

Insights: Quarter 2, 2021

Indonesia Economic Update Report

This Issue:

Indonesia's Economic Performance in Q2

The first-ever Sovereign Wealth Fund in Indonesia

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Indonesia's economy recorded the strongest growth in more than a decade

In the second quarter of the year, Indonesia pulled out of the COVID driven recession, and recorded its strongest quarterly growth rate in 17 years. However, the country is now expected to suffer a setback due to the recent spread of the newer Delta variant.

Indonesia's GDP recorded a strong growth of 7.07% in the second quarter of 2021, the first expansion in five quarters. The expansion was recorded as the strongest GDP growth since the fourth quarter of 2004 and surpassed the projection of 6.75% by the Central Bank of Indonesia.

The strong expansion was mainly driven by the positive growth in export and import activities as Indonesia's trading partners also witnessed greater business activity in the second quarter. Domestic consumption also contributed to the economy recovery with motorcycle and automotive sales increasing 2.5% and 7.5% respectively, compared to the first quarter. However, the Statistics Bureau said the strong growth rate was also due to low base effects when compared to the weak pandemic-stricken economy.

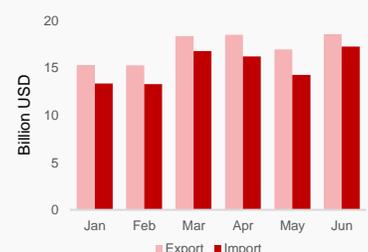
Although the economy witnessed a strong recovery in Q2, the GDP bounce is predicted to be short-lived, and Indonesia will struggle to record continued growth in upcoming period since the spread of the new COVID Delta variant has forced the country to implement tighter social restrictions in early July.

Exports and imports surged in second quarter

Exports from Indonesia increased aggressively by 54.46% (YoY) in June 2021 and is expected to further increase in the coming periods amid the strong global demand for the country's commodities. Considering the first half of the year, Indonesia's exports grew by 34.78% compared to the same period of 2020.

Imports to Indonesia in June 2021 also witnessed impressive growth of 60.12%, mostly due to the increased domestic demand during the period and the low base effects from last year's coronavirus-induced plunge. Considering the first six months, Indonesia's imports increased by 28.36% over the same period. Overall, the trade balance in the first six months of 2021 recorded a surplus of 11.83 billion USD.

Indonesia trade value from Jan to Jun 2021



Source: Statistics Indonesia, Trading Economics

The first-ever Sovereign Wealth Fund in Indonesia

The first Sovereign Wealth Fund of Indonesia, called Indonesia Investment Authority (INA), was launched in Feb 2021 and officially admitted as official member by the International Forum of Sovereign Wealth Funds in May 2021.



Compared to other countries in Europe and Asia, Indonesia is behind in this development. For example, Indonesia's neighbors, Singapore and Malaysia, already established their SWF decades ago with current assets control of 100 billion USD and 61.4 billion USD, respectively.

On the other hand, the INA was highlighted as different from other SWFs that is used as a means to manage oil revenue or foreign reserve, instead, it was initially designed to lure foreign investment in Indonesia's massive projects. Incoming funds are not solely in the form of loans, but also come in the form of equity or shares as governmental stimulus.

The fund comprises a range of sub-funds for individual projects across infrastructure, supply chain and logistics, digital infrastructure, green investing, healthcare, finance services, consumer, tech and tourism sectors. These are sectors with large growth opportunities that are driven by the unique characteristics of Indonesia, including a young demographic and fast technology adoption. Significantly, oversea investors are offered opportunities to gain minority ownership in certain infrastructure projects, which can potentially ensure stable cashflows, while the INA is still the final authority over investment decisions.

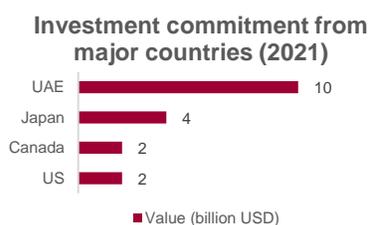
The first investment priority of INA is toll roads projects to align with the target of Indonesian Ministry of Public Works and Housing, with the goal of total 4500-

kilometer toll roads built in the 2019 - 2024 period. INA's plan is a breath of fresh air for giant companies engaged in Indonesia's toll road sector, such as Hutama Karya, Waskita Karya, and Jasa Marga. Till March 2021, there were already 24 toll road concessions being discussed for potential improvements.

In an attempt to capitalize on the rapid growth in the tech industry, the INA also has investigated to the potential of unicorns or start-ups valued at more than 1 billion USD. The INA's CEO referred to the success of China's quantum leap thanks to technology and digital development as a success model for Indonesia. In the long run, investment in the digital economy would broaden INA's portfolio beyond infrastructure projects.

The fund aims to raise funds from both foreign and domestic investors. From the Indonesian side, the government allocated 1.1 billion USD in the national budget of 2020, and an additional 5.4 billion USD from 2021.

Looking at foreign investors, the major countries that have committed to invest in the fund is the United Arab Emirates, Japan, Canada and the US. The largest investment that comes from UAE will be used for infrastructure projects, including roads and ports, as well as tourism, agriculture and other strategic sectors.



Source: Indonesia Investment Authority

These investments will still go a long way in helping the fund reach its ambitious target of 200 billion USD. So far, the INA is showing promising progress to become a trusted investment partner for both international and domestic investors.

World Bank approved funding to support Indonesia's financial sector

In early June, the World Bank's Board of Executive Director approved a funding of 400 million USD to facilitate Indonesian government efforts to protect the financial sector's resilience as well as to tackle the impact of the COVID-19 pandemic on the economy.



The World Bank's Director of Indonesia highlighted that the new funding will reinforce the reforms in the country's financial sector through three main strategies.

The first approach is to focus on strengthening the financial sector by increasing access to financial services, particularly for the young generations and women as well as diversifying financial products and services; and providing incentives for long-term deposits.

Under the second strategy, the new funding aims toward improving the financial sectors efficiency and lowering costs by strengthening bankruptcy regulations and creditor rights; protecting consumers and their private data as well as leveraging digital technology to create a more efficient payment systems.

In the third policy, the funding aims to enhance the resilience of the country's financial sector to withstand unexpected disruptions by strengthening the resolution frameworks to avoid disturbances, increase the effectiveness in managing the financial sector and implementing sustainable financial practices.

The new funding is making financial services in Indonesia become more transparent, reliable and efficient – and therefore will open great opportunities for the public to invest for the future and protect themselves from unpredicted events.



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Shanghai Office

Address: Room 605, Bund Center,
No.222 East Yan'an Road, Huangpu Dis-
trict,
Shanghai 200002, China
中国上海市黄浦区延安东路222号外滩中心
605室,
邮编: 200002

Tel: +86-(0)-21-340-106-10

Email: shinfo@asiaperspective.net

Zhongshan Office

Address: No. 23, Tongji West Road, Nantou
Town, Zhongshan City, Guangdong Province,
China 528427

Tel: +86 760 2251 8150

Email: zsinfo@asiaperspective.net

Beijing Office

Address: 6 Jiuxianqiao Lu, Chaoyang District,
Beijing 100096, China

Tel: +86-(0)-185 0048 6766

Email: beijinginfo@asiaperspective.net

Stockholm Office

Address: Malmskillnadsgatan 32
Stockholm, AB 111 51, Sweden

Tel: +46-(0)-70-769-92-07

Email: stockholminfo@asiaperspective.net

Hong Kong Office

Address: Room 1002, 10/F., Golden Gate
Commercial Building, 136-138 Austin
Road, Tsimshatsui, Kowloon, Hong Kong

Tel: +85-(0)-227-399-698

Email: hkinfo@asiaperspective.net

Helsinki Representatives

Johan Hackman:
Tel: +358 400607378
Email: johan.hackman@asiaperspective.net

Sami Lindstrom:
Tel: +358 405774344
Email: sami.lindstrom@asiaperspective.net

Ho Chi Minh City Office

Address: Dreamplex, 62 Tran Quang Khai,
Tan Dinh Ward, District 1,
Ho Chi Minh City, Vietnam

Tel: +84-28-7301-3900

Email: vninfo@asiaperspective.net