

Indonesia: 2020 GDP expected to contract by 2.0%

Prospects for a quick economic recovery are weighed down by Covid-19



Source: Stenly Lam

Lockdowns and slowdowns

Indonesia implemented “large scale social restrictions” (PSBB) on 10 April in the capital Jakarta and neighbouring regions to help limit the spread of the Covid-19 virus. Originally slated to end on 5 June, authorities were forced to implement a phased removal of restrictions as new daily Covid-19 infections continued to rise. As of 13 August, the official total number of Covid-19 cases in Indonesia was 130,718 while the 7-day moving average for daily new infections remains elevated at 1,978 cases.

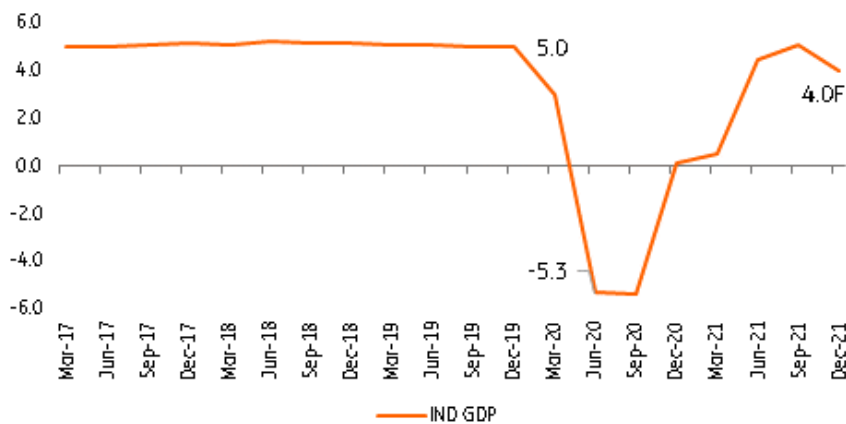
GDP contraction expected in 3Q

PSBB and the negative impact on economic activity will force 3Q GDP into contraction and should weigh on recovery efforts in the coming quarters.

Finance Minister Indrawati currently expects the economy to enter a recession by 3Q as PSBB stifles overall economic activity. Indrawati, however, forecasts a recovery of up to 2.2% growth in the second half with positive growth by 4Q as the economy reopens and government outlays accelerate after only disbursing roughly 20% of the total Covid-19 stimulus package.

Forward-looking indicators, however, point to a prolonged downturn and we expect 2020 GDP to drop to -2.0% from 5.0% in 2019 with growth momentum subdued in the coming quarters as Indonesia struggles to contain the spread of Covid-19.

Indonesia GDP and forecasts (%)

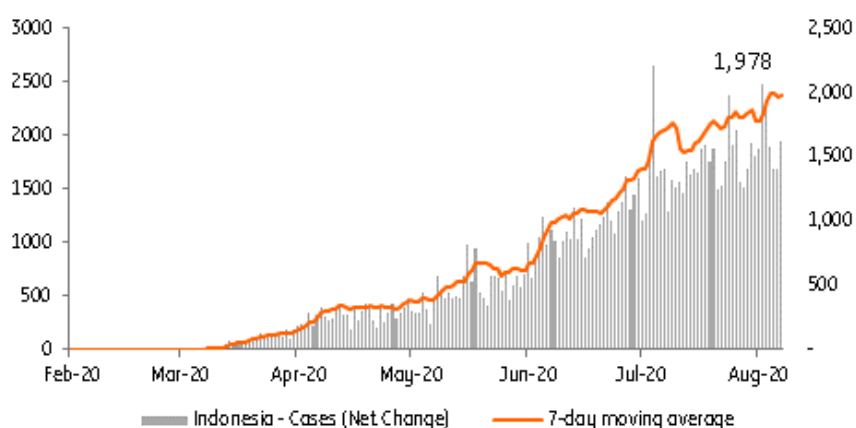


Source: BPS and ING estimates

PSBB knocks out 2Q GDP

GDP contracted in the second quarter as large scale social restrictions that curbed mobility (PSBB) limited household consumption, which comprises roughly 55% of total GDP. Meanwhile, government spending has been modest so far. President Jokowi has ordered an acceleration in outlays with only 20% of the total IDR695.2 trillion rescue plan spent so far. 2Q GDP contracted by 5.3% with a broad-based slowdown in economic activity reflected in cratering car sales (96% drop in May to 3,551 units) and much-weaker retail sales falling by 20.6% and 14.4% in May and June, respectively.

Indonesia Covid-19 cases and 7-day moving average



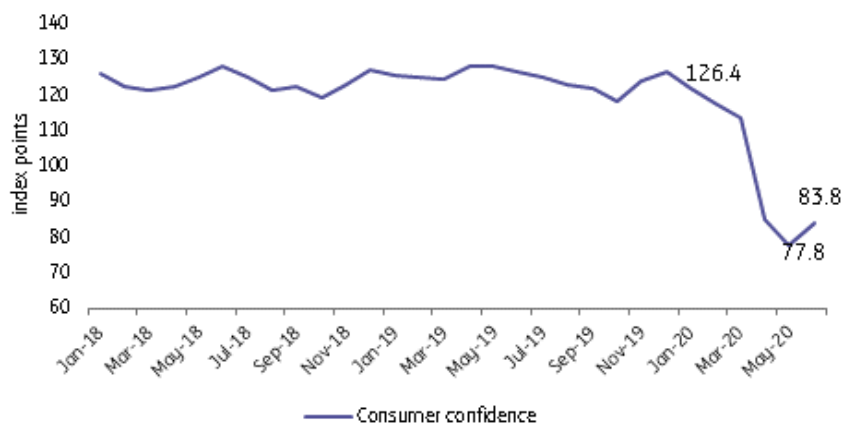
Source: Johns Hopkins and ING estimates

Economic data improves but still far from pre-pandemic levels

Recent forward-looking indicators show a slight improvement after plunging to multi-year lows

recorded during the PSBB in April. The modest improvement in data, however, remains well-below levels posted prior to Covid-19 and thus we do not expect a quick and sustained recovery in the near term. A recent poll conducted by Indikator Politik Indonesia showed more than 60% of respondents were in favour of reopening the economy as soon as possible, despite the sustained rise in Covid-19 infections. The survey may indicate the severe economic impact on individuals, which was also reflected in downbeat consumer sentiment. Sentiment improved to 83.8 in June, but it is still much lower than pre-pandemic levels when consumer confidence averaged 122.8 in the two months before the lockdown.

Indonesia consumer confidence

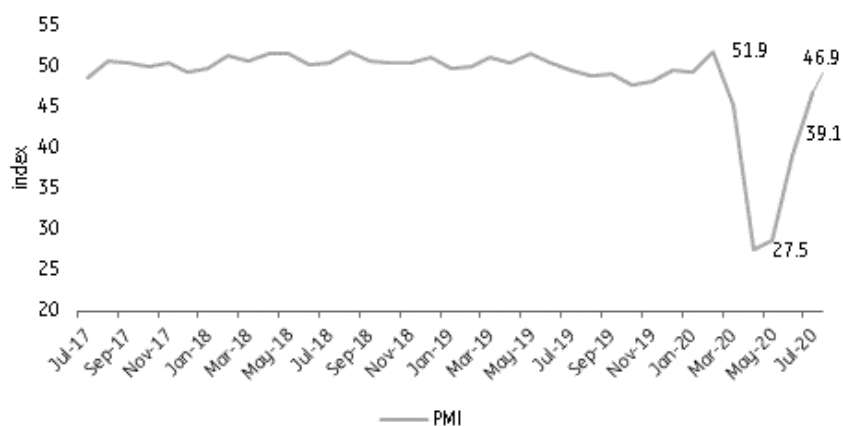


Source: Bank Indonesia

PMI improves but remains in contraction

Despite a pick-up in exports in June, manufacturing activity remains in contraction with the July manufacturing PMI report at 46.9. The July reading is an improvement from the levels in May and June, but still below the 49.4 average recorded in the 12 months prior to the implementation of PSBB in April.

Indonesia PMI manufacturing



Source: Markit

Covid-19 weighs on prospects for a quick recovery

Despite government projections for a quick recovery, we continue project a contraction in 3Q and below-average 4Q GDP as household retail sales remain downbeat and PMI manufacturing stays in contraction. We do not see a quick turnaround in the economic prospects for Indonesia given the still rampant spread of Covid-19 in the country.

New daily infections remain on an uptrend and are likely to weigh on consumer sentiment and investment activity

New daily infections remain on an uptrend and are likely to weigh on consumer sentiment and investment activity in the months to come while bureaucratic red tape may hinder the government's efforts to disburse the Covid-19 stimulus funds quickly. Thus, even if we have seen a slight improvement in economic data of late, we believe that GDP is likely to contract for at least another quarter with a return to pre-pandemic economic momentum not likely in the near term as Indonesia struggles to contain the virus.

ING GDP forecasts (%)



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