LPEM FEB UI
UNIVERSITAS INDONESIA

Macroeconomics Analysis Series

Indonesia Economic Outlook

2022

Key Figures

GDP Growth (Q2 '21)
7.07%

Inflation (y.o.y. Sept '21)
1.60%

Credit Growth (y.o.y. Q2 '21)
-1.49%

BI Repo Rate (7-day, Oct '21)
3.50%

Current Account Balance (%GDP) (Q2 '21)
-0.80%

IDR/USD (Oct '21)
IDR14,178

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The Slow Rush of Recovery

Highlights

- *Indonesia pulled out of recession in Q2 2021 with the jump in economic growth of 7.07%.*
- *Following the economic development, we predict GDP to grow of 4.1% (estimate range from 3.9% to 4.3%) in Q3 2021 and around 3.8% for FY 2021.*
- *The resurgence of Covid-19 cases in early Q3 2021 is expected to put the economic growth in a setback as the social mobility restriction being tightened.*
- *Despite the vast increase in economic activity after the relaxation of mobility restriction since last August, the rebound in Q4 2021 is wavering as the threat of another Covid-19 cases upsurge in the last quarter of 2021 persists.*
- *Maintaining strict health protocol and boosting vaccination rate are essential for robust for achieving pre-pandemic level of growth at around 5.1-5.4% for FY2022.*
- *Amid the health crisis, Indonesia's G20 presidency in 2022 could serve as a perfect opportunity for GoI to start refocusing on the long-term development agenda while facilitating discussion among global leaders towards rebuilding better and stronger global recovery.*

Indonesia is officially out of technical recession. Grew by 7.07% (y.o.y) in Q2 2021, Indonesia experienced its highest GDP growth in the last 17 years after suffering economic contraction in the preceding four quarters. Although encouraging, Indonesia's high economic growth in the second quarter of 2021 is not much of a surprise. There are at least five key elements that play a big part in producing high level of this quarter's GDP growth. First, the annual rate of Q2 2021 GDP growth is measured in relative to the low base of GDP in the same period of 2020, which recorded a massive contraction of 5.32% (y.o.y). The second factor is the easing of social restrictions. Although the third Large-Scale Social Restrictions (PSBB Jilid III) was in place during Q2 2021, community mobility continued to increase compared to previous quarter. The third factor is the momentum of Ramadan and the celebration of Eid al-Fitr, which falls in the second quarter of 2021. Historically, the quarter in which these two events occurred in almost always recorded the highest GDP growth compared to other quarters throughout the year. The fourth factor is the export side. The underway recovery of several of Indonesia's main trading partners, such as China and the US, boosted demand for export goods from Indonesia. The last factor that contributed to the rapid GDP growth in Q2 2021 was the continuation of stimulus provided by GoI. In addition to a rather generous social assistance program to protect the poor and vulnerable, GoI has also issued a stimulus for business and household consumption.

Regardless, another wave of Covid-19 in early Q3 2021 is expected to put the growth of economy in a setback as the social mobility restriction being tightened in almost half of the third quarter this year. While the economic activity seems slowly back to normal and all economic agents has been preparing to conduct daily activities that embraces 'living with the pandemic', people should stay alert and maintain health protocol discipline. There is no room for complacency when combating Covid-19. Citizens and GoI must work hand in hand to avoid another wave that could strike not only health sector bust also the economy as a whole.

Table 1: LPEM FEB UI GDP Growth Forecast (y.o.y)

Q3-2021	FY 2021	FY 2022
3.9% - 4.3%	3.7% - 3.9%	5.1% - 5.4%

Looking at the latest development, Indonesia is not likely to reach its pre-pandemic level of 5% GDP growth in 2021. One key factor is the occurrence of another wave of Covid-19 caused by the emergence of Delta Variant. This wave of pandemic has skyrocketed the daily cases which forces the authorities to implement the strictest lockdown during July until August 2021. We are in the view of the decline in Q3 2021 growth that we predict at around 4.1% (y.o.y) (estimate range from 3.9% to 4.3%) and another rebound in the last quarter of 2021; making the forecasted growth for FY 2021 at 3.8% (estimate range from 3.7% to 3.9%) for FY2021. However, the vast increase in economic activity after relaxation of social restriction in August could create a serious risk of another Covid-19 cases spike towards the end of 2021. If this scenario comes into a realization, the rebound in Q4 2021 might not happen and could deteriorate further the overall figure of 2021 economic growth. Remaining vigilant on the risk of Covid-19 spread by maintaining strict health protocol and boosting the vaccination rate are the main key to ensure a robust economic growth while 'living with the pandemic'. Being able to achieve these two things would put Indonesia in a better course of achieving pre-pandemic level of growth in 2022, despite all the uncertainties. Accordingly, GDP is projected to grow higher at around 5.1-5.4% for overall 2022.

Walk the Talk on 2022 G20 Agenda

23 years after the formation of the Group of Twenty (G20) (a discussion forum once started only for finance ministers and central bank governors as a follow-up to the 1997-1998 Asian Financial Crisis), state leaders from all over the world will finally gather in Indonesia to host the G20 presidency in 2022. Appears as a manifestation of coordination between country leaders, the G20 plays a crucial role in discussions, especially related to the economy and finance. Currently, the countries that are members of the G20 represent 60% of the world's population and 80% of the global economy.

The consensus holds that the G20 has played a significant role in cushioning the global turmoil of the biggest financial crisis in 2008. The summit meeting during the financial crisis has demonstrated its capacity in managing the global economy from worldwide catastrophes by leading the global economy to agree on a set of agendas of policy reform. Since then, the G20 meeting has been expected to continue constructing a global coordinating framework capable of amplifying the advantages of international collective action and putting the global economy on the path to more sustainable and balanced growth. With the unprecedented presence of a pandemic last year, the drive to achieve collective agenda on obtaining more robust economic growth has been becoming more intense, particularly in the economic recovery agenda. Thus, the last year and upcoming G20 summit put heavy weight on how the global economy would recover from the ongoing health crisis.

Adopting the essence of "Recover Together, Recover Stronger" as the central theme, Indonesia's G20 presidency in 2022 will serve a crucial role to realign the Covid-19 recovery agenda. Picking up from 2021 Italy's Presidency, Indonesia has a big challenge to fulfil the expectation of pushing a broader representation of developing countries agenda on the discussion among global leaders through G20 platform. Thus far, the recovery progress of Covid-19 has been vastly asymmetrical, and, in many aspects, low-income and middle-income countries are being left behind. Unequal vaccine distributions, different scales of domestic stimulus, and different conditions of basic infrastructure and health facilities are putting the low-income and developing countries on the losing side of the war against Covid-19. Highlighting the enormous Covid-19 vaccination gap between developed and developing countries, Indonesia has an ability to put its focus on promoting health diplomacy to ensure the urgent equal health facility around the world. Further, the global economy is expected to come to an agreement on strategies of addressing the impact of Covid-19 and preparing the global economy for the unprecedented potential crisis.

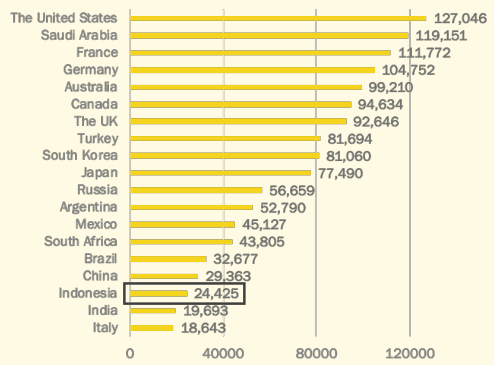
Indonesia has the opportunity to lead all G20 countries to coincide on several global and regional issues under the five priority agendas, which are promoting stronger productivity, resilience, sustainability, partnership, and collective leadership among the G20 countries. Nonetheless, while preparing to host the discussion forum of global leaders next year, Indonesia are still facing challenges in its domestic affairs related to the five pillars of 2022 G20 Presidency. The urgency and commitment of improving domestic socioeconomic conditions should be matched by the same level of enthusiasm and effort being put in facilitating discussion towards rebuilding better and stronger global conditions among global leaders next year. In the midst of the Covid-19 crisis, 2022 G20 Presidency could serve as a perfect opportunity for Indonesia to not only contribute significantly on an international level but also to start refocusing on the long-term domestic development agenda. Within each pillars of Indonesia's G20 Presidency, several development issue in the domestic economy prevails and solving those is of utmost importance.

Promoting Productivity

The first pillar of Indonesia's G20 presidency is promoting productivity or increasing productivity for recovery. Productivity, or specifically labor productivity, is a prerequisite for high growth of output and welfare improvement. It is also a key precondition for a long-term improvement in standards of living. However, labor productivity is still a major issue in Indonesia. In 2019, Indonesia's labor productivity stood at USD24,425 per worker (International Labor Organization, 2021). Among the G20 members, Indonesia only performed better than Italy and India. Compared to emerging market peers, Indonesia only performed better than the Philippines and Vietnam. The low labor productivity could explain the gap in Indonesia's GDP compared to other G20 members, suggesting the importance of serious step towards structural reform in education, investment, and labor market.

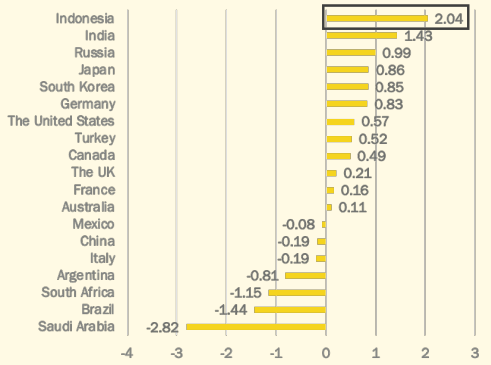
Contrary to labor productivity, in terms of total factor productivity (TFP), a measure of factor input productivity (i.e., labor and capital), Indonesia had the highest average TFP growth of 2.04% (y.o.y) between 2009 and 2019 among the G20 members. This might come as a good sign as Indonesia is on the right track of productivity progress. However, this is still not enough as the TFP growth has not been materialized in the labor productivity or significant welfare improvement. This impressive progress should not only be maintained, but also supported further by structural reform and set of policies that promotes inclusivity.

Figure A: Labor Productivity, 2019



Source: ILO modelled estimates, Nov. 2020, ILOSTAT

Figure B: Average Growth of Total Factor Productivity, 2009 - 2019



Source: Penn World Table

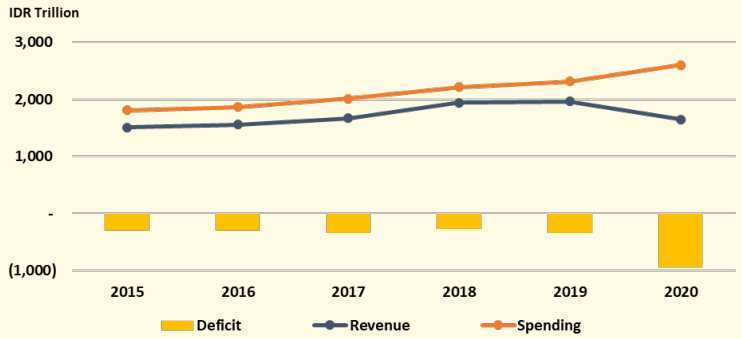
Looking into unemployment, standing at 7.07% in 2020, although this figure rose sharply due to the pandemic, Indonesia performed quite well compared to its G20 peers. Indonesia currently ranks fifth behind Japan, the United Kingdom, Germany, and South Korea. Despite having relatively low level of unemployment in comparison to other G20 members, Indonesia still faces several challenges related to employment. Employment to population ratio (EPR) was reported higher for male than that for female according to The National Labor Force Survey (Sakernas) 2020. This could mean that women are still inadequately represented at the labor market and gender barriers remain. The population working in informal sectors in 2020 has increased compared to 2019, which is at 4.59%. Looking into young population data. youth population who are outside the education system and are not working is at 24.28% in 2020, where it was reported higher for female than male. Sakernas 2020 also indicated that the open unemployment rate for the youth reached 20.46%. This means that out of 100 young people in the workforce in Indonesia, there are about 20 people who fall into the category of unemployed, where the open unemployment of young female is higher than that of young male. GoI, together with relevant

stakeholders, such as trade unions, and private sectors, should really put into place actions to address gender equality and youth unemployment.

Increasing Resilience and Stability

The Covid-19 pandemic has put enormous pressure in cracking the formed fault lines in the socioeconomic development across the globe. Going forward, focusing on the substantial improvement of resilience and stability should be a priority, as highlighted by the second pillar of "recover together, recover stronger". The impact of current health crisis has been far-reaching, forcing the government around the world to deploy massive stimulus to contain the virus spread and protect the living of vulnerable and poor groups. Such massive action in scale requires a high resiliency of state budget to perform adequate countercyclical fiscal measures. Unfortunately, many developing countries (including Indonesia), has a very limited fiscal space, even in normal times. Focusing on the context of Indonesia, limited fiscal space and relatively high reliance of state revenue on commodity prices has driven the fiscal dynamic into more of a procyclical nature (Figure C). Despite shifting towards countercyclical shape during the pandemic, the limited fiscal space has arguably put Indonesia in short of stimulus needed to weather the storm.

Figure C: Realization of Revenue and Spending on Government Budget



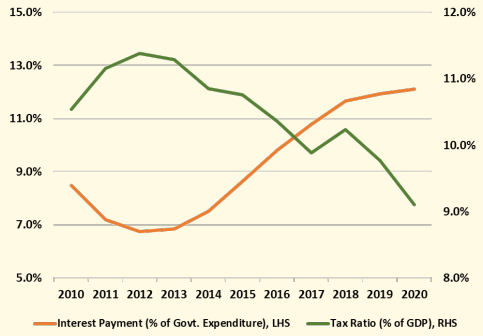
Source: Ministry of Finance and CEIC

From the revenue side, low tax ratio has become one of the major impediments that curb the flexibility of fiscal movement. From the spending side, mandatory spending, such as spending for education and health, and high proportion of debt interest payment transpires into a rigid fiscal posture. Moreover, since the decentralization has taken a place, central government also spend enormous amount of spending portion for fiscal transfers to local government. Unsurprisingly, the muted economic activity decreases the tax revenue, declining further the already-low tax ratio (Figure D). The need to deploy economic stimulus enforce the GoI to resort to public debt accumulation which consequently increase the interest payment proportion in the state budget expenditure. This combination will put Indonesia even in a more limited fiscal space in the future, weakening further the relatively low state budget resiliency.

From the revenue side, Indonesia's tax ratio is low at 9.76% of GDP in 2019 and even decreased to 8.33% in 2020, compared to the Asia-Pacific average of 21%. Tax policy reforms through the recent issuance of UU HPP is expected to broaden the existing tax base, increase tax revenues, and make the overall system fair, more transparent and efficient in the near future. Under the tax law, GoI set a new rate of 35% for personal income tax (PPh) subjecting those with an annual income over IDR5 billion to promote equity and generate more revenues. Overall, with progressive improvement in revenue collections while ensuring that higher spending in critical

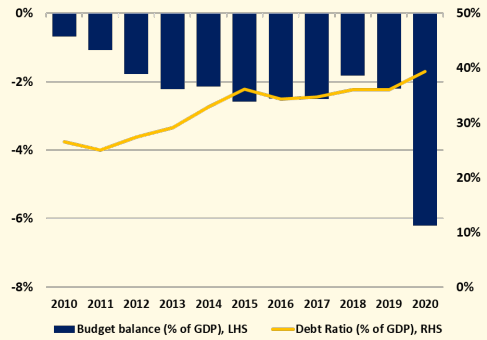
areas translates into better outcomes, Indonesia might achieve broader fiscal space and have more capacity in promoting faster and more inclusive growth.

Figure D: Interest Payment and Tax Ratio



Source: Ministry of Finance and CEIC

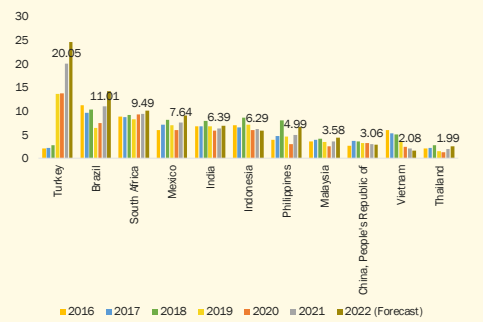
Figure E: Budget Balance and Debt Ratio



Source: Ministry of Finance and CEIC

From the spending side, besides the mandatory spending on health (5%) and education (20%), an increasing interest payment spending put a significant limitation on fiscal space. This condition is driven by a relatively high yield of Indonesian government bonds, reflecting a rather expensive cost of financing for the Indonesian government. One aspect that plays a role in the high cost of financing is the level of domestic financial deepening. Consider two developing countries with the same level of sovereign credit rating as a proxy of country risk. Theoretically, both countries would have a similar level of government bond yield, as government bond yield is another proxy for country risk. However, developing countries with similar credit ratings could have a rather different government bond yield, suggesting one country could borrow cheaper than the other. From the international investors' perspective, they would require a higher premium (yield) if the domestic financial market of a country is shallower than the others, even with a similar level of country risk. The reason being is that the country with a lower level of financial deepening indicates a lower level of domestic absorption, shall the foreign investors decide to sell the country's government bonds. Thus, they require a higher risk premium to compensate for a lower level of liquidity. Compared to Malaysia, Philippines, and Thailand, Indonesia has a relatively shallow financial market and is still dominated by banks. In addition, the spread between Indonesia's loan and deposit interest rates is also relatively high, indicating that banking costs in distributing credit in Indonesia are still expensive or inefficient. The lower level of financial market development is one of the main challenges facing budget resiliency in the future.

Figure F: 10Y Bond Yields (%)



Source: World Government Bonds (2021)

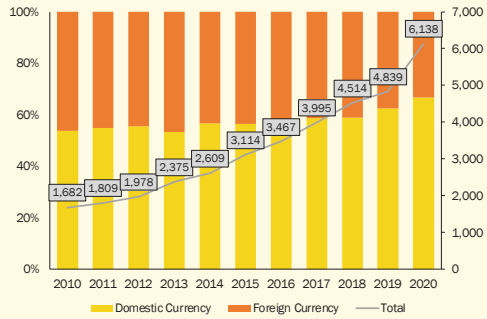
Figure G: Credit Rating Comparisons

Credit Rating	2016	2017	2018	2019	2020	2021
Brazil	BB	BB	BB-	BB-	BB-	BB-
China, People's Republic of	AA-	A+	A+	A+	A+	A+
India	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-
Indonesia	BB+	BBB-	BBB-	BBB	BBB	BBB
Malaysia	A-	A-	A-	A-	A-	A-
Mexico	BBB+	BBB+	BBB+	BBB+	BBB	BBB
Philippines	BBB	BBB	BBB	BBB+	BBB+	BBB+
South Africa	BBB-	BB	BB	BB	BB	BB-
Thailand	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+
Turkey	BB	BB	BB-	B+	B+	B+
Vietnam	BB-	BB-	BB-	BB	BB	BB

Source: World Government Bonds (2021)

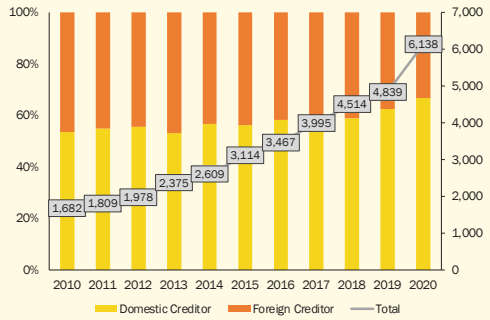
In terms of financial stability, the limited ability of the Bank Indonesia (BI) to implement a counter-tightening monetary policy without jeopardizing the recovery of the real sector and the high proportion of foreign debt also pose challenges in achieving resilience in the short-term. Looking at the latest development, with the higher-than-expected improvement of the US domestic condition, the Fed may soon begin tapering its massive stimulus. Once this occurs, a substantial amount of capital outflows is expected from emerging markets, including Indonesia. The taper tantrum will be the most critical driver of the rapid currency depreciation in emerging market countries. If the tapering-off occurs before the real sector recovers, BI has limited room to implement counter-tightening monetary policies to manage the Rupiah depreciation. Relatively high portion of foreign capital in Indonesia also plays a part in the severity of capital outflows during the future episode of taper tantrum.

Figure H: Government Debt by Currency



Source: World Government Bonds (2021)

Figure I: Government Debt by Ownership



Source: World Government Bonds (2021)

In the short-run, Indonesia could increase financial stability and resilience by speeding up the real sector recovery process. This means that improvement in health aspects needs to be accelerated so that the economy can return to normal levels more quickly to make room for monetary tightening policies once needed to cushion the impact of future capital outflows. BI could also utilize the foreign reserves that have been accumulated. Overall, BI has done an excellent job of accumulating reserves during the pandemic as it has reached its highest level in history. In the long-run, financial sector deepening is necessary to achieve higher resiliency by accelerating the development of the domestic financial market and its capacity to absorb and mobilize financing in an efficient manner. From the fiscal side, maintaining fiscal discipline and prudence has been proven to increase Indonesia's sovereign credit rating and lower the risk premium required by investors for government bonds. Continuing fiscal discipline and prudence would consequentially reduce interest payment burden; hence, providing a greater fiscal space in the medium and long-term.

Ensuring Sustainable and Inclusive Growth

Indonesia has experienced a 'blessing in disguise' in the form of environmental benefits of lockdown through lower carbon emissions and air pollution. This opportunity creates a perfect momentum to put green economy as a path towards sustainable economic recovery since focusing on economic growth alone could bring undesired social and environmental challenges. Climate change, as the most critical issue nowadays, has been a major cause of the rising occurrence of natural disasters that has severely affected people's lives and livelihoods. However, unlike the pandemic, which is an acute crisis that has received immediate policy attention, climate change is a chronic one with insufficient policy actions taken. Therefore, to pursue stronger recovery as possible to achieve sustainable growth in the long-term, it is critical for GoI to

combine policies to boost economic growth while meeting its long-term energy and climate goals.

By doing so, GoI needs to immediately address the core issue of the pandemic and deliberately embed environmental sustainability into all policies going forward. First, increase green public investment to create jobs. Research shows that investing in the renewable energy sector to limit temperature rises to within 2°C (compared to pre-industrial levels) can create a net increase of 14 million jobs (ILO, 2018), which could partially offset the job losses during the pandemic. Second, encourage energy mix to promote higher renewable energy consumption. Data from BP Statistics 2021 shows that despite the drop in overall energy consumption during 2020, Indonesia's primary energy consumption is still dominated by fossil energy sources (93% of the total energy consumption) with coal as the highest consumption. While the share of renewable energy consumption (including biofuels, geothermal, biogas, and hydro) doesn't show any significant progress since 1965 with an average share remaining at around 7%, indicating that we are still far from achieving the 23% energy mix target by 2025. Third, green the financial system by providing monetary and regulatory incentives to foster green finance and encouraging green FDI, which can be expected to reduce carbon-intensive and increase green technology transfers. Fourth, decarbonize the economy to create fiscal space and reduce carbon emissions through eliminating fossil fuel subsidies and implementing carbon tax. Under the law on Harmonization of Tax Regulations (UU HPP), GoI imposed carbon tax with a minimum rate of IDR30,000 (USD2.1) per ton of CO_2. Although the rate is relatively low compared to other emerging countries (South Africa USD9.15, Argentina USD5.54, and Mexico USD3.18 per ton of CO_2[1]), the imposition of carbon tax will provide both economic and environmental benefits. In terms of environmental aspects, the tax could incentivize a shift toward clean energy as a part of Indonesia's commitment to reduce carbon emissions and increase the use of green technologies and energy. Last, strengthen international coordination to achieve NDC's targets. As a form of commitment to Paris Agreement through NDC, Indonesia pledged to reduce 29% of its GHG emissions without international support to 41% reduction with international support against the business as usual (BAU) scenario by the year 2030. Hence, by stronger international support, Indonesia can substantially reduce GHG emissions and meet the ambitious NDC targets.

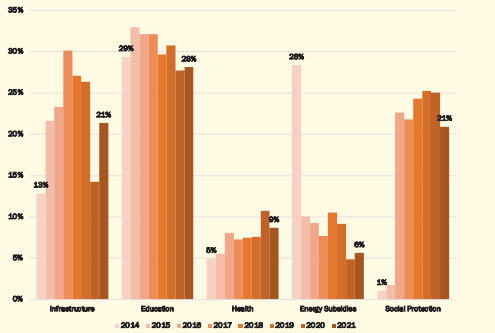
On the other hand, to pursue a stronger recovery, Indonesia should also promote inclusive growth. The core of fiscal policy – government spending and revenue collections play a key role in supporting economic growth and poverty reductions. In the past, fiscal policy has contributed positively to economic growth but has been less successful in sharing the benefit of growth more widely across society. With higher growth at around 6%, inequality remains substantial as indicated by average Gini ratio at 0.41 during 2011-2015. Since 2016, Gini coefficient barely decreased and reached 0.39 in 2019 after highly progressive social spending (increased almost twelvefold from only IDR21 trillion in 2015 to IDR261 trillion in 2016) since GoI improved social assistance programs to become more pro-poor (60% disbursement of conditional cash transfers (PKH) and non-cash food aid program (BNPT) benefits went to the bottom 20%). Nevertheless, Gini ratio will be expected to pick up as worsened inequality during the Covid-19 period where vulnerable groups are more likely to lose jobs and fall into extreme poverty.

We are facing the reality that in the past, the impact of fiscal policies on inclusive growth has been dampened by underspending in priority areas such as infrastructure, health, and social protection, and higher spending on energy subsidies. At least until 2014, a large share of revenue raised during commodity boom has been spent on regressive energy subsidies which were not

[1] The World Bank, Carbon Pricing Dashboard, last updated April 2021.

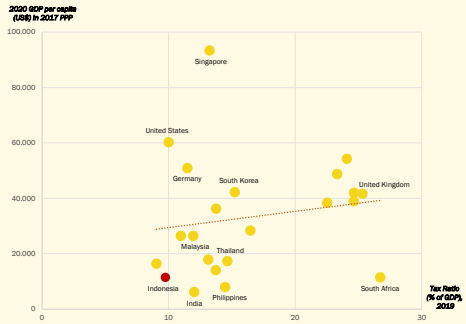
contributing significantly to growth and poorly targeted. Fortunately, the quality of spending has gradually improved since then and shifted towards critical areas for inclusive growth, notably on infrastructure and social protection, due to the reallocation of expenditures from energy subsidies. Infrastructure spending was significantly increased since 2015 combined with higher private sector participation through PPP scheme, aiming to close infrastructure gap among regions. Despite an improvement in health expenditure, the share is the lowest with 2.8% of GDP compared to neighbouring peers (Malaysia and Thailand 3.7%, Philippines 4.4%, and Vietnam 5.9% of GDP[2]). This contributes to poorer health outcomes with life expectancy at birth is 71 years for Indonesians, five years lower than the average East Asia & Pacific resident. In education, increased spending has not led to meaningful improvements in human capital, especially in terms of quality. Indonesia remains towards the bottom of the ranking in PISA score[3] with an average score of mathematics, science, and reading at 382 and has a lower Human Capital Index (HCI)[4] at 0.54, compared to Vietnam (0.69), Malaysia (0.61), and Thailand (0.61).

Figure J: Government Spending by Functions (% of central government spending)



Source: Ministry of Finance. 2014-2019 refer to actual spending, 2020-2021 are budgeted.

Figure K: Tax Ratio and GDP per Capita



Source: the World Bank, World Development Indicators

Enabling Environment and Partnership

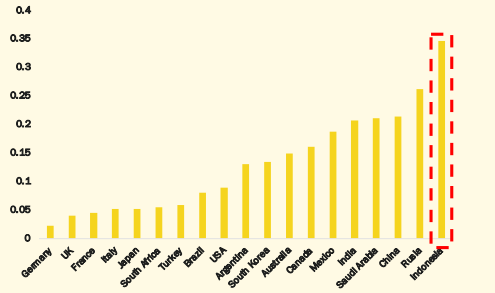
Addressing the challenge of pursuing a stronger recovery for all is a standard set for Indonesia's presidency, as stated in the main theme. "Enabling environment and partnership" has been adopted as one of the main spirits in Indonesia's presidency to achieve such ambition. As the momentum is building up, Indonesia has the opportunity to also address the issue related to the context of enabling environment and broader partnership with other countries. One of the main issues in Indonesia's partnership aspect is investment. Investment is a crucial aspect along the development phase of a country as investment would open the flows of technological progress from one country to another in its ideal form. Regardless, even without an ideal level of technological transfer from FDI, the investment flows in real sector materialize into a job creation and broader economic opportunity in the less developed country of an FDI agreement. Even for the more developed country, FDI theoretically could bring economic benefit in terms of cost efficiency compared to domestic production activity.

However, attracting FDI is one of the areas where Indonesia needs a substantial improvement. As shown by Figure L, Indonesia's score for FDI Restrictiveness Index is 0.35 (the score is between 0 for open and 1 for closed); making Indonesia as the worst performer among G20 members

[2] WDI, data refer to 2018.
[3] OECD, PISA 2018 worldwide ranking.
[4] WDI, data refer to 2020.

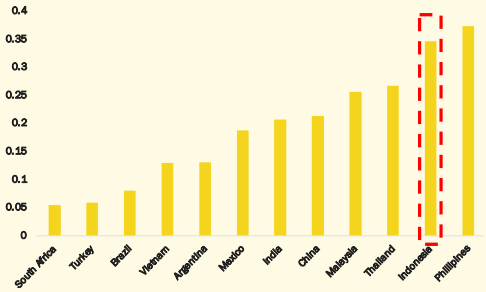
when it comes to the openness for FDI, indicated by FDI Restrictiveness Index. Even when compared to its peers, Indonesia only performs better than Philippines which scores of 0.37 (Figure M). The broader picture is also painting a rather bleak picture. Among 84 countries surveyed by OECD in 2020, Indonesia ranks 4th in the FDI Restrictiveness Index, only performs better than Libya (0.71), Palestine (0.38), and Philippines (0.37) in the openness for investment from abroad.

Figure L: FDI Restrictiveness Index – G20 Countries



Source: OECD (2020)

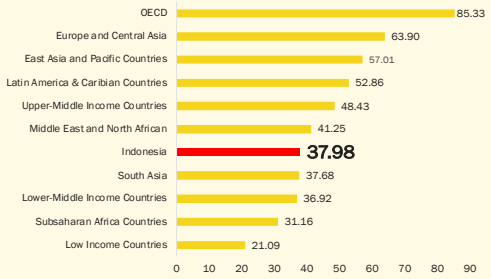
Figure M: FDI Restrictiveness Index – Selected Emerging Markets



Source: OECD (2020)

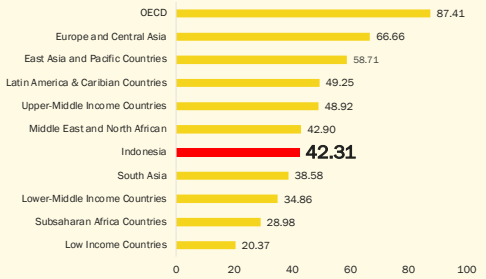
A relatively poor performance of Indonesia in attracting FDI suggesting a serious bottleneck for the agenda of stronger recovery in the short-term and economic development in the long-term. Besides the level of restriction, Indonesia's business and investment environment is also rather unattractive. Indicated by structural socioeconomic measures (Figure N and O) using Control of Corruption Index and Rule of Law Index, Indonesia's score is quite mediocre. Control of Corruption Index captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests; while Rule of Law Index captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. While not completely exhaustive, both indexes cover extensive indicators that matters for the business and investment decision by foreign entities to engage in partnership with Indonesia. Despite performing better than low-income country groups and the average of Low-Middle Income countries, Indonesia is still behind of the Middle East and North African average, Upper-Middle Income Countries average, and Latin America and Caribbean Countries average for both indexes (higher score indicates better rank among sample countries).

Figure N: Control of Corruption Index (in rank percentile)



Source: World Governance Indicators (2020)

Figure O: Rule of Law Index (in rank percentile)



Source: World Governance Indicators (2020)

Achieving Global Collective Leadership

Rebuilding the economy after the Covid-19 crisis requires extraordinary and painstaking commitment, especially related to the health aspect. Given today's integrated economic condition, recovery cannot depend on improvements in one country but in all. Thus, implementing the spirit of collective global leadership to recover from the pandemic is crucial. Along with the upcoming G20 presidency, Indonesia as its spirit to represent developing countries, must ensure that no one left behind in the recovery agenda. Surrounded by challenges in executing the deployment of medical facilities and equipment to combat Covid-19, strengthening global health cooperation is critical to ensure the equal access for all. The collaboration in providing health facilities and equipment will be valuable to address uneven vaccine distribution and delayed vaccination delivery that has plagued several poor and middle-income countries. The gap in vaccines accessibility is very apparent in the percentage of vaccination data which shows that only less than one percent of the population in some countries in Africa who have received at least one dose of a Covid-9 vaccine. While most of the developed countries have more than half of its population who have received vaccines.

Strategies to ensure uniform quality of health facilities in the future will undoubtedly necessitate long-term efforts. Some viable initiatives, such as bilateral and multilateral negotiations and cooperation can assist the government in resolving the health issues. One of the most urgent areas which require collaboration is to ensure that vaccines availability in all countries. Developing countries with inadequate capital to develop their own vaccines are struggling to receive affordable vaccines for their population, whereas vaccine producers are based in developed countries. The vaccine scarcity in low and middle-income countries can be considerably enhanced by easing restrictions on vaccines' patents that are currently held only by some parties. To achieve the equal access to vaccinations, all countries around the world must come to an agreement on waiving some intellectual property rights under the Trade-Related Aspects of Intellectual Property Rights (TRIPS). The waiver mechanism will release the vaccine patents, allowing vaccine manufacturing to escalate and vaccines delivery for low income countries to accelerate. Indonesia may also seek the prospect of expanding its capacity to serve as a vaccine and other medical supplies manufacturing hub for other developing countries. Indonesia could look into the possibility of expanding its role to serve as a potential leader of SDGs and climate transition implementation among ASEAN or Asia to address the agenda of sustainable growth in the future.

Further, collective leadership action has the ability to address several unresolved issues associated with the looming digital trend. The digitalization of nearly all economic sectors transforms the structure of economies which pushes the governments to reform their technical regulations in a number of aspects, such as the privacy policy and national competition policy. Amid those efforts, the challenges of implementing the digital economy persists since all economies face unharmonized products classification with separate framework and categorization in performing international trade. Global regulation for trade in goods and services needs the adjustment to draw near the development in digital economy. Several multilateral negotiations have been made in order to deal with the friction from digital transformation on international trade, such as the Chile, New Zealand, and Singapore with the Digital Economy Partnership Agreement (DEPA). The negotiation covers a number of issues ranging from customs duties on digital products to cyber security of digital trade. However, the broader elaboration and coordination are required to cover more countries in regulating the trade during the digital economy era. In G20, the collective action for promoting uniformity in international trade has potential to address the issues.

The era of digital economy also imposes another challenges related to taxation policy. Collecting taxes from the digital products is convoluted since the economy is still inexperienced with the digital transformation and most of the products are excluded from the government's tax base. In recent times, 136 countries agreed to support the Two-Pillar Solutions which establishes the new rules of minimum 15% tax rate imposed for multinational enterprises all over the world from 2023. The regulation plays important role in narrowing the gap between the economies with highest and lowest tax rate by deterring multinationals from relocating their production to tax havens. The rule, however, is still in the early stage. The massive support to implement rules is required in order to face the fairer and better international taxation regulation. Indonesia and other G20 economies have the responsibility to implement and promote the reform by creating collective leadership in G20 countries to develop universal understanding and capacity in charging the multinational companies in the digital age.

Bidding Farewell to The Recession

Indonesia's GDP grew by 7.07% (y.o.y) in Q2 2021. With the highest growth in 17 years, Indonesia pulled out of recession in the second quarter after suffering negative growth for four consequtive quarters since the emergence of Covid-19 pandemic. Although encouraging, Indonesia's high economic growth in the second quarter of 2021 is not much of a surprise. There are at least five key elements that play a big part in producing high level of this quarter's GDP growth. First, the annual rate of Q2 2021 GDP growth is measured in relative to the low base of GDP in the same period of 2020, which recorded a massive contraction of 5.32% (y.o.y). Similar to the mechanics of a spring, the lower GDP growth is pulled down, the easier it is to bounce even higher on the next period. Assuming the long-term trend of Indonesia's GDP growth is 5%, the growth of 7.07% in Q2 2021 is roughly an equivalent of around 1.37% GDP growth in normal times had the economy not been shrunk by the pandemic.

"Although encouraging, Indonesia's high economic growth in the second quarter of 2021 is not much of a surprise."

The second factor is the easing of social restrictions. Although the third Large-Scale Social Restrictions (PSBB Jilid III) was in place during Q2 2021, community mobility continued to increase compared to previous quarter. The economy being set in motion by the relaxation of social restriction has become a momentum for people to increase their spending, which is then welcomed from the business side by increasing production and investment. This is reflected in Indonesia's manufacturing Purchasing Manager Index (PMI), which was recorded consistently over 50 during April to June quarter, indicating a continuous expansion of manufacturing activity throughout Q2 2021.

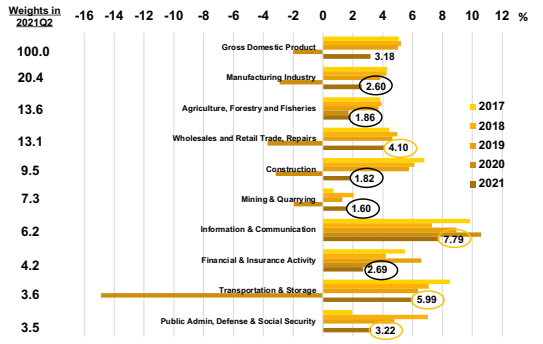
The third factor is the momentum of Ramadan and the celebration of Eid al-Fitr, which falls in the second quarter of 2021. Historically, the quarter in which these two events occurred in almost always recorded the highest GDP growth compared to other quarters throughout the year. This is quite reasonable as Ramadan and Eid al-Fitr are celebration momentum for most Indonesians encouraging household consumption to soar. Though GoI has imposed a ban on 'Mudik' (hometown visit) activity to limit the spread of the Covid-19, Indonesian are still enthustiastically embrace the momentum of Eid al-Fitr, in line with BI data that the money supply

reached IDR154.5 trillion during the Eid period, a drastic spike of 41.5% (y.o.y) compared to the previous year.

The fourth factor is the export side. The underway recovery of several of Indonesia's main trading partners, such as China and the US, boosted demand for export goods from Indonesia. Furthermore, the global economic recovery also pushed up the prices of commodities, such as coal and palm oil, which have a significant contribution to Indonesia's export profile. As a result, the export value in the second quarter of 2021 soared by 55.8% (y.o.y) compared to the same period in the previous year and increased by about 10.3% (q.t.q) compared to the first quarter of 2021.The last factor that contributed to the annual growth of 7.07% in the second quarter of 2021 was the continuation of stimulus provided by GoI. In addition to a rather generous social assistance program to protect the poor and vulnerable, GoI has also issued a stimulus for business and household consumption in the form of relaxation of sales tax on luxury goods (PPnBM) for cars and value added tax (VAT) for home purchases under IDR2 billion, boosting car sales up to 758% and property sales to 20% on an annual basis in Q2 2021.

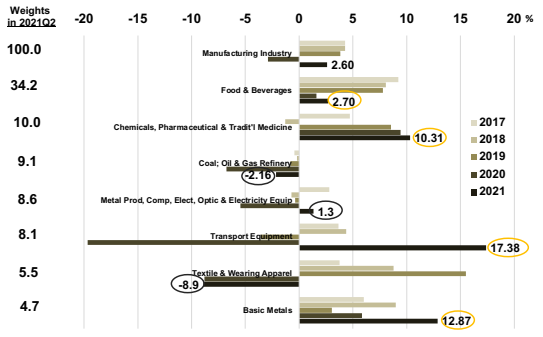
"…all sectors recorded a positive growth though with varied magnitude."

Figure 1: Growth of GDP and the Main Industries, 2017-2021Q2



Source: CEIC

Figure 2: Growth of Manufacturing Sector and Its Subsectors, 2017-2021Q2



Source: CEIC

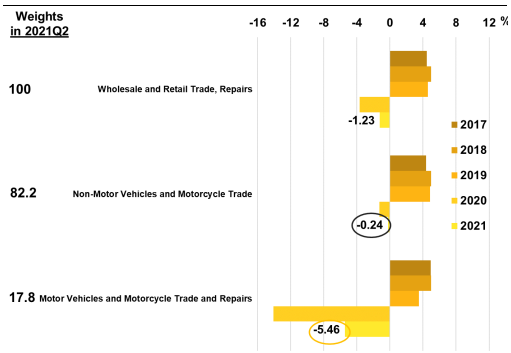
From the sectoral perspective, all sectors recorded a positive growth though with varied magnitude. As the biggest contributors to the economy, manufacturing sector grew by 6.58% (y.o.y) from -1.38% (y.o.y) in the previous quarter, the first positive growth since the pandemic began and the highest growth in the last 10 years. Similarly, wholesale & retail sector and construction sector increased by 9.44% (y.o.y) from 1.23% (y.o.y) and 4.42% (y.o.y) from 0.79% (y.o.y), respectively. Despite having the same attribute of positive growth, agriculture had its lowest growth rate during the pandemic era at 0.38% (y.o.y) in Q2 2021, decreasing from 3.33% (y.o.y) in the first quarter of 2021. Furthermore, sectors that have been hit the most by the ongoing crisis, namely transportation sector and acommodation and food & beverages sector, grew massively by a double-digit percentage. After four consecutive quarter of experiencing a double-digit contraction, transportation sector recorded a growth of 25.10% (y.o.y) in Q2 2021 from -13.12% (y.o.y) in Q1 2021. Likewise, acommodation and food & beverages growth increased substantially to 21.58% (y.o.y) in Q2 2021 compared to -7.26% (y.o.y) in the previous quarter.

Moreover, the emergence threat of Delta Variant wave during Q2 2021 spur a robust growth of health sector by 11.62% (y.o.y) from 3.32% (y.o.y) in Q1 2021.

While the overall sector of manufacturing follows a similar trend with the aggregate GDP trend by rebounding into a positive territory for the first time since the pandemic began, the recovery progress across subsectors in the manufacturing industry rather varies. Observing the biggest contributor within the sector, food and beverages subsector continued its positive trend and increased to 2.95% (y.o.y) in Q2 2021 compared to 2.45% (y.o.y) in the previous quarter. Amidst the enormous pressure on the economy, this subsector has never experienced a contraction during the pandemic as the food and beverages products are considered as basic needs. Similarly, chemical & pharmaceutical product subsector maintained its robust growth in the second quarter of 2021. Recorded at 14.96% (y.o.y), the increase is substantial compared to 8.65% (y.o.y) in Q1 2021 as the demand for pharmaceutical products spike amidst the threat of incoming Delta Variant wave. Fortunately, the two subsectors of food & beverages and chemical & pharmaceutical products are also the two biggest subsectors within the manufacturing industry. Accounted for 34.2% (food & beverages) and 10% (chemical & pharmaceutical product), the consistency of positive growth rate by these two subsectors help cushioning the impact of Covid-19 to the aggregate manufacturing sectors. On the other hand, several subsectors, such as tobacco (-1.07%, y.o.y), textile (-4.54%, y.o.y), wood (-6.07%, y.o.y), and paper (-4.01%, y.o.y) products, are still struggling with the pandemic pressure as indicated by the negative growth. Considered as one of the most damaged subsectors due to the pandemic, transport equipment subsector recorded an astronomical growth of 45.70% (y.o.y) in Q2 2021, a massive jump from -10.93% (y.o.y) in Q1 2021. Despite being on a milder magnitude, other subsectors within manufacturing industry also recorded a double-digit growth in Q2 2021. These subsectors are rubber, base metal, and machinery and equipment with the growth of 11.72% (y.o.y), 18.03% (y.o.y), and 16.35% (y.o.y), consecutively.

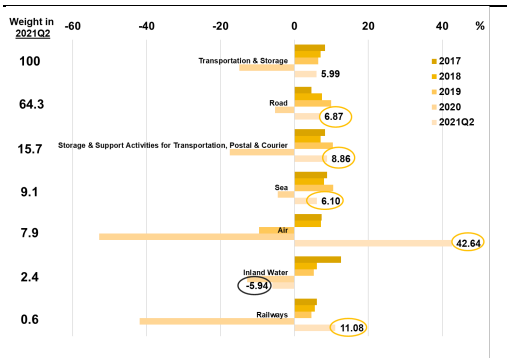
"Amidst the enormous pressure on the economy, FnB products subsector has never experienced a contraction during the pandemic as the food and beverages products are considered as basic needs."

Figure 3: Growth of Wholesale and Retail Trade and Its Subsectors, 2017-2021Q2



Source: CEIC

Figure 4: Growth of Transport and Its Major Subsectors, 2017-2021Q2



Source: CEIC

Like many other sectors, wholesale and retail sector also experienced the low-base effect and recorded an immense growth of 9.44% (y.o.y) in Q2 2021 compared to a negative growth of 1.23% (y.o.y) in the previous quarter and a devastating negative growth of 7.59% (y.o.y) in the same period last year. Despite the low-base effect, an improvement in spending activity of both non-motor and motor vehicle trade subsectors was vividly captured amidst the pandemic that has not signalled when it would end yet. Accounting for more than 80% of total wholesale and retail sector, non-motor vehicle subsector recorded a 37.88% (y.o.y) growth in Q2 2021 compared to -5.46% (y.o.y) in preceding quarter and -29.74% (y.o.y) in Q2 2020. Similarly, motor vehicle subsector posted a positive growth of 4.77% (y.o.y) in Q2 2021 compared to a contraction of 2.54% (y.o.y) in Q2 2020.

Being hit hard by the pandemic, transportation and storage sector finally experienced a double-digit growth of 25.10% (y.o.y) in Q2 2021 compared to 13.12% (y.o.y) contraction in the previous quarter. Looking into its subsector, air transportation recorded the highest growth of 137.74% (y.o.y) during April to June compared to -52.45% (y.o.y) in Q1 2021. The triple-digit growth was attributable to the relaxation of mobility restriction that leads to the increasing airlines' seat load factor. Railway transportation recorded an all-time high growth of 67.19% (y.o.y) in Q2 2021 compared to -45.04% (y.o.y) in previous quarter. However, it is important to note that like other sectors with spiked growth, transportation and storage sector also benefitted from the low-base effect. Nevertheless, the small improvement amidst the ongoing pandemic can still signal the sign of recovery, especially in transportation and storage sector that once suffered from a depressing growth.

"Development during Q2 2021 might give hope that there are light at the end of the dark tunnel."

Development during Q2 2021 might give hope that there are light at the end of the dark tunnel. Almost all sectors recorded a pleasant improvement that is reflected by positive growth. Several sectors even had soaring growth with double-digit percentage, such as transportation and storage as well as accommodation and food beverage activity. Relaxation in mobility restriction as well as Ramadhan and Eid al-Fitr effect have substantially affected the behavior of both consumers and producers. Furthermore, the low base effect from the sinking growth in Q2 2020 also set the economy to take off in a year ahead. On the other side, several sectors that are considered immune to the impact of pandemic unfortunately posted a slower growth. The ICT sector recorded a 6.87% (y.o.y) growth in Q2 2021 compared to 8.71% (y.o.y) in previous quarter. Regardless, another wave of Covid-19 in early Q3 2021 is expected to put the growth of economy in a setback as the social mobility restriction being tightened in almost half of the third quarter this year. While the economic activity seems slowly back to normal and all economic agents has been preparing to conduct daily activities that embraces 'living with the pandemic', people should stay alert and maintain health protocol discipline. There is no room for complacency when combating Covid-19. Citizens and GoI must work hand in hand to avoid another wave that could strike not only health sector bust also the economy as a whole.

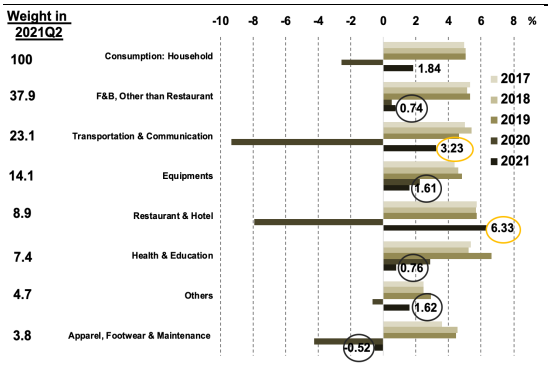
Rebound in Consumption and Investment driven by Economic Activities

Although the average of daily confirmed cases exceed 7,000, social restriction was rather lenient during April to June quarter of 2021. For that reason, all expenditure components of GDP posted positive growth in Q2 2021. This was also due to low base effects as Indonesia hit rock bottom when the pandemic began last year. Bigger government consumption can be seen from 8.06% (y.o.y) growth in the second quarter of 2021 up from 3.04% (y.o.y) in Q1 2021. Major contributor to this growth was the realization of the National Economic Recovery (PEN) program at about IDR252.3 billion or 36.1% of the total PEN budget of IDR699.4 billion in the first half of 2021. The Minister of Finance, Sri Mulyani Indrawati, increased the PEN budget mid-July 2021 to IDR744.7 billion, up 6.4% from the previous amount. Surging exports of 31.08% (y.o.y) also boosted GDP growth in Q2 2021. This was significantly high compared to 6.92% (y.o.y) in Q1 2021. On the other hand, imports grew by 29.60% (y.o.y) this quarter, up from 4.93% (y.o.y) in the first quarter of 2021. These suggested that the economy was slowly getting back to normal domestically and in Indonesia's main trading partners. Considering the spread of Delta variant and PPKM level 4 that was implemented early July following the surge of daily confirmed cases, we expect household consumption to experience a minor setback in Q3 2021. A recent increase in commodity prices could potentially boost GDP through exports during the third quarter of 2021.

"…social restriction was rather lenient during April to June quarter of 2021. For that reason, all expenditure components of GDP posted positive growth in Q2 2021."

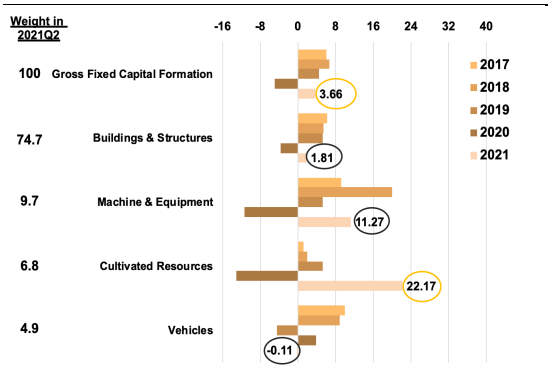
Looking into household consumption, it grew by 5.93% (y.o.y) in the second quarter of 2021. All components of household consumption posted a positive growth in Q2 2021. Consumption of food & beverage, transportation & communication, and restaurant & hotel, which accounts for over 70% of total consumption, finally posted positive growth of 3.86% (y.o.y), 10.59% (y.o.y), and 16.78% (y.o.y), respectively, in the second quarter of 2021 after having negative growth since Q2 2020 as most people stayed at home following large-scale mobile restriction. The positive growth indicated that people started to travel as social restriction was slowly being eased. Consumption of health & education grew by 1.20% (y.o.y) in Q2 2021, slightly increase from 0.31% (y.o.y) in the last quarter.

Figure 5: Growth of Household Consumption and its Components, 2017-2021Q2



Source: CEIC

Figure 6: Growth rate of Investment and its Main Components, 2017-2021Q2



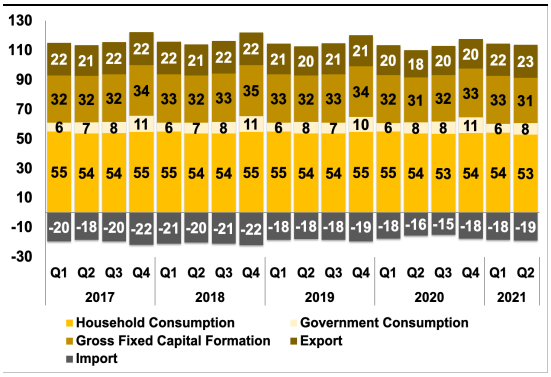
Source: CEIC

Investment component experienced a positive growth of 7.54% (y.o.y) in Q2 2021 compared to a negative growth of 0.23% (y.o.y) during the last quarter. Investment in buildings & structure that accounts for 75.3% of total investment grew by 4.36% (y.o.y) as opposed to 3.68% (y.o.y) contraction in Q1 2021. This was perhaps due to projects that were previously being halted are now resumed as social restriction was eased. To meet domestic and international demand, investment in machine & equipment grew by 19.05% (y.o.y) compared to a negative growth of 11.34% (y.o.y) in the first quarter of 2021.

Regarding credit performance, the average credit in Q2 2021 signaled progress in economic recovery although still in negative territory. Total credit in Q2 2021 grew by -1.49% (y.o.y), a slight increase from -2.63% (y.o.y) in the previos quarter but still lower compared to 3.41% (y.o.y) growth in the same period last year.The highest growth was seen in consumption credit at 1.01% (y.o.y), while working capital and investment credit were still contracted at -2.56% (y.o.y) and -2.27% (y.o.y), respectively. Entering Q3, total credit in July 2021 moderated to 0.50% (y.o.y), slightly lower than 0.60% (y.o.y) in June 2021. On a monthly basis, all credit components show decelerating trend due to emergency social restriction (PPKM darurat) to curb the second wave of the Covid-19 pandemic. Consumption credit slowed to -0.02% (mtm) after enjoying a positive growth of 0.57% (mtm) in June. Investment credit in July contracted to -0.12% (mtm) (vs 1.19% (mtm) in June), while working capital credit slumped to -0.63% (mtm) (vs 1.65% (mtm) in the previous month).

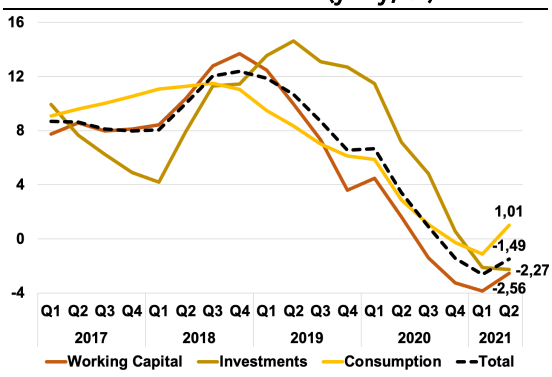
"Regarding credit performance, the average credit in Q2 2021 signaled progress in economic recovery although still in negative territory."

Figure 7: Shares of GDP Components, 2017Q1-2021Q2 (%)



Source: CEIC

Figure 8: Credit Growth by Purposes, 2017Q1-2021Q2 (y.o.y, %)



Source: CEIC

The overall unpleasant credit performance at the beginning of the third quarter of 2021 as a result of strict social restriction measures being reimposed that restrained people from spending their money for consumption and investment purposes, we expect the overall credit growth to decelerate in Q3. Third-party funds (DPK) still grew at a fairly high rate of 10.43% (y.o.y) in July 2021. While increase in DPK boosts banks' liquidity, it indicates consumption and production activities remain sluggish in line with the anticipatory behavior of individual and corporate depositors who tend to remain cautious in making projections for their investment. Amidst high

uncertainty, GoI began to lift the social restriction measures at the end of Q3 as the number of confirmed cases significantly decline. Financial Service Authority (OJK), in its commissioner board meeting on 2 September 2021, decided to extend the period of loan restructuring relaxation at least until 31 March 2023, from previously until 31 March 2022. The decision taken by OJK comes as a countercyclical measure to cushion the banking sectors and borrowers from the adverse impact of the Delta variant in the past few months. Banks are given more time to build up more provisions, while debtors are aided and given more time to manage their businesses in order to avoid any turmoil when the relaxation program ends.

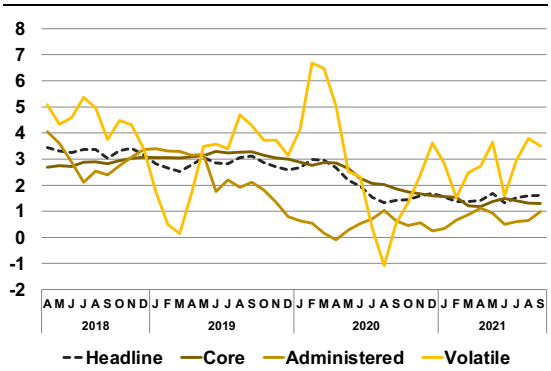
Gradual Increase in Inflation Figure despite still below BI's target

Inflation in September was recorded at 1.60% (y.o.y), slightly higher than the previous month at 1.59% (y.o.y). The rise in headline inflation during this period was driven by an increase in administered prices inflation, while core inflation and volatile price inflation somewhat weakened. The administered prices inflation in September 2021 was recorded at 0.99% (y.o.y), strengthened compared to the previous month with inflation of 0.65% (y.o.y). On the contrary, the volatile goods price inflation component weakened from 3.80% (y.o.y) in August 2021 to 3.51% (y.o.y) in September 2021. Core inflation was also down to 1.30% (y.o.y) in September 2021 from 1.31% (y.o.y) in the previous month, marking the third consecutive decline since July 2021. This decline was due to domestic demand that has not fully recovered even though the public activities restriction policy has been relaxed.

"This (core inflation) decline was due to domestic demand that has not fully recovered even though the public activities restriction policy has been relaxed."

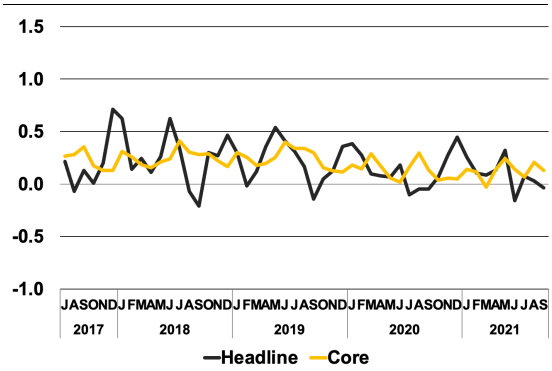
On a month-to-month basis, headline inflation in September experienced another deflation of 0.04% (m.t.m) after previously experiencing inflation of 0.03% (m.t.m). In line with the annual data, volatile price and core inflation declined while administered prices inflation went up on a month-to-month basis. One reason for this dynamic is the increase in cigarette prices due to the increase in tobacco excise. However, at the same time, air freight fares have decreased slightly but are not strong enough to weaken the administered prices inflation.

Figure 9: Inflation Rate (%, y.o.y)



Source: CEIC

Figure 10: Inflation Rate (%, m.t.m)



Source: CEIC

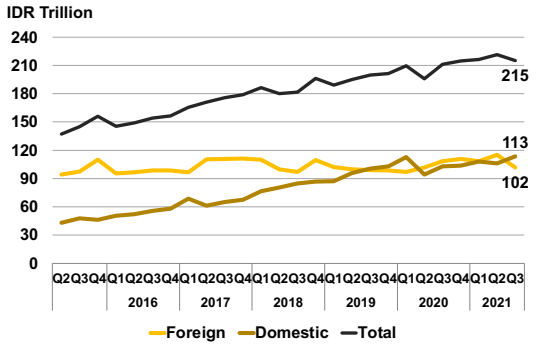
Looking into the volatile price component, with a share of 0.15% to overall inflation in September 2021, it experienced a deeper deflation compared to the previous month from 0.64% (m.t.m) to 0.88% (m.t.m). This was caused by the decrease in the prices of broiler eggs, chili, and shallot, as well as horticultural commodities. Core inflation also weakened to 0.13% (m.t.m), compared to the previous month at 0.21% (m.t.m). Meanwhile, the administered prices inflation component strengthened from 0.02% (m.t.m) to 0.14% (m.t.m). For more than a year, the inflation rate is below BI's target range of 3%±1 and we expect the price pressure to remain moderate in the months ahead.

Delta Variant Disruption on Investment Realization

Investment realization in Q3 2021 reached IDR 215.2 trillion, down 2.8% compared to the previous quarter which was recorded at IDR 221.5 trillion. The decline in investment realization was due to the spread of the Delta variant and the implementation of PPKM throughout July – September. Import activity was also hampered so that the realization of foreign investment declined in Q3 2021. Based on the business sectors, all three sectors except the primary one experienced a decline. However, on an annual basis, the investment value in the third quarter of this year actually grew by 3.7% (y.o.y) compared to the same quarter in 2020. At the same time, domestic investment realization recorded an increase from IDR106.2 trillion in Q2 2021 to IDR113.5 trillion in Q3 2021. The main contributors to this increase are forestry sector, leather goods and footwear industry, and other services.

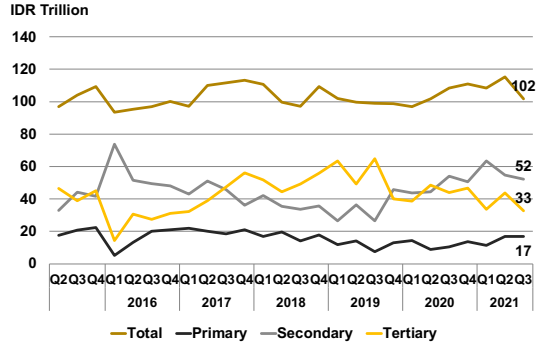
"The decline in investment realization was due to the spread of the Delta variant and the implementation of PPKM throughout July – September."

Figure 11: FDI and Domestic Investment (Nominal)



Source: CEIC

Figure 12: FDI Realization by Sectors (Nominal)



Source: CEIC

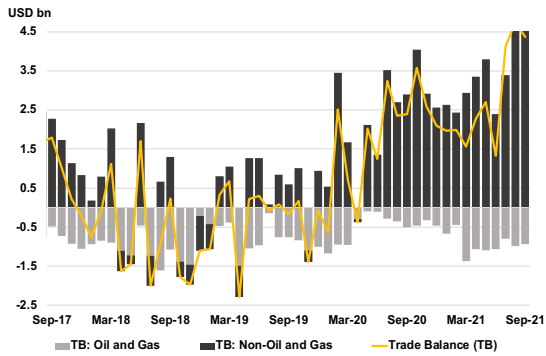
Exceptional Export Performance driven by Commodity Price

Amid the resurgance of Covid-19 in June, the external factors were rather subtle as resulted in the continuation of monthly trade surpluses and several capital inflows. The higher amount of exports than imports in September marked as the 17th trade surpluses since May last year. Thus far, exports have been growing by 140% compared to its figure last year. The acceleration of exports all over the year was mainly contributed by the high commodity prices, particularly CPO and coal, which has benefited Indonesia as the commodity exporter country. Surging demand from main trading partners, such as China and India, and rebound in global demand have

also elevated the exports performance. On the other hand, imports have also been increasing by 134% throughout January-September compared to the same period last year. Even though the higher imports were mainly contributed by the high prices of crude oil, the recovery of global demand has also supported the higher amount of imported goods in 2021. However, the faster growth in exports than imports has led to trade surpluses which is recorded almost twice higher than the surpluses on the same period last year.

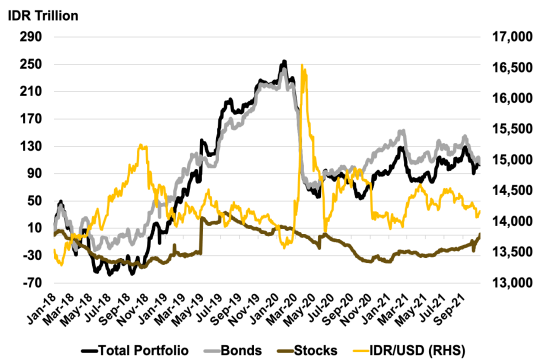
"Even though trade balance in goods still enjoys the surplus, the rising trend of imports of goods that nearly outpaced the growth in exports along with the persistent trade deficit in services has brought the current account back to its deficit level."

Figure 13: Monthly Trade Balance (Nominal) (Sept'17-Sept'21)



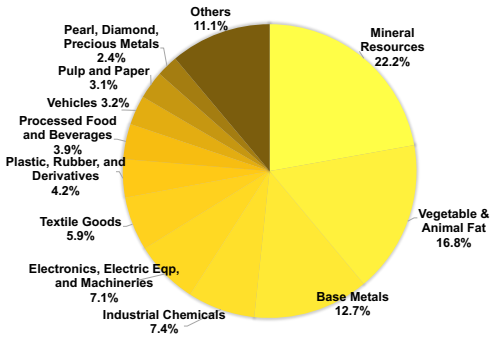
Source: CEIC

Figure 14: Exchange Rate and Accumulated Short-Term Capital Inflow (Jan'18-Oct'21)



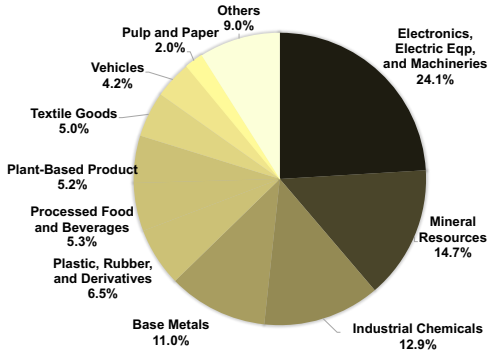
Source: CEIC

Figure 15: Indonesia Export Profile (July-August 2021)



Source: CEIC

Figure 16: Indonesia Import Profile (July-August 2021)



Source: CEIC

While the surpluses in trade of goods still persists, current account balance is no longer in positive territory. After enjoying several surpluses last year, the current account deficit was marked in two consecutive quarters in 2021. The current account deficit was widened to USD2.2 billion in Q2 2021 or equivalent to 0.8% of GDP. The deficit was higher than the figure of 0.4% of GDP in the previous quarter. Deficit of current account was due to several factors, including the shortfalls of services trade surplus and higher primary income deficits despite the higher secondary income surpluses. Even though trade balance in goods still enjoys the surplus, the rising trend of imports of goods that nearly outpaced the growth in exports along with the persistent trade deficit in services has brought the current account back to its deficit

level. Looking at the current surging of imports due to economic recovery in many sectors, the resume of current account deficit will persists in the remaining quarters of 2021.

Despite being hit another wave of the pandemic, the structure of Indonesia's international trade remains unchanged so far in this year. Exports are still dominated by raw commodities, which consist of mineral resources, vegetable fat, and precious metals. The proportion of these commodities to total exports in July-August 2021 remains at 39%; similar to the previous quarters. This structure might impose a challenge in the near future if the commodities are no longer demanded by the other countries. Moreover, the potential disruption in the global supply chain due to the increase freight and logistic costs in China also imposed other challenges to our exports. The strategy of market expansion and products diversification are expected to address those challenges in the future. On the other hand, imports of capital goods remained as the main contributor to total imports. Capital goods, which consist of machinery and electronics products, cover around 24% of total imports. Industrial chemicals products are also still the third-highest imported products by Indonesia from foreign countries because of high demand for medical supplies and equipment during the Covid-19 pandemic. The contribution of these products imports are expected to follow the trend of Covid-19 pandemic cases in Indonesia.