to fulfill the obligation to open company information to the public as a condition to raise public investor funds.

*Thank
You*



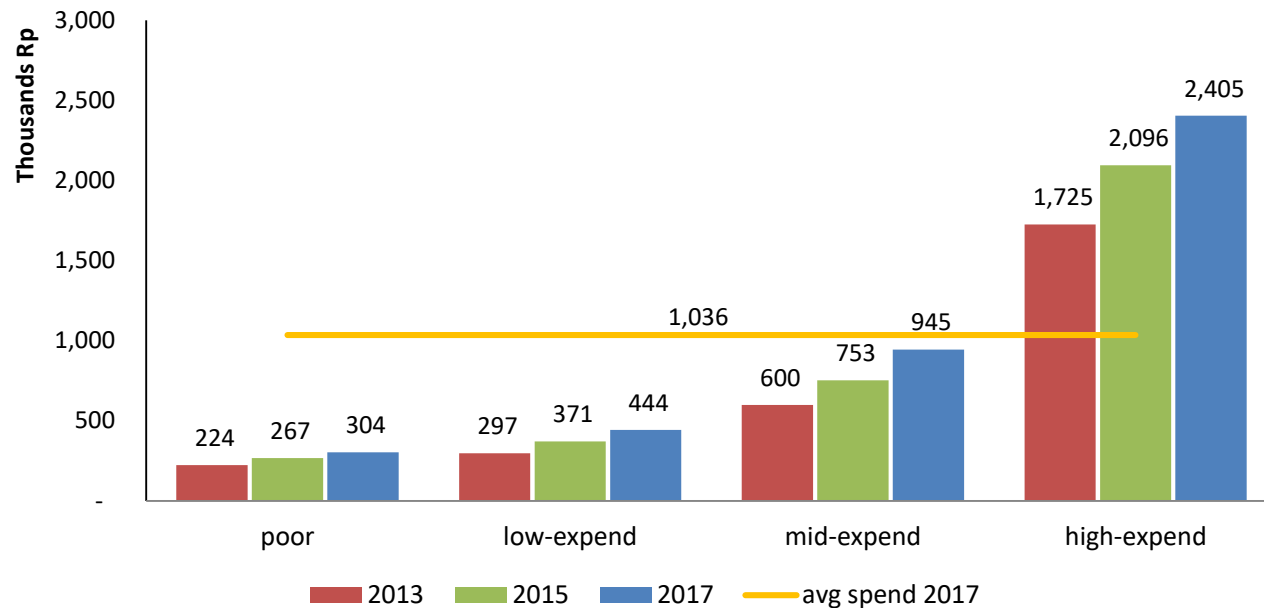
Appendix



Challenges & Opportunities: Internet and Tourism

Middle-expenditure consumption growth remain strong

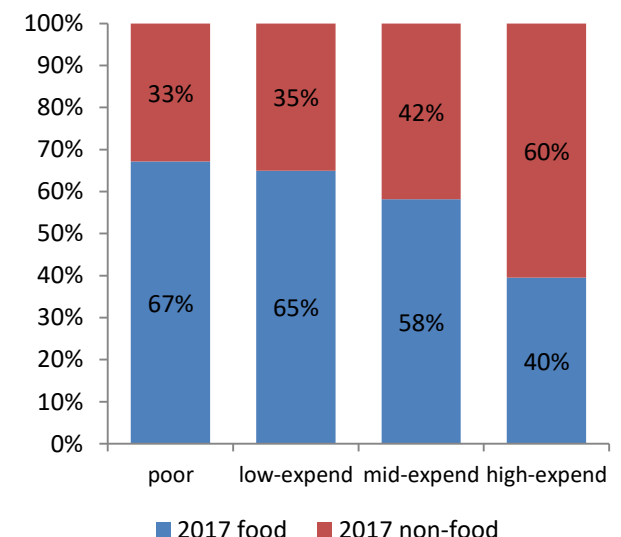
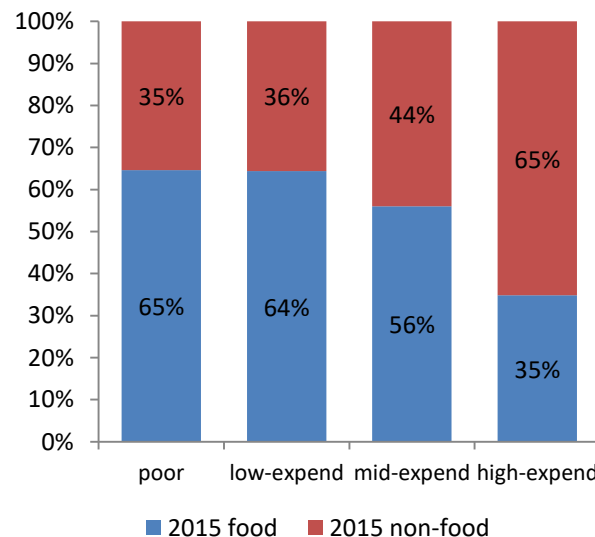
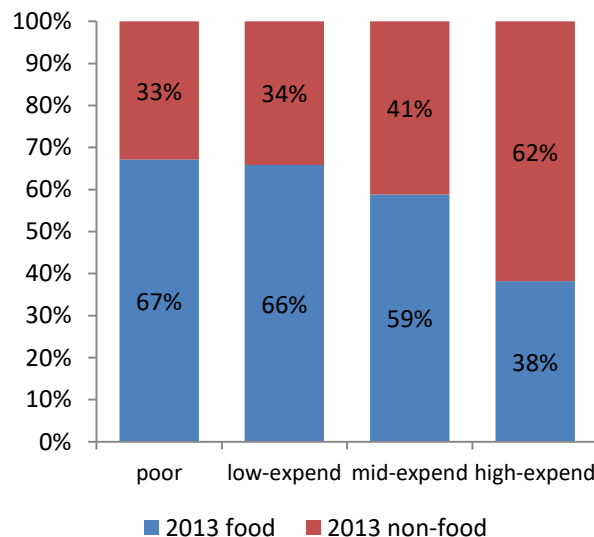
Per Capita Spending



Mid-expenditure people could maintain consumption growth above 25% for 2 year (or around 12.5%/year)

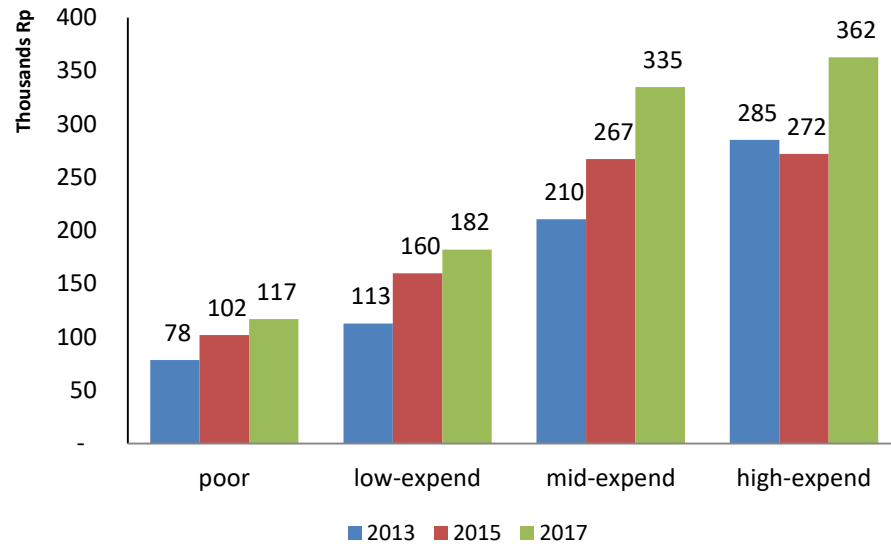
Shifting of consumption from food to non-food in 2015 didn't continue in 2017

Source: Susenas (BPS)

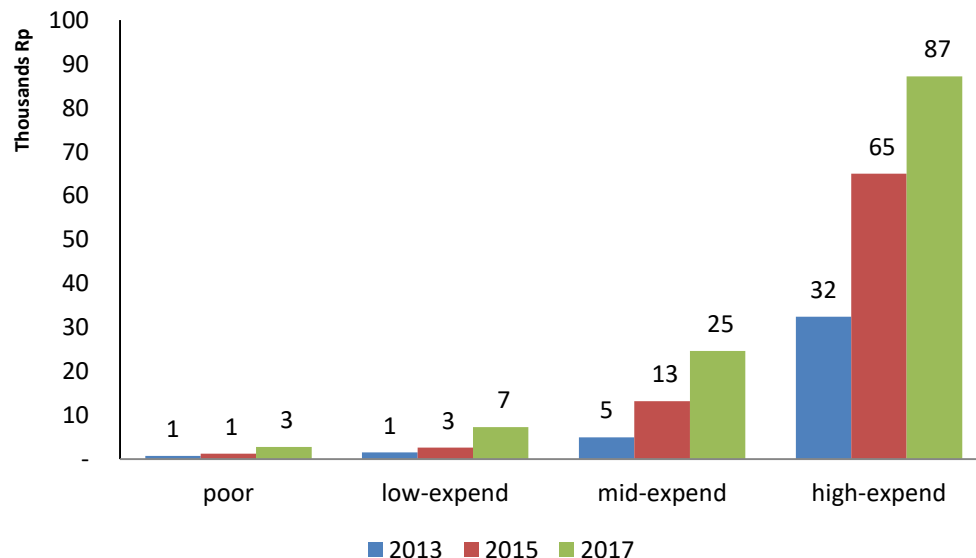


Slowdown consumption growth of cigarette, and the raise of internet

Spending for cigarette



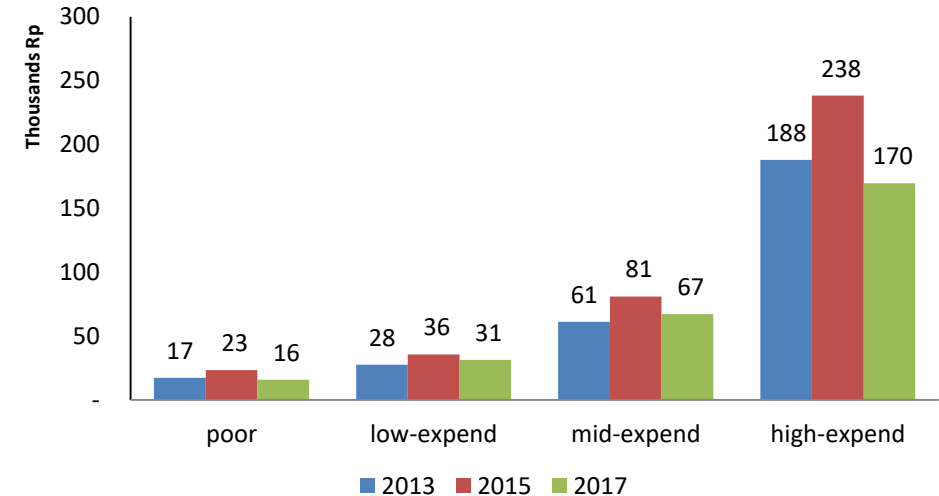
Spending for internet



Cigarette consumption growth declining for low-expend & poor category in 2017

- ❑ **Poor:** 30% in 2015 (compare to 2013) become 14.7% in 2017 (compare 2015)
- ❑ **Low-expend:** 42% in 2015 (compare to 2013) become 14% in 2017 (compare 2015)

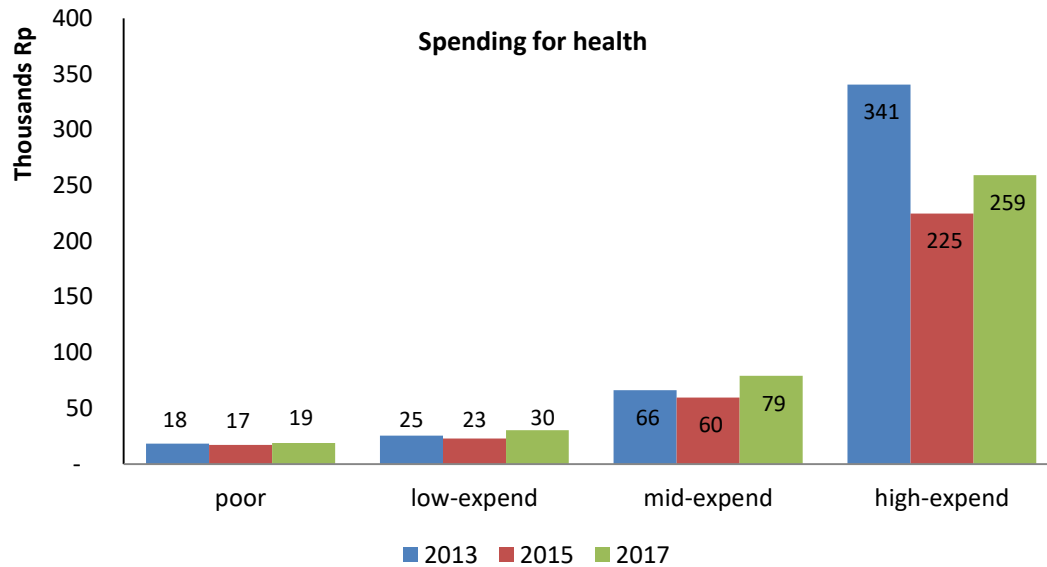
Spending for pre/post paid cellular



All level of expenditure reducing spending for pre/post paid cellular in 2017;

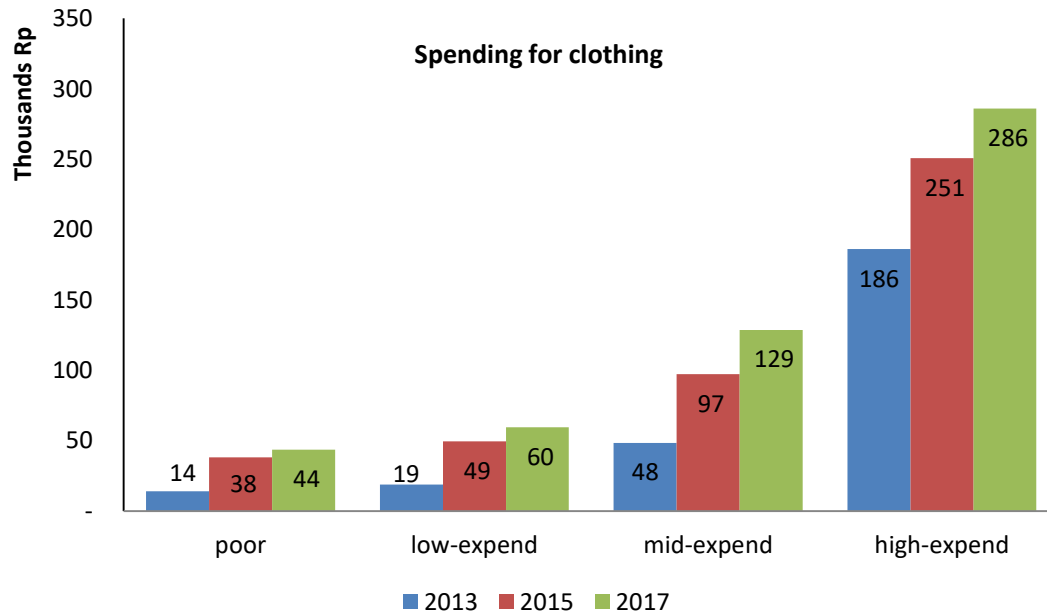
While consumption for internet increased significantly, especially low-expenditure people

An indication a lower health spending triggered more clothing consumption



BPJS significantly reduced spending for health of all expenditure category in 2015:

- Overall: -25.6% compare to 2013, with the highest contribution from high-expenditure (-34%)

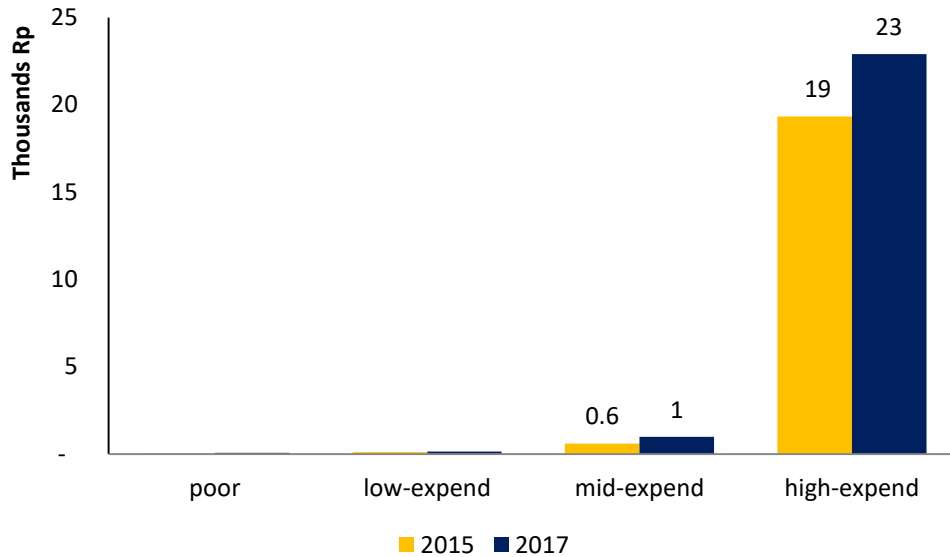


While consumption of clothing jumped 70% in 2015, an indication that people taken benefit of lower health spending

Low-expend and Mid-expend were the biggest contributor for increased clothing consumption in 2015

Mid-expend people spend more for air transport and accommodation

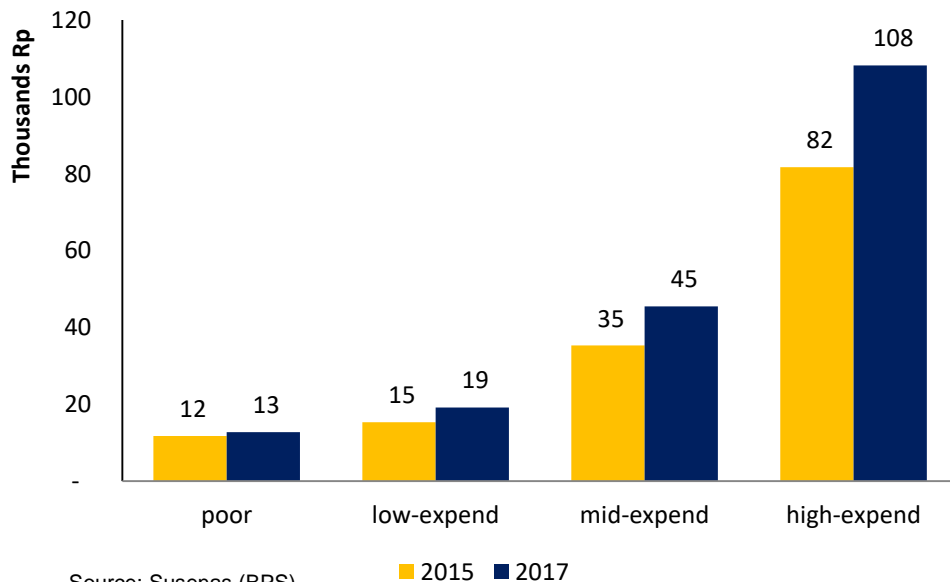
Spending for accomodation



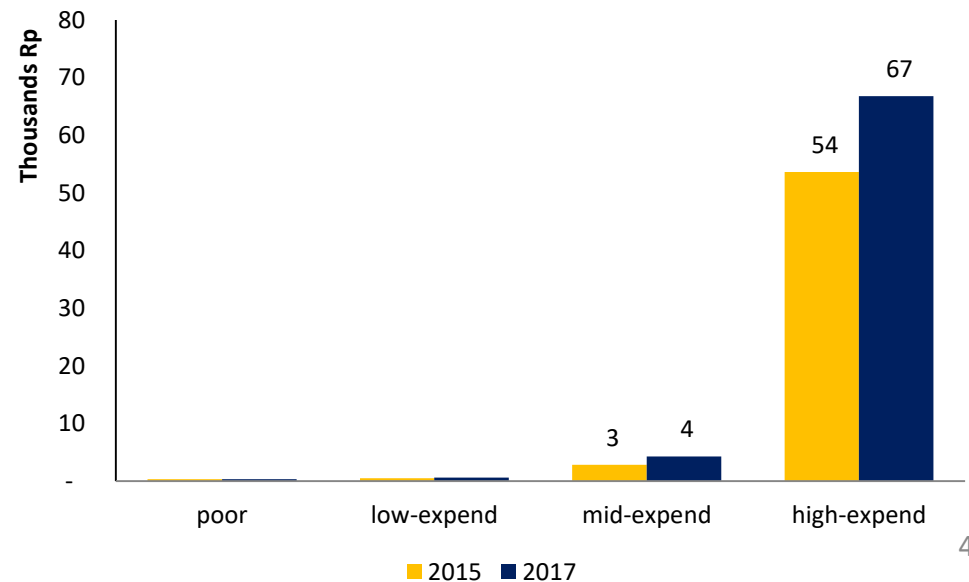
Spending for tourism and travel industry, as indicated by air transport, land transport, accommodation, increase overall by 27%, 30%, and 21% respectively

Mid-expend spending for air transport and hotel jumped significantly in 2017 (51% & 63%)

Spending for land transport



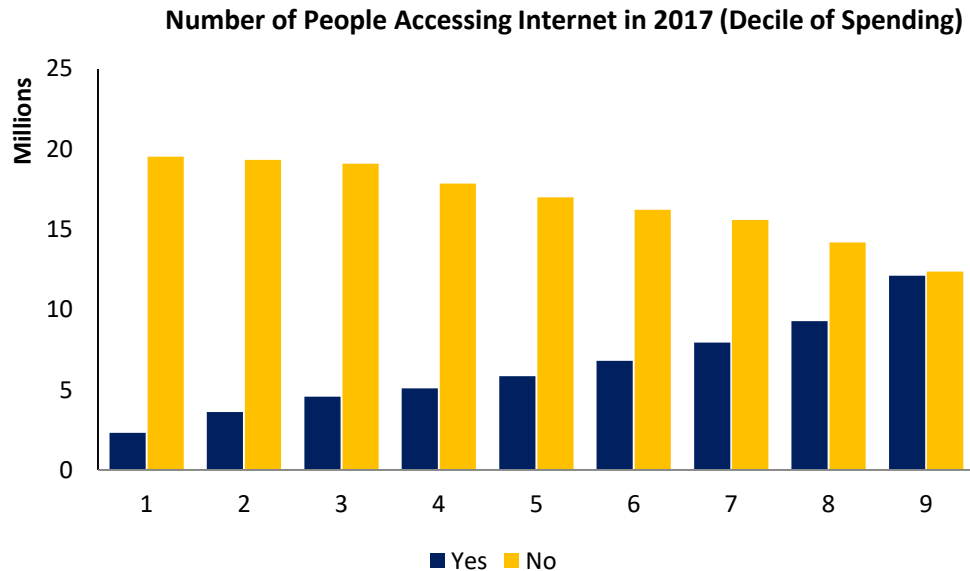
Spending for air transport





Challenges & Opportunities: Internet & Digitalization

Internet still luxurious good: consumed by higher spending groups



Total people accessing internet reach 76.7 million in 2017. The rest, about 160.4 million never touch internet in the last 3 months in 2017.

Internet Purpose	Number of People (2017)
News & Info	51,652,374
School Assign	19,847,521
Email	16,186,523
SocMed	60,715,691
Entertain	34,582,406
Trade Act.	8,299,532
e-Banking	3,896,740

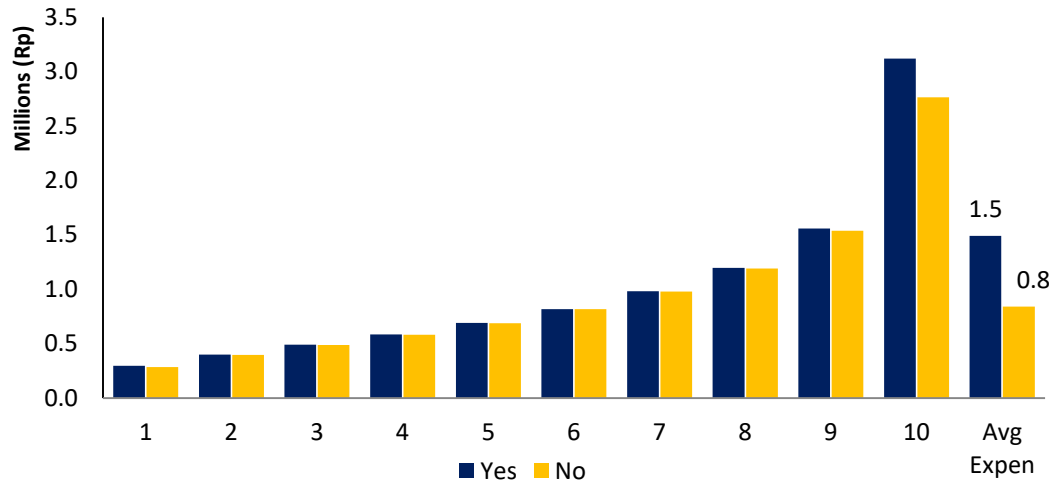
Source: Susenas (BPS)

However, people tend to use this technology with unproductive purposes (75%): Entertainment (games, video, streaming), Social-Media, News/Info

While the use for e-Banking only reach 3.9 million (2%)

Why technology (internet) & digitalization importance? Snapshot of Spending

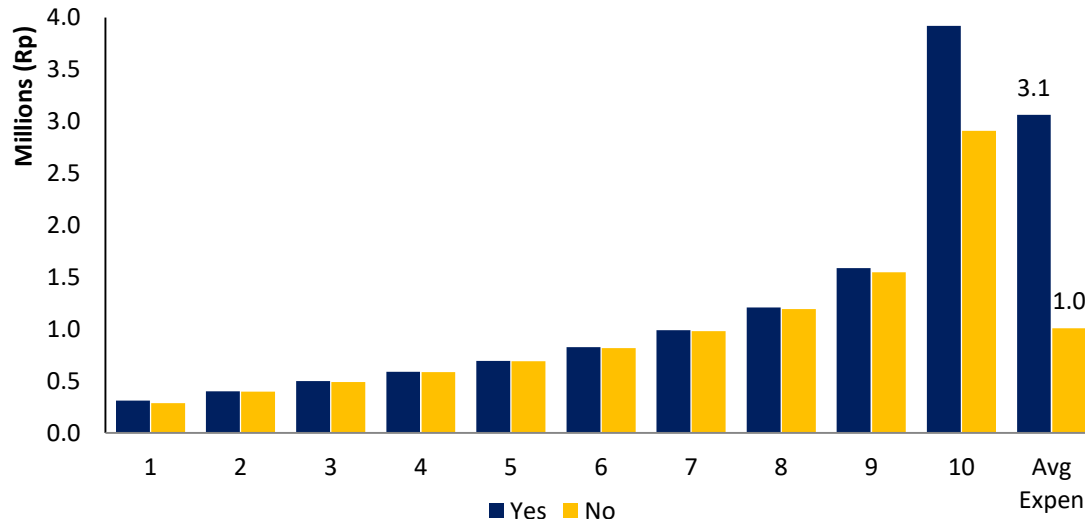
Internet & Expenditure per Capita (Decile of Spending)



At the lower spending/expenditure level, the difference in spending from 1st to 7th decile not much

However, start from 8th decile, spending of people who accessed internet are higher

e-Banking & Expenditure per Capita (Decile of Spending)

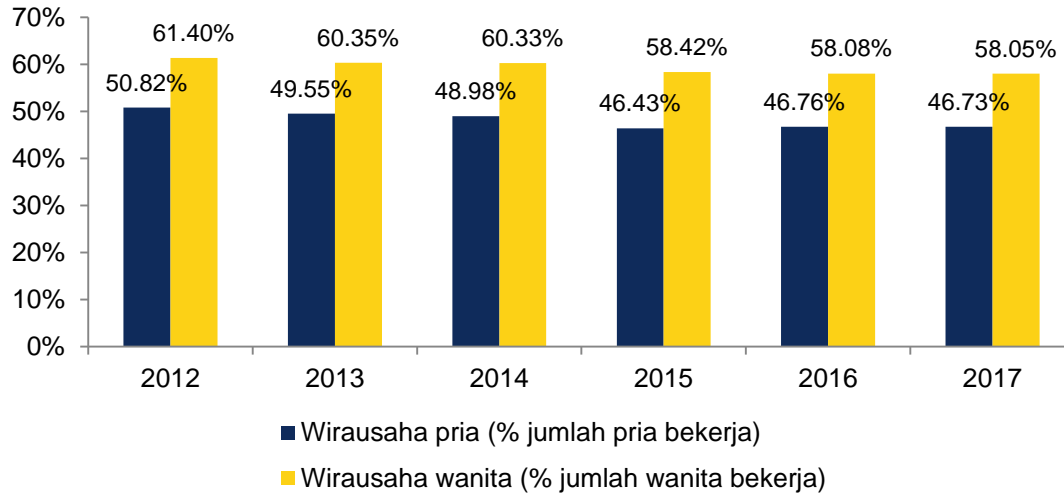


For e-banking the result is clearer: people use e-banking spend significantly more than people who don't



Challenges & Opportunities: Woman Empowerment & Financial Inclusion

Woman tend to be Entrepreneur

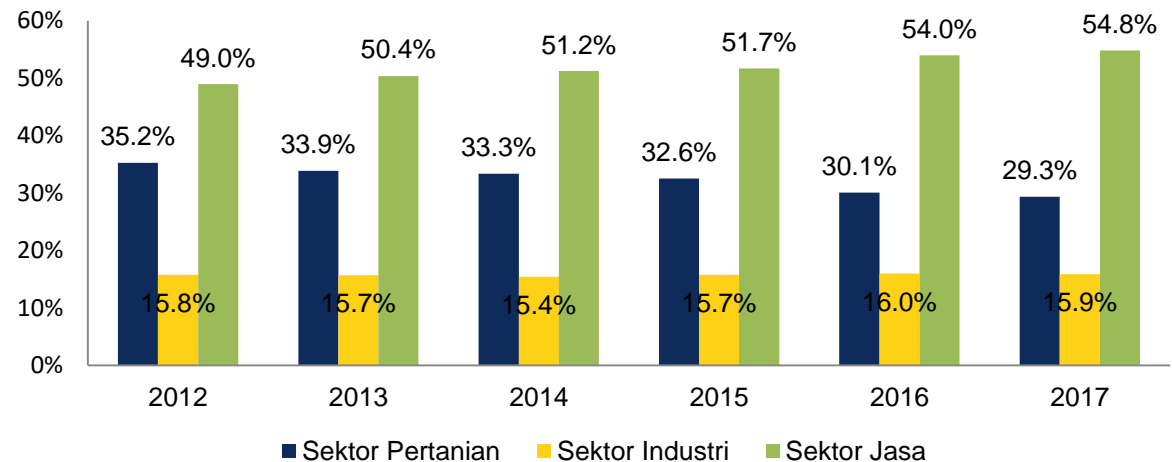


Woman as entrepreneur is higher than man (58% vs 46%)

Trend of working in services sectors is also increasing for woman

- **Agriculture:** 35% (2012) to 29% (2017)
- **Service:** 49% (2012) to 55% (2017)

Woman Employment by Sector (% total woman employment)



Global Findex Data - Indonesia

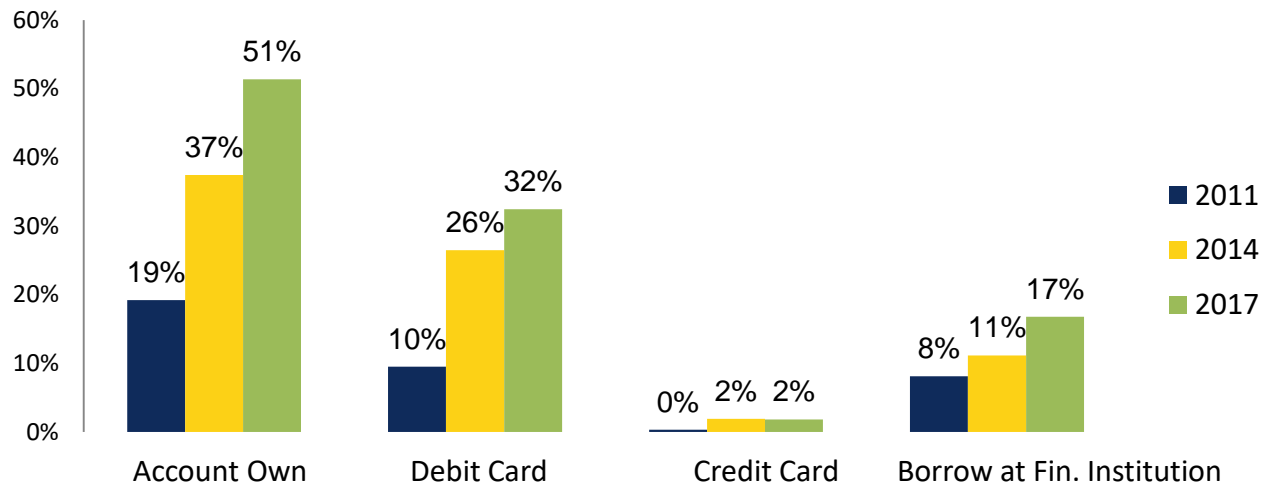
Financial inclusion rapidly increases due to non cash transfers for social assistance

General Information	2011	2014	2017
Has a national identity card (% age 15+)			90%
Account (% age 15+)	20%	36%	49%
Account, male (% age 15+)	20%	35%	46%
Account, female (% age 15+)	19%	37%	51%
Account, young adults (% ages 15-24)	13%	35%	47%
Account, older adults (% ages 25+)	22%	36%	49%
Financial institution account (% age 15+)	20%	36%	48%
Financial institution account,male(% age 15+)	20%	35%	46%
Financial institution account,female(% age 15+)	19%	37%	51%
Financial institution account,young adults(% age 15-24)	13%	35%	45%
Financial institution account, older adults(% age 25+)	22%	36%	49%

Source: World Bank Group

Financial Inclusion in Indonesia: Man vs Woman

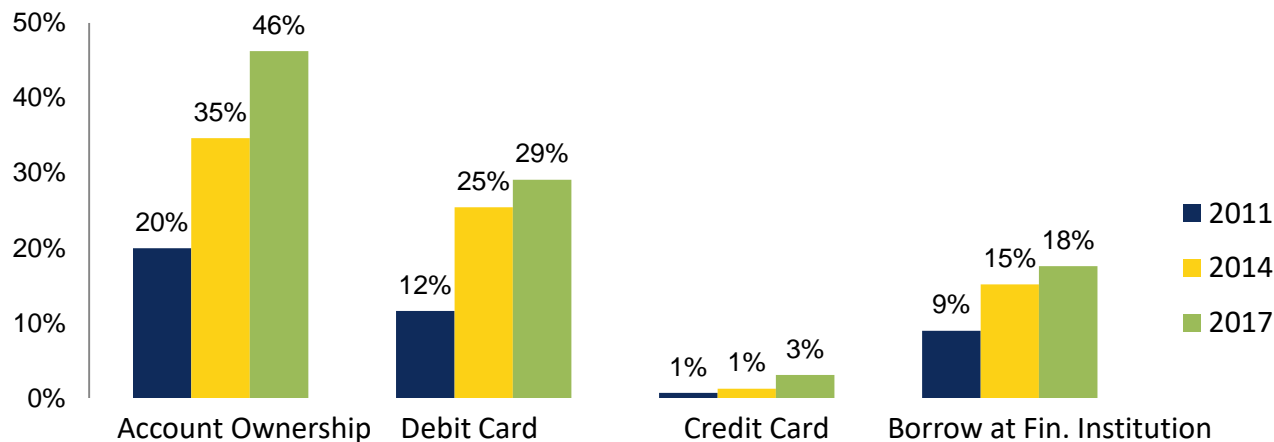
Woman (% of Age 15+)



Access of finance for woman show greater improvement compare to man

Significant increase of account ownership at financial institution: 19% (2011) to 51% (2017)

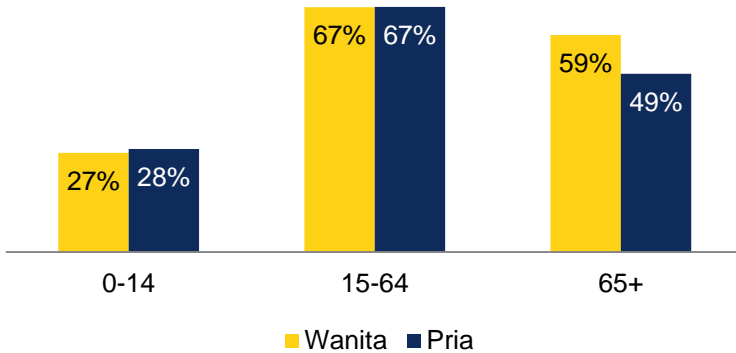
Male (% of Age 15+)



The improvement also trigger the increase of credit card holder by woman: 10% (2011) to 32% (2017)

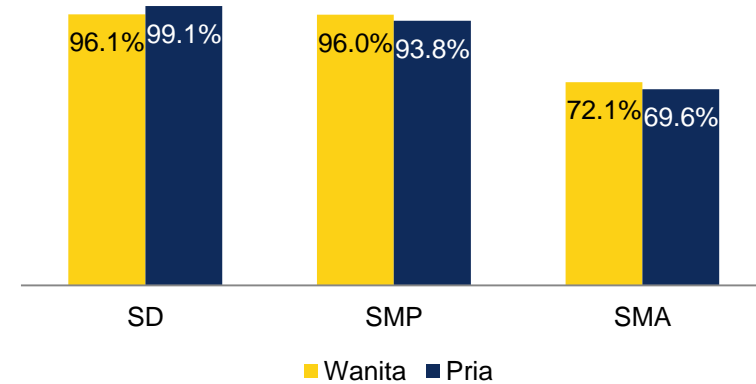
Financial Inclusion for Woman: Needs and Potential

% working ages

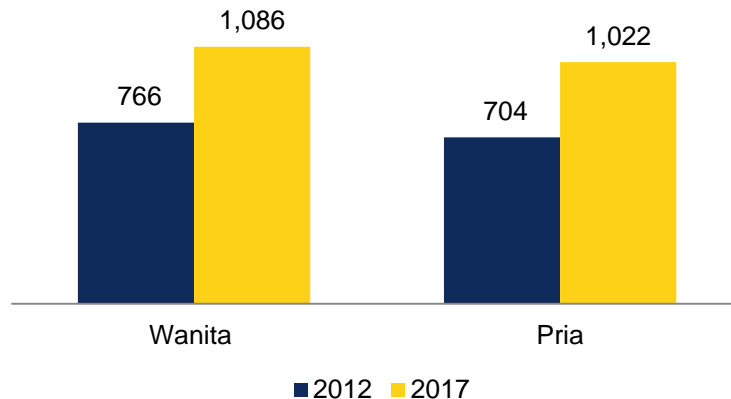


Woman has the same proportion of working ages with man. However, APS for woman is higher for secondary and higher education

School Participation Rate (APS)



Average Spending of Household (Gender of KRT)



Household with woman as the head spend more compare to the man. The difference is about 42% in 2017