



Indonesia Country Report

March 2021

**A rebound of more than 4%
expected in 2021, but vulnerability
to external shocks remains**

Indonesia industries performance forecast

March 2021

<p>Excellent: The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.</p>	Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Consumer Durables	
	<p>Good: The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.</p>	Electronics/ICT	Financial Services	Food	Machines/ Engineering	Metals
	<p>Fair: The credit risk credit situation in the sector is average / business performance in the sector is stable.</p>	Mining	Oil/gas	Services	Steel	Textiles
<p>Poor: The credit risk situation in the sector is relatively high / business performance in the sector is below long-term trend.</p>						
<p>Bleak: The credit risk situation in the sector is poor / business performance in the sector is weak compared to its long-term trend.</p>						

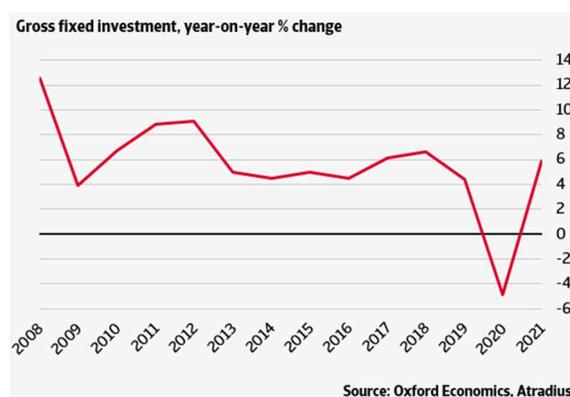
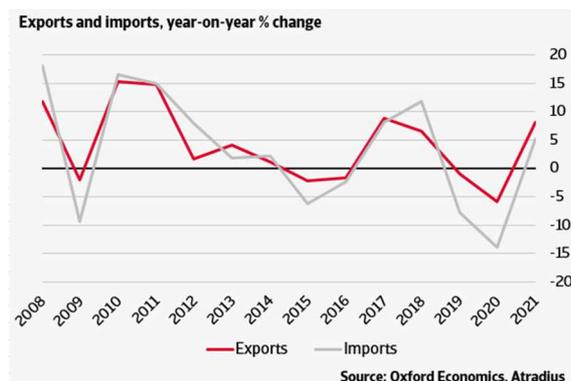
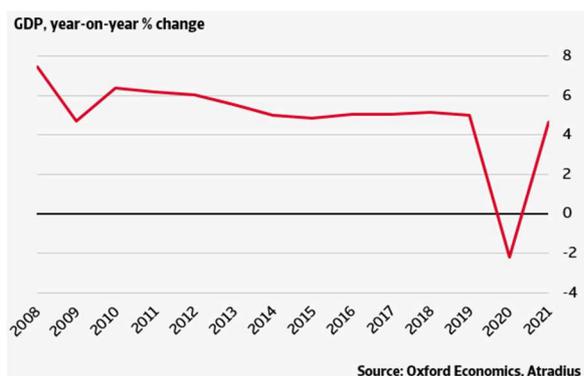
Political Situation

In April 2019, President Joko Widodo was re-elected with 55.5% of the votes, providing him with a second term until 2024. As in his first term, Widodo has continued to tackle economic reforms, such as infrastructure improvement to support the manufacturing sector and digital economy, reforms of the labour market and foreign investment rules. However, some key elements of his policy agenda remain contested due to vested interests.

Compared to its neighbours, Indonesia's government was late in taking comprehensive

measures to contain the coronavirus spread, most probably due to concerns over negative consequences for the economy. Indonesia never imposed a full-scale lockdown, but looser restrictions on social activities were implemented across the archipelago throughout last year and in early 2021. The country has experienced among the highest rate of coronavirus cases in Southeast Asia, and the immunisation programme there started in January. Officially, it aims to reach 181.5 million people within a year, which seems very ambitious.

Economic Situation



A mild recession in 2020, followed by an expected rebound of more than 4% in 2021

In 2020 Indonesia's GDP shrank 2.1%, a rather small contraction compared to many other countries. This is partly due to the fact that the economy is rather closed (exports account for just about 20% of GDP, which makes Indonesia less susceptible to global trade downturns than some other Southeast Asian countries). Imports (down 14%) decreased much more sharply than exports (down 6%), while the economic performance was also sustained by higher government consumption.

In 2021 the economy is forecast to rebound by 4.7%, contingent on the gradual easing of mobility restrictions and an effective vaccine rollout. While the recent spike of coronavirus cases and reinstated restrictions had a negative impact on the recovery in early 2021, the prioritization of vaccinating people of working age first could accelerate the rebound of economic activity over the course of the year.

Private consumption and real fixed investment, both of which were the main growth drivers in the years prior to the pandemic, are expected to increase 3.3% and 5.3% respectively, while exports are forecast to rebound by 8.2%.

Some sectors have proven to be resilient

When it comes to sector performance, agriculture is one of the most resilient sectors amidst the coronavirus pandemic in Indonesia, with rising output and exports in 2020. The chemicals and ICT industries have also proved to be rather robust. Demand for ICT products has rebounded since H2 of 2020, with an increase in projects supplying hardware and other IT infrastructure. ICT wholesalers and suppliers for projects have been able to retain the level of revenues and margins recorded in 2019.

The construction sector struggled with project delays and postponements due to social restrictions, but the rebound seen towards the end of 2020 is expected to accelerate in 2021 across all segments (public, residential and

commercial construction). The energy and mining industries were affected by a sharp 27% decrease in investments, down to USD 24.4 billion, as the coronavirus outbreak led to the cancellation of many projects.

For automotive, the market potential remains strong in Indonesia. However, a comprehensive recovery after the sales slump in 2020 depends on the rebound of other industries and rising purchasing power of households. The latter also plays a pivotal role for the rebound of consumer durables retail.

In the services industry, thousands of hotels and restaurants have been forced to close, while a number of airlines and tour operators have suffered major losses. In H2 of 2020, both payment delays and insolvencies increased in the tourism-related service segments. The outlook for 2021 largely depends on how the pandemic situation evolves in the country and on the vaccination rollout.

Fiscal and monetary measures to support the economy

The Central Bank lowered its benchmark interest rate six times since the start of the pandemic, to 3.5% in February 2021. Last year, it had lowered the reserve requirement ratio for banks in order to give the banking industry more room to support local businesses. There is still room for additional monetary measures to support the economic recovery, also due to the fact that inflation is expected to remain at 2%.

The government has removed the constitutional budget deficit cap of 3% of GDP for the 2020-2022 period and allocated stimulus measures amounting to USD 49.5 billion (4% of GDP) in 2020. In early 2021, the government announced additional fiscal support of USD 43 billion. Key measures to support the economy have so far included higher health care spending, social protection measures, corporate tax cuts, credit restructuring, special loans to SMEs, cash handouts to the poor and to workers in the informal sector (about 70 million out of Indonesia's population of 270 million work in the informal sector), and expansion of public sector projects.

Those major expenses will lead to another high fiscal deficit of more than 6% of GDP in 2021 (6.2% of GDP in 2020), with public debt increasing further, to 47% of GDP (40% of GDP in

2020 and 35% of GDP in 2019). At this rate, government finances remain manageable, also owed to the fact that pre-pandemic annual budget deficits were low. However, persistent low tax collection, subsidies and inefficiencies in government budget disbursements remain issues.

Structural vulnerability to external shocks remains

The capital-adequacy ratio (22.8%) and non-performing loans ratio (2.8%) suggest that the banking sector is sound. However, negative and decreasing net foreign assets of the sector point to a major weakness. Another weak point concerns the rather high share of foreign-currency loans and deposits among banks (around one-seventh of their exposure). Additionally, banking supervision is still not fully in compliance with international standards.

The foreign debt level in terms of GDP seems manageable (33%-36% of GDP between 2015 and 2019), but it looks more worrisome as percentage of exports of goods and services (between 159% and 189% in the same period). The foreign debt level increased to 205% of exports of goods and services in 2020, mainly due to a further increase in foreign debt and decreased exports. It is expected to remain high in 2021, at 195%. Rather low foreign assets and the unfavourable creditor structure of foreign debt (almost 85% private creditors) also add to external solvency risk. The debt-service ratio remains high at more than 25% in 2021, and the annual current account balance has remained persistently negative over the past couple of years (estimated at -0.8% in 2021).

Indonesia remains structurally vulnerable to global financial market turmoil (e.g. sudden outflow of portfolio investments or a severe reduction of available foreign capital from private creditors). Foreign investors hold more than 30% of Indonesia's government bonds, a larger share than its regional peers, making the country's financial assets highly susceptible to capital outflows. Additionally, as foreign investors hold about a third of corporate debt financing, the refinancing risks remain elevated.

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