Asia: India and Indonesia riding up the Covid-19 curve

First China, now India and Indonesia – two more of Asia's largest economies face their worst recession in decades. But the divide in the market's perception is reflected best by the performance of their respective currencies. The rupiah is one of the best performers in the EM space while the rupee hasn't been appreciating very much since the rally started

Factory workers in India queue at Kapashera border after local police stopped them from crossing amid the lockdown on May 18, 2020 in Gurugram, India.

Source: Shutterstock

567k Covid-19 cases in India

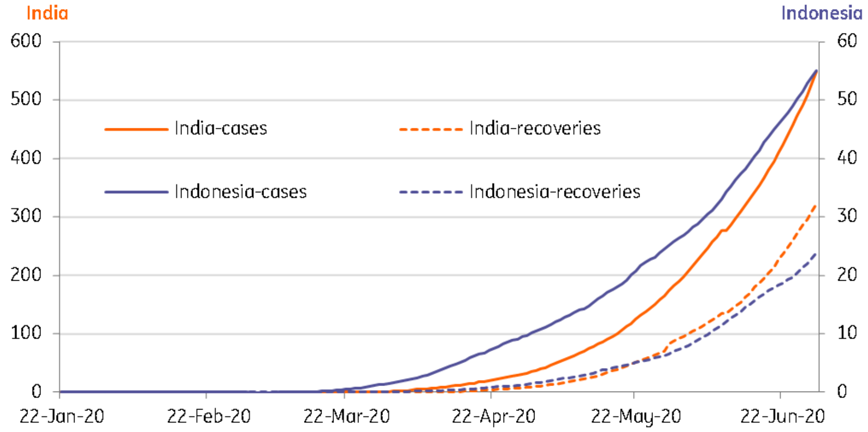
As of 29 June

Riding the Covid-19 curve

More than three months since they reported their first confirmed cases, India and Indonesia, the world's second and fourth most-populous countries, show no signs that their respective Covid-19 outbreaks are subsiding.

India is now the fourth worst-affected country in the world with 567k infections. Indonesia, with 55k officially recorded cases, sits well behind in 29th position but is among the worst affected in Asia. It took less than a month for cases in both countries to double to their present count. Large population size, poor healthcare infrastructure, weak testing and isolation efforts, and ineffective policies have all helped the spread of the virus in both countries.

Covid-19: Rapid infections, tepid recovery ('000)



Source: Worldometers
Note: Data as on 29 June.

Wasted lockdowns

India was among the first countries in Asia to begin a nationwide lockdown on 25 March when officially recorded cases touched 500. But lockdown implementation was chaotic; announced just hours before it started, and dragging on with four extensions from the initial three-week phase until end-June.

Despite reportedly being one of the strictest in the world, India's lockdown has failed to break the Covid-19 chain. Undermining it was the migrant crisis – workers from largely unorganised sectors in big cities moving back to their native states, many of whom reportedly died during the journey, whilst survivors carried the disease back to their home towns and villages. Large slum dwellings in cities like Mumbai turned out to be fresh breeding grounds for the virus. This, combined with the country's strained healthcare system, leaves the true number of infections, recoveries, and deaths in India in question.

> *A weak economy will be the authorities' argument against renewed lockdowns in both India and Indonesia*

Indonesia may not appear as bad as India, but the true extent of the outbreak is also debatable, and even the official spread of the virus remains fast (see figure).

Indonesia started its movement restrictions late. The government pushed back on strict lockdown measures, and instead opted for partial restrictions on mobility which were relaxed by June for most regions given the urgency of mitigating the negative economic impact.

With Indonesia's recovery rate a little over 40%, there is no end in sight for the first wave of their outbreak. And in India, with the seven-day average of daily new infections running at 17k, it is probably only a matter of time before they move up into third place globally for total officially recorded cases, ahead of Russia. That said, we think a weak economy will be the authorities' argument against renewed lockdowns in these countries.

2020 – a write off year

Nearly a whole quarter of economic inactivity in 2Q20 is paving the way for the steepest GDP falls in decades. We expect close to -8% year-on-year falls in India and -5% for Indonesia.

It's looking so bad, that the Indian statistics authority recently had to suspend releases of some economic indicators like the CPI and industrial production on the grounds of distortion from the lockdowns. However, a record low in the manufacturing PMI (30.8 in May) and crashing exports (-37% year-on-year in May after -60% in April) hint at the damage. So too does an estimate by a local think tank which put the unemployment rate at more than 20%.

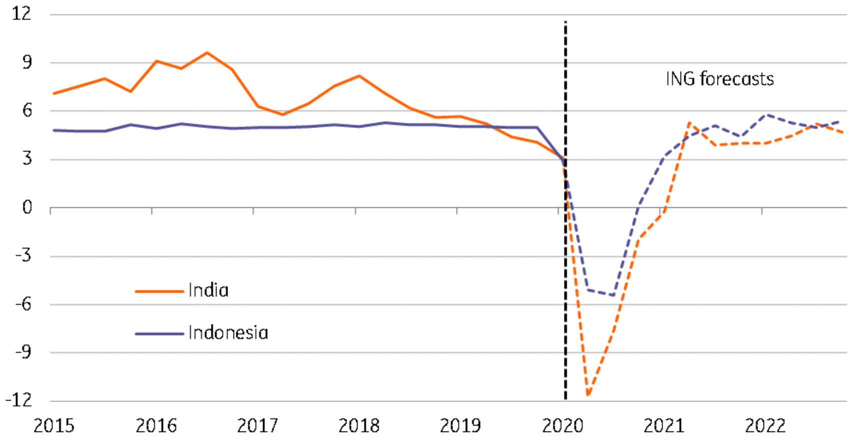
> *We have cut our forecast of India's GDP growth in the current fiscal year to -5.2% from -2.1%.*

The five most affected Indian states (Maharashtra, Delhi, Tamil Nadu, Gujarat and Uttar Pradesh) make up 43% of India's GDP. Recovery here will hinge on the return of a large number of migrant workers, though not all of them are likely to be reabsorbed back into disrupted supply chains, while weak demand continues to hinder activity.

Meanwhile, resurgent food inflation resulting from supply disruptions and panic buying, and high fuel prices due to recent hikes in excise duty are pressuring CPI inflation. We have cut our forecast for India's GDP growth in the current fiscal year to -5.2% from -2.1%, but maintain our inflation forecast at 4.3%.

In Indonesia, data also points to a broad-based economic slowdown, with retail sales falling sharply, by 11.8% in April, and the manufacturing PMI down to 28.6 in May, prompting further cuts to the government's still probably optimistic expectation for GDP this year to between -0.4% and 1.0%. We forecast a contraction of -1.9%.

Crashing GDP (% year-on-year, quarterly data)



Source: CEIC, ING

Note: Dotted parts are ING forecasts.

Policy constraints

Tight public finances limit the availability of fiscal support. India's big-bang 10% (GDP equivalent) stimulus was heavy on structural reforms. That's helpful over the longer-term but doesn't provide much immediate help for the economy. The real fiscal thrust comes to just 2.6% of GDP. It's a little better in Indonesia, with a roughly 3.5% real GDP thrust in a 4.2% total package.

Central banks in both countries have been responding to the urgency of accommodation though. In addition to liquidity boosting measures, the Reserve Bank of India has cut the policy rate by a total of 115 basis points so far this year while Bank Indonesia has cut its rates by 75bp. The doors are open for further easing.

The divide in the markets' perception of post-Covid-19 prospects for the two economies is probably best reflected by the performance of their respective currencies -- the Indonesian rupiah is one of the best performers in the emerging markets space, while the Indian rupee has been one of the currencies appreciating the least since the emerging market rally started in April.

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Disclaimer