



Ministry of Finance
Republic of Indonesia

Fiscal Policy in Managing the Economic Recovery

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Ministry of Finance
Tuesday, 8 September 2020



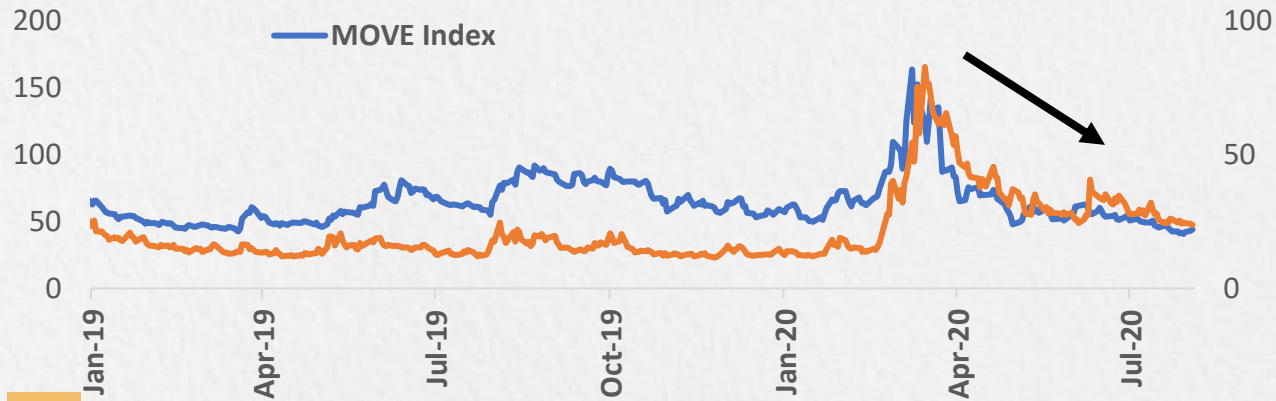
Outline

- ❑ An unprecedented challenge
- ❑ Impact to the economy
- ❑ Fiscal policy response
- ❑ Financing the recovery
- ❑ Lesson learned and future reforms

Global financial market jitter

Financial pressure has subsided but sentiment remains fickle

Global financial market volatility eased



Capital flows back into the Emerging Market (Bloomberg EM Capital Flow Proxy Index)



The global stock market is rising (MSCI Index, 100 = Jan 2019)

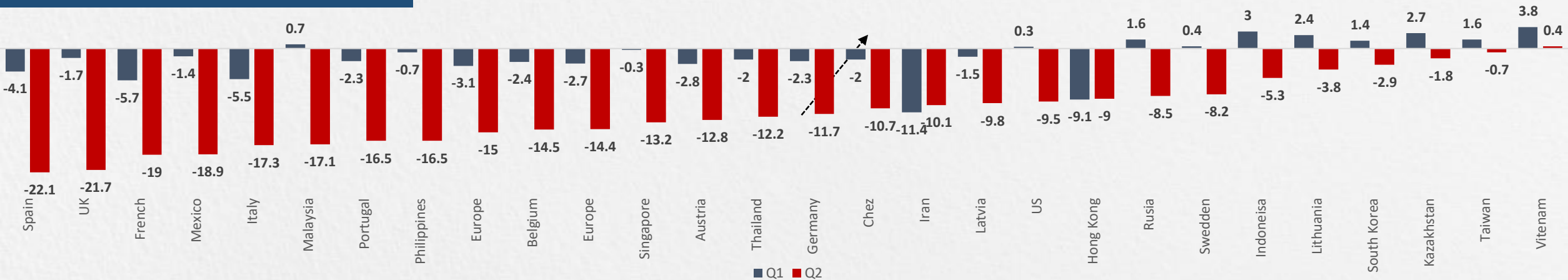


Real money flows

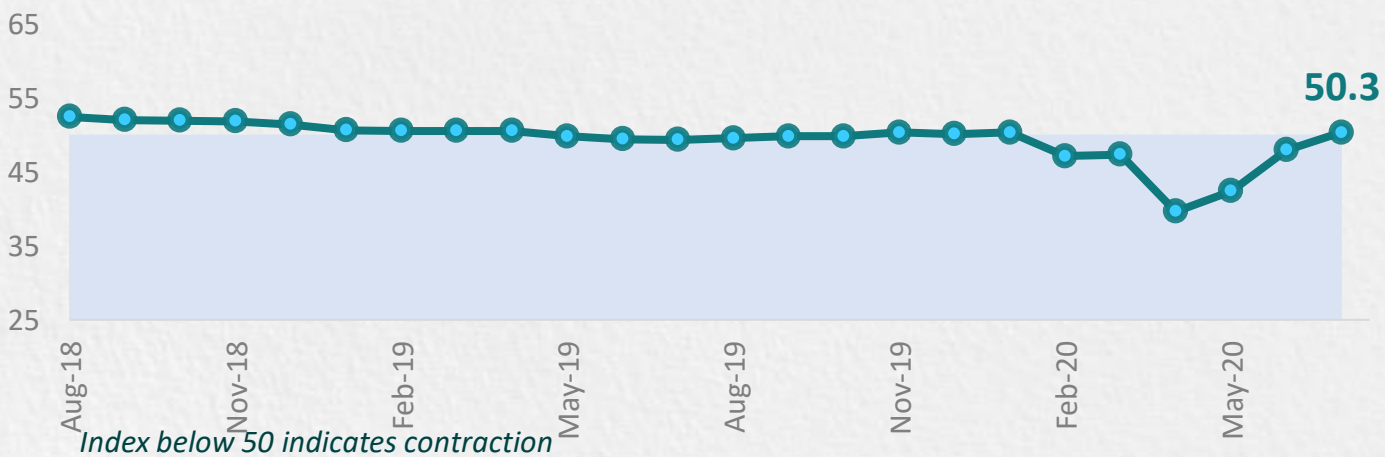


An unprecedented challenge to the global economy

Quarterly (yoy) economic growth



Global PMI Manufacture



- Global economic activity continues to improve although still in the contraction territory.

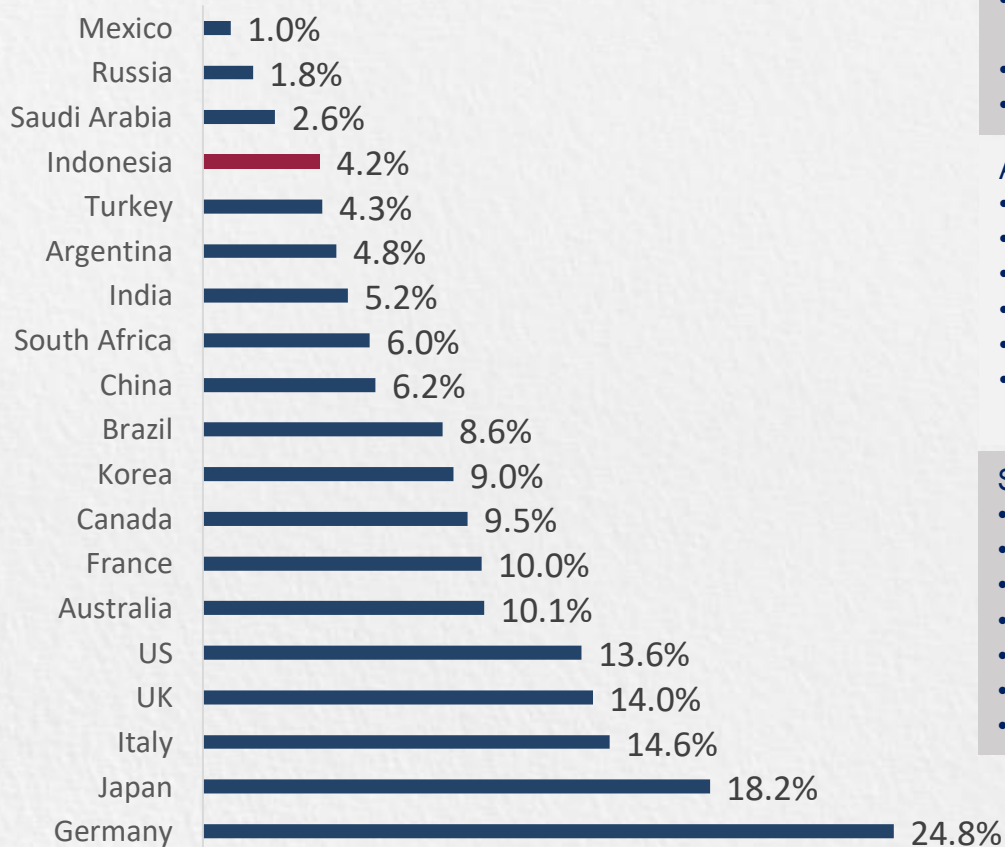
- PMI data in June showed that several countries have already back to expansive zone such as China, US, and Malaysia.

Cross-country comparison of Covid-19 pandemic's policy responses

Fiscal Stimulus of G-20 Member Countries

(percent of GDP)

Including Credit Enhancement



MALAYSIA (10.5% of GDP)

- Assistance to affected businesses and individuals, such as tax payment delays and cash transfers.
- Assistance in payment of workers' wages and electricity bill subsidies.
- Lowering interest rates by 25bps
- Loan payment suspension and restructuring

AUSTRALIA (9.9% of GDP fiscal stimulus)

- Tax incentives
- Direct cash assistances
- Wage subsidies
- Loan guarantees for businesses
- Lowering interest rate by 50 bps to 0.25 percent.
- RBA injects funds in the form of loan facilities to banks

SOUTH KOREA (7.9% of GDP)

- Medical equipment procurement;
- Subsidies for households;
- Assistance to companies and communities
- Tax deferral
- Lowering interest rate by 50 bps to 0.75 percent;
- Increase the loan facility ceiling
- Financial system stabilization package

SINGAPORE (19.2% of GDP)

- Assistance to individuals and households;
- Layoff prevention, postponement of GST increase;
- Wage subsidies
- Cash transfers to households;
- Strengthening funding schemes
- Moratorium on debt payments for affected companies and individuals
- Liquidity swap facility

GERMANY (18.2% of GDP)

- Improving health facilities as well as budget for vaccine R&D
- Subsidies for workers
- grants for MSMEs and entrepreneurs
- Stabilization Fund for access to loans
- QE expansion by the ECB
- Short-term liquidity refinancing

USA (13.6% of GDP)

- Emergency spending to deal with COVID-19, especially vaccine development;
- Paid sick leave, unemployment benefit, and free test COVID-19;
- Cash transfers for households, food aid, incentives for companies.
- Lowering interest rates to the range of 0-0.25 percent;
- Unlimited Quantitative Easing (QE)
- Loan facility for MSMEs

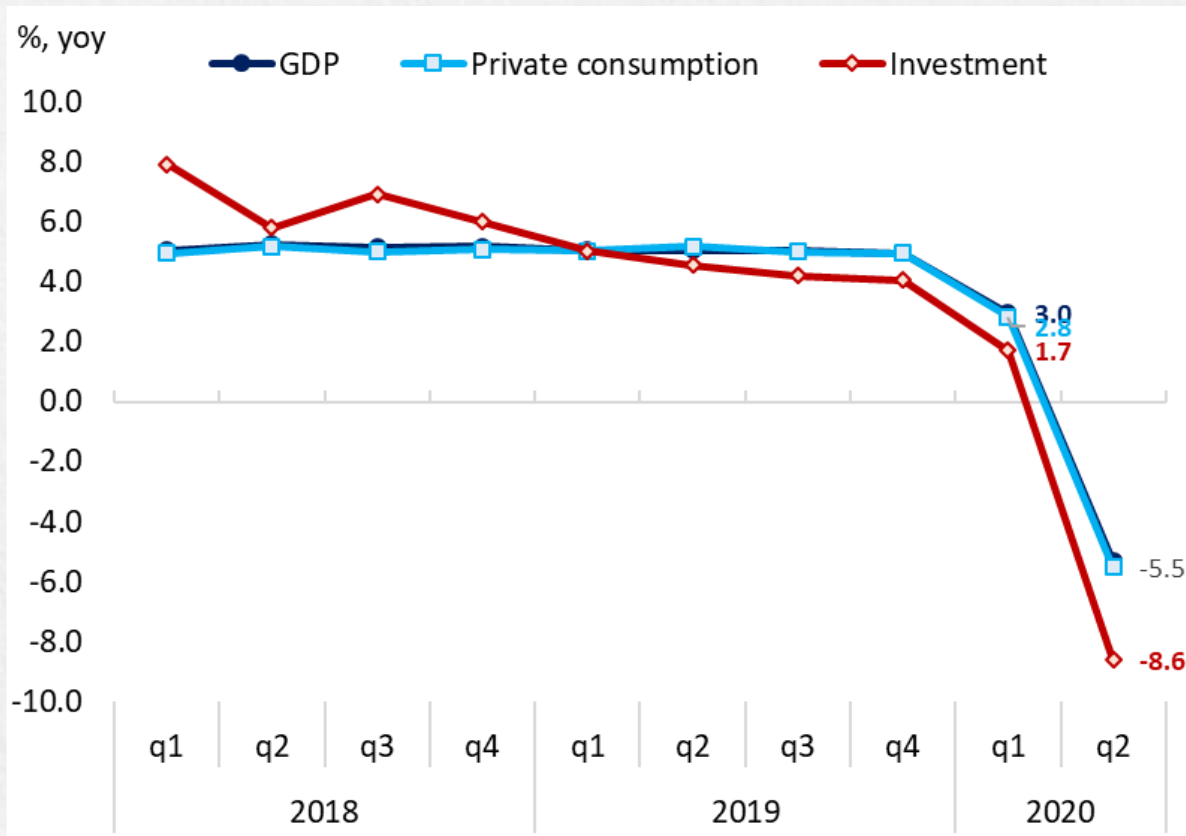
COVID-19 pandemic impact to Indonesian economy

GDP Growth: Expenditure (% yoy)

GDP Growth: Production (% yoy)

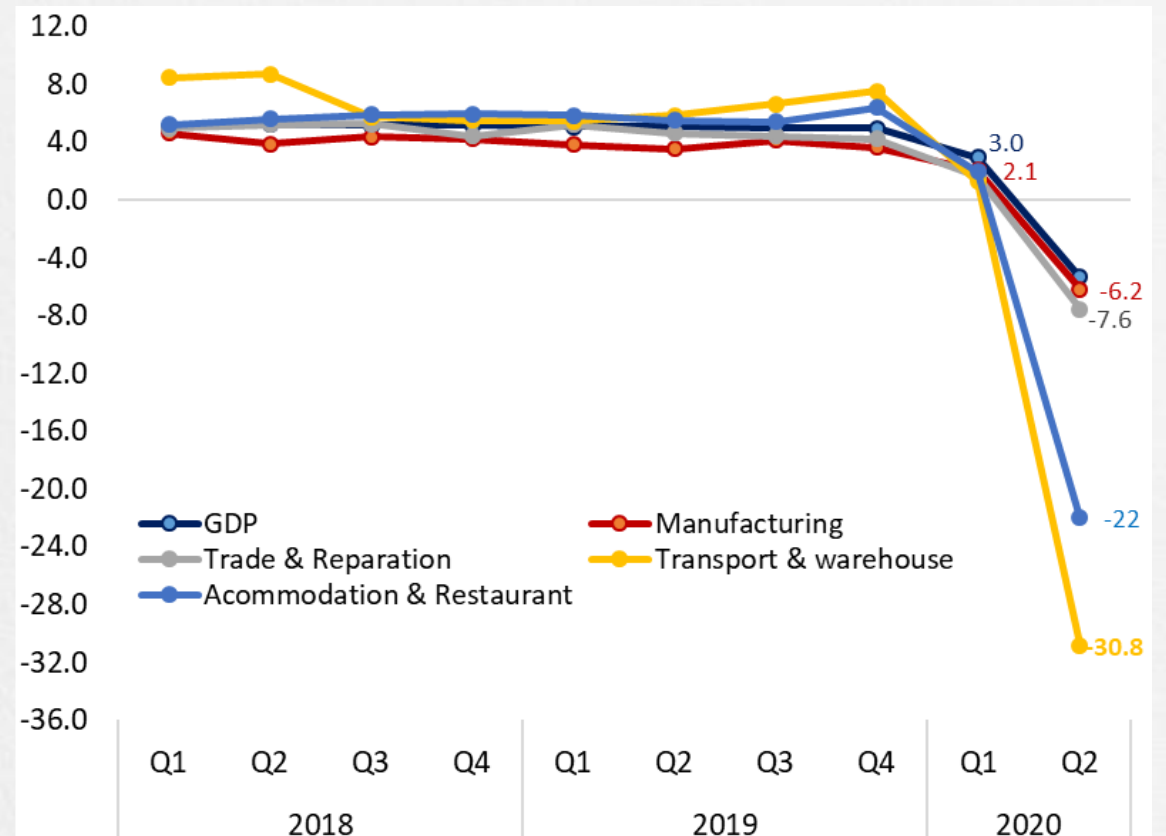
GDP GROWTH Q1 2020

2,97%

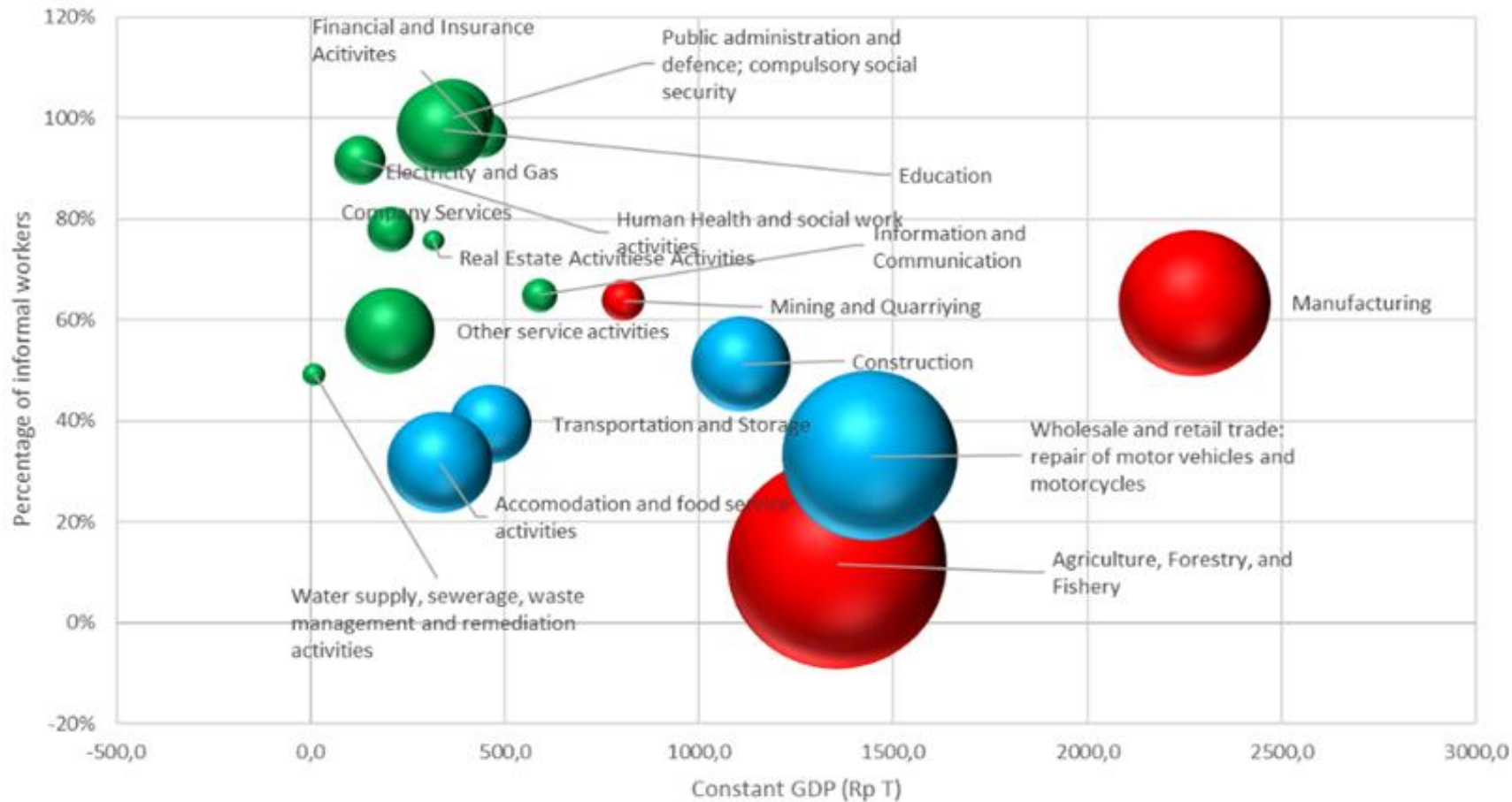


OUTLOOK 2020

-1.1% to 0.2%



Real sector supports focus at SMEs and labor intensive sectors



The size of circles represents the number of workers in total

Source: (CEIC, National Labor Force Survey/Survey Angkatan Kerja Nasional and Finance Ministry, 2020)

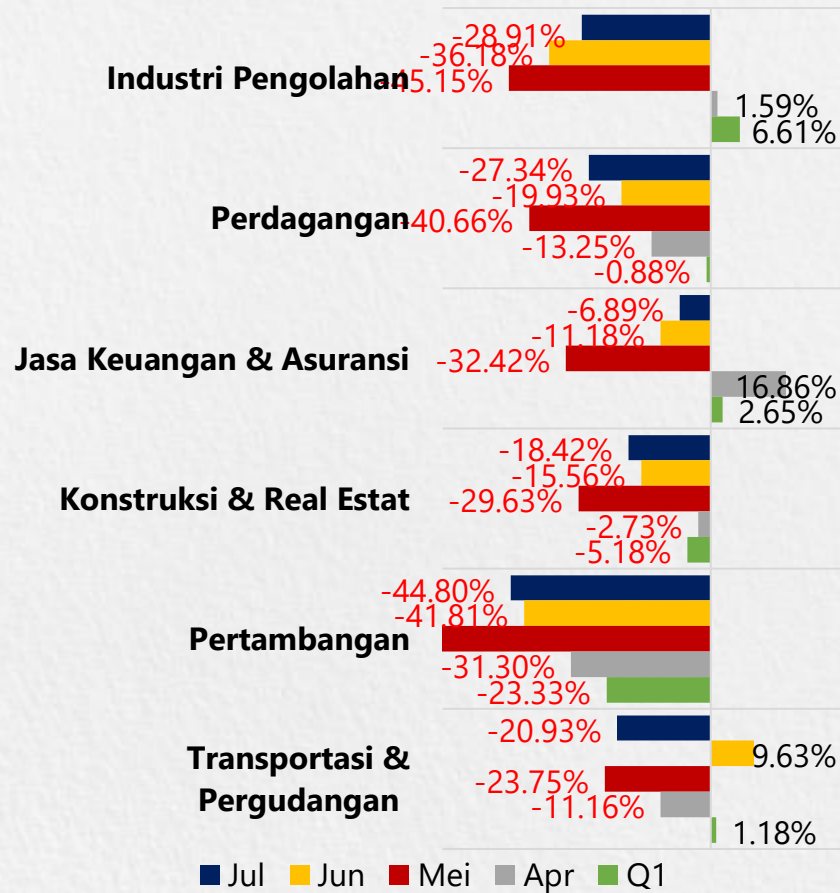
- Largest sectors in terms of PDB and employments are: agriculture, trading services and manufacturing.
- Losing sectors (growing lower than economic growth) before and even worst during pandemic: agriculture, manufacturing, mining
- Affected sectors (growing higher before pandemic and lower after): trading services, construction, transportation, accommodation
- Winning sectors (growing higher than economic growth) before and during pandemic: financial services, health, IT, education, utilities
- These sectors have high proportion of SMEs, informal sectors and informal employment.
- That is why supports are given to SMEs and Labor intensive sectors.



Trajectory of recovery

U, V, L and W- shaped?

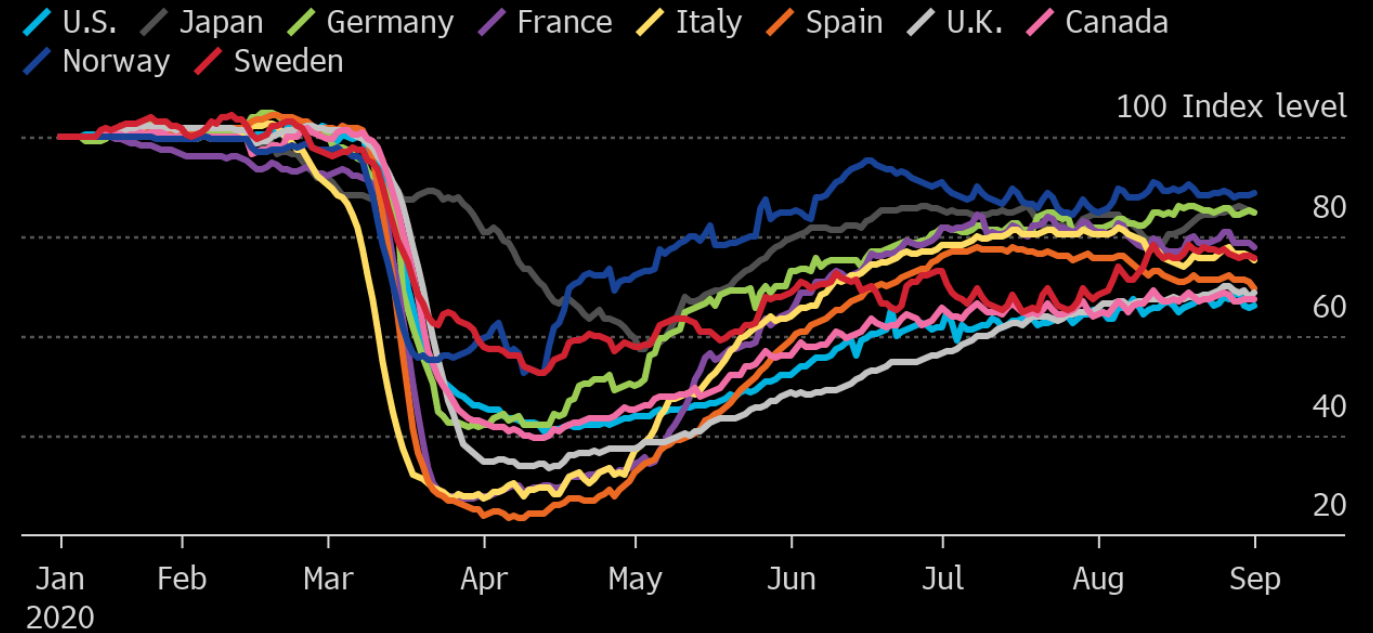
Contraction in almost all sectors



Rebound is limited

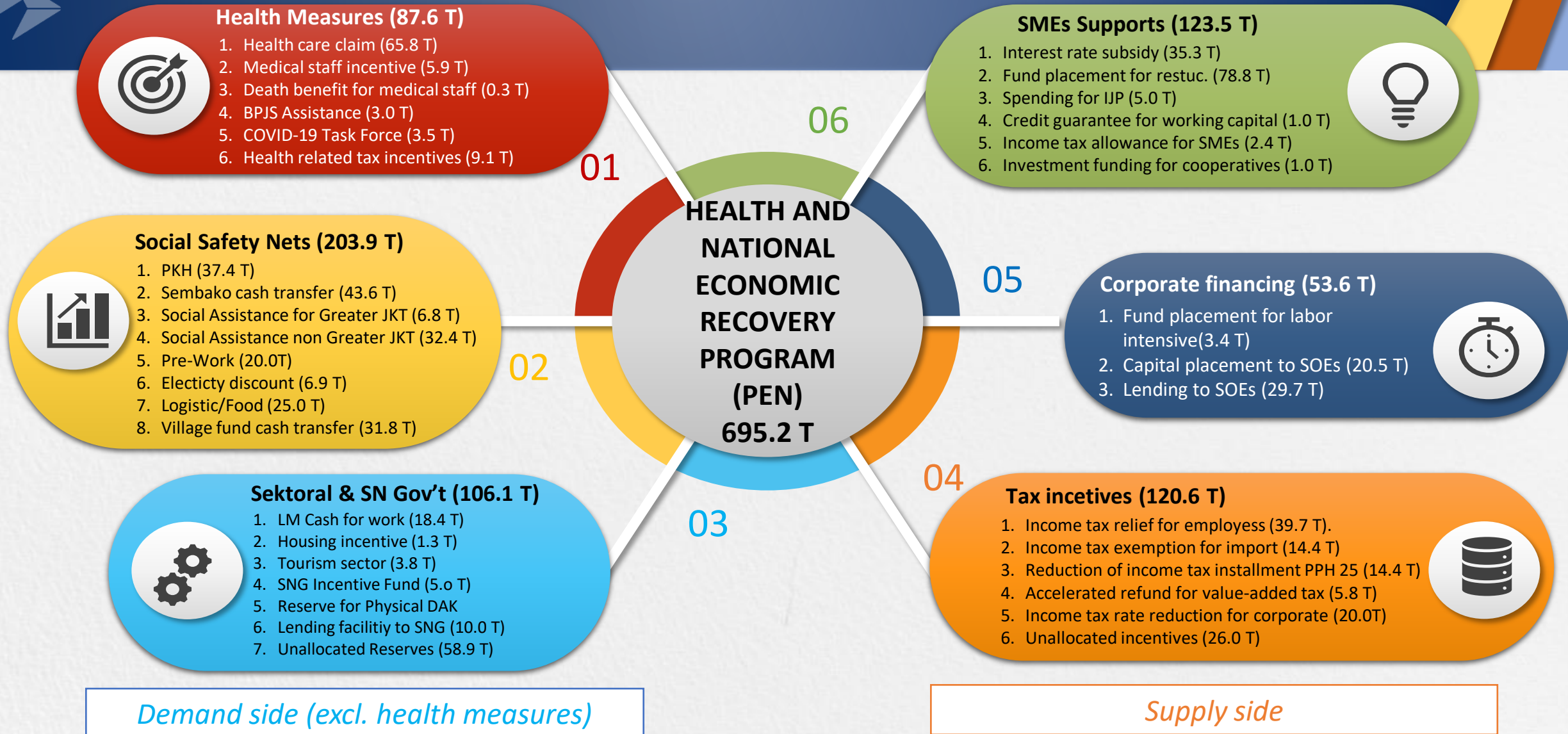
Recovery Stalls

Alternative data indicate rebound declined in major advanced economies



Source: Bloomberg Economics, Google, Moovitapp.com, German Statistical Office, BloombergNEF, Indeed.com, Shoppertrak.com, Opportunity Insights
 Note: Jan. 8 = 100

The 2020 Fiscal Package



Policy aim at saving lives and livelihoods of the people

POLITICO

- LIGHT RESTRICTIONS
- MODERATE RESTRICTIONS
- SEVERE RESTRICTIONS

WORSE PUBLIC HEALTH OUTCOME

BETTER ECONOMIC OUTCOME

BETTER PUBLIC HEALTH OUTCOME

WORSE ECONOMIC OUTCOME



HOW WE RANKED EVERYONE

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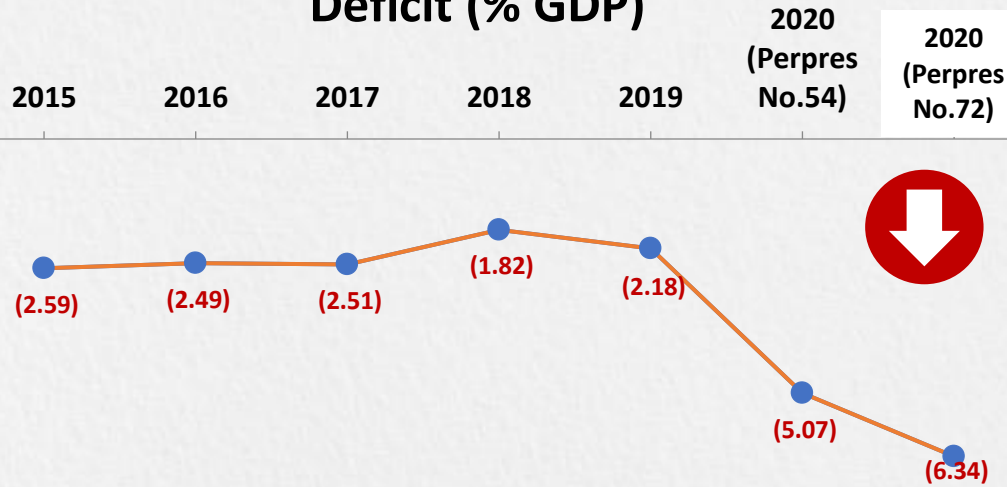
- There is always trade-off in the public policy making;
- Some people think that during the pandemic, the trade-off is between lives (health) and livelihoods (economy);
- But, let's think deeper: health and economy are all about people;
- Therefore, Indonesian government has been trying to put both lives and livelihoods in balance. For all efforts are focused on people;
- Policy priority:
 - 1) Health
 - 2) Social safety nets
 - 3) Real sectors (focusing on SMEs and labor-intensive sectors);

Fiscal challenges

Revenue optimization, spending quality and managing debt risk

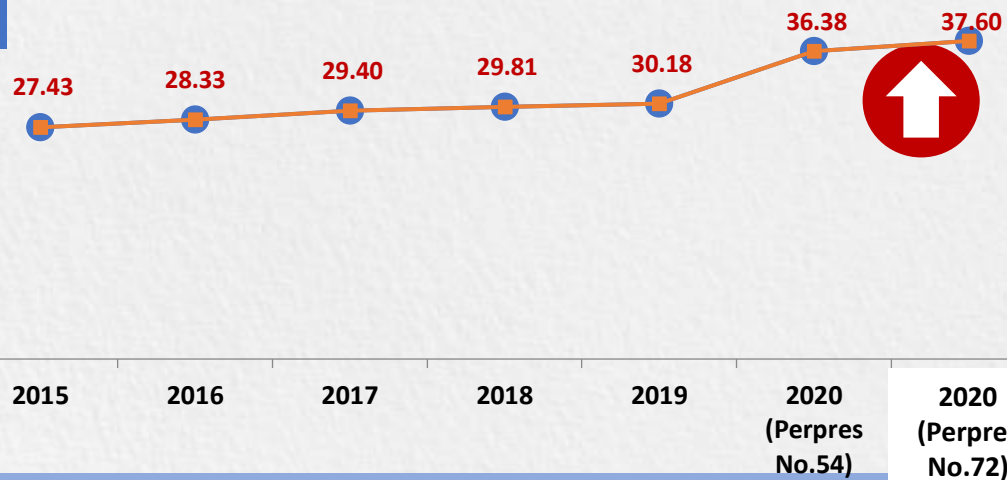
1

Deficit (% GDP)



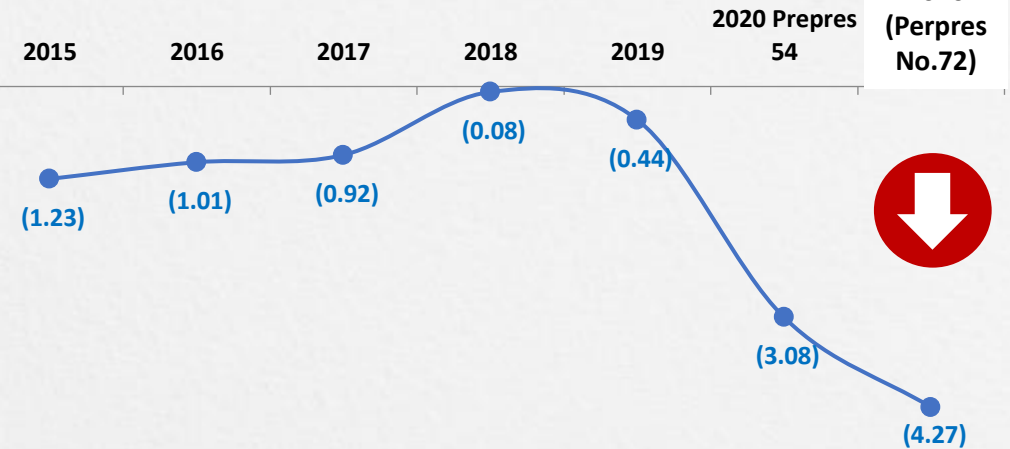
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Debt Ratio (% PDB)



3

Primary balance (% PDB)



4

Tax Ratio (% PDB)



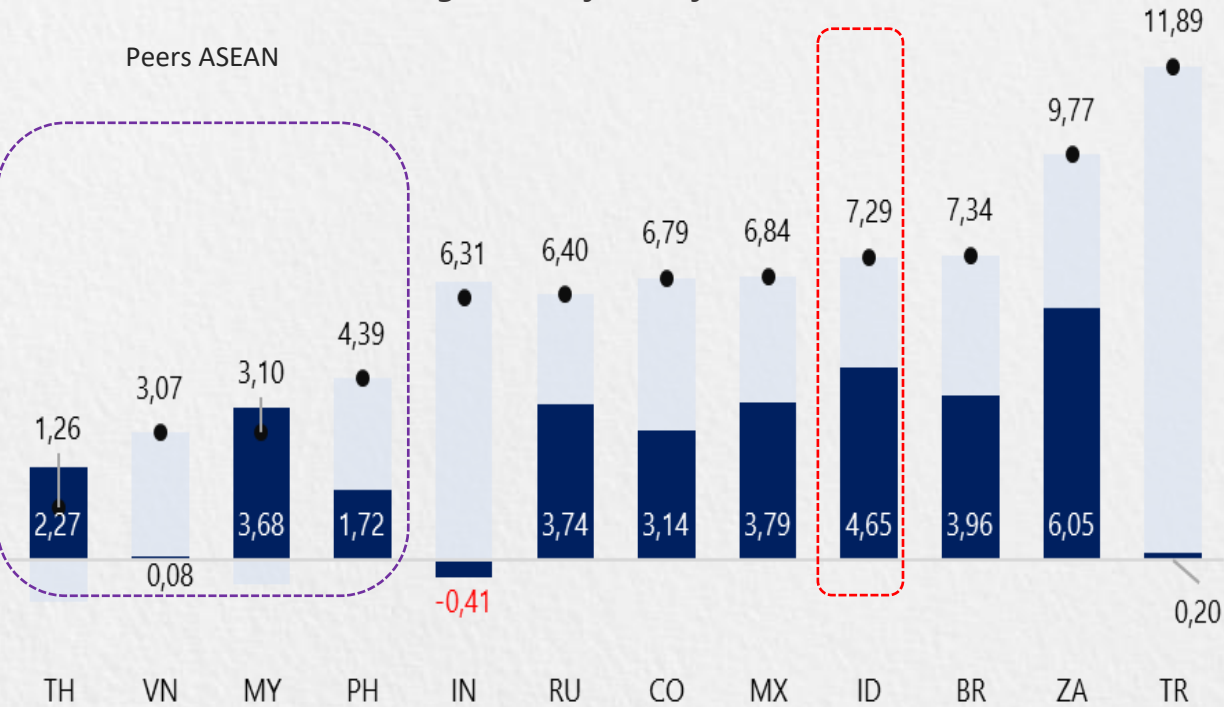


Concern over debt-dynamic

Higher yield reflects country risks and exchange rate risks

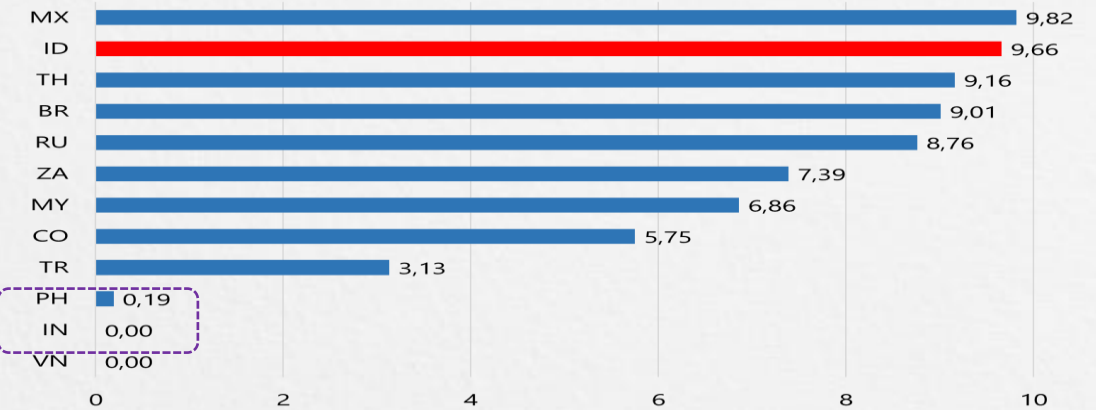
Average LCY 10y 2020 ytd (15-Mei)

Peers ASEAN

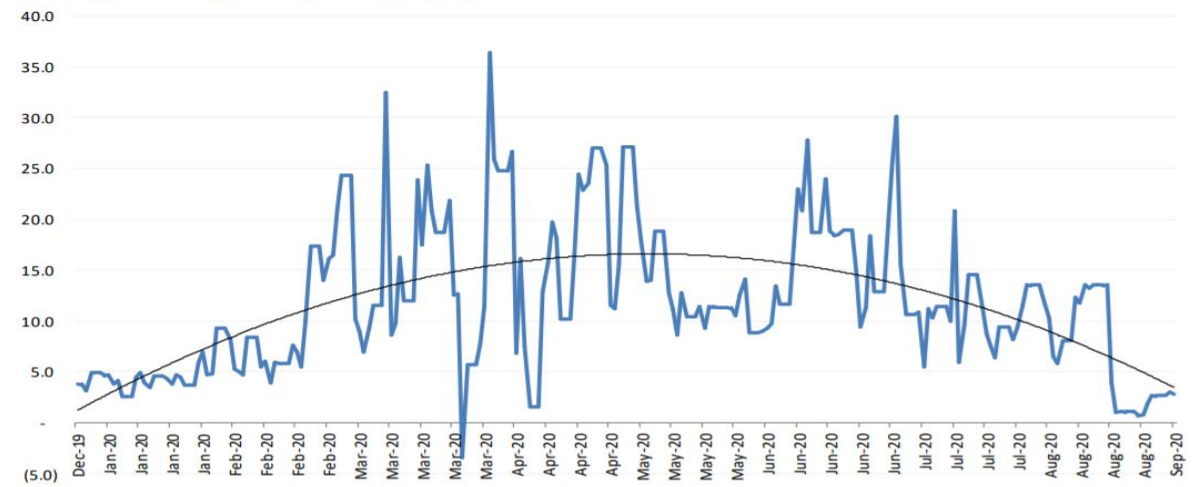


JP Morgan GBI-EM Index (ao June-20)

Bobot pada JP Morgan GBI-EM (a.o. Jun-20)



Implied 1mo USDIDR NDF yields





Financing the recovery

Burden sharing scheme with Bank Indonesia

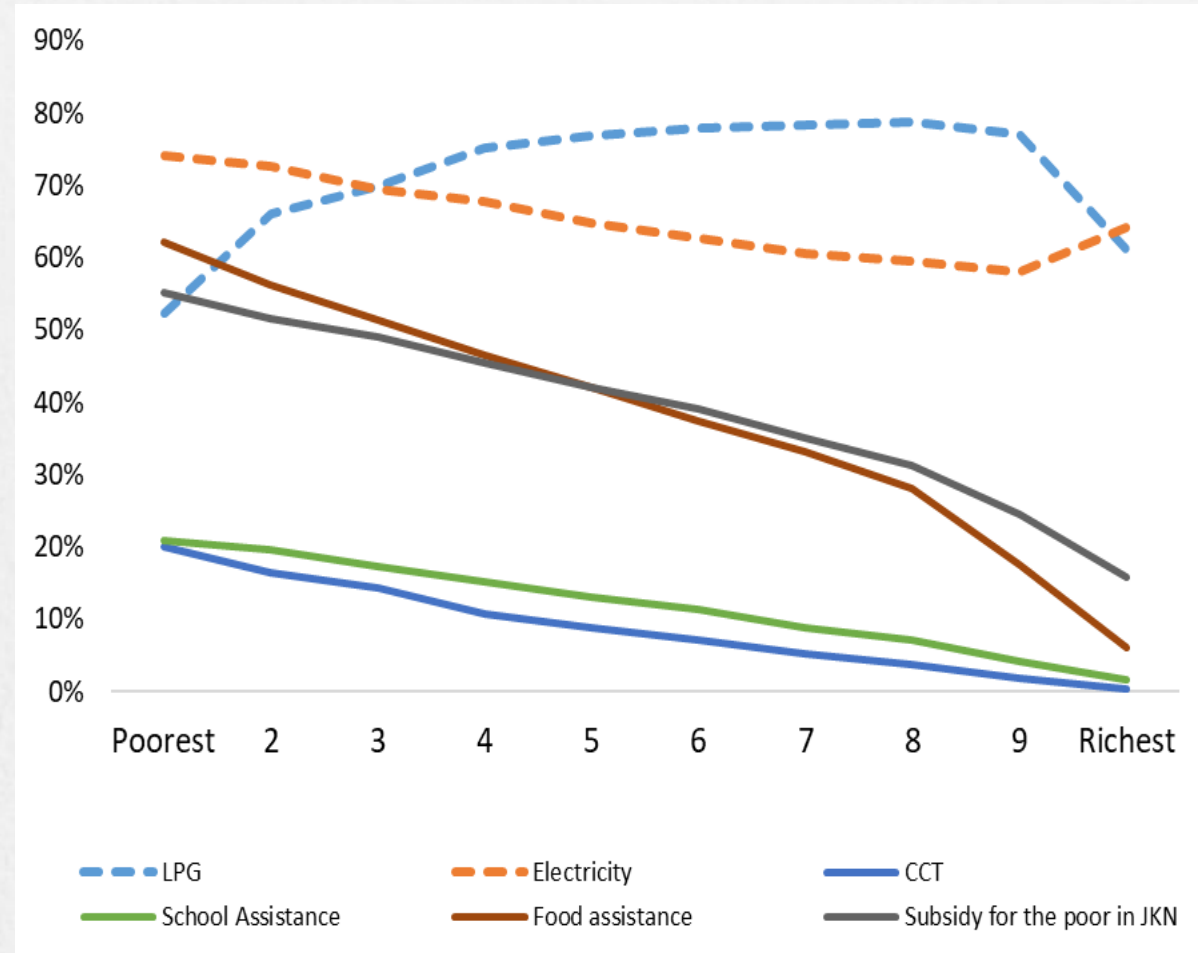
	Public Goods Expenditures	Non-Public Goods	Other Expenditures
Allocations	<p>Social safety net, health expenditure, labor intensive and regional government support</p> <p>Financing Need: IDR 397.56 trillion</p>	<p>interventions for MSMEs and corporation, capital injection and government investment for SOEs, fund placement</p> <p>Financing Need: IDR 177.03 trillion</p>	<p>Tax incentives, other non-public goods expenditure</p> <p>Financing Need: IDR 328.87 trillion</p>
Instruments	Government bond that will be purchased by BI 100% through private placement	Government bond that will be offered through conventional market. BI will act as LOLR	Government bond that will be offered through conventional market. BI will act as LOLR
Coupon Rate	<ul style="list-style-type: none"> At BI Policy Rate (BI reverse repo rate) BI will bear 100% of interest expense 	<ul style="list-style-type: none"> At market coupon rate BI will bear the interest expense as much as the difference between market coupon rate and BI reverse repo rate minus 1% Government will bear the rest of it 	<ul style="list-style-type: none"> At market coupon rate Government will bear 100% of interest expense
Other Description	<ul style="list-style-type: none"> All government bonds issued for the recovery program are tradeable Applicable only for 2020 COVID-19 related spending 		



Lesson learned and future reforms

Improve spending quality and optimize revenue generation

1. Modern and strong social protection program. Improve the unified database for social protection (DTKS).
2. Better targeting of subsidies and social assistance beneficiaries
3. Revenue reforms to supports higher growth and sustainable development





Terimakasih