Indonesia Investments

‘A Modest Rebound’

- COVID-19 Update; Restrictions Loosened, Economic Activity Rises in July
- Indonesia’s Q2-2020 GDP Estimated at -5.0%
- Becoming an Upper Middle Income Country
- Overview of Indonesia’s Automotive Industry
- Creating the Ecosystem for the Electric Car
- Role of Manufacturing in Indonesian Economy
- Future of Indonesia: Manufacturing 4.0
- Banking; a Look into Bank Central Asia (BCA)
- Indonesian Inflation at 20-Year Low
- Direct Investment Falls, Worst Still to Come?
- And more...

JULY 2020

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

Monthly Report – July 2020

‘A Modest Rebound’
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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 crucial international developments that impact on the economy of Indonesian or on its politics.

Our reports are intended for a wide and diverse audience, including individual and corporate investors, financial market players, diplomats, policymakers, decision-makers, academics, journalists, and analysts.

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Introduction – July 2020 Report

It is becoming clearer by the day that economic growth in Indonesia, in 2020, will be derailed enormously. Analysts and authoritative institutions (both international and domestic ones) have, again, cut their forecasts for Indonesia’s economic growth in Q2-2020 (decisions that obviously also have consequences for Indonesia’s full-year 2020 economic growth outlooks).

In fact, even Indonesia’s central bank (Bank Indonesia), which had been remarkably positive about the country’s economic performance during - and recovery from - the novel coronavirus (COVID-19) crisis, has now stated openly that it is quite likely for Indonesia to experience a recession this year (with contracting economic expansion expected to occur in the second and third quarters of 2020).

Well, considering how optimistic Bank Indonesia always tends to be on the subject of the performance of the Indonesian economy (at least in public communication), we can assume (based on the latest Bank Indonesia statements) that policymakers at the central bank are now bracing for a recession later this year. This would be the first recession for Indonesia since the Asian Financial Crisis in 1998.
Unfortunately, Statistics Indonesia (BPS) is scheduled to publish Indonesia’s official Q2-2020 gross domestic product (GDP) data only shortly after the publication of this July 2020 report, and thus we cannot include Indonesia’s Q2-2020 GDP growth data in our analysis. This is very unfortunate because all of the ongoing uncertainty in terms of the COVID-19 crisis makes the Q2-2020 GDP data particularly insightful and meaningful, particularly in terms of understanding how the pandemic impacts on the economy and in terms of setting new forecasts for the remainder of the year (and possibly even for 2021).

Indonesia Investments remains among the more pessimistic forecasters with our Q2-2020 GDP growth outlook for Indonesia set at minus 5.0 percent year-on-year (y/y). However, we do fear that this forecast is an underestimation of the economic damages that have been done to Indonesia in the second quarter. Hence, if BPS will release a GDP growth figure of minus 8.0 percent (y/y) for Q2-2020, then we would not be surprised at all.

And if we take a look at countries that have already released their Q2-2020 GDP data, some cases are truly frightening. For example, Singapore’s economy contracted by a whopping 12.6 percent (y/y), the German economy shrank by 11.7 percent (y/y), while the US economy contracted by 9.5 percent (y/y).

Of course, the economies of Singapore, Germany and US are quite different from the Indonesian economy. For example, Indonesia is much less dependent on global trade than these three. Still, all economies are affected in an unprecedented manner, and therefore damages to the Indonesian economy are bound to be big too.
As we emphasized in earlier reports, the main problem today is that we are living in unprecedented times which makes it very rough to come up with accurate forecasts for economic growth. However, once we can take a closer look into BPS’s Q2-2020 GDP data (scheduled for release in the first week of August 2020), it will certainly provide us with valuable insight into how the COVID-19 pandemic impacts on the Indonesian economy, and in which sectors of the economy the biggest impact of this crisis is felt. This will also shine a light on the future performance of the Indonesian economy (in the remainder of 2020 and 2021).

Without the Q2-2020 data it is difficult to predict what is happening. For example, household consumption in Indonesia (which accounts for about 55 – 60 percent of Indonesia’s total economic growth) has obviously been affected by the COVID-19 crisis as people were encouraged to stay at home in Q2-2020 (particularly in urban centers on Java). On the other hand, however, e-commerce transactions reportedly boomed and may therefore somewhat soften the drop in household consumption. In fact, soaring e-commerce transactions is a phenomenon that has occurred across the world. It is certainly no coincidence that US multinational technology firm Amazon posted its biggest profit ever at the height of the COVID-19 pandemic in the US.
But while, perhaps, the decline in Indonesia’s household consumption is relatively modest thanks to the thriving e-commerce industry, other sectors are certainly in trouble. For example, if we take a look at the debt postponement petitions that have been submitted by those Indonesian companies that are now facing financial turmoil (and who are essentially on the brink of bankruptcy) in the first half of 2020, it are the construction and property companies that seem to be experiencing the hardest times. A total of 88 Indonesian construction and property companies have submitted this petition at local courts in the first half of 2020. In other sectors this number is lower.

While this number (88) may seem small to the reader, it has to be remembered that these companies belong to the formal sector (which only contributes an estimated 40 percent to the Indonesian economy). For example, real estate developer Cowell Development (listed on the Indonesia Stock Exchange) was declared bankrupt by Jakarta’s Commercial Court in mid-July 2020. Typically, these bigger companies are in much stronger financial conditions (with healthier cash flows) than their informal counterparts. Therefore, damages should be much bigger in the informal sector. But to what extent BPS can manage to include the informal sector into their official GDP data is always a bit of a mystery to us.

Soon, however, the official Q2-2020 GDP data will shed some more light on what has happened to the Indonesian economy. For sure, Indonesia’s economic growth in the third and fourth quarters will also be heavily affected by the COVID-19 crisis, and therefore a recession should be unavoidable for Southeast Asia’s largest economy. Already, several events (for which Indonesia Investments acts as media partner),
such as Manufacturing Surabaya 2020 (originally scheduled for 30 September – 03 October 2020), or, the Children Baby Maternity Expo (scheduled for 17 – 19 March 2021) have been postponed or cancelled altogether in the past week. This serves as a simple illustration that economic activity will certainly not be back to ‘normal’ in the foreseeable future.

Most likely economic conditions (and life as a whole) can only turn back to normal once a vaccine has been found. In late July 2020 state-owned pharmaceutical holding company Bio Farma said it is ready for the clinical trial of the COVID-19 candidate vaccine that is developed in partnership with Chinese biopharmaceutical company Sinovac Biotech. Therefore, Bio Farma is now looking for a total of 1,620 Indonesian volunteers – healthy adults between the age of 18 and 59 years, with no history of COVID-19. However, if successful, the vaccine will only be ready for application in the first quarter of 2021 because the trial phase will need at least six months.

This would imply that the Indonesian economy will be derailed at least up to the first quarter of 2021. And also the Indonesian government has realized that economic conditions will not be back to normal next year, hence it aims to widen fiscal space
for government spending in a bid to boost economic activity. The government now eyes the state deficit at 5.2 percent of GDP in 2021 (but which still requires approval from the House of Representatives, DPR). The main reason for the proposed higher deficit is that some greater fiscal flexibility may be needed in 2021 amid uncertainty over the availability of a vaccine. Indonesian Finance Minister Sri Mulyani Indrawati said that with a wider deficit, the government would have an additional IDR 179 trillion (USD $12.3 billion) to support the economy in 2021, particularly for priority programs on food security, industrial area development, technology development, education and health care.

The Indonesian government expects the budget deficit to reach 6.34 percent of GDP in 2020 as it allocated IDR 695.2 trillion (approx. USD $47.9 billion) for COVID-19-related stimulus measures this year. This figure is well above the (traditional) legal cap of 3 percent of GDP. The central government previously (temporarily) removed this cap and pledged to reinstate the budget deficit cap of 3 percent in 2023.

To conclude this introduction to our July 2020 report, entitled ‘A Modest Rebound’ (which refers to the improvement in economic activity in July as the government has started to ease the business and social restrictions) we would like to thank you for buying this report.

**Indonesia Investments**
Jakarta (Indonesia)
1 August 2020

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Research Report
‘Indonesia’s Energy Sector’

Indonesia Investments

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Coronavirus Tips: How to Protect Yourself

There is currently no vaccine to prevent the novel coronavirus disease (COVID-19).

However, you can protect yourself and help prevent spreading the virus to others if you:

- Wash your hands regularly and thoroughly for 20 seconds, with soap and water or alcohol-based hand rub. Remember that before your hands are clean, you should not touch your face, especially not (around) your eyes, nose and mouth as these are the key entrance points for any virus.

- Cover your nose and mouth with a disposable tissue or flexed elbow when you cough or sneeze. In case you feel unwell, wear a mask (to protect other people) and keep washing your hands often and thoroughly.

- Stay inside; avoid contact with people and avoid going to crowded places or public places where people can leave the virus on items such as a doorknob, bench, or handrail. Hence, after returning home from grocery shopping, wash your hands. You may also want to wash the products you bought, because people often touch products that are on display in the supermarket.
- **Strengthen your immune system**: people who are healthy (which are usually young people) may not even notice that they are infected with COVID-19. The trick here is that their immune system is stronger (generally). Therefore, now is the time to take some efforts to strengthen your immune system by eating healthy (fruits and vegetables) and take some supplements, such as vitamin pills. Taking enough time to sleep is also crucial to help improve your immune system. Lastly, it is highly recommended to quit smoking (and not consume too much alcohol).