

Snap | 5 May 2020

## Indonesia: 1Q GDP misses estimates and there's worse to come

Indonesia posted a 3.0% expansion in the first quarter with a more severe downturn expected in the months to come



Source: Stenly Lam

**3.0%** 1Q GDP

Lower than expected

### 1Q GDP misses estimates, 2Q could be worse

Growth for the first three months of the year dipped to 3.0%, falling below market expectations (Bloomberg median forecast at 4.0%) with the economy slowing across the board. Consumption, government spending and capital formation all managed to post gains from the same period a year ago but each sector contracted substantially from 4Q 2019 with Covid-19 cases quickly escalating from just two at the start of March to 1,677 by April. Subdued exports and slowing manufacturing activity were noted early in 1Q and we expect the economy to see a more pronounced drop in 2Q with PMI manufacturing for the month of April stalling to 27.5 (from 45.3 in March). Meanwhile, President Jokowi implemented stricter social distancing guidelines, restricted intra-regional movement and banned travel ahead of a holiday beginning in early April, with such measures expected to curb growth momentum even more.

## Bank Indonesia still likely on hold

Despite the imminent economic downturn, Bank Indonesia (BI) has refrained from carrying out aggressive policy easing, cutting policy rates by only 50 basis points in 2020 as the Indonesian rupiah weakened to the 16500 level at the height of the Covid-19 induced selloff in mid-March. IDR has since found its footing after BI secured a \$60bn repurchase facility with the US Federal Reserve, but we believe that BI Governor Perry Warjiyo will opt to keep policy rates unchanged until IDR stabilises further. With monetary policy sidelined for the time being, fiscal policy will likely be counted on to support the economy, with 2Q likely to fall into contraction as Covid-19 cases continue to rise, despite Jokowi's partial lockdown measures.