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Indonesia Economic Update Report

This Issue:

Indonesia's Economic Growth in Q4
EU - Indonesia Free Trade Agreement

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Indonesia's economic expansion disappoints in Q4 2019 with growth rate hitting three-year low

In the last quarter of the year, Indonesia's economic expansion came in weak, as the Q4 growth rate fell below the 5% mark for the first time since Q4 2016.

The Indonesian GDP growth rate has now decreased four consecutive quarters, to its lowest rate since Q4 2016. The GDP growth rate dropped to 4.97% in Q4 (YoY), compared to 5.02% in Q3 (YoY). The slowdown is partly explained by weaker increases in household consumption, fixed investment and government spending.

Inflation Rate Slows to 9-Month Low

In December 2019, Indonesia's inflation rate dropped to 2.72%, from 3.00% the month before, marking its lowest rate since March 2019. Q4 as a whole ended with the average inflation rate of 2.95%.

Interest Rates kept unchanged

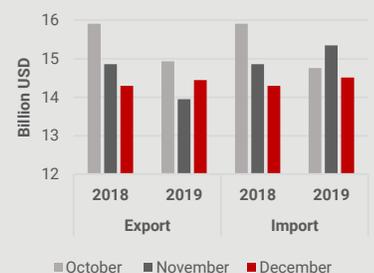
As expected, Bank Indonesia decided to maintain its benchmark 7-day reverse repo rate at 5.00% during its December meeting. The decision is consistent with the country's effort to anchor inflation and support GDP growth. The lending and the deposit facility rates were also held unchanged at 5.75% and 4.25% respectively.

Indonesia's trade gap narrows further in Q4

In December 2019, exports from Indonesia unexpectedly increased by 1.28% (YoY) to 14.47 billion USD, mostly due to the increase in sales of non-oil and gas products (+5.78%). During the same period, imports to Indonesia dropped by 5.62% (YoY) to 14.51 billion USD, mainly caused by the decline in non-oil and gas purchases (-7.28%). The trade deficit has declined constantly during Q4, and is expected to be marginal throughout 2020 as well.

Overall, Indonesia's 2019 trade deficit dropped to USD 3.2 billion in 2019 from USD 8.7 billion in 2018. The deficit reduction has raised concerns among Indonesian economists, since it is mainly driven by a decline in raw material imports, which could indicate slower economic activities.

Comparison between Indonesia's Export & Import Value Q4 2019 and Q4 2018



EU - Indonesia Free Trade Agreement

From 2nd to 6th December 2019, EU and Indonesian officials met in Brussels for the ninth round of negotiations regarding the EU-Indonesia Free Trade Agreement. Nearly all working parties met (except Technical Barriers to Trade and Energy & Raw Materials), and further progress was recorded in almost all chapters of the negotiation.



In the negotiations, both sides managed to agree on further text consolidation on intellectual property rights, rules of origin, good regulatory practice, government procurement, dispute settlement, trade and sustainable development, investment dispute resolution and several other service texts. Details of some negotiating areas are presented below.

Trade in Goods

Both sides exchanged a second tariff liberalization offer, building upon the initial offer presented at the fifth round. The new offer increases both the percentage of tariff liberalization and the quota of trade volume. Moreover, it also sets the path for a more ambitious and comprehensive agreement.

Besides, negotiators successfully explored possible solutions in a number of outstanding articles, including export taxes, repaired goods and remanufactured goods. They also explored whether limiting the scope or product coverage of those respective articles may lead to acceptable results for both sides.

Trade in Services

During the talks, EU reiterated its request for Indonesia to update its existing Investment Law, and eliminate the joint venture and foreign equity requirements which currently applies to all businesses, except hotels, in the service sector. The EU also asked to broaden the coverage of Indonesia's offer in certain services sectors. Further, the two sides discussed the Indonesian Ministerial regulations on the use of national maritime transport and insurance for exports and imports of

certain goods, since they appear to be inconsistent with Indonesia's commitments to the World Trade Organizations (WTO) General Agreement on Trade in Services (GATS). The EU once again requested for Indonesia to repeal these regulations.

The negotiation ended with both sides agreeing on a list of follow-up topics in advance of the next round, which is planned to take place in Indonesia, March 2020.

Indonesia files palm oil suit to WTO as tensions with EU grow

After the ninth round of negotiations, Indonesia filed a lawsuit to WTO against EU regarding the bloc's restriction on palm oil-based biofuel, in response to EU's complaint to WTO over Indonesian curbs on nickel ore exports in November 2019.



Since the European Commission concluded in March 2019 that palm oil causes excessive deforestation, and should not be considered sustainable, trade tensions between the two parties have gone up. In retaliation, Indonesia took measures to limit the import of alcohol and dairy products from the EU, by blocking new import approvals and threatening with additional tariffs.

As a solution to the ongoing tension, Indonesia sent a proposal for consultations with the EU on December 9th, which got accepted December 18th. The consultation phase is expected to last 60 days. If no solution is found then, the EU has the right to request WTO to set up an adjudication panel.

The European Commission has expressed their expectation that Indonesia maintains a strong interest in trade talks, and stated that that the Free Trade negotiations and the WTO lawsuit are different issues, and should therefore be handled separately.

Hyundai Motor opens its first car plant in Indonesia



In November 2019, South Korea's Hyundai Motor signed a preliminary deal to build a new factory in Indonesia. The plant would not just be the first in the country, but also the first in Southeast Asia-region. The car giant is partly building the factory to avoid import tariffs in the ASEAN region, which vary from 5% to 80% in the different countries.

The investment value was revealed to be around USD 1.55 billion, which will be gradually invested until 2030. The facility will be located in Bekasi city (40 kilometers East of Jakarta) and is expected to start producing in late 2021. The annual output capacity is expected to start at 150.000 vehicles yearly, but Hyundai aims to bring that number up to 250.000 vehicles the following years.



Today, Hyundai's current sales is far behind its Japanese rivals' (Toyota and Mitsubishi) in Southeast Asia. The carmaker aims that the new production site will enable easier sales in Indonesia, the largest automobile market in the region, to narrow down the gap and give Hyundai certain advantages against its competitors.



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