



Indonesia Economic Outlook 2H21

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The Covid-19 outbreak in Indonesia doesn't seem like it will end any time soon

Indonesia Covid-19 development

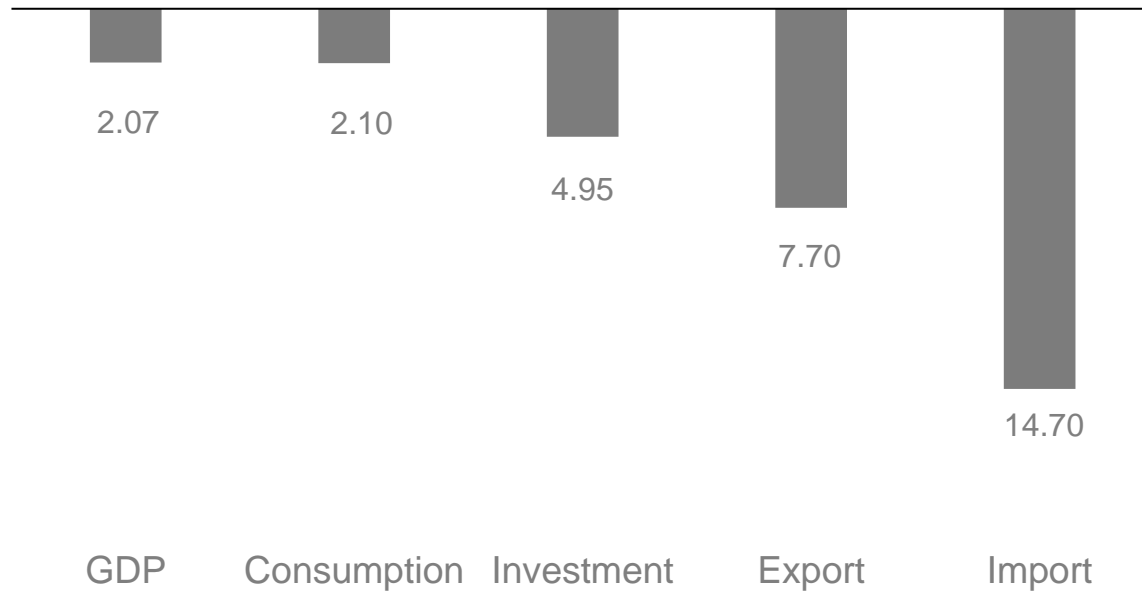
	Mar 20	Jun 20	Sep 20	Dec 20	Mar 21	Jun 21
Cases/Million	5.59	206.14	1,049.3	2,717.13	5,526.81	7,963.24
Deaths/Million	0.42	10.52	39.27	80.94	149.38	213.84
Reprod. Rate	1.49	1.15	1.02	1.07	0.97	1.40
Positivity Rate	0.22	0.11	0.15	0.18	0.11	0.22
People Vaccinated/ Hundreds	0.00	0.00	0.00	0.00	1.34	4.92

Note : data above were taken as of end of month

Source : Our World in Data Oxford University

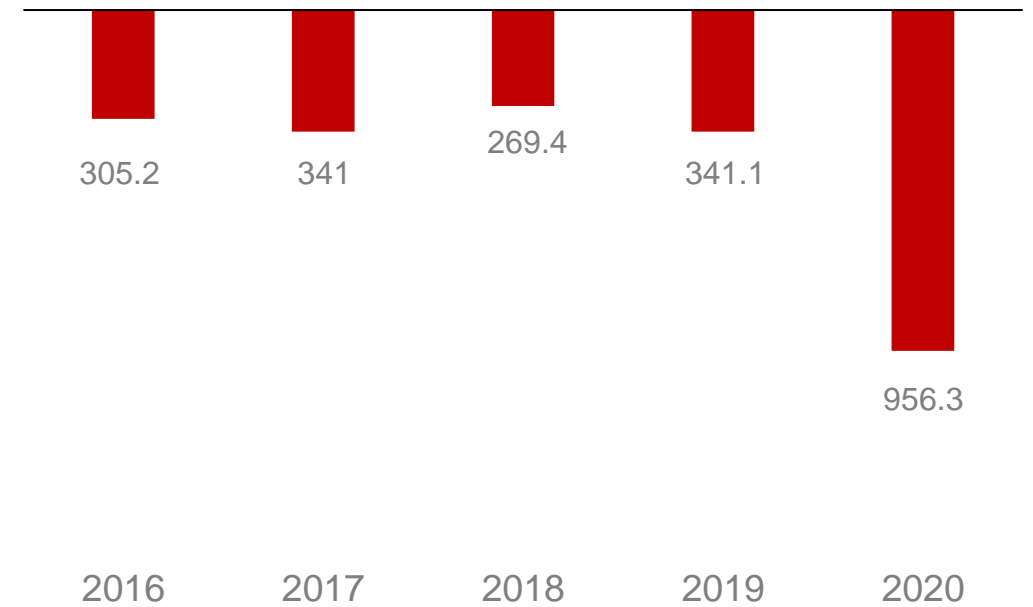
Last year Covid-19 outbreak has a devastating impact on Indonesia's economy

In 2020 all GDP components dropped (%YoY)



Source : Indonesia Bureau of Statistics

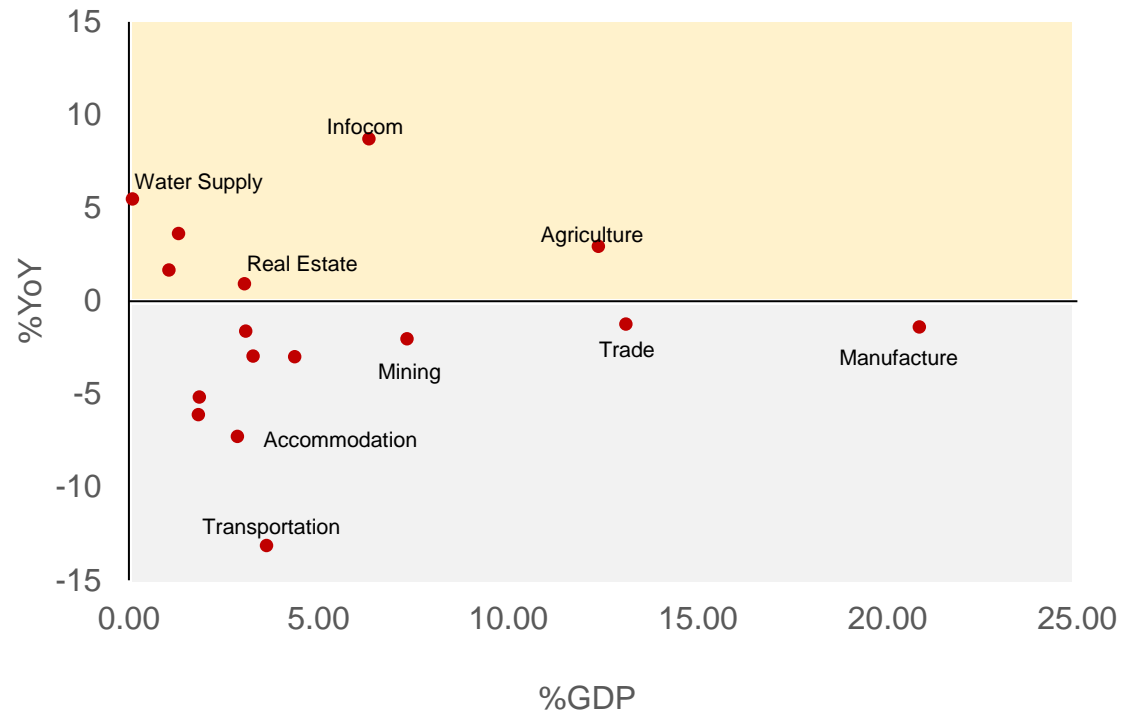
Widening budget deficits (IDR Trillion)



Source : Indonesia Ministry of Finance

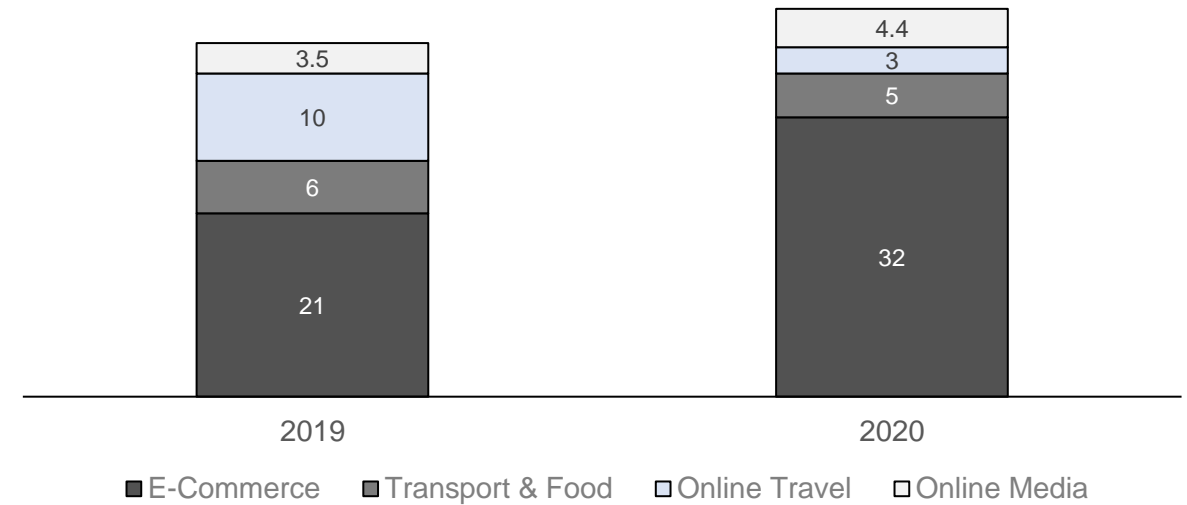
Large contributing sectors such as manufacture & trade dragged down Indonesia's economic output but the digital economy rose by double digits

Information & communication as well as healthcare were benefitted while transportation contracted significantly



Indonesia next engine of growth, digital economy grew 11% last year on the back of strong e-commerce GMV growth

GMV (USD Bio)

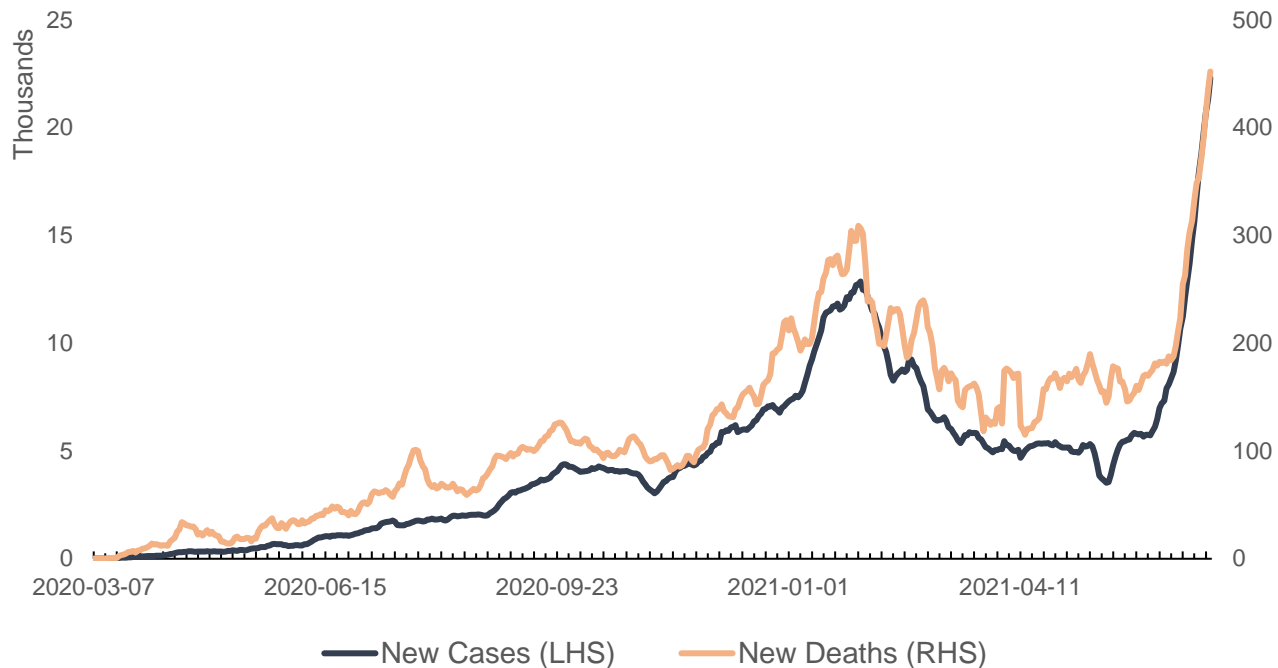


Note : calculation based on 1Q21 data
Source : Indonesia Bureau of Statistics, MNCS Calculation

Source : Google, Temasek, Bain & Company

The second wave outbreak strikes overwhelming healthcare system & forcing gov't to impose stricter measures recently

Covid-19 Second Wave in Indonesia



Note : based on 7-day rolling average
Source : Our World in Data Oxford University

Government response

Emergency Social Restriction (PPKM Darurat) for Java & Bali ~ 3-20 July 2021

- 100% wfh for non-essential sectors, 50% wfh for essential sectors, 100% wfo for critical sectors with stricter healthcare protocols
- Schools are closed & teaching activities are carried out online
- Shopping malls are closed & restaurants are prohibited to serve dine in (take away only)
- Mosques, Churches & Temples are closed
- Public transportation with 70% maximum capacity

Source : Kontan, Bisnis, Kompas, CNBC Indonesia, Various source

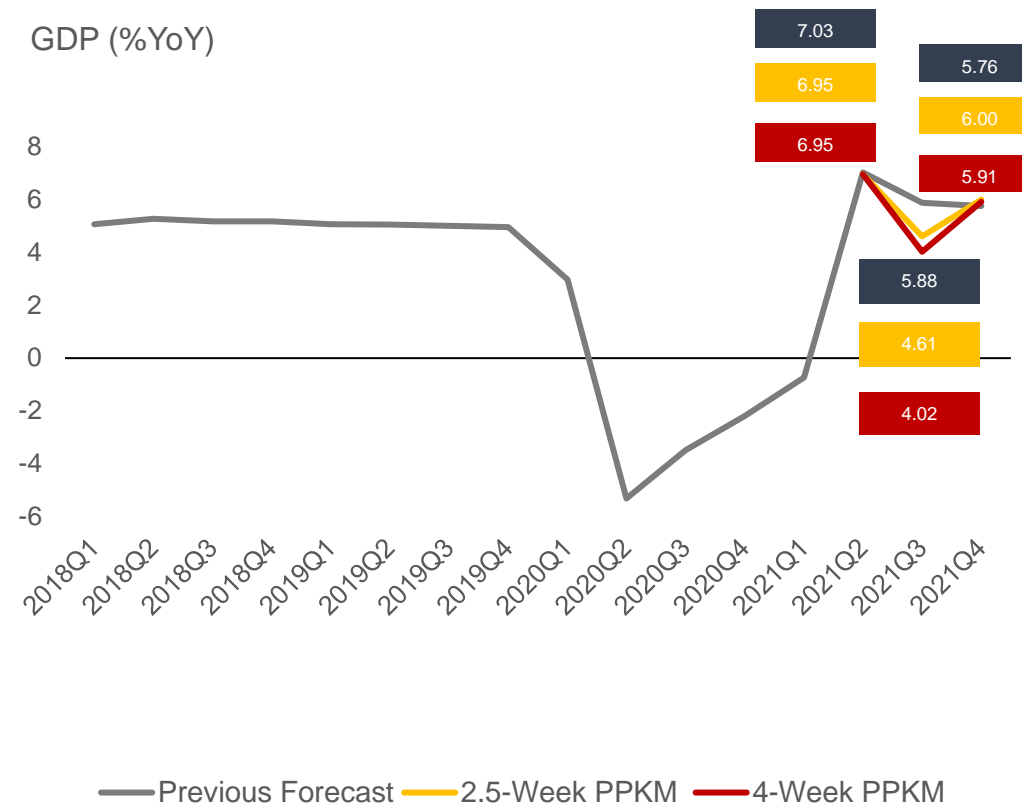
Downside risk outweigh recovery momentum, primarily due to stricter social restriction imposed by gov't

Prior to second wave outbreak, signs of recovery were visible

Macro Indicators	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Trend
International Trade							
Export (%YoY)	12.19	8.5	30.47	51.9	58.76	nr	▲
Import (%YoY)	-6.58	14.87	25.73	29.9	68.68	nr	▲
Trade Balance (USD Bio)	1.96	1.99	1.57	2.29	2.37	nr	▲
Leading Indicators (Points)							
Manufacturing PMI	52.2	50.9	53.2	54.6	55.3	53.5	▲
Consumer Confidence	84.9	85.8	93.4	101.5	104.4	nr	▲
Real Sectors Indicators (%YoY)							
Retail Sales	-16.3	-18.2	-14.6	15.6	nr	nr	▲
Car Sales	-34.2	-38.2	10.6	892.3	1443.6	nr	▲
Motorcycle Distribution	-14.7	-31.1	-7.2	282	1065.7	nr	▲

Note : nr means not yet released, upward arrow indicating an improvement
 Source : Indonesia Bureau of Statistics, Bank Indonesia, GAIKINDO, AISI, IHS Markit

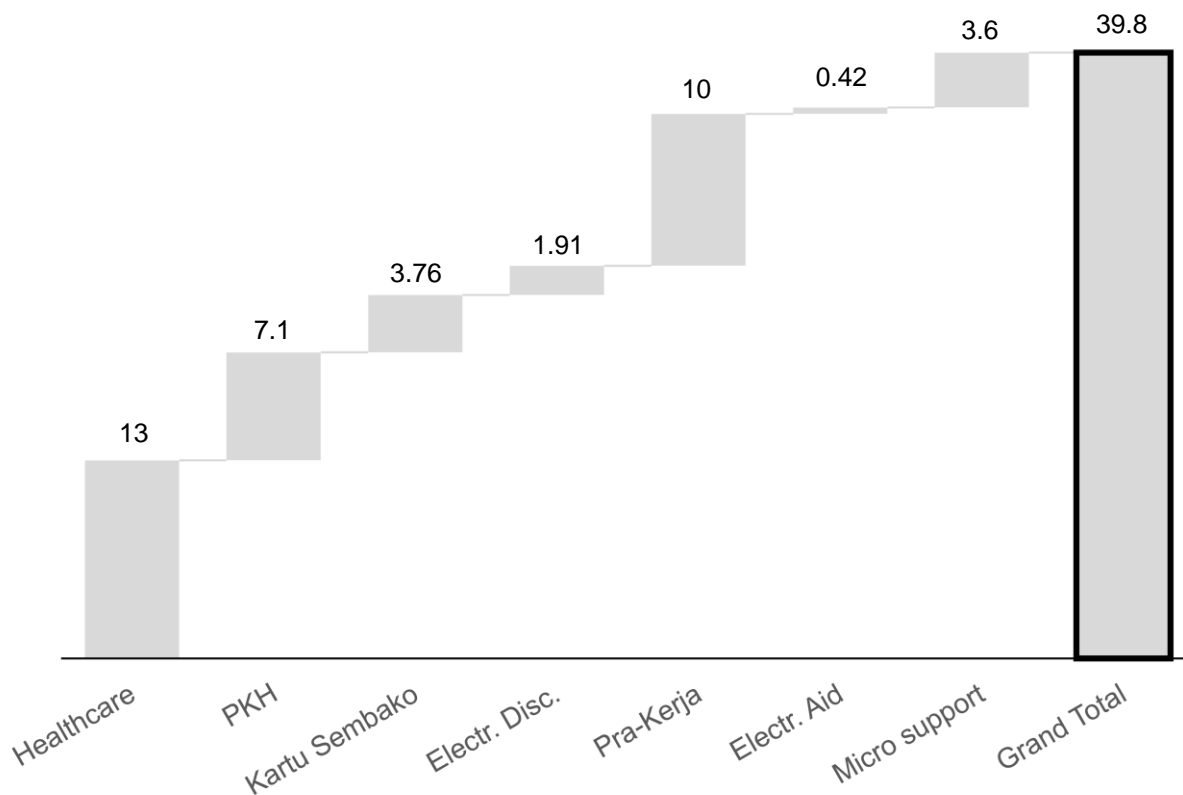
Our estimate shows that emergency PPKM will cost ~0.28-0.45 pp potential real output loss



Source : Indonesia Bureau of Statistics, MNCS Estimate

Additional fiscal aid to soften the blow on the economy due to pandemic curb related measures

Nearly IDR 40 T cost of fiscal aid under Economic Recovery Program (PEN) to soften economic blow of gov't emergency brake policies



Source : Indonesia Ministry of Finance Press Release

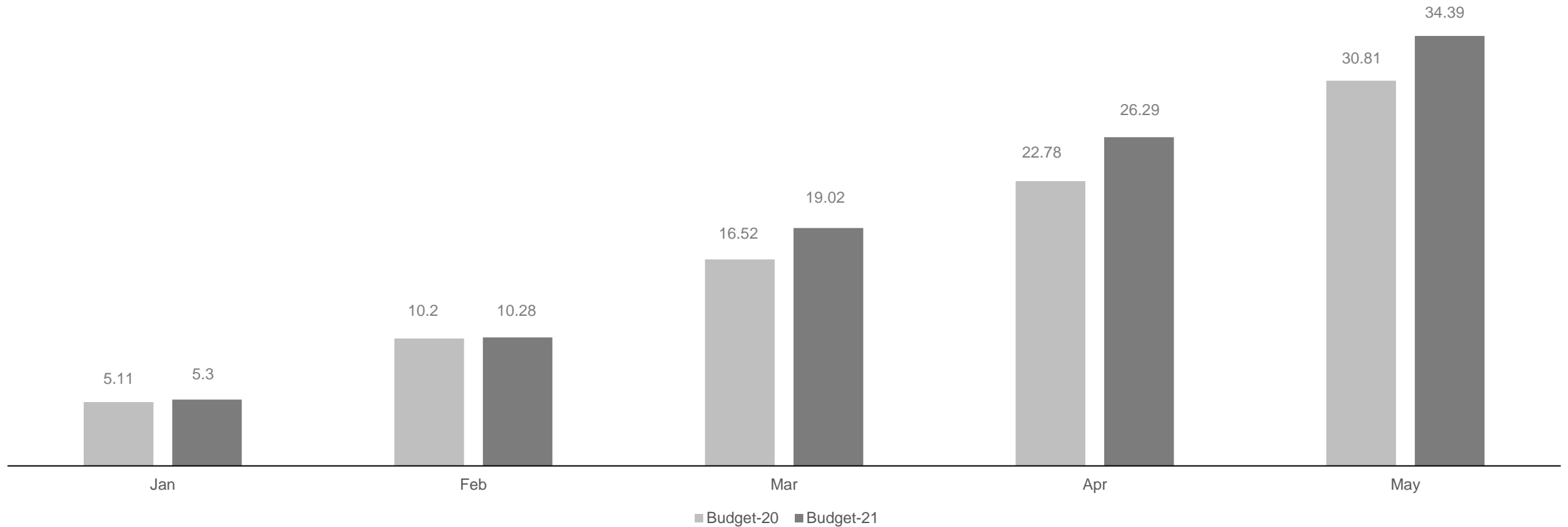
Allocated for healthcare, community social assistance and businesses support

Sectors	Allocation
Healthcare	Additional budget for patients care claims, healthcare workers incentives & vaccination
Social Assistance	Acceleration of Program Keluarga Harapan (PKH) for 9.9 mio household in July 2021
	Targeting 18.8 mio households for Kartu Sembako with nominal value of IDR 200k/household
	Extension of electricity bill (50% for 450VA and 25% for 900VA) in July-Sep 21 for 32.6 mio customer with additional budget IDR 1.91 T
Business Support	Relaxation of BLT Desa
	Addition 2.8 mio Kartu Pra-Kerja participants
	Extension of electricity bill assistance for business, industries & social
	Financial supports for 3 mio new members of micro businesses in July-September 2021

Source : Indonesia Ministry of Finance Press Release

The success to cushion the economic pressures depend on how fast & effective gov't get the budget realized

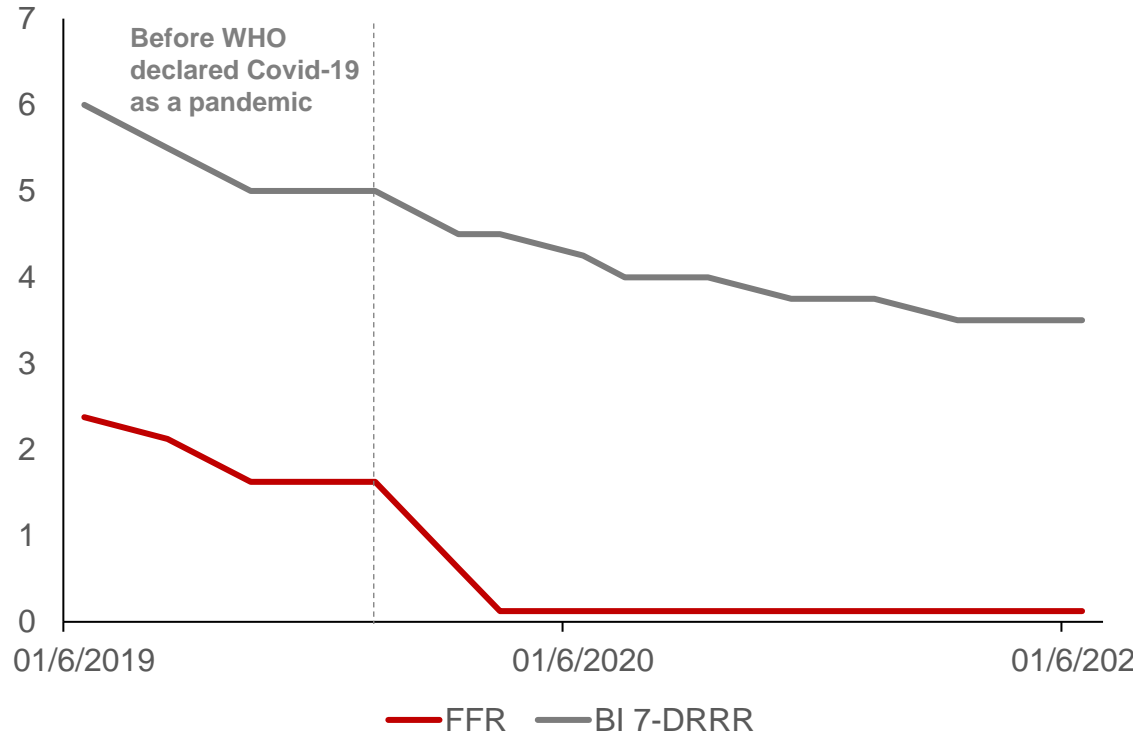
Slow gov't budget realization became constraint so far



Source : APBN KiTa, Indonesia Ministry of Finance

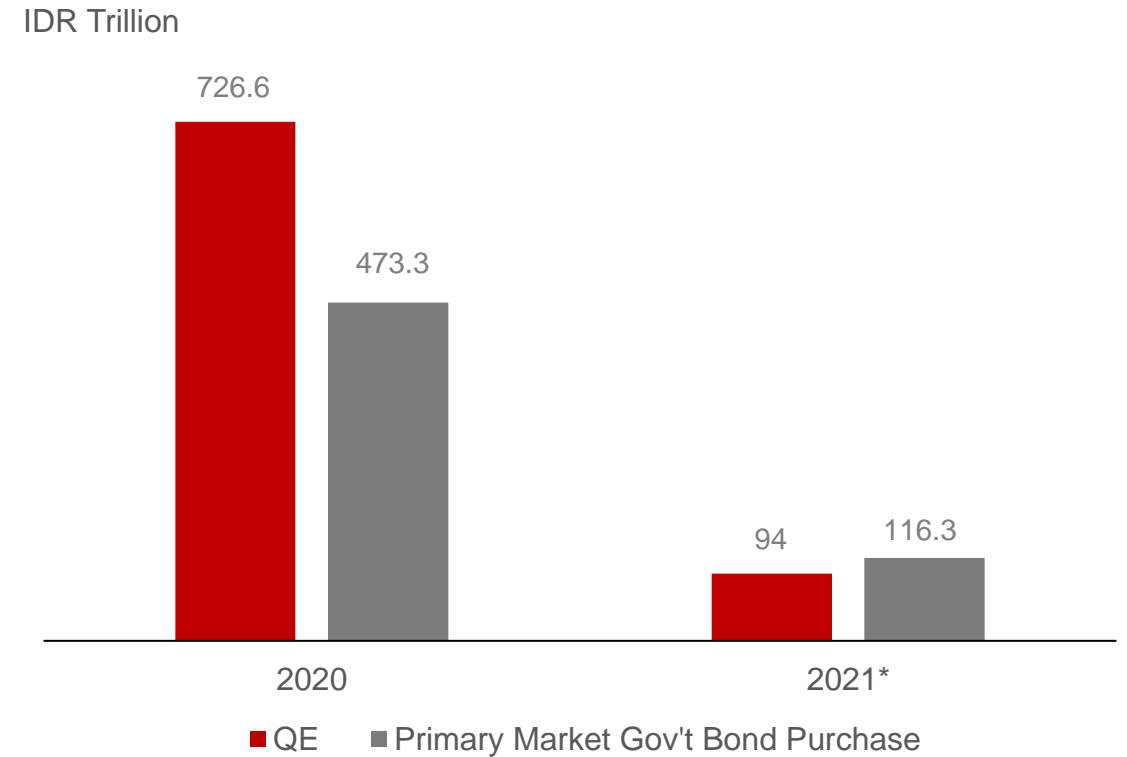
While BI has no room for rate cut, easy policy will remain in place

BI has cut its benchmark rate by 150 bps since Covid-19 strike in March 2020 equivalent to FFR cut



Source : Bank Indonesia, U.S. Federal Reserves Bank

BI keeps injecting banking system with liquidity and supporting gov't financing program



Note : 2021 as of 15 June
Source : Bank Indonesia

Although liquidity remained ample & supported by strong capital, Indonesia banking system remained risk averse

Solid CAR with low LDR



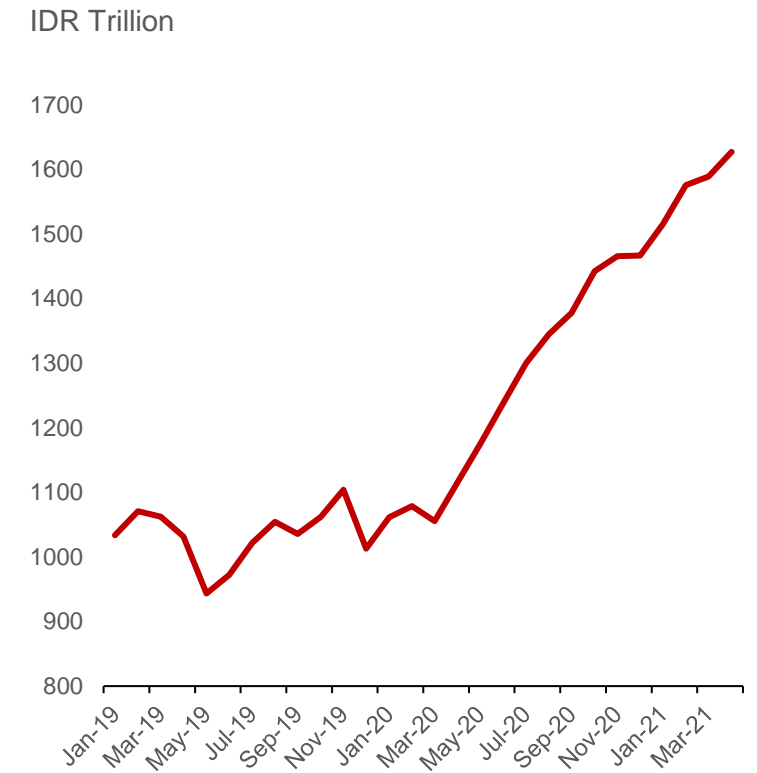
Source : Indonesia Banking Statistics OJK

Loan growth contracted



Source : Indonesia Banking Statistics OJK

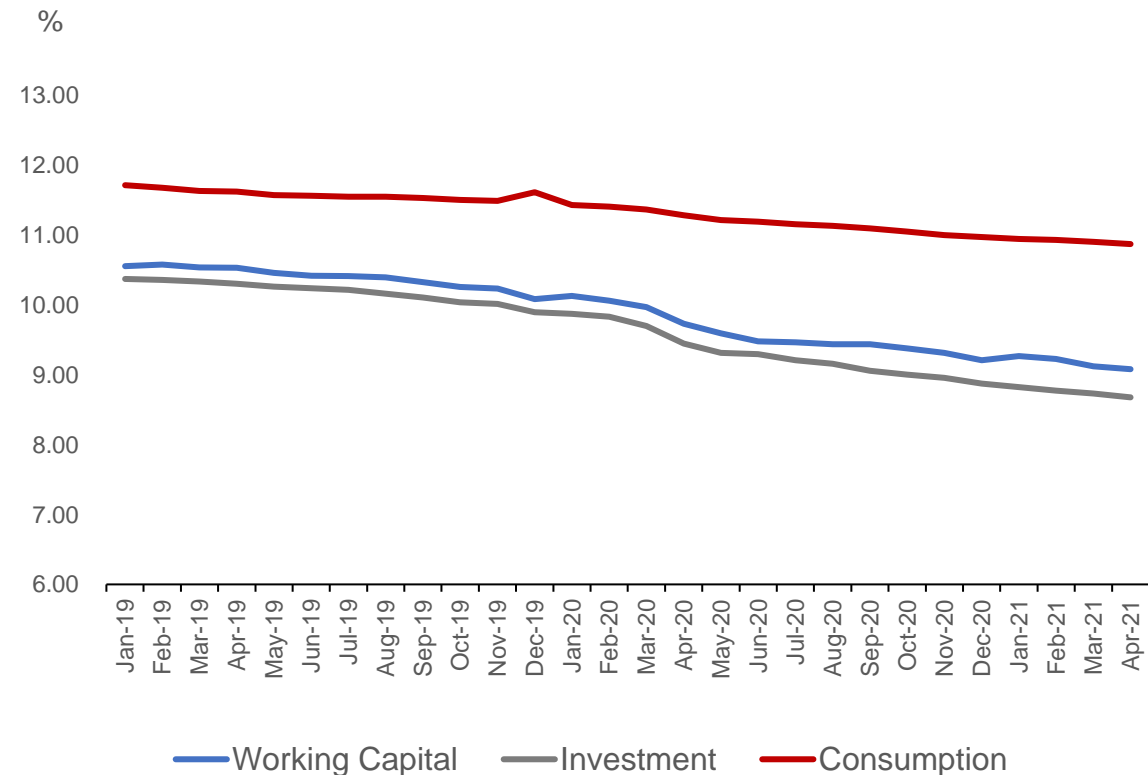
Banks holding more gov't securities



Source : Indonesia Banking Statistics OJK

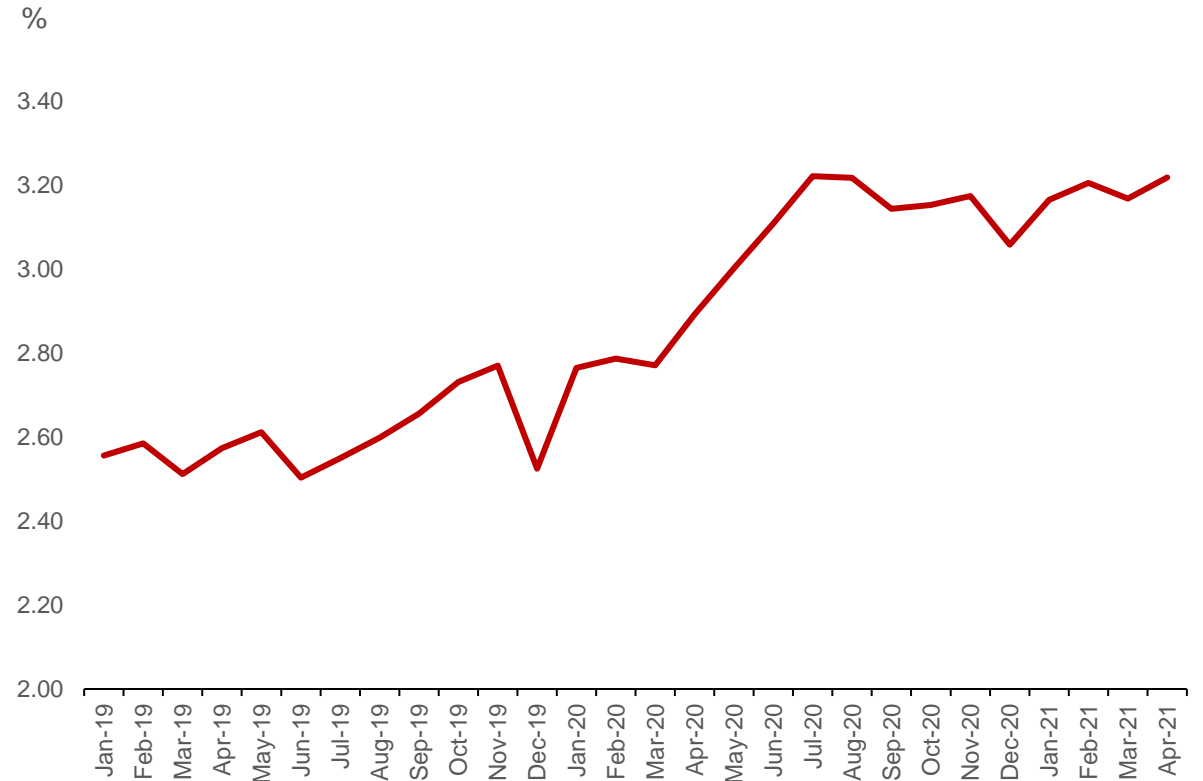
Credit interest rates drop still lagged behind central bank benchmark rate anticipating potential rise on NPL with high LaR

Limited loan rates drops relative to benchmark rate primarily due to demand that stayed low and bank's risk management policy



Source : Indonesia Banking Statistics OJK

NPL seemed manageable yet high LaR which stood at >20% remained a risk



Source : Indonesia Banking Statistics OJK

The future path of interest rates may haunting Indonesia, but we don't expect this time won't be like 2013

The Fed revised up its economic projection on the back of strong recovery & rising inflation

U.S. Economic Forecast	2021	2022	2023
Real GDP Growth			
June Projection (%)	7.0	3.3	2.4
March Projection (%)	6.5	3.3	2.2
Diff. (bps)	50.0	0	20
Unemployment Rate			
June Projection (%)	4.5	3.8	3.5
March Projection (%)	4.5	3.9	3.5
Diff. (bps)	0.0	-10	0
PCE Inflation			
June Projection (%)	3.4	2.1	2.2
March Projection (%)	2.4	2.0	2.1
Diff. (bps)	100.0	10	10
Federal Funds Rate			
June Projection (%)	0.1	0.1	0.6
March Projection (%)	0.1	0.1	0.1
Diff. (bps)	0.0	0	50

Why we believe the shock will be temporary for Indonesia and won't be like 2013?

1

U. S. rising inflation is temporary and we expect it will normalize as the supply gap is fixed

2

The Fed new approach on handling inflation by letting a temporary overshoot of prices as long as the average inflation remain 2% in the medium-long run

3

The Fed stayed on its stance to keep policy easy at least up until the end of this year

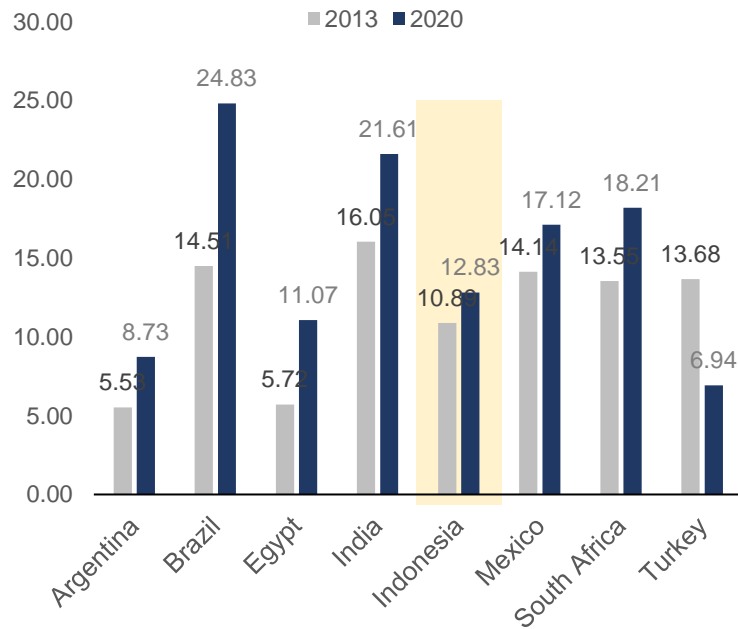
4

More clearly forward guidance from the Fed, thus won't surprise the market & triggering greater shock

We expect tapering off will start to kick off in 1Q21, but should we really need to worry? Let's take a closer look! First on rupiah

Improving FX Reserves to support rupiah stability

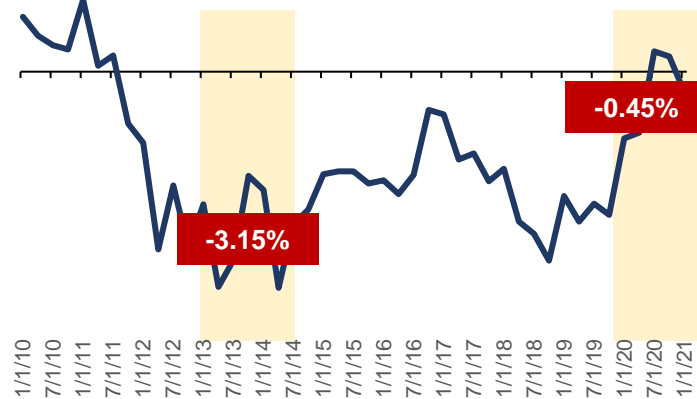
FX Reserves (%GDP)



Source : Trading Economics, Bank Indonesia, MNCS Calculation

Narrowing CA deficits will support rupiah's fundamental

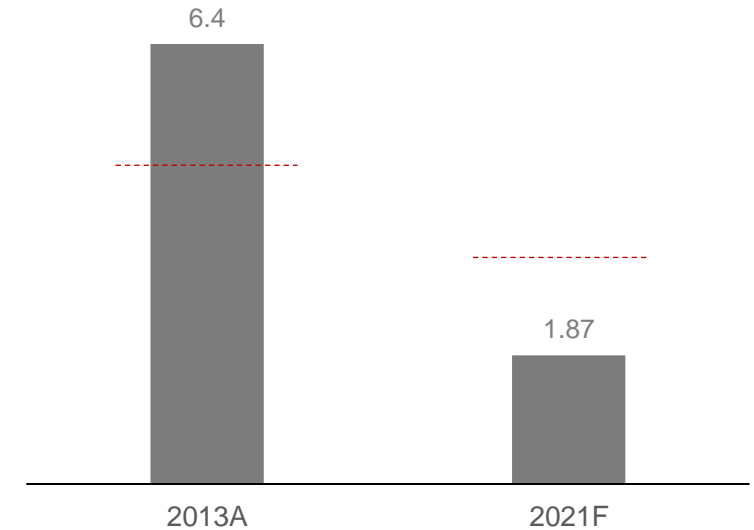
CA Balance (%GDP)



Source : Bank Indonesia

Benign & manageable inflation below central bank's target

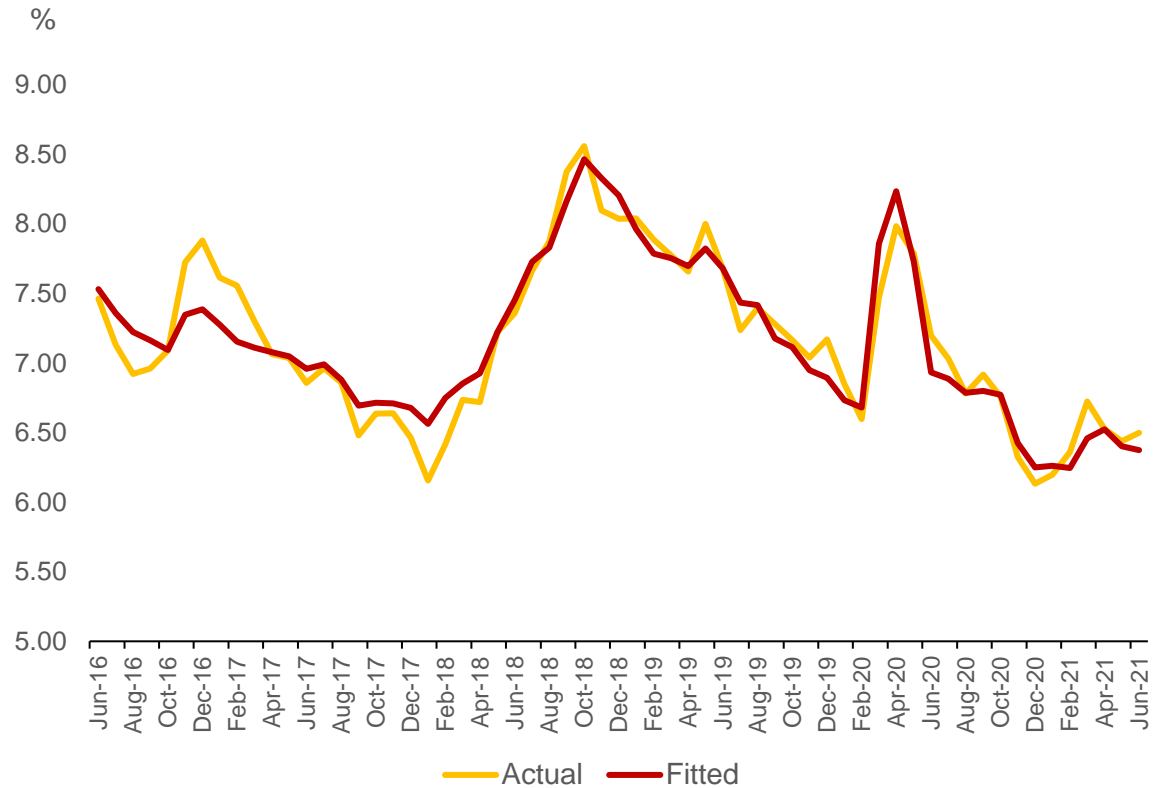
Average annual CPI (%YoY)



Note : Actual average (A); Forecast (F), red dashed line indicating central bank inflation target
Source : Indonesia Bureau of Statistics

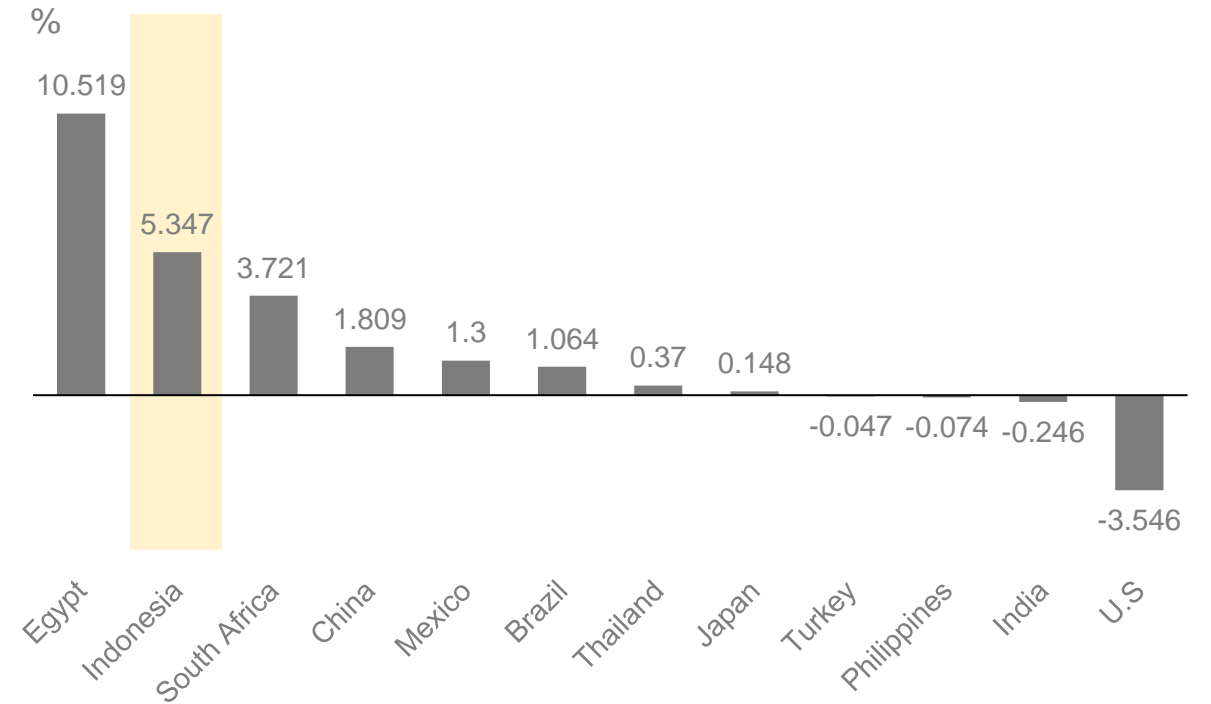
Now on Indo GB, still attractive valuation compared to DM and EM

10-year Indo GB were traded at 12 bps higher than its fair yield in the end of June 2021



Source : Bloomberg, MNCS Calculation

Indonesia still offer higher positive real rates relative to its peers

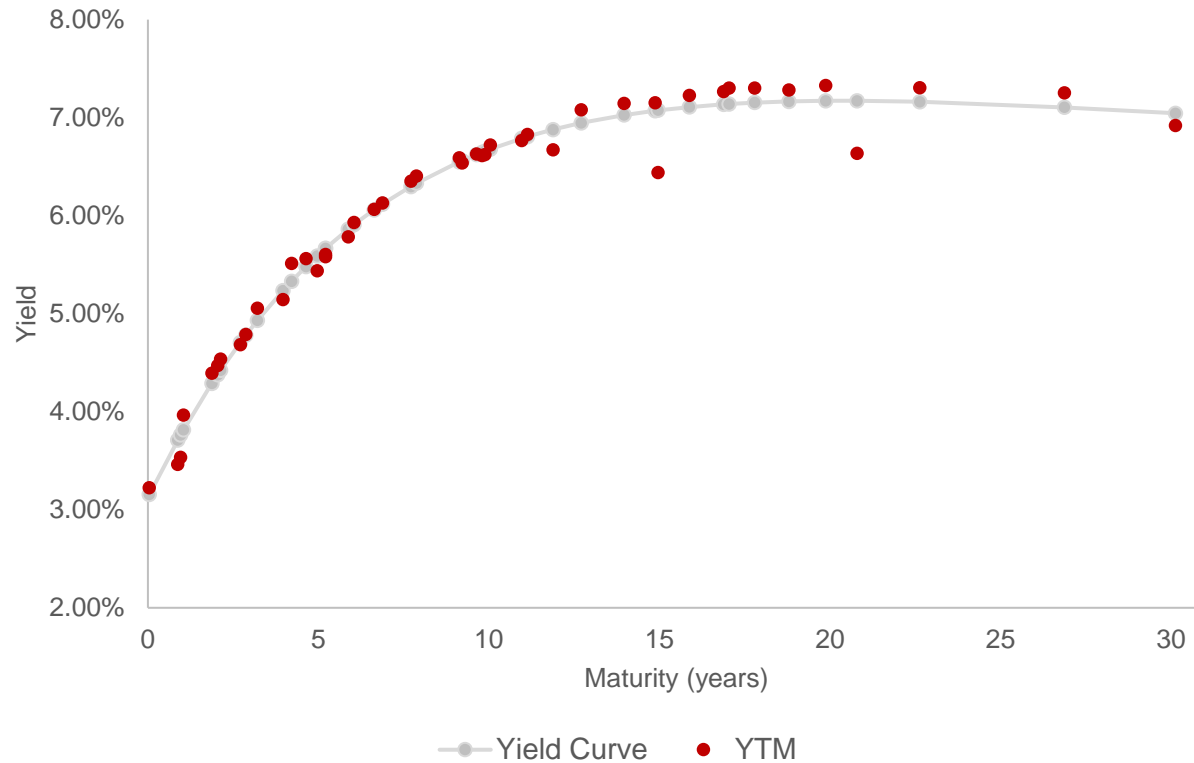


Note : using 10-year benchmark rate adjusted for inflation as of June 2021

Source : Bloomberg, MNCS Calculation

Indo GB has Attractive yield with investment grade rating reaffirmed

Indo GB yield curve



Source : Bloomberg, MNCS Calculation

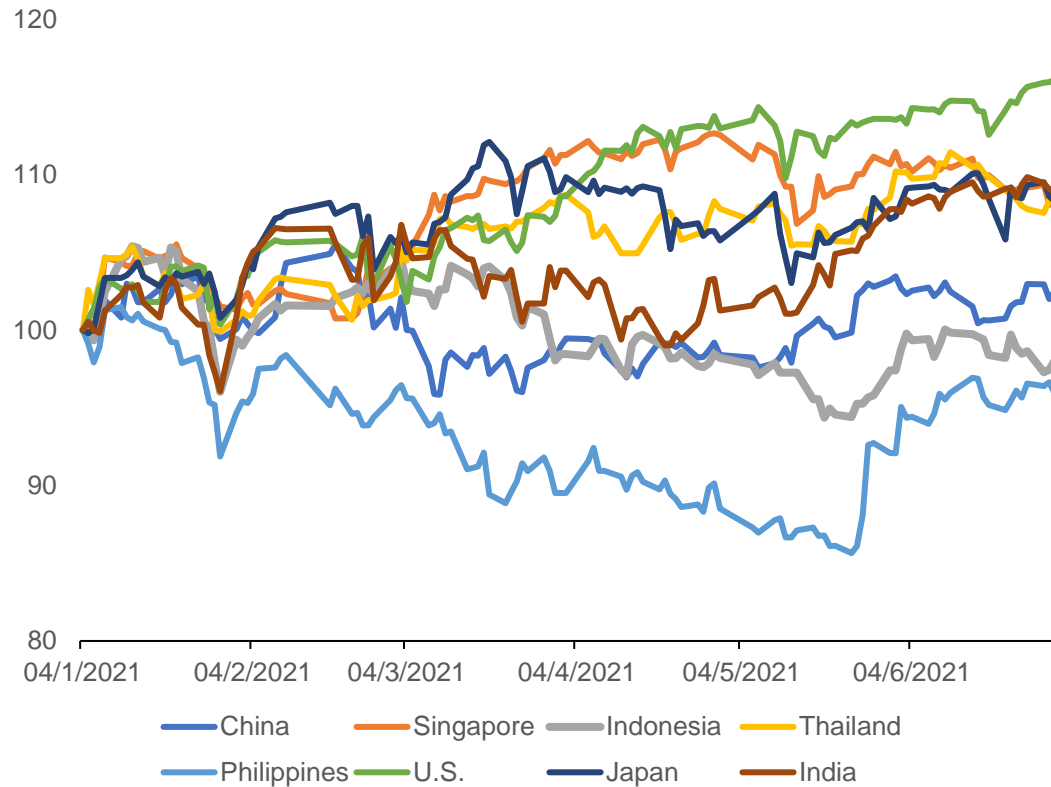
Despite the downturn due to healthcare crisis, Indonesia remained rated as investment grade

Period	Rating				
	S&P	Fitch	Moody's	R&I	JCRA
2011	BB+	BBB-	Ba1	BB+	BBB-
2012	BB+	BBB-	Baa3	BBB-	BBB-
2013	BB+	BBB-	Baa3	BBB-	BBB-
2014	BB+	BBB-	Baa3	BBB-	BBB-
2015	BB+	BBB-	Baa3	BBB-	BBB-
2016	BB+	BBB-	Baa3	BBB-	BBB-
2017	BBB-	BBB	Baa3	BBB-	BBB-
2018	BBB	BBB	Baa2	BBB	BBB
2019	BBB	BBB	Baa2	BBB	BBB
2020	BBB	BBB	Baa2	BBB+	BBB+
2021	BBB	BBB	Baa2	BBB+	BBB+

Source : DJPPR

Although lag behind its peers on the first half, Indonesia equity market offered lucrative valuation

1H21 JCI dropped by 1.95%, while U.S. equity market experienced a double digit returns



Source : Bloomberg

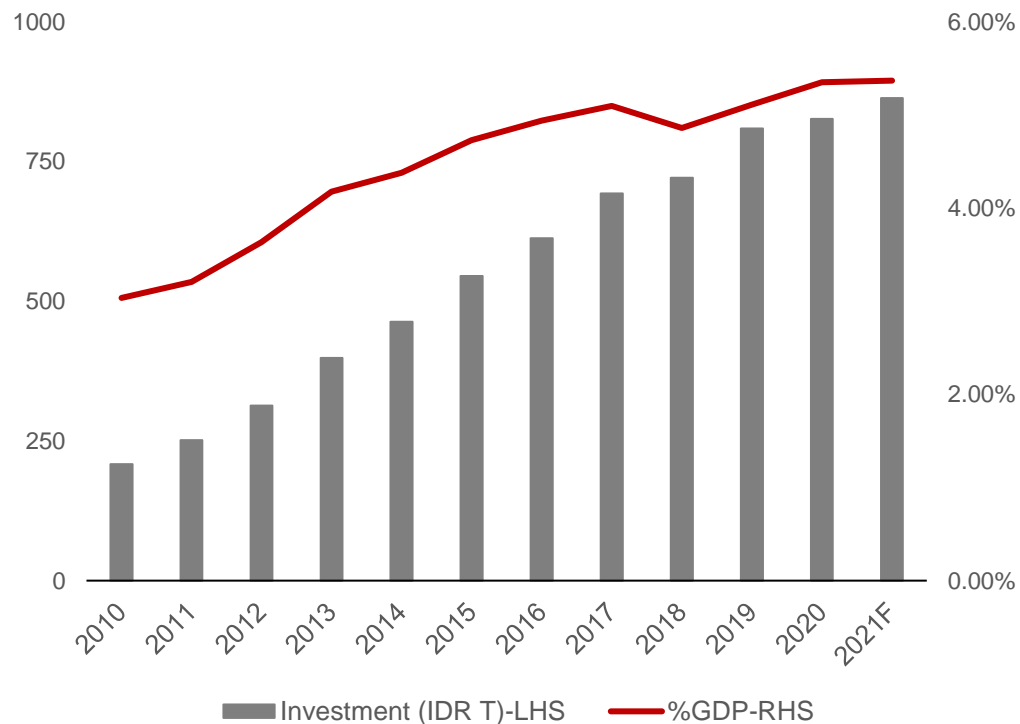
JCI traded near its forward P/E 21 average of 16x and expecting upside back to +1STD



Source : Bloomberg

It is not only about portfolio inflow, with bold policy reform we expect will attract both domestic and foreign direct investment

We foresee direct investment realization to grow 4.5% YoY in 2021



Bold policy reform to be positive catalyst attracting investors in the medium-long term

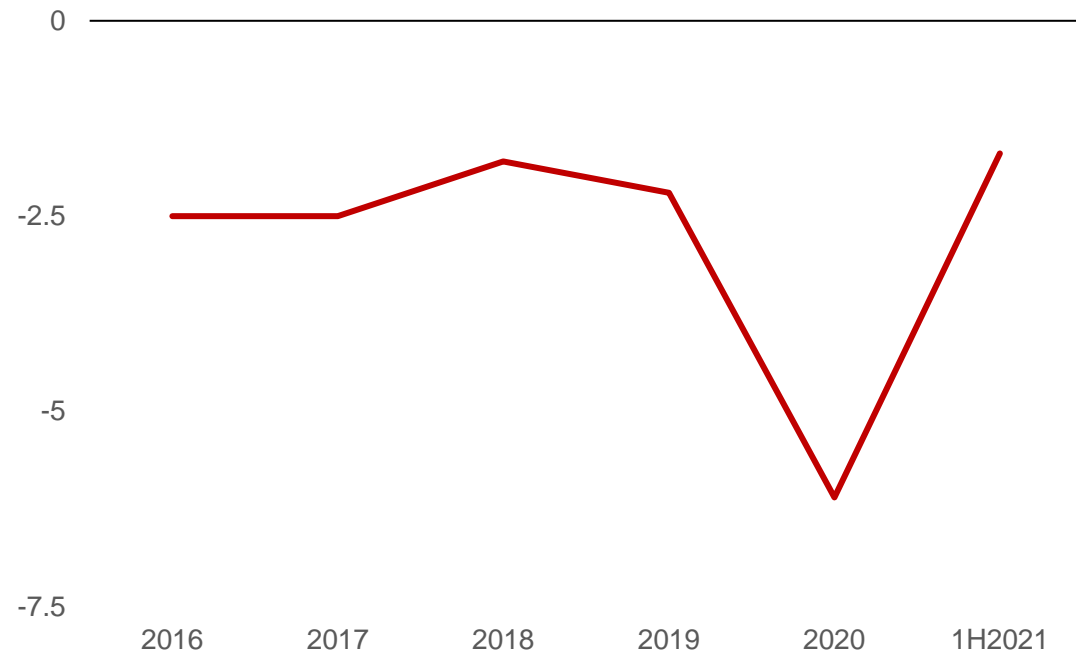
Policy Reform	Domain	Expected Impact
UU Cipta Kerja/ Omnibus Law	EoDB	Promoting investment, job, non-debt financing and increase connectivity to foster growth and productivity
	MSME Protection & Empowerment	
	Labour Market	
	Promoting R&D	
	National Strategic Project	
	Special Economic Zone	
	SWF Institutionalization	

Source : Indonesia Investment Coordinating Board, MNCS Calculation

The key challenge is to bring back budget deficit below 3% in 2023, fiscal consolidation is needed but facing challenge due to surging Covid-19

Widening budget deficit is inevitable

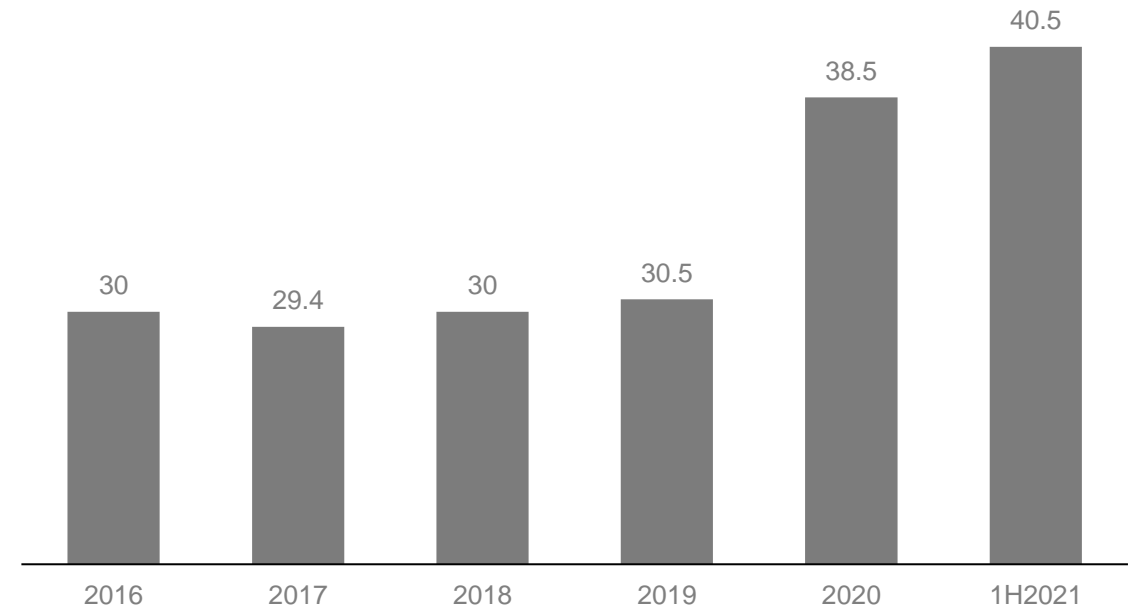
Fiscal Balancee (%GDP)



Source : Ministry of Finance

Significantly rising debt to GDP during pandemic

Debt/GDP (%)



Source : Trading Economics, Ministry of Finance

However we are cautiously optimistic on Indonesia's economy

Due to the second wave outbreak we revised down our GDP projection for FY21 from 4.46% YoY to 4.01-4.18% YoY

Macroeconomic Indicators	Units	2020	2021F
Real GDP	%YoY	-2.07	4.01-4.18
Average Inflation	%YoY	2.04	1.87
BI 7-Day Reverse Repo Rate	%	3.75	3.5
Budget Deficit	%GDP	6.09	5.42
USD/IDR	Points	14,500	14,400
10-Year Indo GB Yield	%	6.1	6.85
JCI	Points	5,979	6,320
EPS Growth	%YoY	-30	20

Source : Ministry of Finance, Bank Indonesia, Indonesia Bureau of Statistics, Bloomberg, MNCS Estimate

MNC Research Investment Ratings Guidance

BUY : Share price may exceed 10% over the next 12 months

HOLD : Share price may fall within the range of +/- 10% of the next 12 months

SELL : Share price may fall by more than 10% over the next 12 months

Not Rated : Stock is not within regular research coverage

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