

# INDOPREMIER

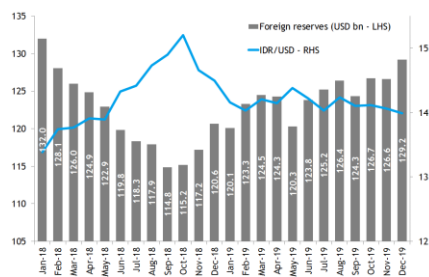
## MacroInsight

14 February 2020

### Macroeconomics Indicator

	2019	2020F
GDP growth (%YoY)	5.04	5.07
Inflation (%YoY)	2.72	3.14
BI rate (% Year-end)	5.00	4.500
IDR/USD (Year-end)	14.155	13.500
CA balance (% of GDP)	2.82	2.51
Fiscal balance (% of GDP)	2.21	2.43

### Foreign Reserves (US\$ bn)



### Money & Forex Reserves

	Latest	%YoY
M1 – Dec 19, Rp tn	6,136	7.4
M2 – Dec 19, Rp tn	1,565	6.5
Reserves – Dec 19, US\$ bn	129.2	7.1

Sources: BI, BPS, CEIC

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## Estimating the impact of coronavirus

- During the outbreak, Indonesia GDP may be hit by as much as -0.5% in 2020, however during the recovery period GDP may pick-up by 0.7%.
- Transmission of the outbreak to Indonesia will through exports, FDI and tourism. We argue that China's recovery will be stronger.
- We acknowledge that the recovery timeline will be debatable. In our simulation, economic growth may bottom in Q2 before slowly picking-up.

### Impact to Indonesia GDP during outbreak: -0.5%

The coronavirus epidemic may directly impact Indonesia's economy via: 1) lesser exports, 2) potential delay in FDI and 3) lower tourism revenue. We estimate the overall impact will be c.-0.5% with export will drop the most (c.-2%) followed by investment (-0.6%) and to lesser extent consumption (-0.1%). In terms of sector, hotel and restaurant (-6.6%), mining (-6.5%), manufacturing (-5.6%), transportation (-5.4%) and construction (-2.5%) will be the most affected sectors. The sizable impact to Indonesia's economy is due to sizable investment and trade activity with China (c.17%).

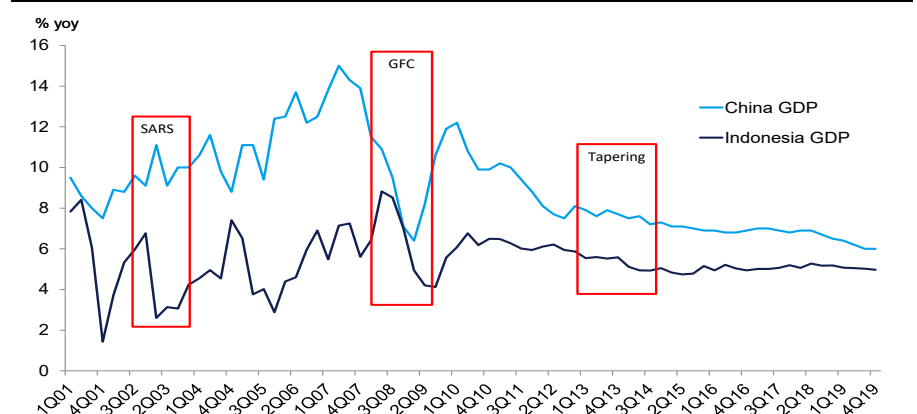
### The aftermath: strong recovery

We believe China economy will come stronger in the aftermath compared to pre-virus economic situation. The nation's production activity will be doubled to fill empty stores and increase the nation's inventory level. People will start to work again and situation will be normalized. Implicitly, we argue the recovery process will be stronger to offset the negative impact during the outbreak. We estimate +0.7% economic recovery in 2021 largely from pick-up in exports (+7%) and investment (+0.5%). By sector, transport (+7.4%) along with hotel and restaurant (+7%) and mining (+4.5%) shall be the main drivers.

### Risk is recovery timeframe; faster recovery with some government's induced stimulus

We acknowledge the risk to our estimates remains with the recovery timeframe. In our simulation, we think the outbreak will result in bottoming economic growth in Q2 before slowly picking-up (figure 12). Delta positive economic growth will be in Q5 onwards. Note that our estimates have not taken into account any government stimulus by both Chinese and Indonesian governments. If there will be some stimulus, it's safe to assume a faster recovery period.

**Fig. 1: A correlation between China GDP and Indonesia GDP**

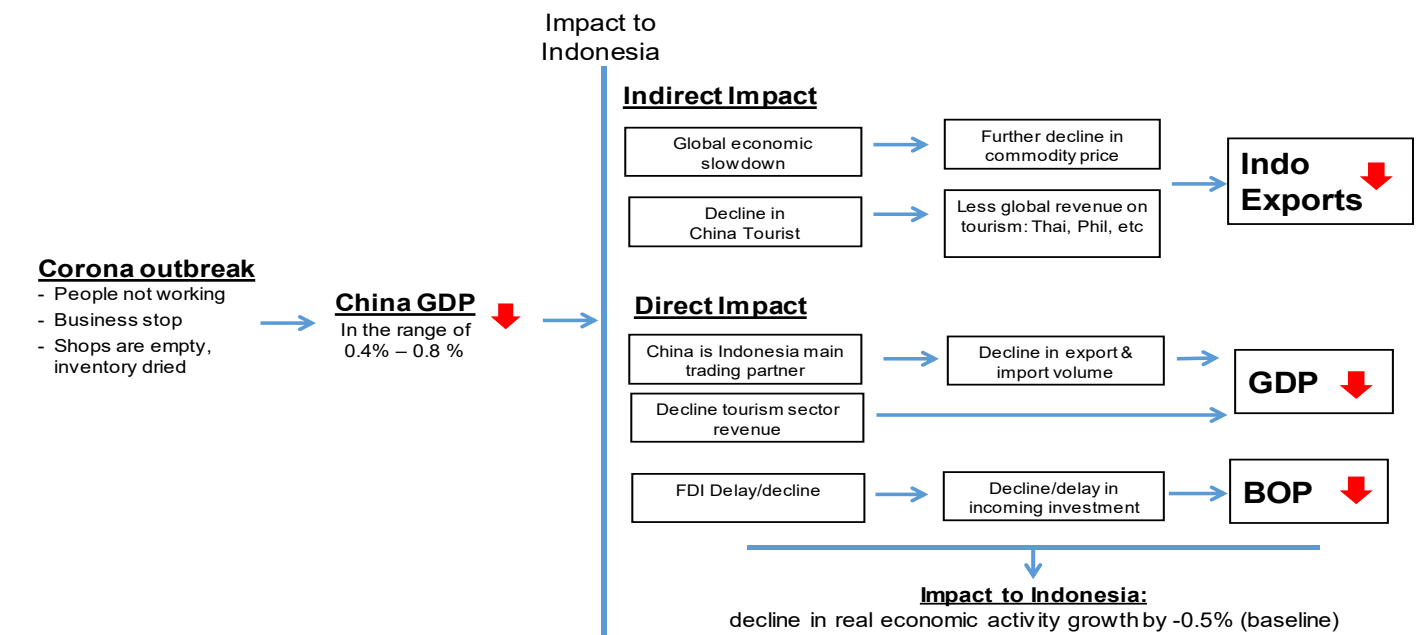


Sources: CEIC, IndoPremier

### During the outbreak

In our simulation, we use a shock variable of lower China GDP growth ranging at -0.4% to -0.8%. The number uses consensus estimate and some justification from the SARS episode in 2003. The underlying reason of the magnitude was during the outbreak: people will stop working, business closed, no traveling to abroad or domestic and shops are empty due to panic buying to have adequate buffer at home.

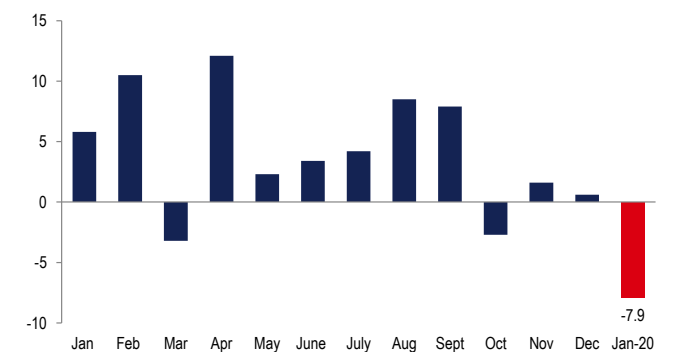
Fig. 2: Impact of Corona outbreak in China to Indonesia economy



Sources: IndoPremier

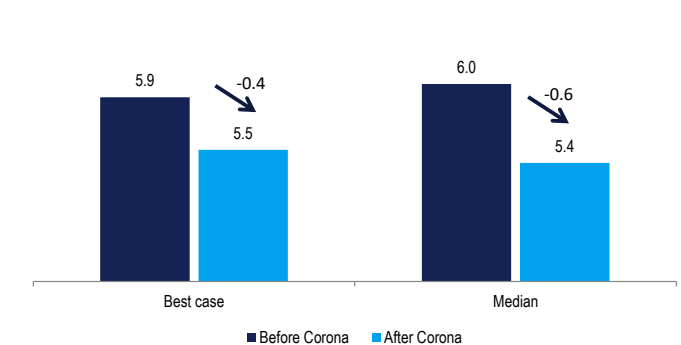
We see the above reason will transmit to Indonesia economy via two paths: indirect and direct. First, the indirect channel of China slowdown is through further decline in global commodity prices and through countries that have high dependency on China tourist such as Thailand or Philippines. Both will affect Indonesia's exports value and volume. Second, the direct impact is to lower external trade with China, delay in FDI or investment from China and decline in tourism revenue from China. All in all, we simulate the above situation into a simple VAR model and generate the impact of a reduced Indonesia GDP growth by 0.5%, *ceteris paribus*. Implicitly, the model suggests the close relationship between Indonesia economy and China.

Fig. 3: Shanghai port container volume yoy - port activity already suggest lower external trade activity



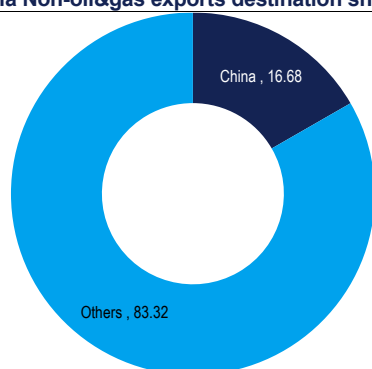
Sources: Bloomberg, IndoPremier

Fig. 4: Impact to China economy range at -0.4% to -0.8%



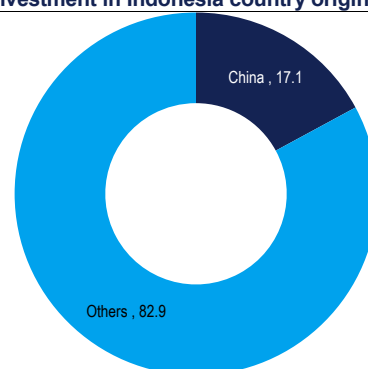
Sources: Bloomberg, IndoPremier

**Fig. 5: Indonesia Non-oil&gas exports destination share (%)**



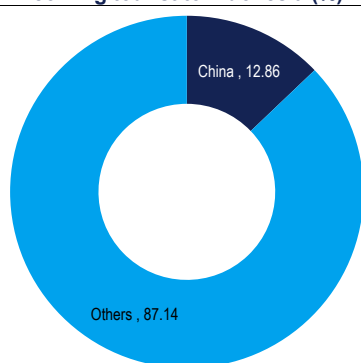
Sources: CEIC, IndoPremier

**Fig. 6: Share of investment in Indonesia country origin (%)**



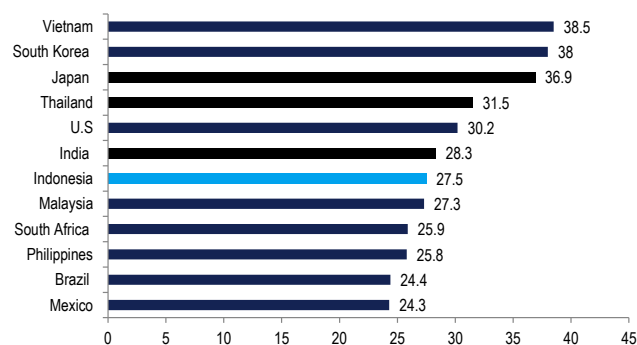
Sources: CEIC, IndoPremier

**Fig. 7: Share of incoming tourist to Indonesia (%)**



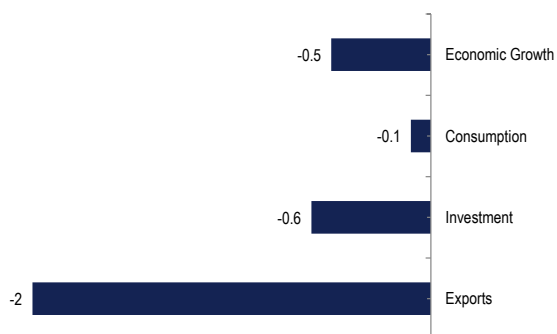
Sources: CEIC, IndoPremier

**Fig. 8: Share of intermediate input from China (%)**



Sources: CEIC, IndoPremier

**Fig. 9: Impact summary**



Sources: IndoPremier

**Fig. 10: Sector impacted summary**

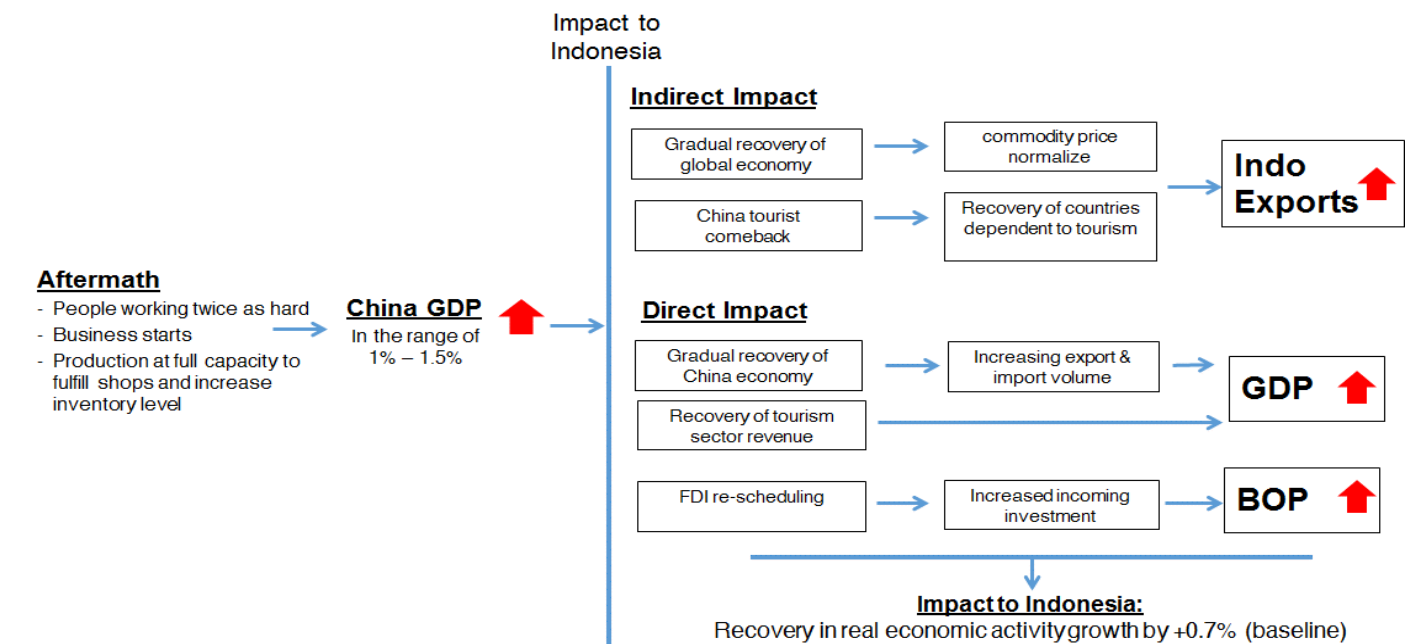


Sources: IndoPremier

### The aftermath period: Strong recovery

In the aftermath, we believe China economy will come stronger to rebuild the damage and the economic activity. Workers and business people will have the tendency to work twice as hard to speed up the recovery process. The nation's production activity will be doubled to fill empty stores and increase the nation's inventory level. Basically, the situation will be normalized and economic activity will rise again. We argue here that the recovery process will be stronger to offset the negative impact during the outbreak.

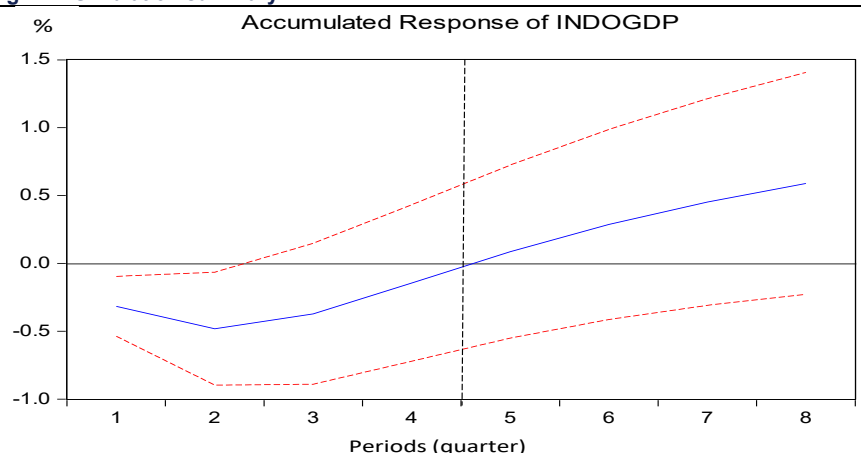
Fig. 11: Aftermath simulation and the impact to Indonesia economy



Sources: IndoPremier

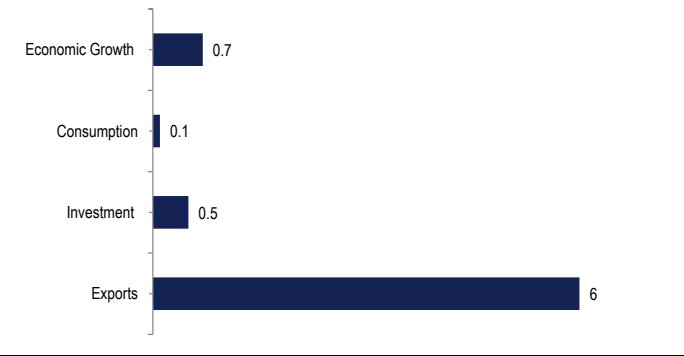
The timeframe of the recovery period will always be a discussion material. In our simulation, we think the outbreak will have the most severe impact, while the recovery period will happen in the subsequent four quarters. During the recovery period our simulation suggest the impact to Indonesia economy is an additional 0.7% to the real GDP number.

Fig. 12: Simulation summary



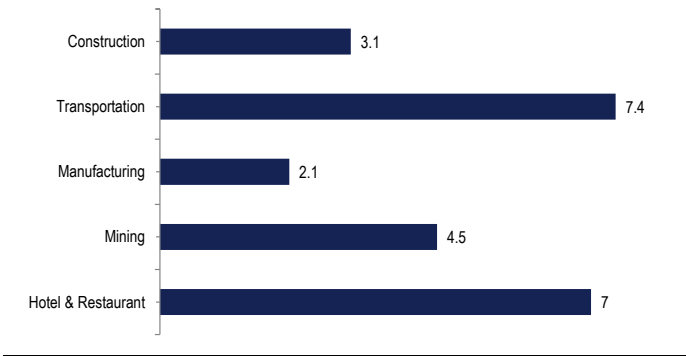
Sources: Simulation, IndoPremier

Fig. 13: Aftermath simulation summary



Sources: IndoPremier

Fig. 14: Aftermath sector simulation summary



Sources: IndoPremier

## **ANALYSTS CERTIFICATION**

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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