CEIC

In, On and For Emerging Markets

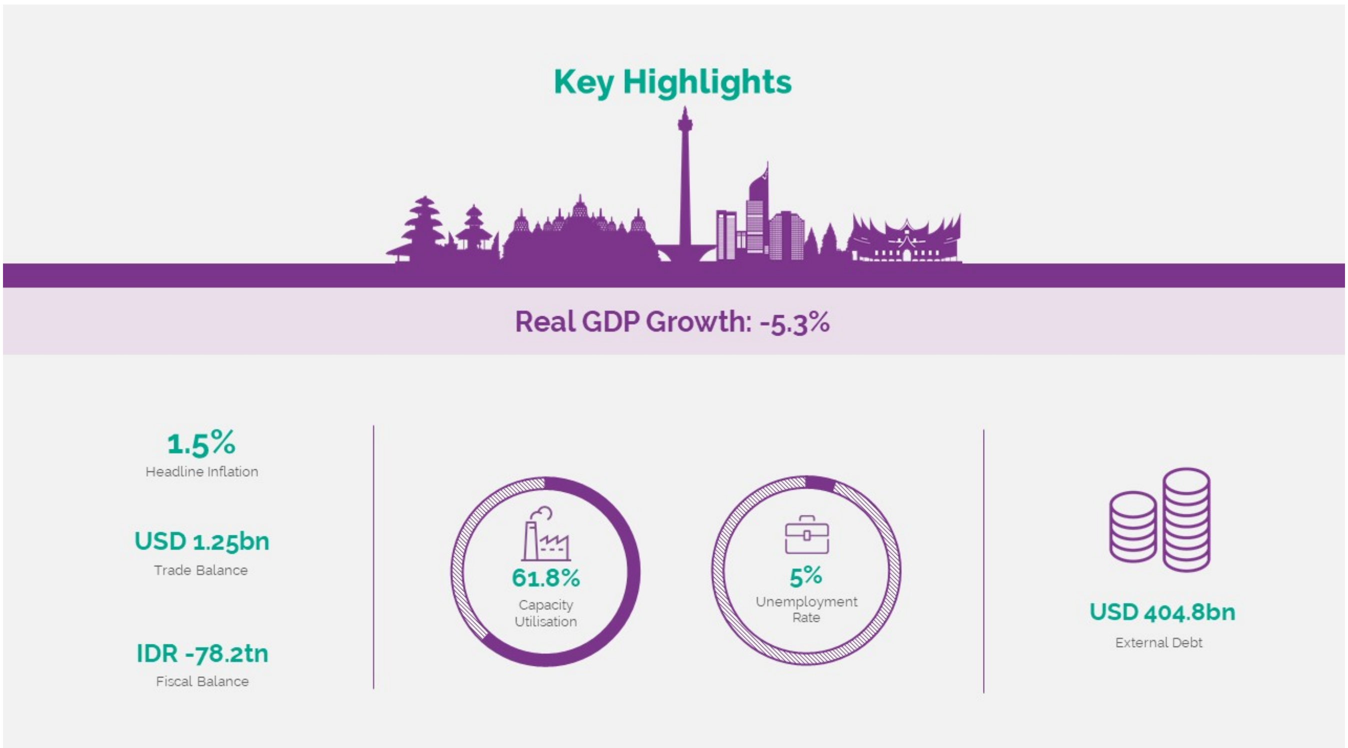
A CEIC Insights Report

Indonesia Economy in a Snapshot Q3 2020

In, On and For Emerging Markets

Executive Summary

Indonesia Economy in a Snapshot is a quarterly publication produced by the CEIC Macroeconomic Research Team. The report is designed to provide a comprehensive, albeit concise overview of the current economic and financial developments. The Indonesia Economy in a Snapshot report is produced using data from CEIC's Indonesia Premium Database.



Summary

GDP declined by 4.19% q/q and 5.32% y/y in Q2 2020 after growing by 2.97% y/y in Q1 2020 as the effects of the coronavirus pandemic undermined both domestic and external demand indicators.

The y/y figure was the worst since the Asian Financial Crisis, but a decline had been expected given the unusual measures imposed to contain the spread of the virus that temporarily disrupted normal economic activity. Household consumption, accounting for more than half of GDP, declined by 5.51% y/y, government consumption by 6.9% and investment spending by 8.61%. Goods and services exports contracted by 11.66%, more than imports which were down by 16.96%.

Consumer demand, compressed with the outbreak of the pandemic has been waning since February 2020 with retail sales falling sharply in April and May, by 16.9% y/y and 20.6% y/y respectively, and by a preliminary 14.4% y/y in June. However, as the economy is gradually getting back to normal retailers expect sales figures to improve.

Weakdemand on account of the impact of COVID-19 resulted in declining core inflation in Q2 2020, and during H1 2020 the headline inflation rate remained skewed towards the lower bound of the central bank's target range of 2-4%. It has enabled monetary policymakers to provide additional stimulus by cutting the policy interest rate. Withthe onset of the pandemic, Bank Indonesia (BI) introduced monetary policy stimulus to mitigate the economic risks from COVID-19, delivering policy interest rate reductions totalling 100bp through to July 2020. Apartfrom this, BI has also cut the rupiah reserve requirement ratio for commercial banks and Islamic banks, among other liquidity-enhancing measures. Atits latest monetary policy meeting, many key decisions were taken by BI, including providing funding for the Deposit Insurance Corporation (LPS) through a repurchase agreement mechanism and/or purchasing government securities held by the LPS.

The government's fiscal position has been hit by the added expenditure required to cope with the effects of the ongoing pandemic. This, along with dwindling revenue due to the weakened economy, has increased the fiscal deficit, which will worsen in the short term as the government is also planning to further increase spending in the second half of 2020 to support economic recovery. Given this, the government has set a fiscal deficit target of up to 5.2% of GDP for 2021 while for 2020 the government expects the fiscal deficit to reach 6.34%, exceeding the target of 3% of GDP. The IMF is predicting the fiscal deficit will widen to 6.3% of GDP in 2020 from 2.2% in 2019 before narrowing to 5% of GDP in 2021.

The current account deficit for Q1 2020 was 1.4% of GDP down from 2.8% and 2.5% of GDP in Q4 2019 and Q1 2019, respectively. The improved current account deficit was influenced by an ameliorating merchandise (goods) trade surplus, accompanied by narrowing services and primary income deficits. BI projects a current account deficit for 2020 below 2% of GDP. In June 2020, the economy continued to record a trade surplus with imports declining more than exports.

Indonesia Economy: Statistics at a Glance

Name	09/2018	12/2018	03/2019	06/2019	09/2019	12/2019	03/2020	06/2020
Real GDP; y/y % change	5.17	5.18	5.07	5.05	5.02	4.97	2.97	-5.32
Fixed Investment; y/y % change	6.92	6.01	5.03	4.55	4.21	4.06	1.70	-8.61
Industrial Production Index; y/y % change	3.84	7.01	4.45	3.62	4.35	3.62		
Retail Sales; y/y % change	4.56	4.73	8.79	4.08	1.40	1.39	-1.91	-18.27
Headline Inflation; y/y % change			2.67	2.90	3.00	2.72	2.87	2.27
Core Inflation; y/y % change	2.86	3.02	3.05	3.14	3.27	3.10	2.84	2.58
Producer Price Index; y/y % change	7.38	5.26	2.09	1.86	-0.21	0.23	1.65	1.09
Trade Balance; USD bn	-2.62	-4.88	-0.06	-1.80	-0.12	-1.28	2.59	2.89
Exports; y/y % change	8.59	-0.88	-8.17	-9.02	-6.94	-3.83	2.84	-12.78
Imports; y/y % change	23.73	12.30	-7.48	-7.97	-11.61	-10.67	-3.69	-23.53
7 Day Reverse Repo Rate; % pa	5.75	6.00	6.00	6.00	5.25	5.00	4.50	4.25
Current Account Balance; USD bn	-8.38	-9.53	-6.60	-8.20	-7.50	-8.08	-3.92	
Government Debt; % of GDP	30.40	29.78	30.23	29.70	30.10	30.18	32.51	33.54
Fiscal Balance; % of GDP	-1.83	-1.82	-1.89	-1.91	-2.06	-2.20	-2.02	-3.00

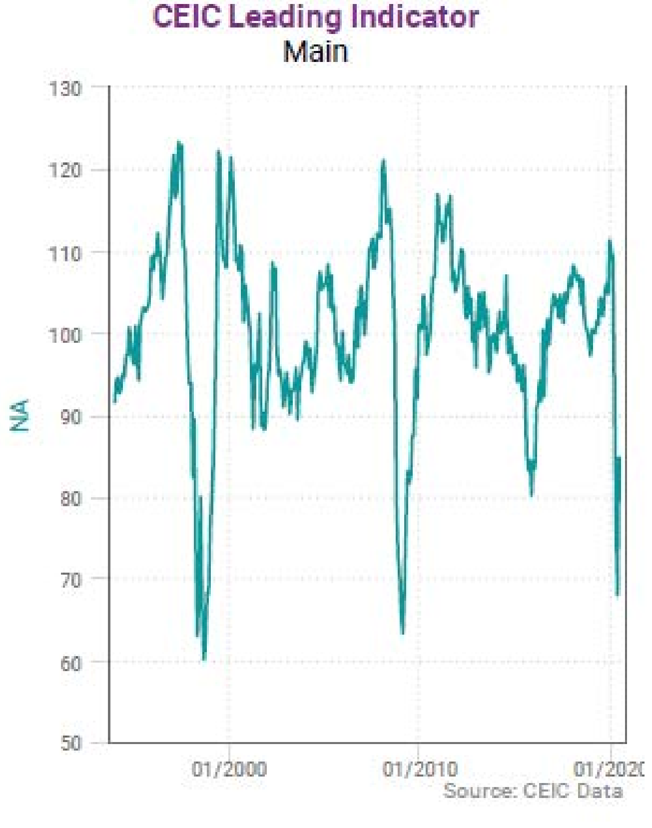
Economic Outlook

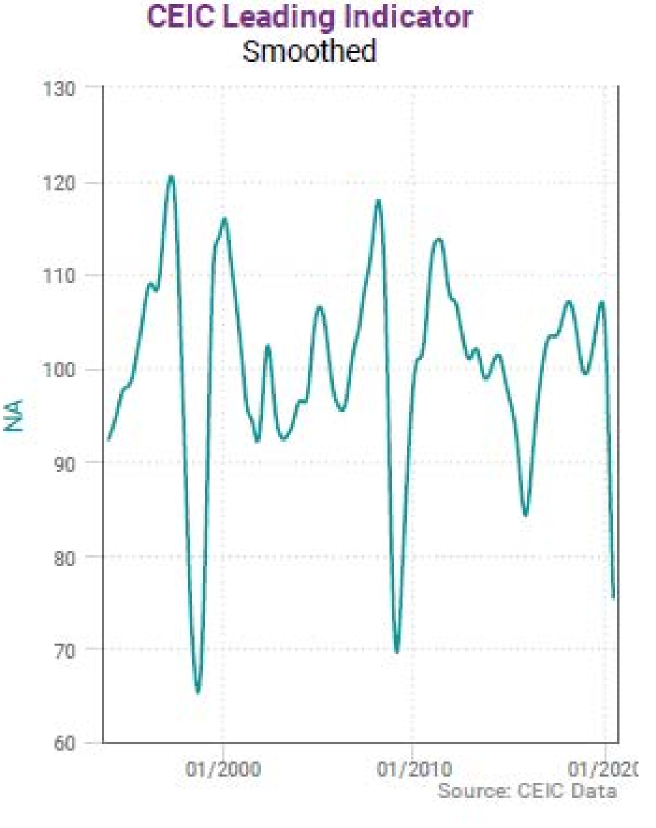
Againstthe backdrop of the COVID-19 pandemic, the smoothed CEIC Leading Indicator for Indonesia fell to 75.43 in June 2020, its lowest since April 2009. The non-smoothed indicator improved to 84.80 in June 2020 from 67.92 in May, but remained below normal. Both the smoothed and non-smoothed indicators have been indicating economic contraction since March 2020.

The seasonally-adjusted manufacturing purchasing managers' index (PMI) remained in the contraction zone from March-June 2020, plunging to a historic low of 27.50 in April. However, it began to improve in May and more so in June, reaching 39.10, as the COVID-19 containment measures were gradually eased.

The business survey carried out by Bank Indonesia (the central bank) shows a deeper contraction in realised business activity, with a weighted net balance of 35.75% in Q2 2020, down from 5.56% in Q1 2020. Respondents to the survey are predicting business activity will show the beginnings of a recovery in the third quarter of 2020 with a weighted net balance for business activity of 0.52% expected for September.

As the COVID19 pandemic is continuing, its economic impact will remain significant, with the IMF predicting a substantial contraction of the Indonesian economy. According to its June 2020 update of the World Economic Outlook, the IMF predicts a decline for Indonesia's real GDP in 2020 of 0.3%, which is less severe than the 4.9% downturn it predicts for the global economy. The World Bank projects economic growth of 0% for Indonesia in 2020, but with a rebound to 4.8% in 2021 and 6.0% in 2022.





In, On and For Emerging Markets

Real Sector

Real Sector

In Q2 2020, economic growth disappeared completely, with real GDP declining by 5.32% y/y after growth decelerated for a fifth consecutive quarter to 2.97% y/y in Q1 2020. Withshops and restaurants closed, household consumption contracted by 5.51% y/y, although spending on education and healthcare continued to rise. Asthe corporate sector deferred spending on machinery and equipment and other capital investments, and vehicles, gross fixed capital formation (investment spending) plunged by 8.61% y/y. Goods and services exports declined by 11.66% y/y but imports shrank by 16.96% due to the slump in domestic demand which also included a 6.9% y/y drop in government consumption as the public sector initially cut back on events and other non-essential outlays.

Large declines were recorded for transport and warehousing (30.84% y/y), hotels and restaurants 22.22%) and industrial processing (6.19%). However, the ICT sector recorded growth of 10.88% y/y and there were smaller increases for the agriculture, forestry and fisheries sector as well as healthcare, and utilities.

The industrial production index (IPI) increased by 1.96% y/y in February 2020 after contracting by 0.81% y/y in January. Capacity utilisation in agriculture, manufacturing and mining plunged in Q1 2020 but not in the electricity sector, which was at 82% in June2020.

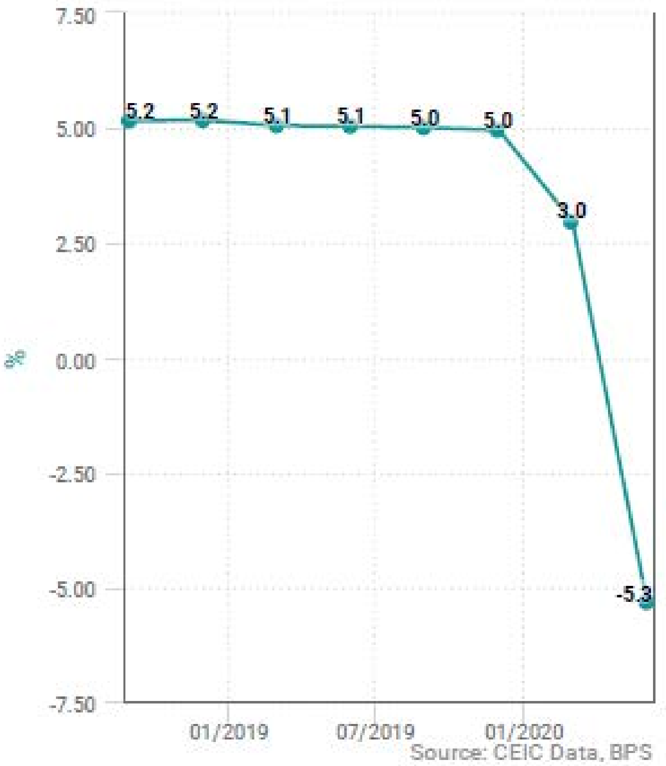
The economic decline is also shown in Bank Indonesia's Prompt Manufacturing Index (PMI-BI) which plunged to 28.55 in Q2 2020 from 45.64 in the Q1 2020 and 51.50 in Q4 2019. It recovered to 45.72 in Q3 2020, but was still showing contraction.

During the past five years, Indonesia's unemployment rate has decreased. Accordingto the latest semi-annual data, the unemployment rate stood at 4.99% in February 2020, lower than the previous figure of 5.01% in August2019. The total number of unemployed persons, however, increased by approximately 60,000 over the previous year. Althoughthe total workforce increased, the labour force participation rate declined by 15 bps y/y to 69.17% in February 2020. The real wages of farm sector workers increased by 0.11% y/y in June 2020 while that of construction workers declined by 0.78% y/y.

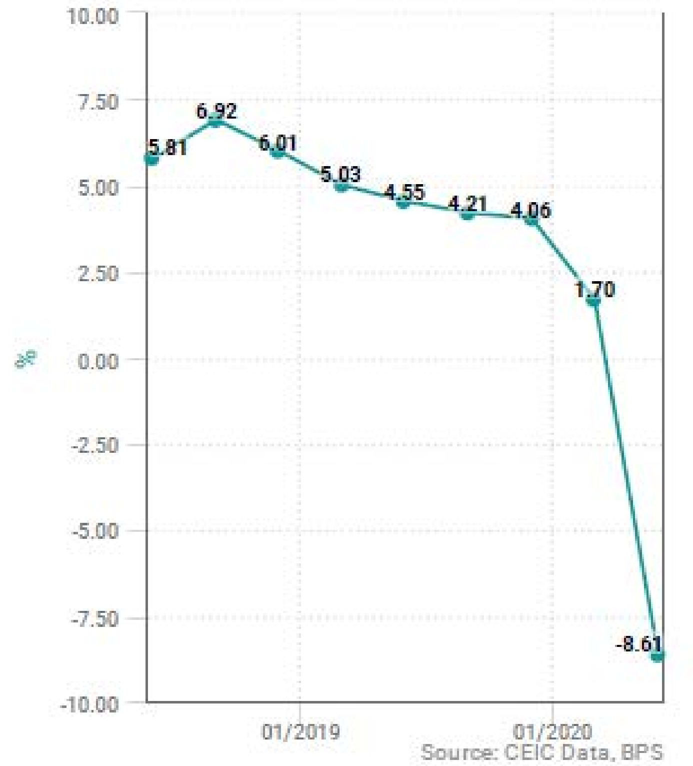
Accordingto Bank Indonesia's retail sales survey, the retail sales value index has shown a continuous decline since February 2020, with the preliminary figure for June 2020 revealing a drop of 14.41% y/y.

Retail sales in May 2020 recorded the steepest decline of 20.61%, dragged down by large falls in several categories due to the lockdown, including clothing and recreational goods. Witha return to more normal shopping conditions, retailers expect sales performance to improve.

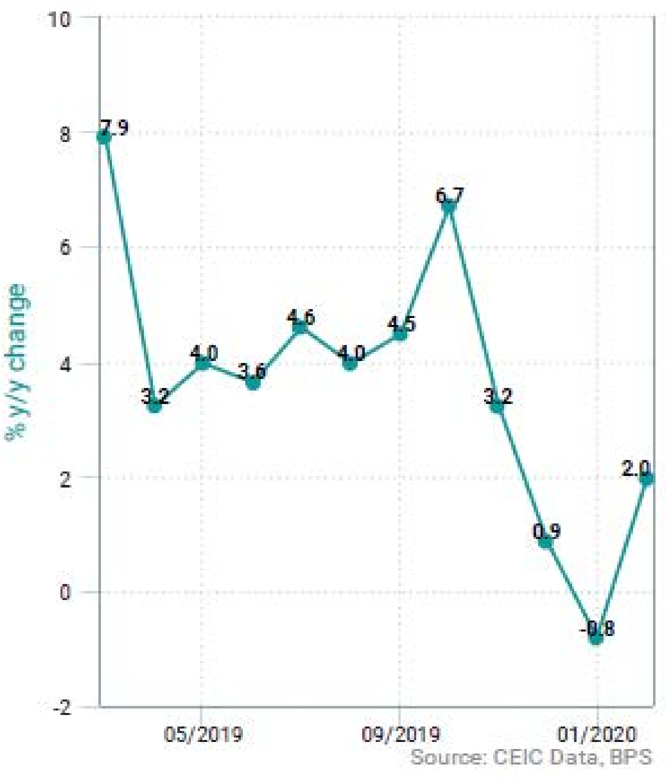
Real GDP Growth, y/y



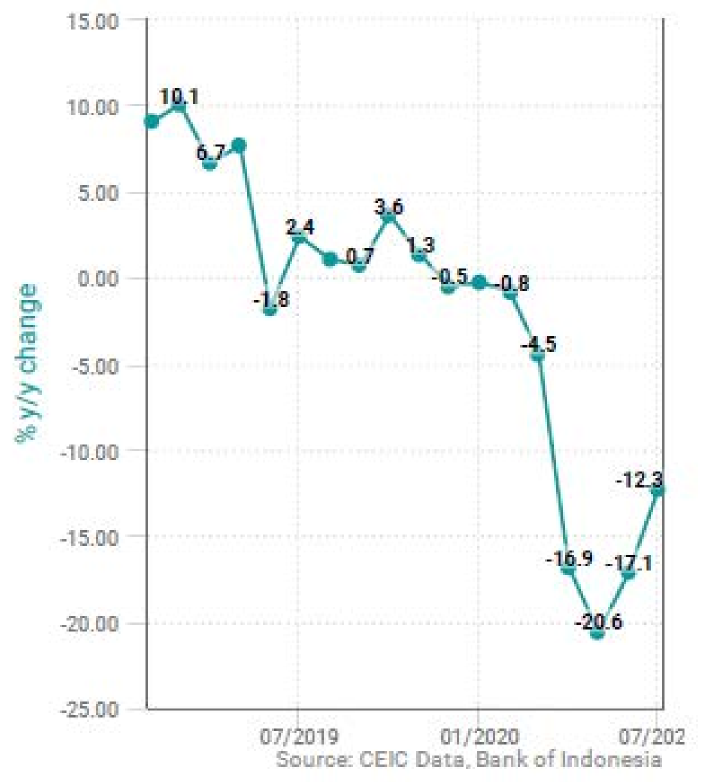
Fixed Investment, y/y



Industrial Production Index



Retail Sales



Monetary & Financial Sector

Monetary and Financial Sector

In Q1 2020, consumer price inflation registered a slight increase due to rising food prices but the average for Q1 2020 of 2.87% remained comfortably within the central bank's target range of 2%-4%.

In Q2 2020 the headline inflation rate slowed in successive months to 2.67%, 2.19%, and 1.96% in April, May, and June respectively. The core inflation rate decelerated from 2.85% in April to 2.26% in June on account of compressed domestic demand due to the COVID-19 pandemic, low international commodity prices and exchange rate stability.

Given the low inflation rate and subdued outlook, Bank Indonesia (BI) carried out four back-to-back policy interest rate cuts of 25bp each from July to October 2019 to provide sufficient liquidity to support economic growth. Following a pause of three months, monetary policymakers delivered two more cuts of 25bp each in Q1 2020 and another of 25 bp in June 2020 to mitigate the risks posed by the COVID-19 outbreak. The key interest rates currently stand at 4.00%, 3.25% and 4.75%, respectively, for the seven-day repurchase (repo) rate, the deposit rate and the lending rate.

BI has also announced other measures to ease liquidity conditions, including: (i) lowering reserve requirement ratios for commercial banks; (ii) increasing the maximum duration for repo and reverse repo operations (up to 12 months);(iii) introducing daily repo auctions; (iv) increasing the frequency of FX swap auctions for 1, 3, 6 and 12-month tenors from three times per week to daily auctions; and (v) increasing the size of the main weekly refinancing operations as needed.

The government has also allowed the central bank to purchase government bonds in the primary market, and is financing the deposit insurance agency (LPS) to resolve bank solvency problems and manage liquidity during the pandemic. To further strengthen the financial system, BI is facilitating collaboration between the banking industry and fintech companies. Stimulus packages have been introduced by government which include measures to lift restrictions on imports and exports, aiming to ease global supply-chain disruptions caused by COVID-19. BI has also intervened in the spot and domestic non-deliverable foreign exchange markets, and in the domestic government bond market to maintain orderly market conditions.

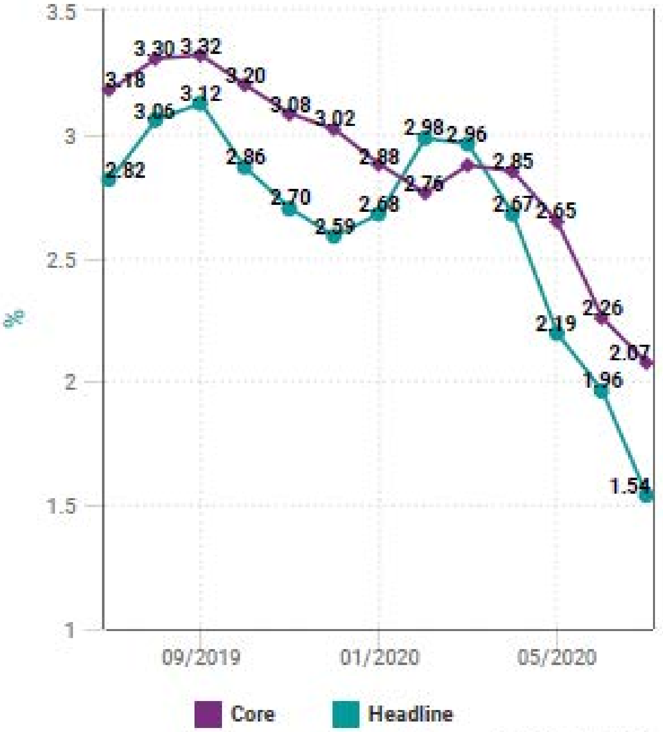
Broad money growth in June 2020 was 8.21% y/y, decelerating from 10.37% y/y in the previous month. The loan portfolio of commercial and rural banks increased by 2.05% y/y in May 2020, whereas the deposit portfolio of the same group of banks increased by 8.21% y/y in May 2020. In Q1 2020, the core capital adequacy ratio, a measure of financial stability and efficiency, was 20.61%, slightly lower than the 2019 average of 21.66%. The non-performing loans ratio rose to 2.86% in April 2020, its highest since 2016 mainly due to high non-performing loans in the manufacturing, and wholesale and retail trade sectors.

The Jakarta Composite Index began 2020 at 6,283 and touched a high of 6,323 on January 3, 2020, but soon the global pandemic scare pushed the index into freefall, reaching a low of 3,937 on March 24, 2020. Thereafter the market started to stabilise with the index rebounding to just above the 5,100 level towards the end of July. To ease stock market volatility, the Financial Services Authority (OJK), the financial services sector regulator, introduced a new share buyback policy allowing listed companies to repurchase their shares without a prior shareholders' meeting and introduced limits on stock price declines. The OJK also extended the deadline by two months for publicly listed companies to release their annual financial reports and hold annual shareholders meetings.

At the beginning of Q1 2020, the rupiah moved within a range of IDR 13,935-13,565 per USD until mid-February, gaining from the fact local-currency bonds normally offer yields in the range of 5% to 8%. However, with the onset of the pandemic, the rupiah fell sharply, to IDR 16,741 per USD as of April 2, 2020, which marked a record low for the past three decades. However, as investors started looking beyond the COVID-19 effect, and as a result of measures taken by the government, funds flowing into Indonesian bonds recovered and the rupiah started appreciating. The exchange rate was hovering around the IDR 14,630 per USD mark towards the end of July.

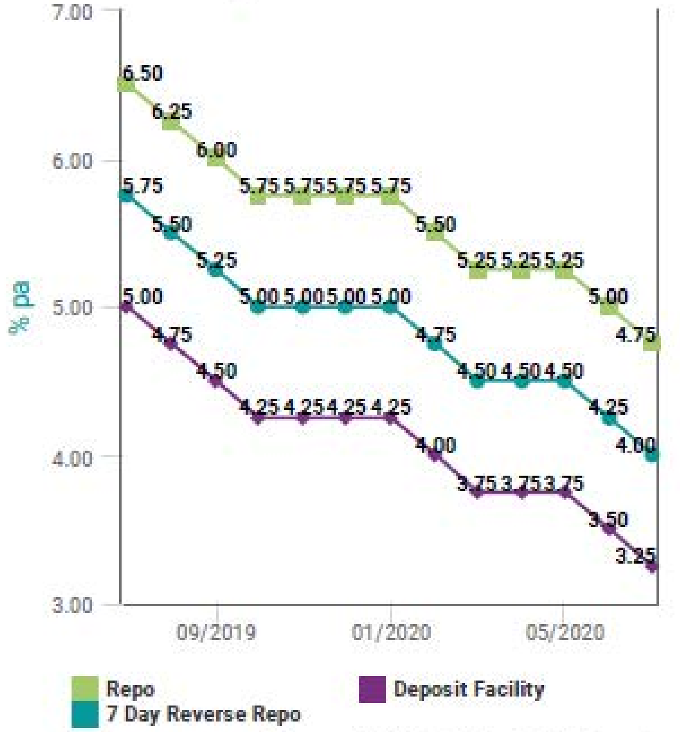
Sovereign bond yields started moving upwards from mid-February 2020 on the back of increased risk triggered by the deepening of COVID-19 pandemic concerns and increased government spending to mitigate the effects. However, with risk appetite improving, yields started moving southwards gradually from May 2020.

Headline & Core Inflation



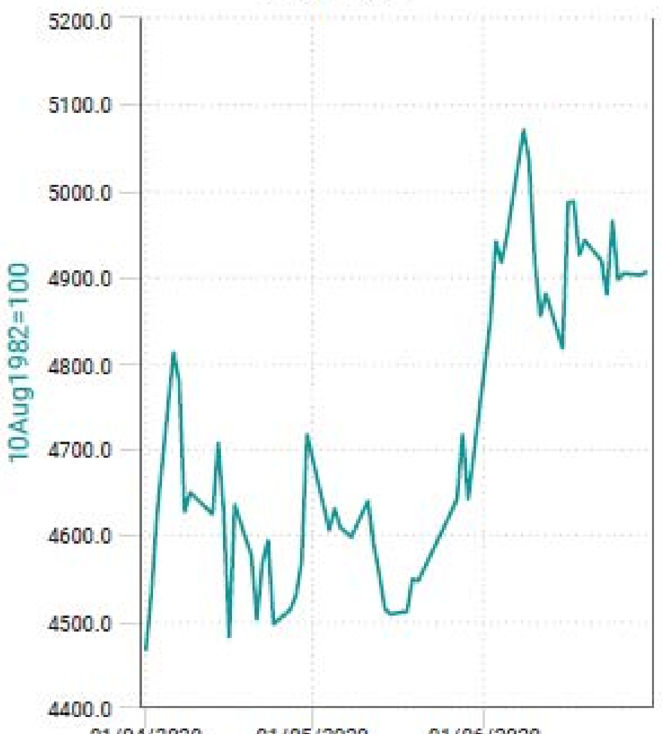
Source: CEIC Data, BPS

Key Interest Rates



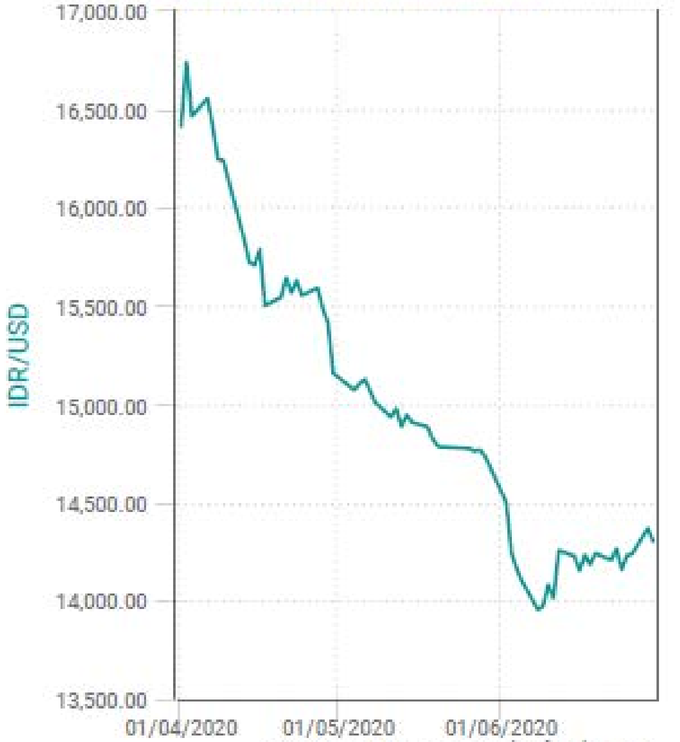
Source: CEIC Data, Bank of Indonesia

Jakarta Stock Exchange Index
Composite



Source: CEIC Data, Indonesia Stock Exchange

FX Rate: Spot: Against USD



Source: CEIC Data, Bank of Indonesia

Fiscal Sector

Fiscal Sector

In the first half of 2020 the government's fiscal revenue declined by 9.74% y/y to IDR 811.18tn (USD 57.14bn). Tax and non-tax revenues declined by 9.29% y/y and 11.75% y/y respectively in IDR terms. Tax revenue was undermined by the weakening trend in manufacturing and international trade activities, and the general weakening of economic activity due to the spread of COVID-19.

Similarly, non-tax revenue from natural resources and state enterprises also recorded a decline.

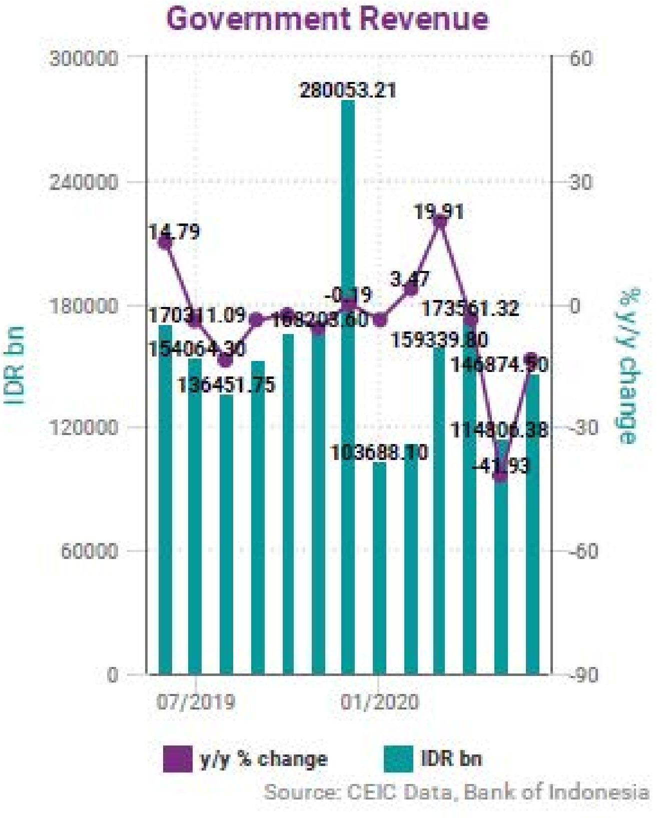
The government's fiscal expenditure for the first half of 2020 totalled IDR 1068.94tn (USD 75.30bn), registering growth of 3.32% y/y. There was less capital expenditure as the government's priorities shifted to health, social assistance and emergency measures to support the economy. This resulted in a higher fiscal deficit of IDR 257.76tn (USD 18.16bn) during the first half of 2020, increasing by 89.82% y/y.

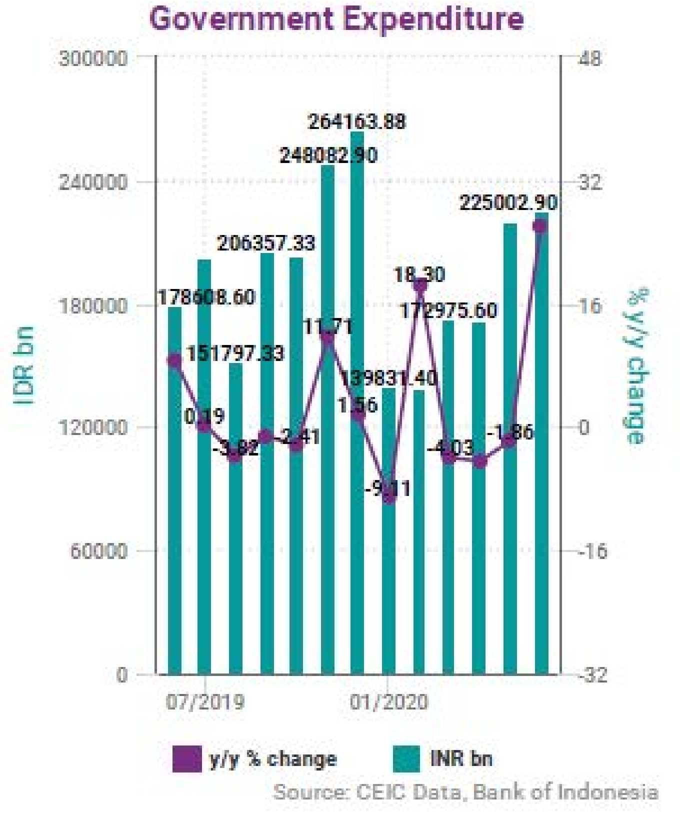
Government debt increased to 30.18% of GDP at the end of 2019 from 29.78% at the end of 2018, before rising further to 32.51% by the end of March 2020. In nominal terms, gross central government debt grew to IDR 5244 tn (USD 368.43bn) at the end of Q1 2020, up by 13.65% y/y. However, the ratio of external debt to total debt has been falling since March to a low of 14.86% by end-June 2020.

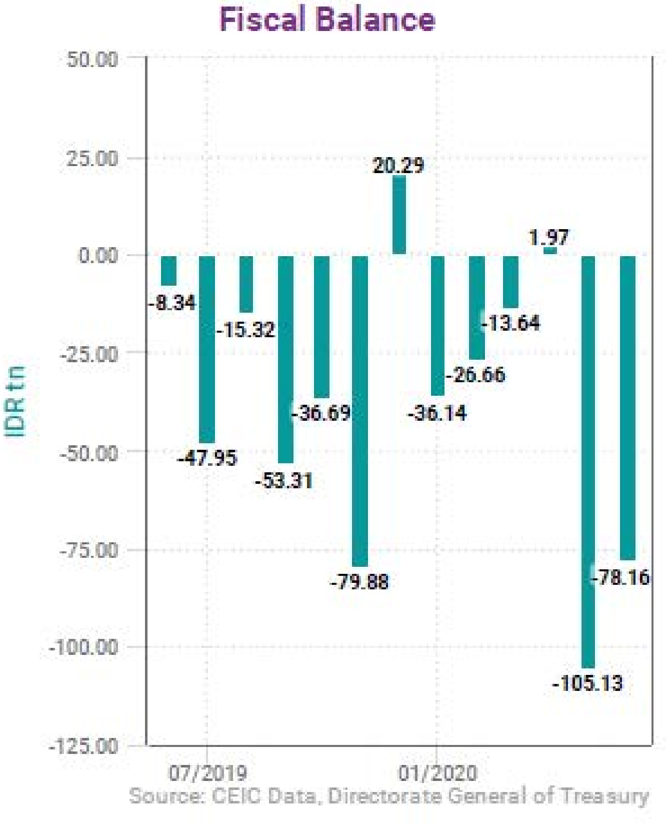
Tax revenue recorded a decline of 9.29% y/y in the first half of 2020 to USD 44.02bn due to the economic downturn caused by the COVID-19 pandemic. Declines were seen for corporate income tax, domestic Value AddedTax (VAT), and taxes on imports. However, economic recovery in the second half of 2020 should see tax collection improve. Moreover, from August1, 2020, many overseas digital companies selling digital goods and/or services to their customers in Indonesia, are obliged to collect VAT and remit this to the government, providing a further boost.

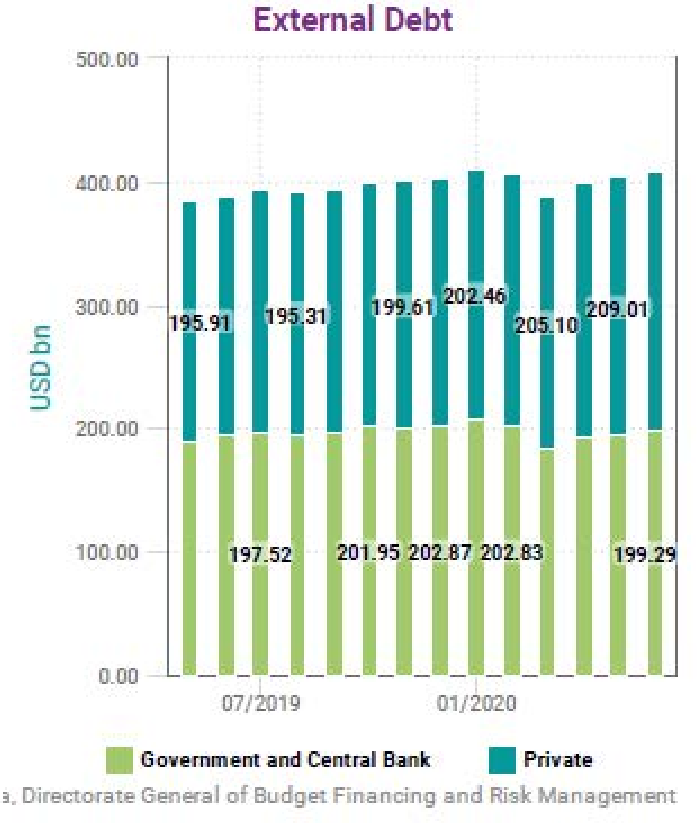
For 2020 the government has set its budget deficit target at 1.8% of GDP. However, due to ongoing fiscal stimulus to cope with the pandemic the government expects the fiscal deficit to surpass 6% during 2020. The government and the House of Representatives have agreed in principle on the 2021 state budget assumptions with a deficit of 5.2% of GDP to bolster the economy from the coronavirus-induced recession.

The government announced a fiscal package of IDR 677.2tn (4.2% of GDP) as part of a national economic recovery programme, comprising (i) support to the healthcare sector to boost testing and treatment capability for COVID-19 cases; (ii) increased benefits and broader coverage of existing social assistance schemes to low-income households;(iii) expanded unemployment benefits, including the informal sector; (iv) tax reliefs, including for the tourism sector and individuals; and (v) permanent reductions of the corporate income tax rate from 25% to 22% in 2020-21 and to 20% in 2022. In addition to tax and spending measures, the fiscal packages include capital injections into state-owned enterprises and interest subsidies, credit guarantees, and loan restructuring funds for micro, small, and medium enterprises (MSMEs).


Government Revenue
300000
240000
180000
120000
60000
0
60
30
0
-30
-60
-90
IDR bn
% y/y change
280053.21
14.79
19.91
3.47
-0.19
170311.09
168203.60
173561.32
154064.30
159339.80
136451.75
146874.50
114806.38
103688.10
-41.93
07/2019
01/2020
y/y % change
IDR bn
Source: CEIC Data, Bank of Indonesia


Government Expenditure
300000
240000
180000
120000
60000
0
48
32
16
0
-16
-32
IDR bn
% y/y change
264163.88
248082.90
225002.90
206357.33
18.30
178608.60
172975.60
11.71
151797.33
139831.40
1.56
0.19
-3.82
-2.41
-4.03
-1.86
-9.11
07/2019
01/2020
y/y % change
INR bn
Source: CEIC Data, Bank of Indonesia


Fiscal Balance
50.00
25.00
0.00
-25.00
-50.00
-75.00
-100.00
-125.00
IDR tn
20.29
1.97
-8.34
-15.32
-13.64
-26.66
-36.69
-36.14
-47.95
-53.31
-79.88
-78.16
-105.13
07/2019
01/2020
Source: CEIC Data, Directorate General of Treasury


External Debt
500.00
400.00
300.00
200.00
100.00
0.00
USD bn
195.91
195.31
199.61
202.46
205.10
209.01
197.52
201.95
202.87
202.83
199.29
07/2019
01/2020
Government and Central Bank
Private
a, Directorate General of Budget Financing and Risk Management

External Sector

External Sector

In June2020 Indonesia continued to register a trade surplus, totalling USD 1.27bn, which led to a surplus of USD 5.50bn in January-June2020 and compares with a deficit of USD 1.87bn during the corresponding period of the previous year, highlighting a stronger external position. Contributing to the trade surplus in June 2020 were a non-oil and gas surplus and a narrower oil and gas deficit.

The yearly growth of exports of machinery and electrical equipment, and vegetable fats and oils, remained in positive territory during the first half of 2020. However, exports of mineral products declined during the same period.

Allof the top-three product imports - base metals, machinery and equipment, and minerals - recorded a steep decline during the first half of 2020. The decline in imports was registered among all types of machinery and equipment products amid a decline in shipments from China, Indonesia's main trading partner, following the COVID-19 outbreak.

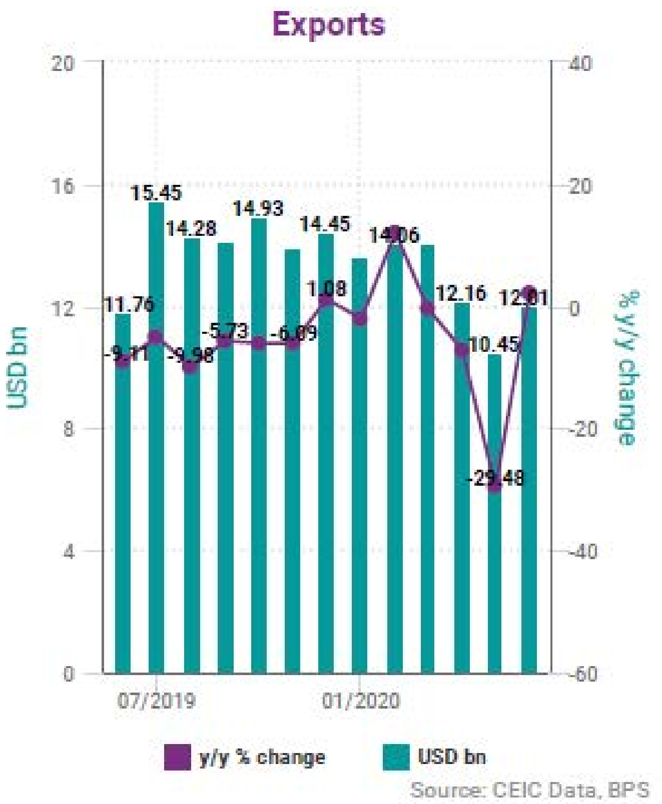
The government has also introduced B30 biodiesel in a bid to reduce the dependence on oil imports and improve energy security. B20 and B30 were introduced in 2016 and 2020, respectively, and are the percentage of bio-contents that are mandatory in biodiesel production. The mandatory biodiesel programme started in 2008 to incentivise alternative fuel, cut the cost of fossil fuel imports and boost domestic consumption of palm oil.

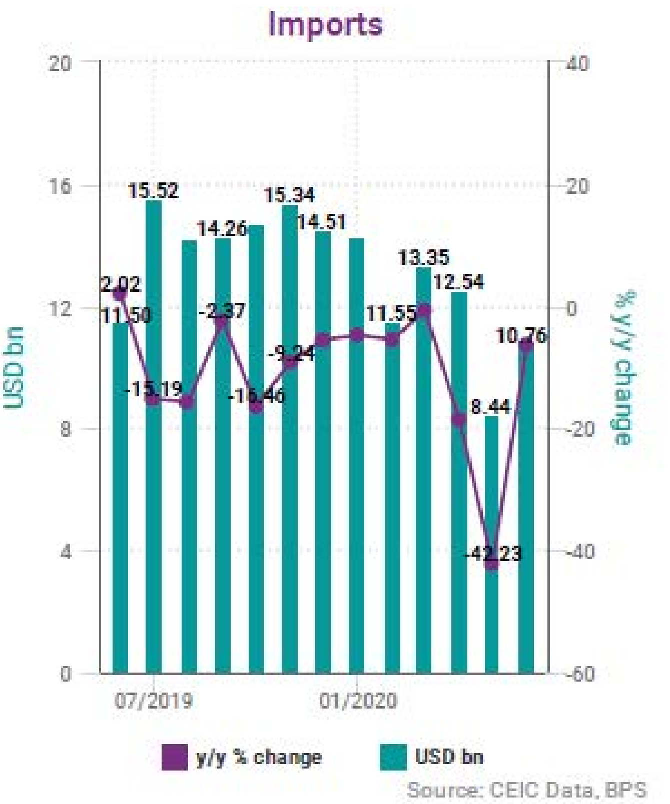
AmongIndonesia's top exporting partners during January to May 2020, only exports to China recorded growth (of 8%y/y) over the corresponding period of the previous year. Exports to Japan, the US, India, and Singapore recorded declines of 15%, 1%, 21%, and 7% y/y respectively during the same period.

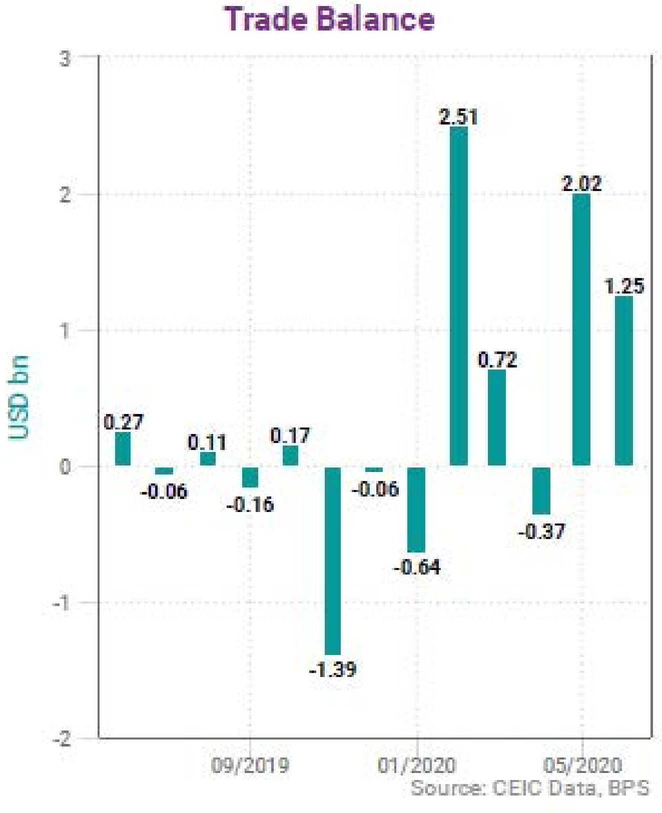
Imports from the top-5 trading partners of Indonesia recorded a decline from January to May 2020. The decline in imports during the first five months of 2020 from China, Singapore, Japan,Thailand, and the US were 16%, 17%, 17%, 17%, and 8% y/y respectively.

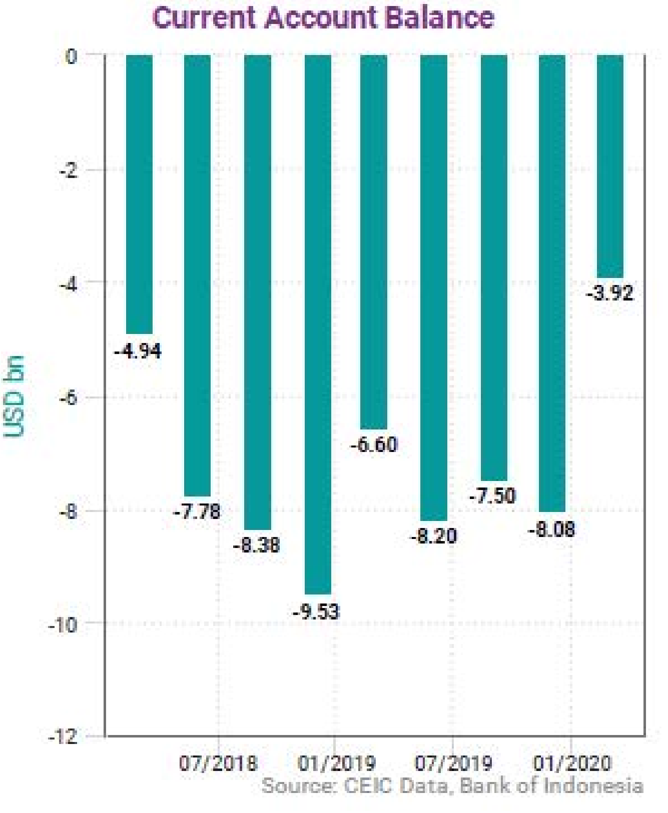
The current account deficit narrowed to 2.72% of GDP in 2019 from 2.94% of GDP in 2018. In Q1 2020 the current account deficit was USD 3.9bn, or 1.42% of GDP, narrowing from 2.83% in Q4 2019. The improved current account deficit was influenced by a larger merchandise (goods) trade surplus, accompanied by smaller services and primary income deficits. Bank Indonesia has projected a current account deficit for 2020 below 2% of GDP due to the probability of a bigger impact on imports, relative to exports in the current economic climate.

In Q1 2020 inflows on the capital and financial account were significantly subdued by the increased uncertainty in global financial markets. The capital and financial account recorded a deficit of USD 2.9bn, mainly influenced by the portfolio investment deficit, after posting a surplus of USD 12.6bn in Q4 2019. Hence, Indonesia's overall balance of payments posted a deficit of USD 8.5bn in Q1 2020.


Exports
USD bn
% y/y change
15.45
14.28
14.93
14.45
14.06
11.76
12.16
12.01
10.45
-9.11
-9.98
-5.73
-6.09
1.08
-29.48
07/2019
01/2020
y/y % change
USD bn
Source: CEIC Data, BPS


Imports
USD bn
% y/y change
15.52
15.34
14.26
14.51
13.35
12.54
2.02
11.50
-2.37
11.55
10.76
-15.19
-16.46
-9.24
8.44
-42.23
07/2019
01/2020
y/y % change
USD bn
Source: CEIC Data, BPS


Trade Balance
USD bn
2.51
2.02
1.25
0.72
0.27
0.11
0.17
-0.06
-0.16
-0.06
-0.37
-0.64
-1.39
09/2019
01/2020
05/2020
Source: CEIC Data, BPS


Current Account Balance
USD bn
-4.94
-7.78
-8.38
-9.53
-6.60
-8.20
-7.50
-8.08
-3.92
07/2018
01/2019
07/2019
01/2020
Source: CEIC Data, Bank of Indonesia

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About CEIC Data

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CEIC Insights

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ASIA OFFICE

5/F, V-Point, 18 Tang Lung Street,
Causeway Bay
Hong Kong, SAR
of P.R. China
Voice: +852 5801 4141
nainfo@isimarkets.com

EUROPE OFFICE

CityPoint
1 Ropemaker Street
London, EC2Y 9HT
United Kingdom
Voice: +44 207 153 1205
euinfo@isimarkets.com

NORTH AMERICA OFFICE

12 E 49th St
New York, New York
10017
US
Voice: +1 212 610 2900
usinfo@isimarkets.com

LATIN AMERICA OFFICE

Rua Bandeira Paulista,
702 - 12° andar Itaim Bibi
São Paulo, Brazil
Voice: +55 11 4410 4250
lataminfo@isimarkets.com

CONTACT US | www.ceicdata.com | FOLLOW US