Impact of the Novel Coronavirus
Indonesia Investments Monthly Update

Impact of the Novel Coronavirus

February 2020
Table of Contents

Preface ................................................................................................................................................. 6
Introduction ........................................................................................................................................... 10
Contact ................................................................................................................................................ 14

Analyses & Columns – Economy, Politics & Social Developments

• Global Concern about the Spread of the Novel Coronavirus; How Does it Impact on the Indonesian People and Economy? ................................................................. 16

• Economy of Indonesia: Gross Domestic Product (GDP) Growth Slowed to 5.02% in 2019; First 100 Days of President Jokowi’s Second Term ................................................................. 41

• An Overview of the Cement Industry of Indonesia; Challenging Times to Persist into 2020 (and Beyond) ................................................................................................................. 64

• Indonesian Society and Government Object to the Homecoming of Indonesians Who Travelled to Syria to Join Islamic State (IS) ......................................................................................... 81

Updates Indonesia – Economy & Financial Markets

• Trade Balance of Indonesia Records a USD $864 Million Deficit in January 2020: Oil and Gas Deficit Deteriorates .................................................................................................................. 97
• **Consumer Price Index (CPI) Update: Indonesian Inflation Accelerates in February 2020** ................................................................. 105

• **Indonesia’s February 2020 Manufacturing Activity Improve for the First Time in Eight Months** .......................................................... 110

• **Bank Indonesia Cuts Benchmark Interest Rate to 4.75%; Rupiah Exchange Rate Weakens Sharply** ......................................................... 115

**Corporate Earnings Reports Indonesia’s Listed Companies: Full-Year 2019** .......... 119

**Events Calendar Indonesia** ........................................................................ 127

**Public Holidays Indonesia** .......................................................................... 136

**Forecast Macroeconomic Indicators** ............................................................ 137

**Back Issues Research Report** ..................................................................... 138
TRANSFORMING INTO DIGITAL CITIES:
THROUGH INFRASTRUCTURE AND COMMUNITY ADVANCEMENT
Preface

The monthly report of Indonesia Investments is written and published by Van Der Schaar Investments B.V. – located in Delft, the Netherlands. The report aims to inform the reader of the latest, most relevant, political, economic and social developments in Indonesia as well as those key international developments that impact on the economy of Indonesian or its politics.

Our monthly reports are intended for a wide audience, including individual and corporate investors, financial market participants, policy makers, journalists, diplomats, academics, and analysts.

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Lastly, we would like to emphasize here that – although we strive to present accurate, up-to-date, and objective information to the reader – Indonesia Investments cannot guarantee the accuracy of all data that is included in this report.

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[Return to Table of Contents]
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Introduction - February 2020 Update

In this month’s update, titled ‘Impact of the Novel Coronavirus’, we have to devote some special attention to the ongoing outbreak of the novel coronavirus. While the outbreak, which originates from Wuhan (China), had already started in December 2019, it peaked in February 2020 as it spread throughout the world. Particularly when various new novel coronavirus cases were detected in South Korea, Japan, and Europe, investors panicked and exited the capital markets.

Indonesia’s benchmark stock index (Jakarta Composite Index) tumbled 13.44 percent in the first two months of 2020, while the Indonesian rupiah depreciated 4.2 percent against the US dollar in February 2020. We see similar losses across the world. For example, the Dow Jones Industrial Average has plummeted nearly 11 percent since the start of the year.

To make matters worse, there are no indications that the outbreak is now under control. This means markets could fall further in red territory. But the economic consequences of the virus outbreak are already being felt, with China having become the biggest victim. But since China is the world’s second-largest economy, any economic hiccup in China’s economy is felt across the globe.
Many factories and companies in China have been forced to temporarily shut down their production processes or services. With production and logistics being severely disrupted in China, trade flows and other economic activity becomes seriously undermined. Various international organizations have already warned that the coronavirus outbreak threatens to derail global economic growth. Moreover, global growth already felt the pressures of US-China tariff troubles as well as ‘Brexit’-related problems in the European Union (EU).

International Monetary Fund (IMF) Managing Director Kristalina Georgieva said in mid-February 2020 that the coronavirus outbreak could cut China's economic growth in 2020 to 5.6 percent year-on-year (y/y), and cut global growth by 0.1 percentage point.

Indonesia is also heavily affected by the coronavirus. Not only because trade flows with China reduce (implying it has become difficult for raw materials or capital goods to reach Indonesia, while demand from China for Indonesian exports has dropped heavily) but also because tourism will take a massive hit. A big drop in Chinese tourists will occur as flights between China and Indonesia have been discontinued since 5 February 2020. Meanwhile, many global tourists are expected to avoid Asia (including Indonesia) for a while until the coronavirus outbreak has passed.

Furthermore, various reports surfaced in media informing that certain investment projects in Indonesia have been delayed because of the coronavirus outbreak, particularly in those cases where it involves direct investment from China. Hence, with a drop in trade activity, a decline in production, a decline in foreign tourist arrivals, and a decline in investment realization, Indonesia’s economic growth in the first quarter of 2020 is likely to fall below 5 percent (y/y), perhaps going toward 4.5 percent (y/y) in Q1-2020 before recovering in subsequent quarters.

Matters became even worse for Indonesia on Monday 2 March 2020 when – finally – the first two coronavirus cases were detected in Indonesia: a 64-year-old-woman and her 31-
year-old daughter, both originating from Depok (West Java). Reportedly, the daughter had been in contact with a Japanese man who had traveled in Indonesia and was confirmed to be infected with the coronavirus after he arrived in Kuala Lumpur (Malaysia).

Prior to these two confirmed cases, Indonesia was labelled ‘coronavirus-free’. However, many doubted this. Considering the countries around Indonesia had coronavirus patients (and considering the big flow of people that travel between Indonesia and China) many were skeptical that no one was infected in Indonesia. Many therefore assumed that novel coronavirus cases simply went undetected in Indonesia. In fact, the diplomatic community in Jakarta as well as international public health experts raised concerns about the accuracy of the lab tests in Indonesian hospitals.

Another reason why we assumed that a confirmed coronavirus case would be detected soon in Indonesia is because four infections had been confirmed already in travelers who had recently spent time in Indonesia (and therefore carried the virus when being within the borders of Indonesia). So, the virus had actually already been in Indonesia, and thus it simply required waiting for the first confirmed case to surface in Indonesia.
After the breaking news about two coronavirus cases in Indonesia on 2 March, Indonesian stocks fell further, in line with expectations. Since the start of 2020 the benchmark stock index of Indonesia (Jakarta Composite Index) has tumbled nearly 15 percent. And there remains room for further decline, especially in case new coronavirus cases are reported across Indonesia.

In sum, there is definitely a significant negative impact of the global coronavirus outbreak on the Indonesian economy in Q1-2020, and – if the outbreak persists – possibly also in the subsequent quarter(s).

But, as usual, challenging conditions – in any crisis – do also provide opportunities. In the case of the stock market, for example, it has now become very attractive to enter the market (especially for those who have missed earlier opportunities to enter the market) as various blue chips are suddenly available at discounted prices.

It is important for everyone to carefully follow developments related to the coronavirus outbreak as it is likely to remain one of the biggest – most likely the biggest – news stories in March 2020. If the outbreak intensifies, then the impact on global economic growth will rise accordingly. China’s manufacturing activity tumbled to a record low in February 2020 due to the shutdown of factories. It is important for Indonesian authorities to handle the situation carefully and to make sure that the novel coronavirus outbreak remains under control at home, thereby avoiding the scenario that is being experienced by China.

**Indonesia Investments**

Delft (the Netherlands) & Jakarta (Indonesia)

02 March 2020

[Return to Table of Contents]
Contact

Office Delft, the Netherlands

Vaaandelstraat 42
2611 DB Delft
The Netherlands
M +31 (0)6 27 05 85 32
E info@vanderschaar-investments.com

Representative Jakarta, Indonesia

Ms Lori Siregar
Jl. Tanjung Duren Raya No. Kav 5-9, RT.3/RW.5
West Jakarta - 11470, Indonesia
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Contact Us
Sales Enquiries: Indonesia
Wiviek Roberto
T: +62 21 2525 3300
E: wiviek@pamarindo.com
www.pamarindo.com

Sales Enquiries: Asia
Davin Er
T: +65 6233 6688
E: davin.eras@informamarkets.com
www.informamarkets.com

Worldwide
Fiona Murray
T: +61 2 6265 4290
E: Fiona.murray@informamarkets.com
www.informamarkets.com