



ASIA PERSPECTIVE

Insights: Quarter 1, 2020

# Indonesia Economic Update Report

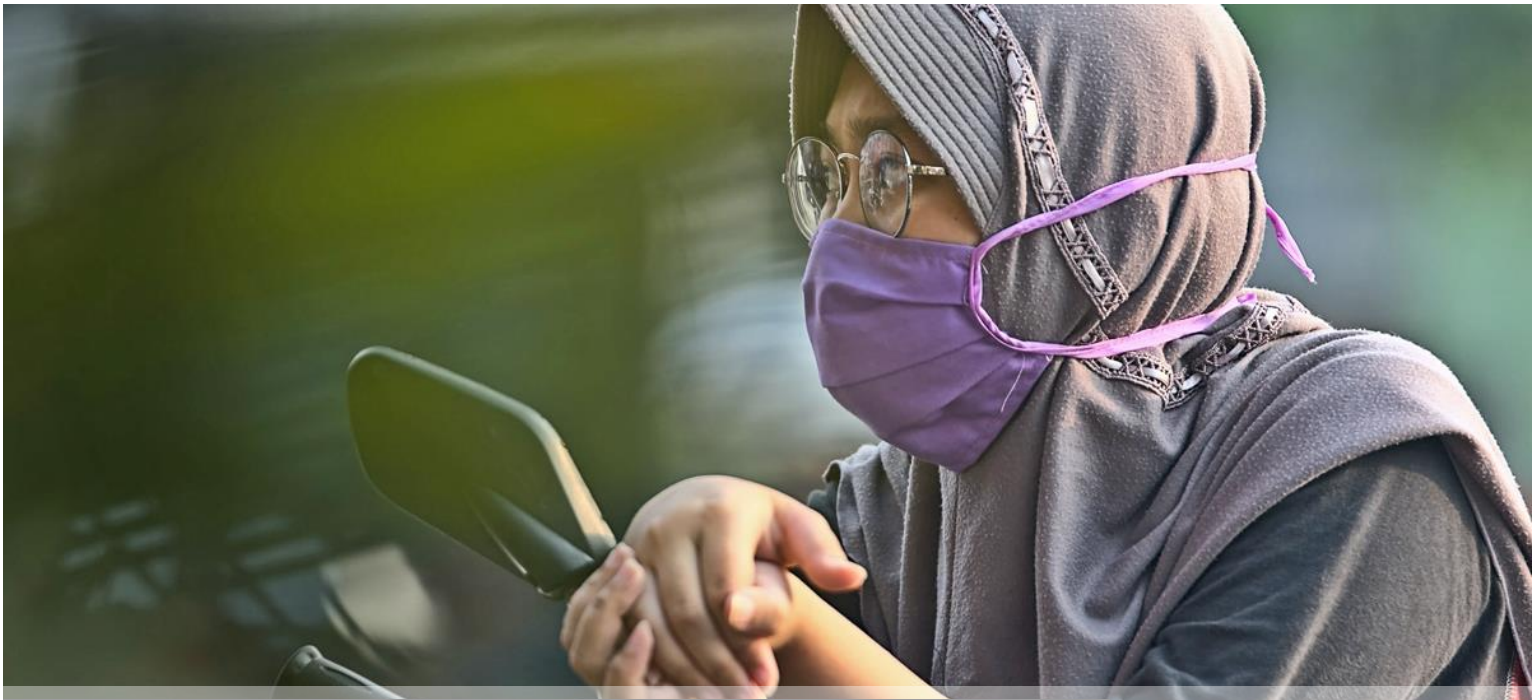
## **This Issue:**

Indonesia's Economic Growth in Q1

Indonesia Signs Government Act to Tackle COVID-19

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## Indonesia's first quarter sees weakest economic expansion since 2001

**Due to the coronavirus outbreak, many economic activities have been put on hold in Indonesia, leading to a two-decade low economic expansion during the first quarter of 2020.**

Indonesia's Gross Domestic Product (GDP) grew 2.97% during 2020 Q1 (YoY), as investments and household spending shrank due to the coronavirus pandemic. The recorded growth is weaker than both the government's, the central bank's and independent analyst's projection of 4%.

Household spending, which accounts for half of Indonesia's GDP, grew by 2.84% (YoY) in the first quarter, far below 5.01% recorded during the same period last year. At the same time, investments, the second-largest GDP contributor, grew by 1.7% (YoY), compared 5.03% during the same quarter of 2019.

In an attempt to increase liquidity and spending, to foster GDP growth, Bank Indonesia lowered its benchmark 7-day reverse repo rate along with reserve requirement ratio from 5% to 4.5% and from 5.5% to 5% respectively.

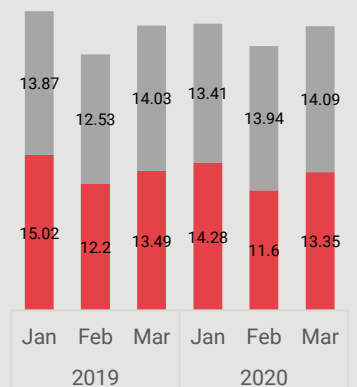
The Indonesian government's response to COVID-19 is perceived to be slow, unclear and ineffective. Therefore, the outbreak in Indonesia is likely to last longer than in other countries in the nearby region, and the GDP growth is likely to plunge even further in the upcoming quarter.

**Indonesia records a trade surplus during the first quarter of the year**

Overall, the value of imported goods in Q1 2020 decreased compared to the value in Q1 2019 due to a declining domestic demand and consumption. However, there was an unexpected increase of exported value of non-oil and gas products. The trade surplus amounted to USD 2.21 billion in the first quarter of 2020.

Trade Balance of Indonesia in Q1 2019 and Q1 2020 (billion USD)

■ Import Value ■ Export Value



Overall, the value of imported goods contracted 3.69% (YoY) while the value of exported goods grew 2.91% (YoY) in the first three month of 2020.

# Indonesia Signs Government Act to Tackle COVID-19

At the end of March, President Joko Widodo signed a new government act to legitimize more state spending and financial relief efforts as an emergency response to the battle against the pandemic.

The new act includes several extraordinary steps and policies. The main purpose of the act is to enable necessary financial support from the state, and ensure that both companies and individuals get the proper financial aid, to speed up the recovering process from negative effects caused by the pandemic. Some key points of the new regulation include:

## Budget Deficit Relaxation

The act relaxes the legal limit for the state budget deficit, from the current 3% of the GDP to 5.07% of the GDP. The 3%-cap was introduced in 1998 after the Asian financial crisis, and has not been exceeded ever since. The relaxation is in effect until 2022. The decision is the result of large-scale social restrictions that have disrupted businesses and severely affected a large number of workers nationwide. By relaxing the budget deficit, state spending to support people and businesses amid the pandemic can legally increase. Going forward, the government will gradually lower the deficit limit back to 3% by 2023.

## Criminal Immunity for Policymakers

The regulation provides policymakers with an immunity from criminal charges when issuing policies aimed to safeguard the economy from COVID-19 related risks. Therefore, officials from the Financial System Stability Committee, or other officials related to the regulation, cannot be sued in civil proceedings or face criminal charges if they are conducting their tasks in accordance with the prevailing laws. Furthermore, all decisions made based on the act are immune for disputes in the administration court.



Members from Financial System Stability Committee, Bank Indonesia, the Finance Ministry, the Financial Services Authority and the Indonesia Deposit Insurance Corporation

## Lowered Corporate Income Tax

The corporate income tax for 2020 and 2021 has been cut to 22%, while 2022 will be lowered to 20%, from the current rate of 25%. Moreover, listed companies that sell more than 40% of their volume to the public, and meet certain requirements, will be eligible for an additional 3% cut. As a result of this tax cut, the annual tax revenues are estimated to decrease by IDR 86 trillion (USD 5.7 billion). However, the Finance Minister stated that the government will widen the tax base and maximize spending to avoid an economic shock.

## Digital Economy Tax

As online transactions have grown significantly during the COVID-19 pandemic, Indonesia widens its taxation base, to include digital income tax. The new act states that companies will be subjected to tax on intangible goods or services sold through digital platforms. Besides, income tax or electronic transaction tax will also be charged on commerce activities carried out by foreign companies with significant economic presence in Indonesia.



The video streaming service Netflix is an example of a foreign businesses with a significant digital economic presence in Indonesia

In case the government can't declare the digital company to have a permanent establishment in Indonesia, due to tax treaties with specific countries, it will instead be subjected to an electronic transaction tax on the company's sales in Indonesia. Companies who fail to comply with this new tax regulation will firstly have to face an administrative sanction, and might finally get their internet access terminated by the Ministry of Telecommunications.

The regulation is said to solve the problem of lost tax-incomes from tech-driven companies that have limited or no physical presence in Indonesia, but still earn huge amount of revenues from the country annually. It also provides the government with another source of tax revenue to substitute the decrease caused by the aforementioned corporate tax cut.

## Losses increase for PT Indosat despite growing revenue streams



During the first quarter of 2020, PT Indosat, one of the main telecommunication companies in Indonesia, recorded a loss of IDR 605.61 billion (USD 40.37 million) despite growing revenue streams. The negative result was mainly driven by a resizing strategy, which meant laying off employees and increasing compensation packages, as well as foreign currency exchange losses. Compared to Q1 2019, the losses more than doubled during the first three months of the year.

The result is claimed to be "well expected" and considered an imperative measure to improve the company's performance in the longer run.



Despite the negative result, PT Indosat reported a revenue increase of 7.9% in Q1, amounting to a total of IDR 6.5 trillion. Further, the company also recorded a 11.7% increase (YoY) of average revenue per user during the first quarter. Because of the large-scale social restrictions in several regions, PT Indosat's performance is expected to improve in the second quarter due to increasing demands for data usage caused by people studying and working from home. Therefore, the president and CEO of PT Indosat, stated that there is still positive momentum for growth in upcoming months.



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