

Indonesia and the Covid-19 Crisis: An Overview

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I am grateful to many friends and colleagues for assistance and helpful conversations.

Thinking about the Covid Crisis

It is truly global, and was unanticipated (in the form it has taken).

It is testing every aspect of government and society everywhere, from the health system and macroeconomic management to public administration and societal fabric.

Many unknowns: the economic, social, political impacts of the crisis, when and how it will end, and the recovery path.

There is a significant rich/poor country divide: fiscal resources to protect its citizenry and enterprises, the quality and coverage of health care, labour force 'formality', capacity to enforce social distancing/quarantine measures, and much else.

And big differences among developing countries: 'Brazil' v/s 'Vietnam', etc.

It is occurring at a time of deep global divisions, and a weakening of collective, coordinated global actions.

Key Features for Indonesia

These events are as serious as any other era in the Republic's history, including the very difficult periods in 1945-49, the mid 1960s and 1997-99.

The crisis has

1) Revealed Indonesia's strengths, including:

- (a) prudent, credible macroeconomic management,
- (b) a settled polity,
- (c) location in the dynamic East Asian region.

2) Tested Indonesia's potential vulnerabilities, including:

- (a) historic under-investment in public health facilities,
- (b) limited fiscal space pre-Covid,
- (c) the partial reliance on short-term funding of fiscal and current account deficits,
- (d) an unfinished reform agenda governing relations between the central and regional/local governments,
- (e) an indifferent/unsupportive global economic and institutional environment.

Our Storyline

The global backdrop

Indonesia:

- Prelude to a crisis: strengths and vulnerabilities.
- Initially, financial markets hit (& why it matters).
- The fiscal and monetary response.
- The real economy.
- Social impacts.
- Compared to 'last time' (the AFC).

Lessons learnt & the way forward

The Global Picture

From a single animal-to-human transmission infection in Wuhan to the world's deepest peacetime economic crisis in 90 years, and the most serious global pandemic in a century. (Figure 1)

Extremely rapid spread.

Global numbers and fatalities continuing to rise, especially where $R > 1$. No sign of stabilizing yet.

Very large country variations. Much of East Asia managing it better than elsewhere, likely to lead the global recovery. (Figure 1) Even relatively poor countries, like Vietnam.

An unequal crisis: Rich countries generally have a lot more fiscal and monetary firepower, as revealed by magnitudes of fiscal stimulus and monetary/credit support lines. (Figure 2)

Figure 1. Estimated Economic Growth

World, Advanced Economies, and Emerging Economies

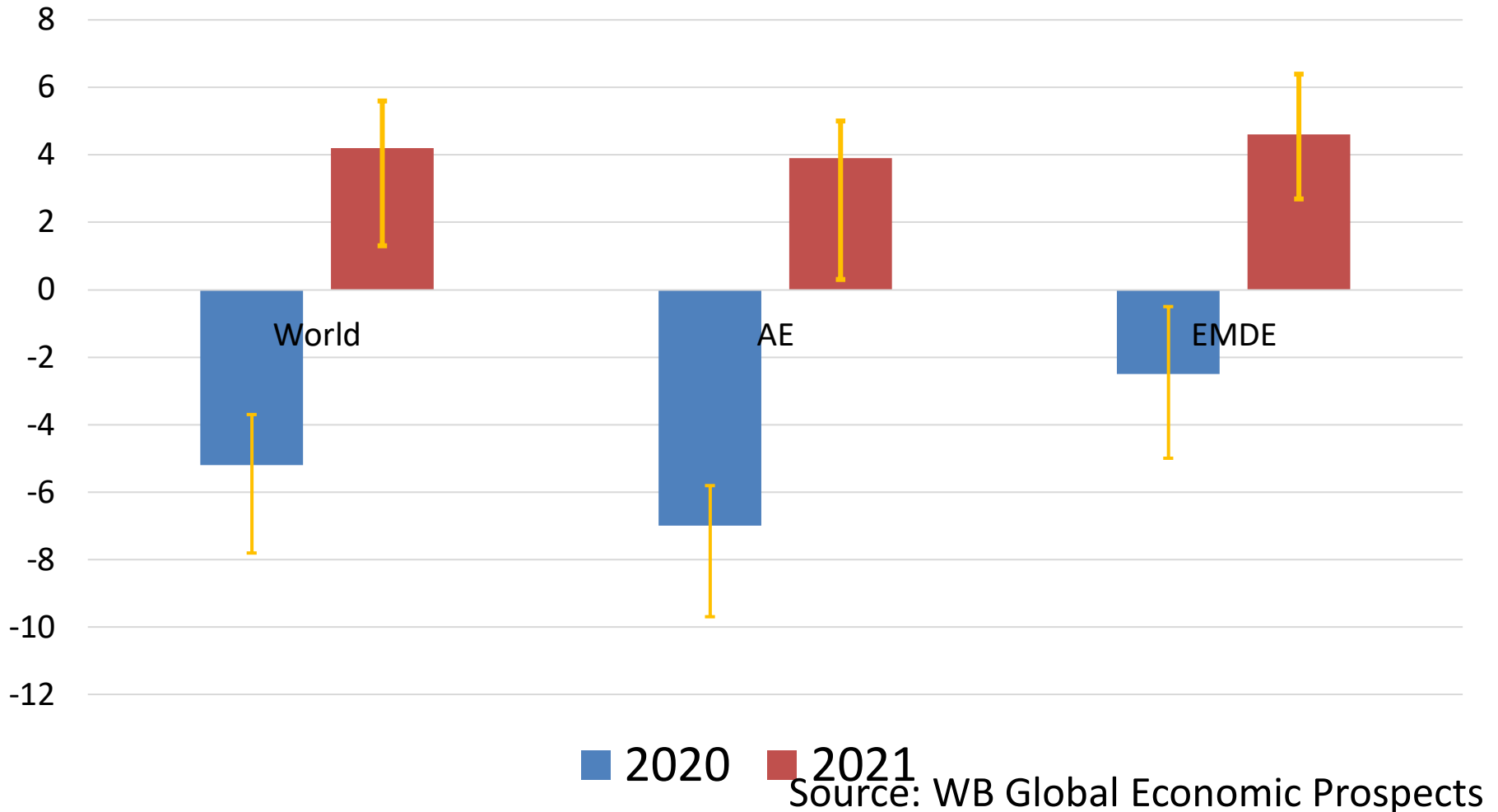
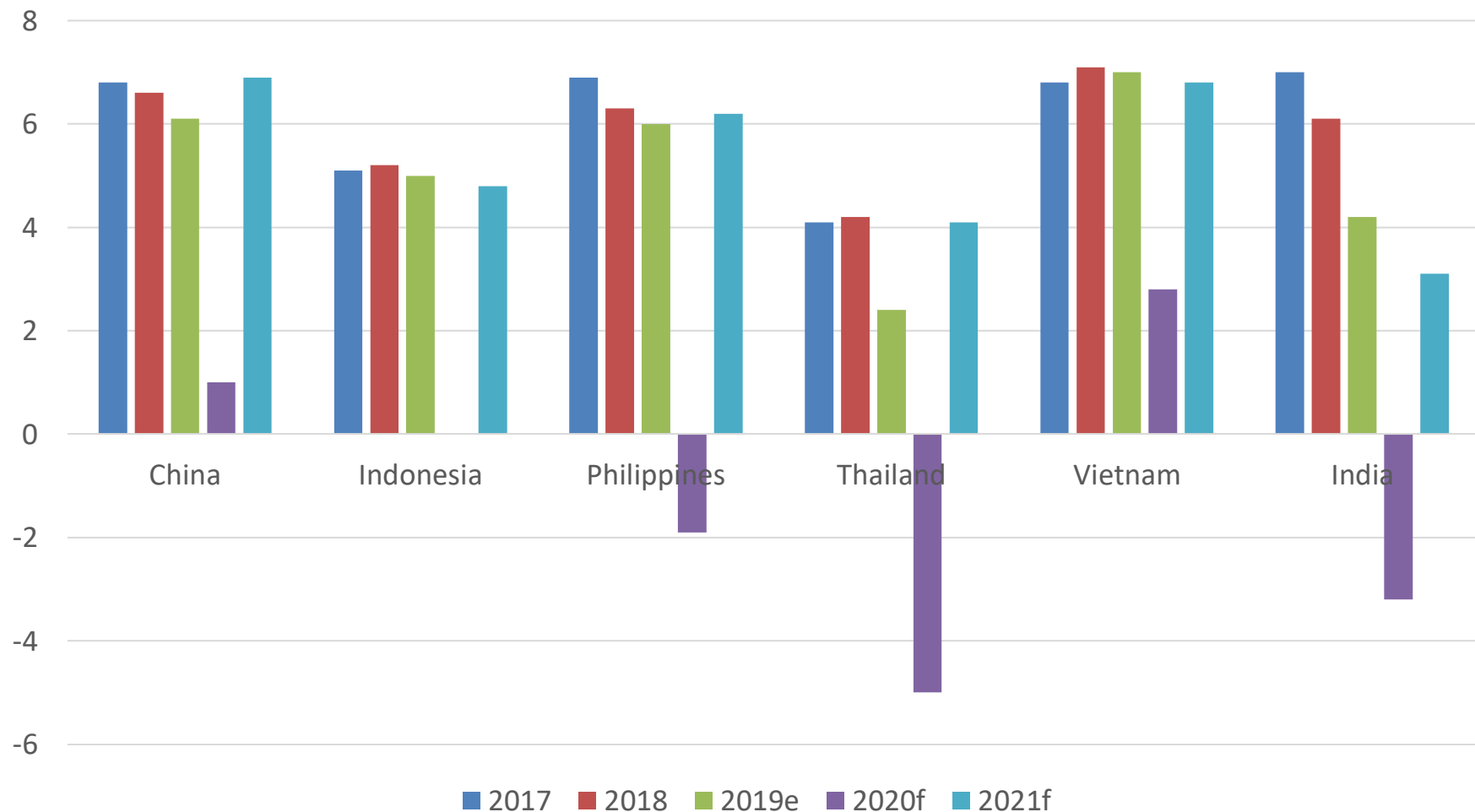


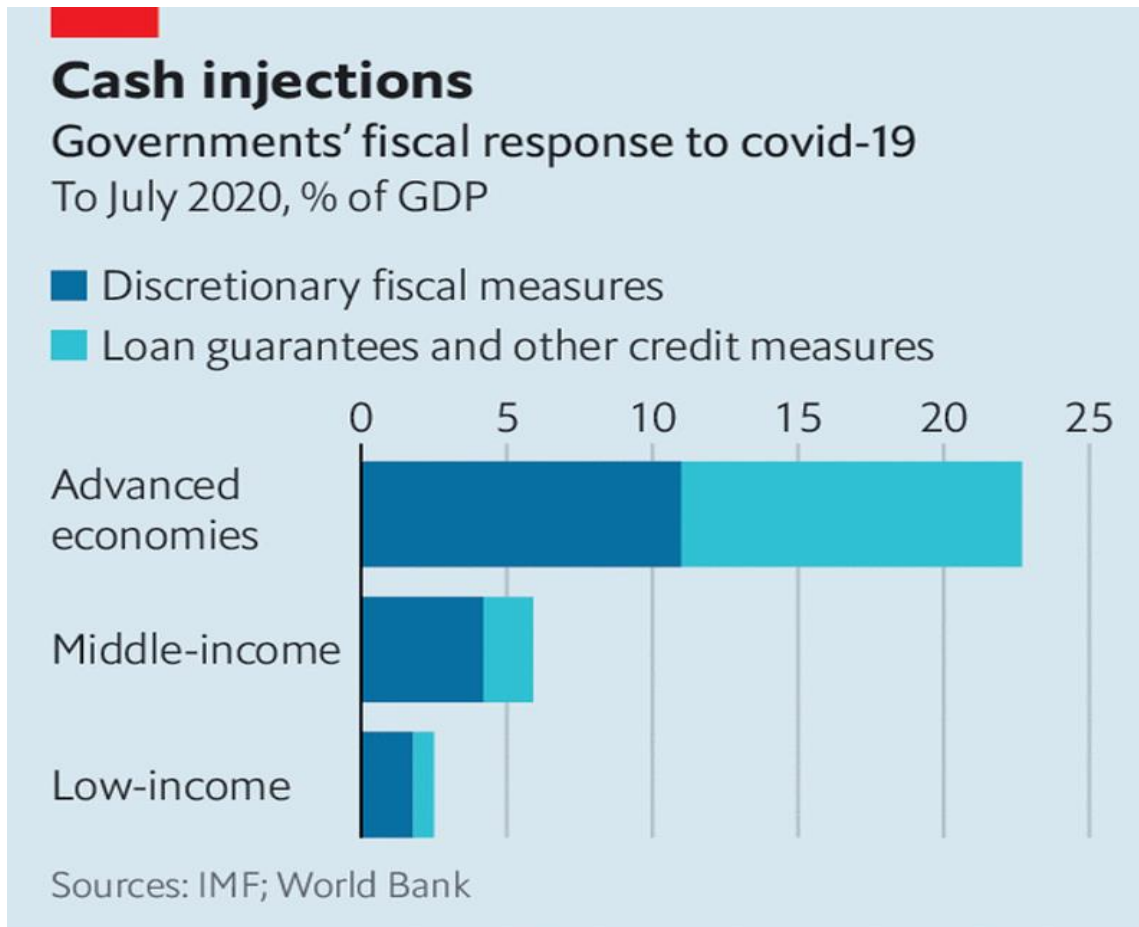
Figure 1 (cont). Asian Economic Growth

Indonesia and Neighbours



Source: WB Global Economic Prospects

Figure 2. An Unequal Crisis: Rich v/s Poor Countries



The Economist

1. Prelude to a Crisis: Indonesia's Strengths & Vulnerabilities

Useful to think of three key parameters:

a) The economy

Macroeconomic conditions, fiscal space, debt.

Indonesia compares well (eg Figure 3, ranks 16/66).

Moderate growth, low-moderate debt.

But limited fiscal space, significant FCD debt.

b) Health system

Indonesia has underinvested, Table 1.

Combined with decentralization of health services; and ministerial turnovers in the MoH, with different approaches and priorities.

Covid so far: relatively low mortality rates; but also low testing rates. (Table 2)

(note: Covid mortality rates far lower than those for TB etc.)

c) General **institutional capacity**, governance.

Many estimates. Indonesia's ranking similar to its PCI.

Figure 3. Pre-Crisis Macroeconomic Vulnerability Indicators

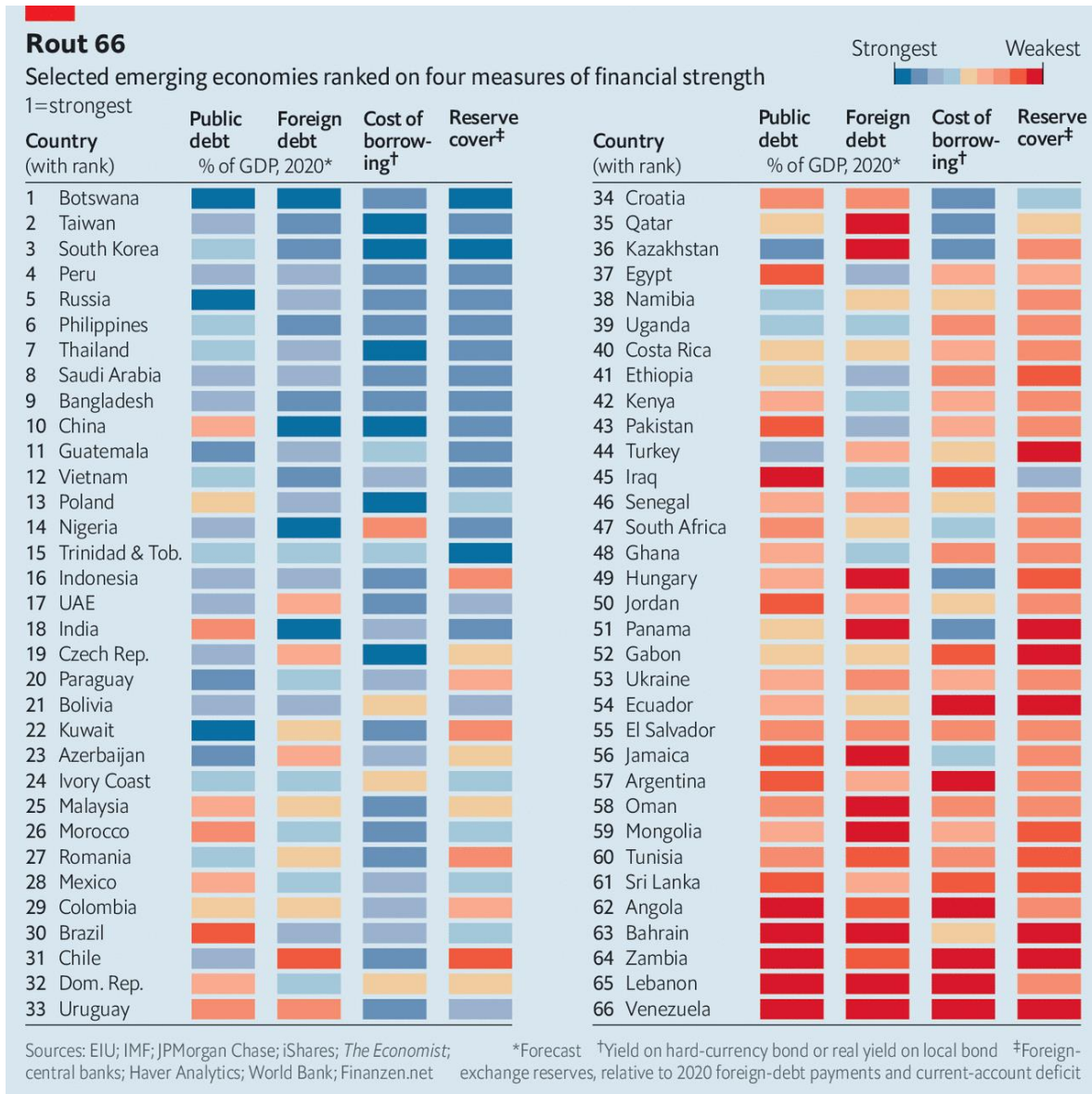


Table 1. Health System Indicators

Indonesia and Neighbours

	Central Government Revenue (% of GDP)	Medical Doctors (per 10,000 population)	Hospital beds (per 10,000 population)	Current health expenditure (CHE) (% of GDP)	General Government Debt (% of GDP)
China	19.21	19.80	43.1*	5.2	50.64
India	9.40	8.57	5.3*	3.5	68.05
Indonesia	12.37	4.27	10.4*	3	30.09
Philippines	16.86	6.00	9.9**	4.4	38.92
Thailand	15.10	8.05	21.0***	3.7	34.07

* Data as per 2017

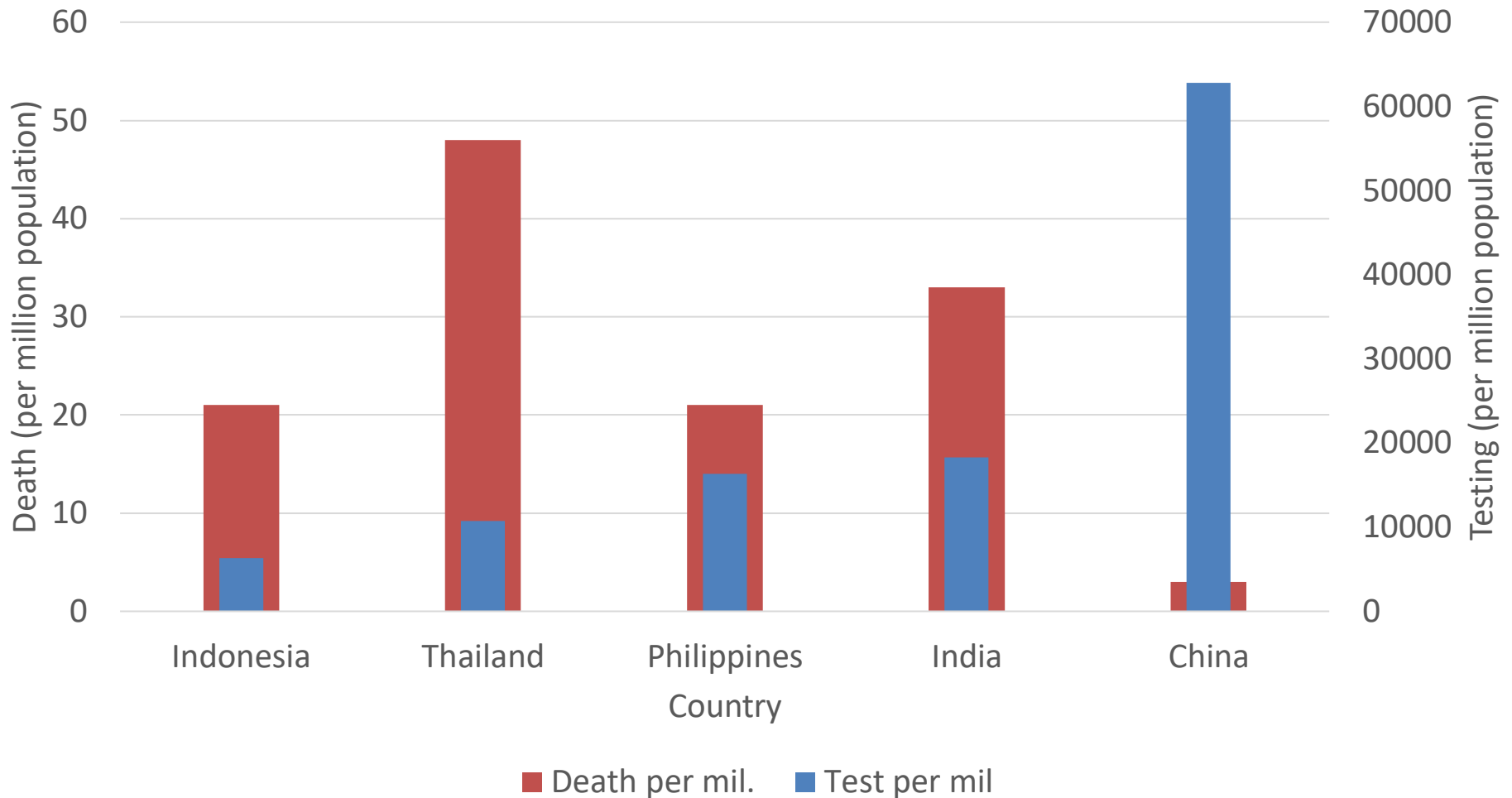
** Data as per 2014

*** Data as per 2005

Source: Asian Development Bank, World Health Organization, International Monetary Fund

Table 2. Covid Testing and Mortality Rates

Indonesia and neighbours



Source: worldometers.info

2. Initially, Financial Markets Hit

(and why it matters)

Global capital markets: different types of capital flows, and different country effects. Stock markets declined everywhere.

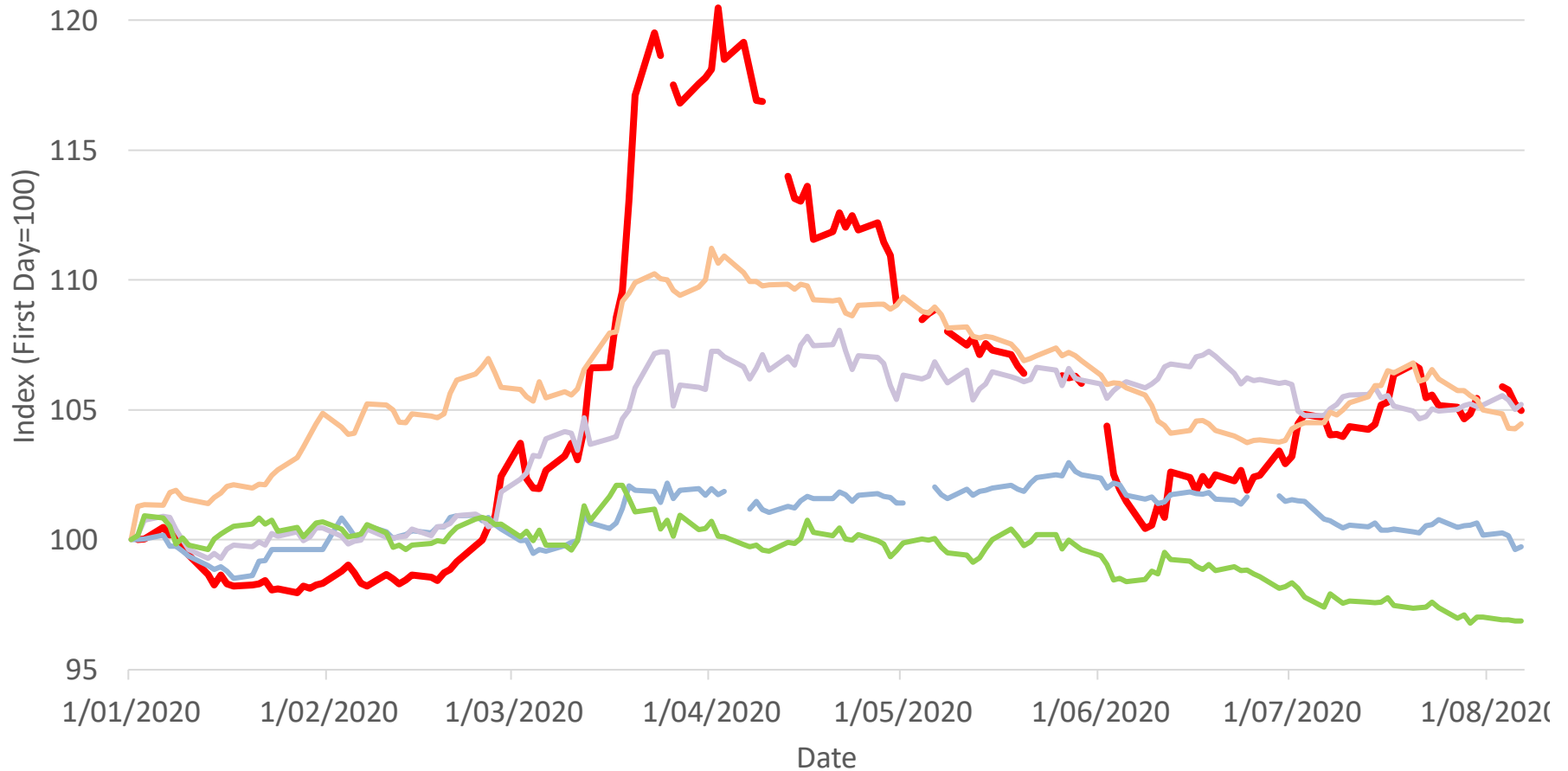
Developing countries experienced a double whammy, declining asset prices, and exit of mobile capital/'flight to safety'. In turn:

- Will this trigger a generalized run on their currencies (like the 1997-98 AFC)?
- Will it drain the domestic financial sector of liquidity, and possibly trigger bank runs?
- Where a significant proportion of debt is FCD, will it seriously exacerbate debt problems?
- Can fiscal deficits continue to be funded?
- In a polarized and divided world, how effective have international (and regional) FSN's been? Limited so far.

Indonesia initially hit harder than neighbours (Figures 4, 5).
Reflecting financial markets risk perceptions?

Figure 4. Exchange Rates

Indonesia and comparators (LCY per USD)

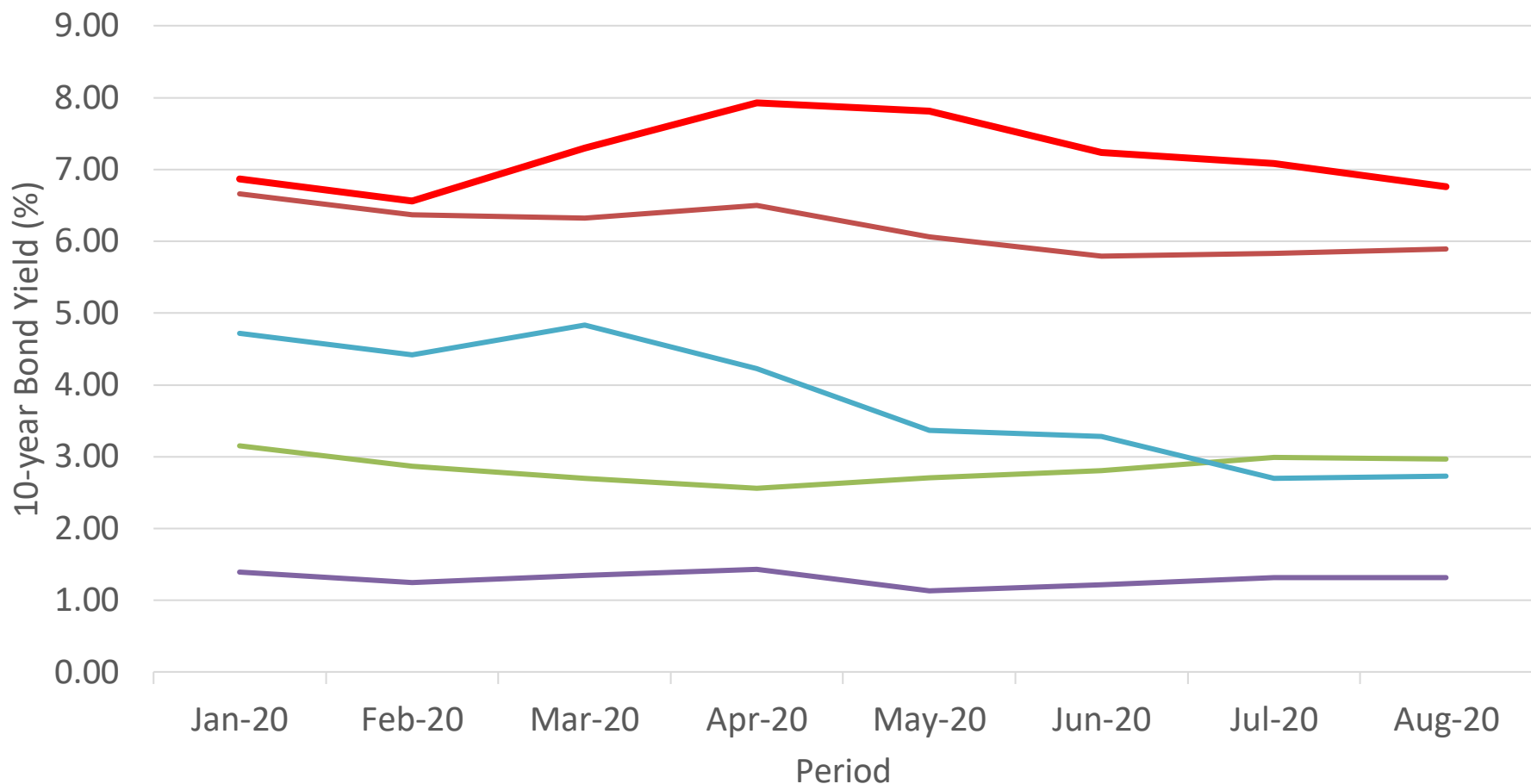


— IDR — CHY — INR — THB — PHP

Source: Investing.com, Bank Indonesia

Figure 5. 10-year Government Bond Yields

Indonesia and comparators



Indonesia India China Thailand Philippines

Source: tradingeconomics.com

3. The fiscal and monetary response

By May, swift central bank responses, globally and in Indonesia, had stabilized currencies and lowered the 'yield curve'.

Fiscally, as noted, Indonesia's public debt position pre-crisis was basically comfortable (+/- 30% of GDP).

Albeit with (a) low tax effort/limited fiscal space; (b) part-funding through USD borrowings (hence vulnerable to Rp depreciation), and (c) substantial additional off-budget SOE debt, implicitly/explicitly government-guaranteed.

The government therefore has had considerable fiscal firepower, aided by:

- BI 'last-resort' bond buying support.
- Temporary relaxation of 3% (of GDP) budget deficit rule to FY 2023.
- Some additional donor pledges, mainly IFI's. Though importantly, no sign yet of IMF/CMIM.
- Some advance international borrowings.

3. The fiscal response (cont)

The MOF has announced four emergency stimulus measures, heavily (but not exclusively) focused on social support, resulting in revised budgets for FY 2020.

Some comments/questions:

a) The projected additional fiscal stimulus of about 4% of GDP is comparatively small (Figure 6), and mainly debt-financed (Table 3).

Could it be larger? Arguably yes.

b) Moreover, expenditure of this modest stimulus has been slow. Why? Several factors, work in progress.

c) Moreover, most (about two-thirds) of the increased deficit originates from automatic stabilizers, ie, mainly declining revenue.

d) In fact, this is similar to the GFC response, which in the event was hardly required.

e) As in all countries, the government has probably introduced too many emergency programs, to satisfy diverse constituencies. As indicated by highly variable realization rates across programs, aside from the core PKH and Karto Sembako programs.

Figure 6. Estimated Fiscal Stimulus, 2020, Indonesia and Comparators

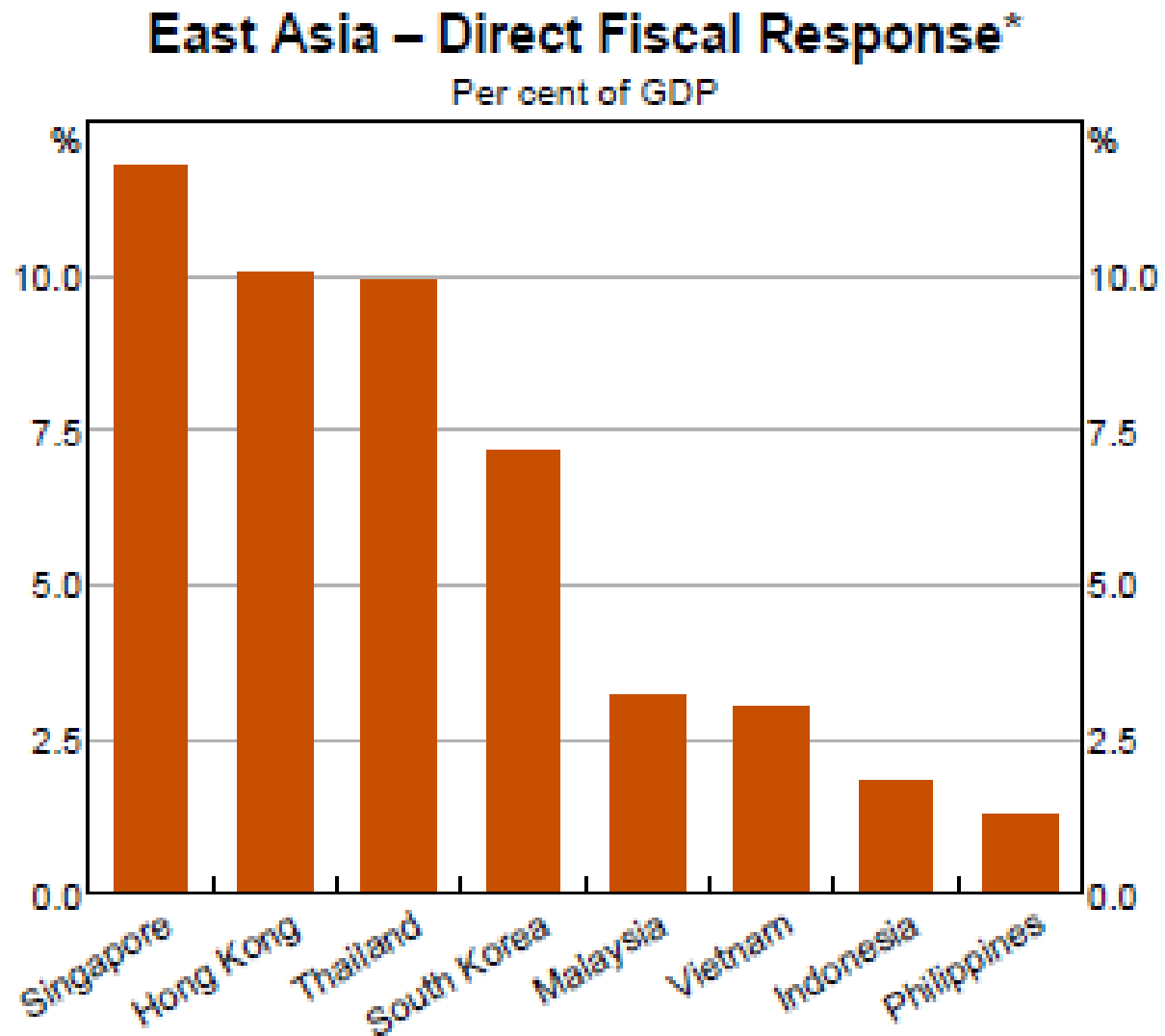


Table 3. Government Annual Budget – Deficit Financing

Financing by component (in trillion Rp), 2019-2020

	2019	2020	2020P
Deficit Financing by Debt	373.88	351.85	1220.46
Deficit Financing by Investment	-75.79	-74.23	-257.10
Lending	-2.28	5.19	5.81
Guarantee Obligation	0.00	-0.59	-0.59
Other Financing	15.00	25.00	70.64

4. The real economy

Apart from the AFC (on which more below), this is Indonesia's most serious economic crisis for half a century.

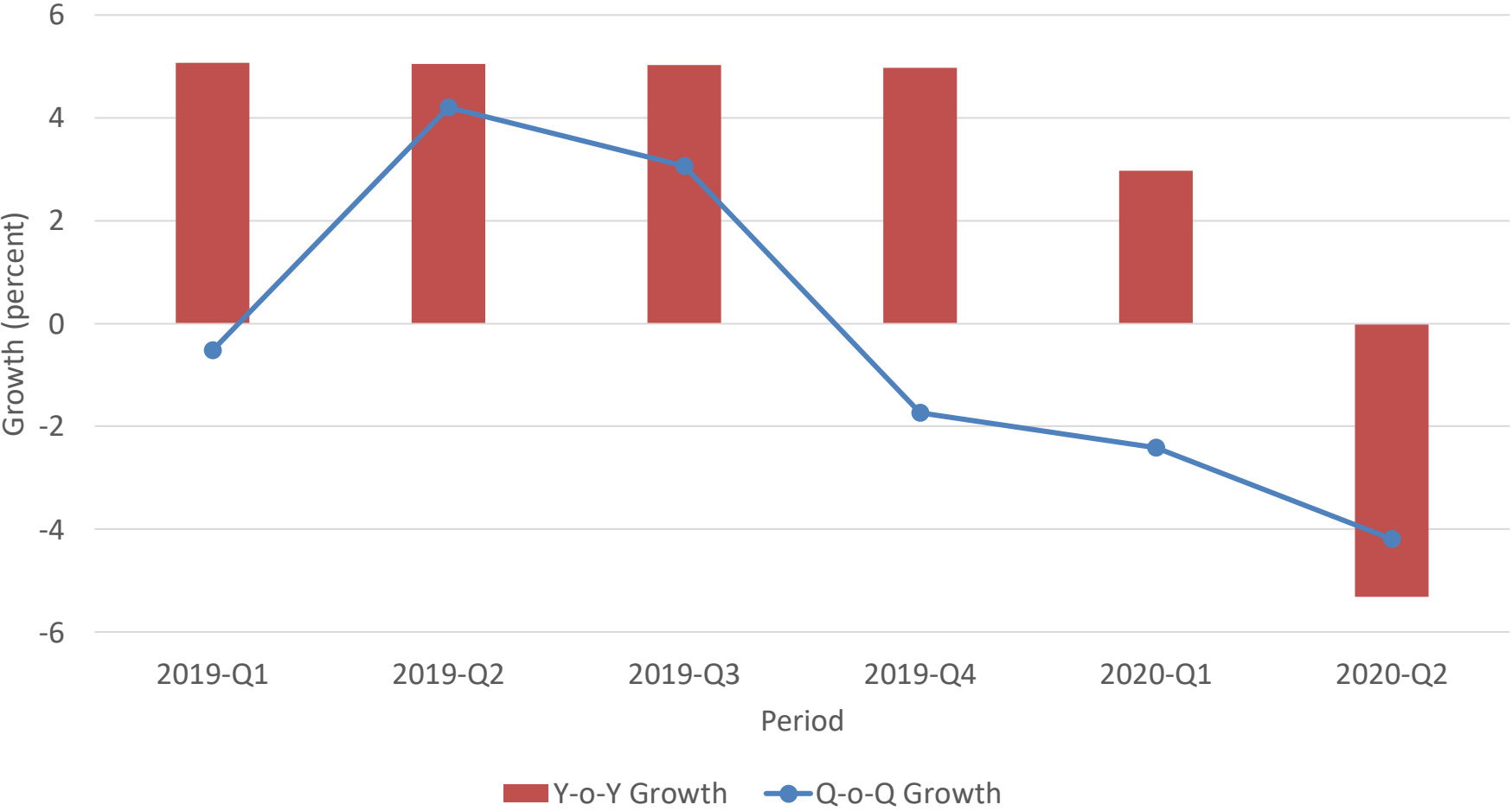
National accounts data (which are more reliable than the various (and very useful) high-frequency data) through to Q2/2020 reveal the following (Figure 7).

As expected uneven sectoral impacts.

Agriculture the most resilient major sector, mainly Q2.
(But recall share now (12.7%), lower than 1997 (16.1%) and 1999 (19.6%)).

Service sector contraction relatively small, but highly variable: transport, accommodation & restaurants falling very sharply; information and communications rising sharply.

Figure 7. GDP Growth, 2019Q1 – 2020Q2



Source: Badan Pusat Statistik

4. The real economy (cont)

Expenditure:

Consumption decline similar to GDP; little smoothing, dissaving?

Expected investment collapse.

Government consumption also declined.
Keynesian economics not yet working by Q2!)

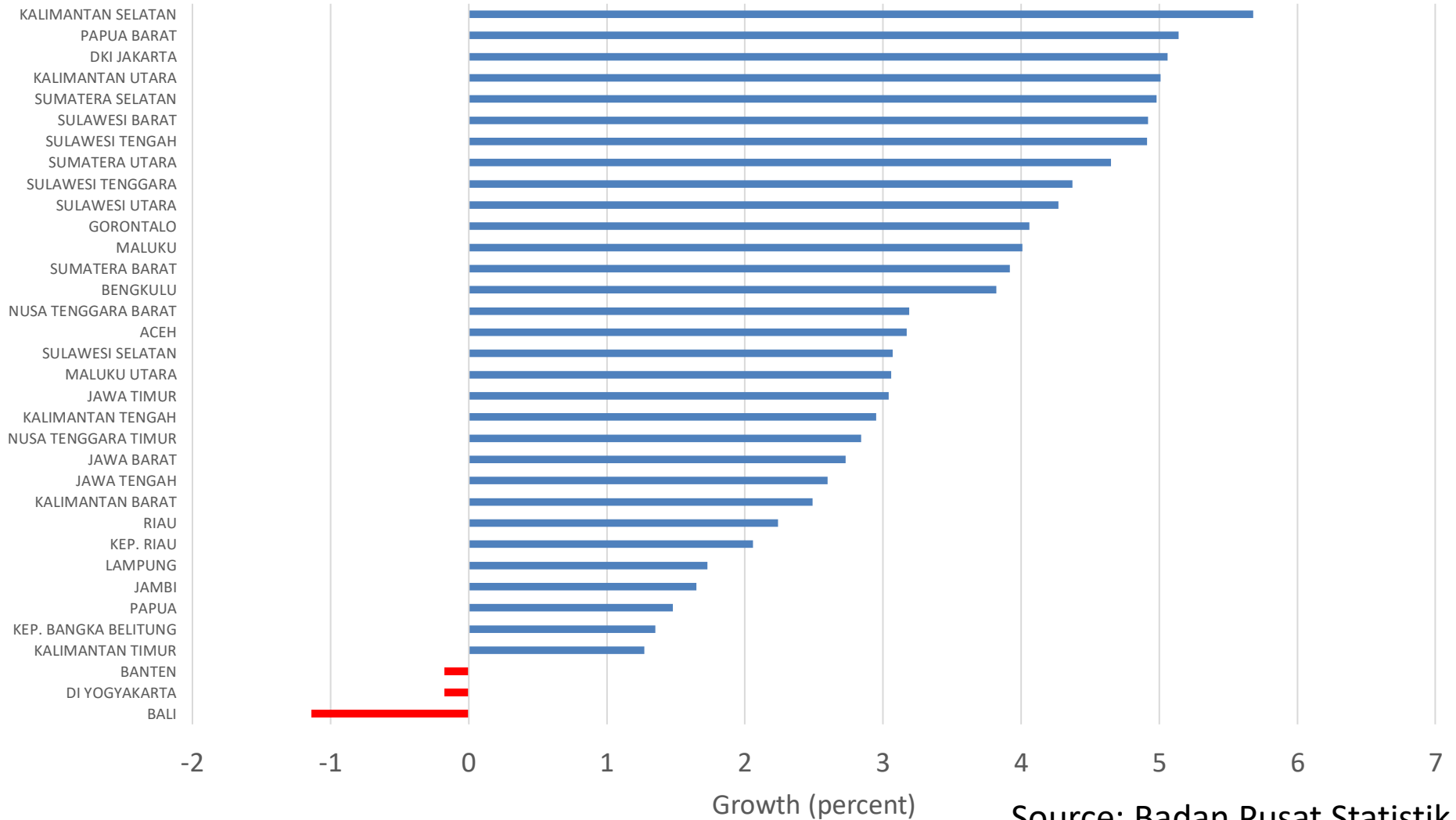
Subnational patterns

Figure 8.

Bali, Yogya most adversely affected.
More remote regions, especially Eastern Indonesia, less affected.
Most of Java adversely affected, except Jakarta – higher professional workforce, WFH (?).
(But early days.)

Figure 8. Gross Domestic Regional Product 2020-Q1

Year-on-year growth, by Province



Source: Badan Pusat Statistik

5. Social impacts

Major data sources (Susenas, Sakernas, etc) not yet available.
But some quick-release data becoming available.

And Indonesia has great analytical and empirical strengths in this area: Smeru, TNP2K, World Bank group, BPS, IFLS, JPAL, etc.
Much of this work originated in the wake of the AFC, resulting in the construction of a basic social welfare net (PKH, Kartu Sembako, etc). Though constrained by low tax effort, the challenge of accurate targeting, etc.

Some priors and a few glimpses:

The most important variable is the level of economic activity, ie, by how much GDP declines.

On the basis of the historical GDP-poverty relationship, some plausible guestimates suggest quite modest increases in poverty incidence (less than during the AFC). See Suryahadi 2020

5. Social impacts (cont)

Noting also that household consumption is clustered around the median. Eg, see 2018 Susenas distribution. Figure 9.

That is, owing to large numbers of 'precariously non-poor' people, relatively small changes, eg, in food prices, earnings, health events, can have sizeable poverty impacts.

Labour market impacts (both labour utilization and earnings) are important.

For up to 25% of households the main income-earner lost their job (?).

Also food prices and availability.

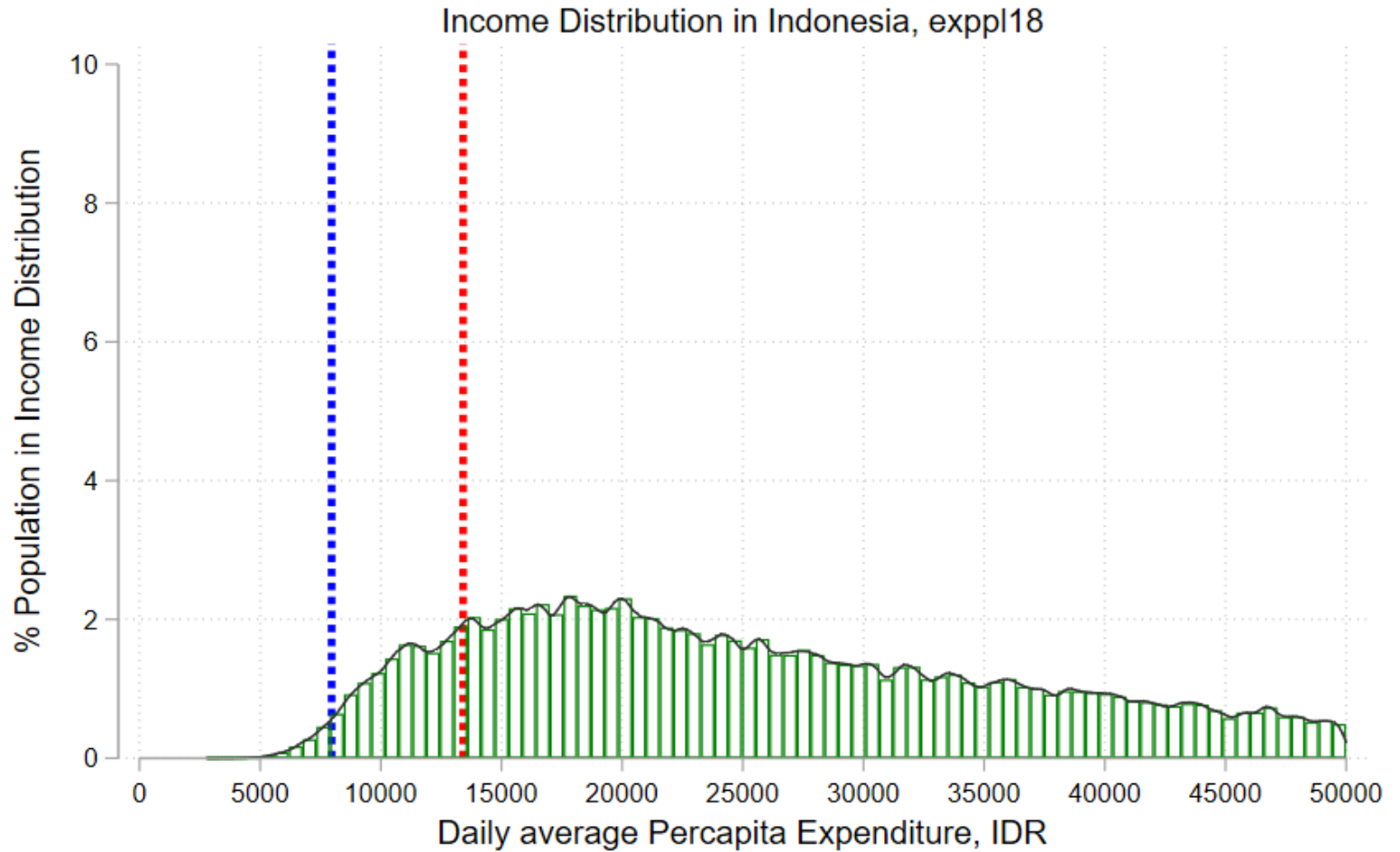
About one-third of households reported food shortages.

And crucially, how effective have govt transfers been, both quantities and targeting?

About 80% of B40 households have received at least some support. PKH reportedly the most effective program.

Perhaps too many social programs attempted?

Figure 9. Income Distribution, 2018



5. Social impacts (cont)

Is the Covid crisis likely to be distributionally neutral?

The AFC wasn't, ie, better-off people more adversely affected, Gini fell.

This time, no clear priors:

More poorer households in agriculture, rural areas, and they are less affected?

But richer households able to WFH, less crowded living environment, able to purchase better health services, etc.

Similarly for gender equity: priors not clear, although possibly (early evidence suggestive) more adverse female employment effects, since more males in professional, 'protected' employment sectors.

6. Compared to 'last time'

ie, AFC, 1997-99, GFC, 2008-09

Growth: A much quicker, deeper economic contraction in 1997-98. (Figure 10)

But:

- (a) post-Covid, unlike the AFC, less prospect of a V-shaped recovery;
- (b) little prospect of 'exporting' out of the crisis (weak global economy, smaller Rp depreciation);
- (c) less scope for 'back to the farm' survival strategy.

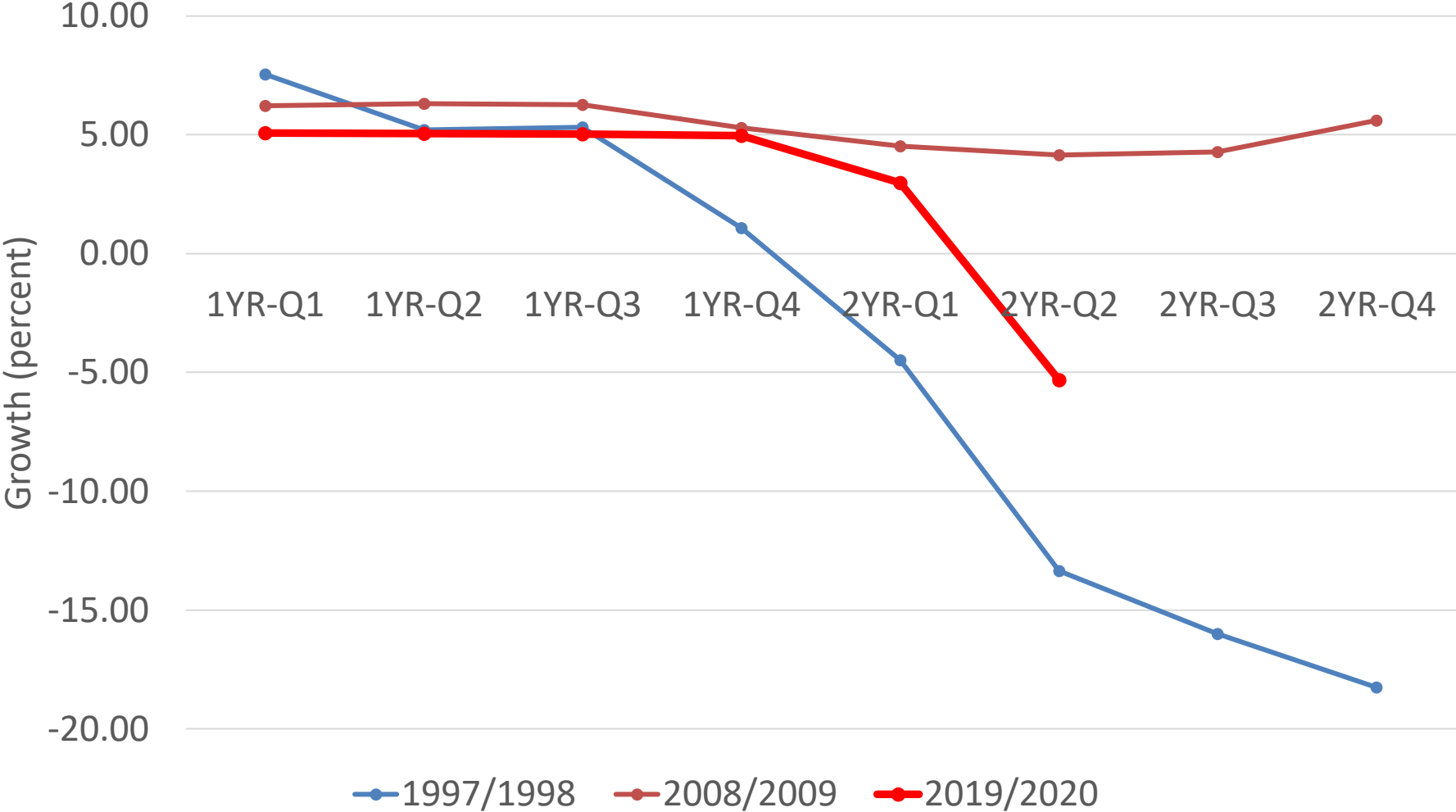
Macroeconomy: this time, little inflation, exchange rate relatively stable, no financial collapse (so far).

Inflation: No loss of macroeconomic control this time.

(Preliminary: need more observation periods.)

Figure 10. Crisis Comparison: Growth

Year-on-year GDP growth, in percent



Source: Badan Pusat Statistik

Lessons Learnt and the Way Forward

1. Go early and hard, especially if the govt can lock in long-term low interest loans. (Can it?)

Early evidence suggests that RI could have had a bigger fiscal stimulus, with quicker disbursement.

Why? Lessons to be learnt for 'next time'.

2. During the recovery phase, the key challenge is to quickly restore public finances, manage the larger debt, plus significant tax reform to lift the tax effort.

Is MMT useful for Indonesia? Doubtful.

So (mainly) back to prior macro policy framework, including return to Fiscal Law provisions and BI independence.

Vigorously pursue capital market deepening initiatives.

In context of continuing global uncertainties about inflation and interest rates, and likely subdued economic growth.

3. Develop stronger SSN mechanisms; including better resourced programs, fine-tuning and extending the coverage; as occurred after AFC.

Lessons Learnt and the Way Forward

(cont)

4. Major investment and reform in public health systems, including the the goal of genuine universal health insurance coverage, training, and facilities. Plus expanded R&D.

(No quick fixes!)

5. Stay (more) open, for trade and investment.

Establish rigorous analytical mechanisms for evaluating requests for 'strategic import substitution' in era of increased public spending.

Revisit reasons for RI's missed opportunities in the GPN's/GVC's. In context of changing commercial landscape, from (eg) possibly declining mall and office usage, civil aviation, to increased IT, cycle use, etc.

And rich countries must avoid 'vaccine nationalism'.

6. Prepare for accelerating IT-driven changes to the workplace, including tele-commuting, tele-education, tele-health.

The bedrock is efficient and inclusive telecoms network.

Lessons Learnt and the Way Forward

(cont)

7. Support ongoing regional integration initiatives (rules-based open regionalism) and FSN's, and use/leverage East Asian recovery dynamism for a positive global agenda, including restored authority for the WTO, etc.

(But sadly, don't hold your breath.)

8. Never waste a crisis: use Covid to address RI's outstanding policy reform agenda.

Attributed to Mohammad Sadli:

'Bad times make for good policies, and good times often the reverse.'

Eg, reforming inter-govt relations; improving public health systems; tax reform & tax effort; fundamental bureaucratic reform; translating higher public spending on education into better and more equitable results, promotion of 'green cities' (mass transit systems), etc.

(Controversial: revisit the capital city proposal?)

Terima kasih banyak.

Comments welcome!

<https://crawford.anu.edu.au/people/visitors/hal-hill>