

# Indonesia Investments

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## 'Economic Recession Nears End'

- Indonesia's Economic Contraction Eases to 0.74% (y/y) in Q1-2021, Slightly Weaker than Our Projection
- Persistently Weak Household Consumption Seems the Biggest Problem for the Indonesian Economy
- Indonesia Should See a Solid Rebound in Q2-2021, Effectively Ending the Economic Recession
- Indonesia Investments' Projection for Indonesia's Q2-2021 Economic Growth Set at +3.5% (y/y)
- Challenges Remain; Is COVID-19 Here to Stay?

**7 MAY 2021**

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**Van Der Schaar Investments B.V.**  
**CV Indonesia Investments**

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Update – 7 May 2021

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# Preface

In addition to our reports, Indonesia Investments sends updates on key economic, political or social developments to our subscribers to make sure that our subscribers do not miss out on vital information. The topics in these updates will be discussed in more detail (and in an updated form) in the forthcoming report.

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# Q1-2021 GDP Update Indonesia: Economic Activity Remains Low But End of Recession Comes In Sight

On 5 May 2021, Indonesia's Statistical Agency (*Badan Pusat Statistik*, BPS), released the latest gross domestic product (GDP) data of Indonesia, covering the first quarter of 2021. As expected, the economic recession persisted into Q1-2021 for Southeast Asia's largest economy.

BPS calculated a **0.74** percent year-on-year (y/y) contraction in Indonesian GDP in Q1-2021, which was slightly weaker than Indonesia Investments' forecast of a **0.50** percent (y/y) contraction.

Nonetheless, it should mean that Indonesia exits the economic recession in Q2-2021. However, exiting the recession does not mean that the Indonesian economy is doing fine. On the contrary, there are plenty of reasons to remain concerned with economic activity remaining far from optimal in the quarters – perhaps even years – to come. Exiting the economic recession in Q2-2021 is primarily possible due to the so-called *low base effect* (as Indonesia hit rock bottom in the COVID-19 crisis in the second quarter of 2020).

Seeing the economic data that have been released by BPS since Q3-2020, we actually have the impression that Indonesia's economic activity is going sideways or flat (not

improving nor weakening on a quarterly basis). So, in other words, over the past three quarters (Q3-2020, Q4-2020 and Q1-2021) conditions have more-or-less been the same (whereas on an annual basis, the economic recession is easing due to the base effect). This flat performance particularly applies to household consumption, which is certainly no trivial matter considering household consumption accounts for about 57 percent of Indonesia's total economic growth. And, we expect this trend to continue in Q2-2021 and Q3-2021 (possibly even longer) considering Indonesia (well, and the world) faces two major challenges in the COVID-19 crisis:

[...]

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