

Economic Update

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Indonesia Update Conference, 7 Sept 2020

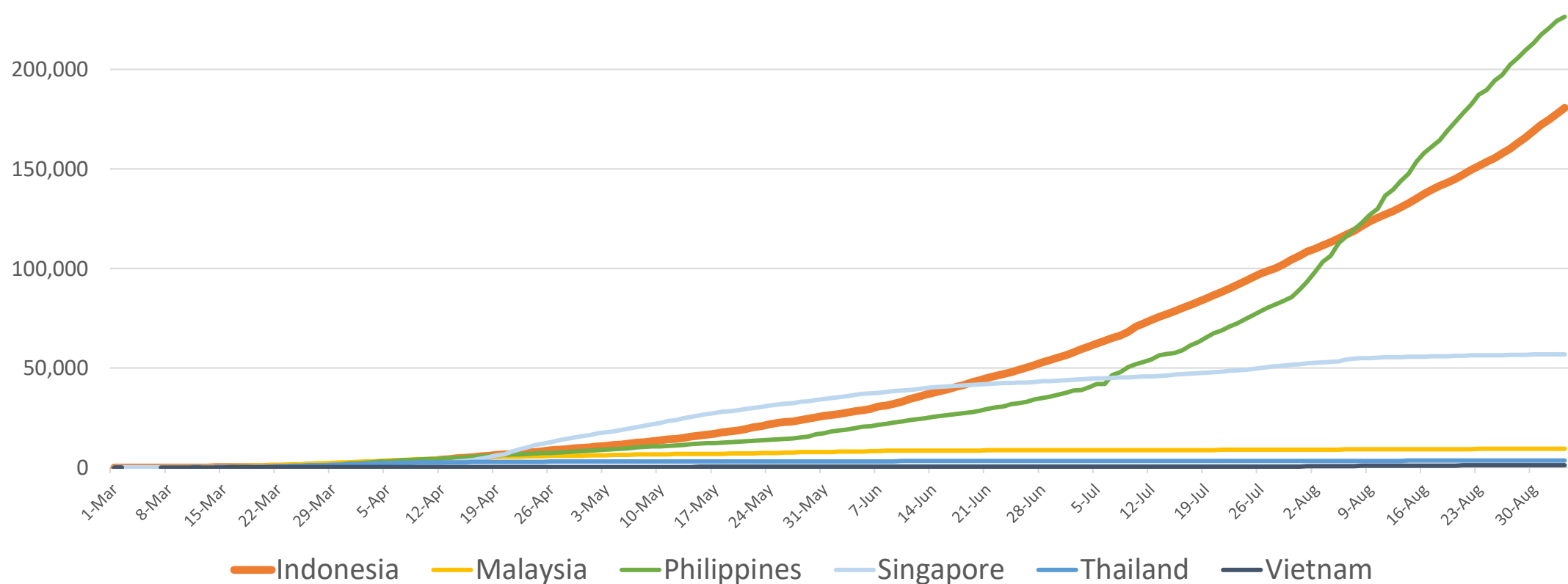
Overview

- Covid-19 in Indonesia
 - Covid-19 infections in Indonesia still accelerating
 - Instruments for containing Covid-19 are limited
- Economic developments
 - Strong economic downturn
 - First signs of poverty increase
- Policy response
 - Focus on economic recovery, boosting consumption, poverty reduction
 - Existing social protection programs not designed for the pandemic

COVID-19

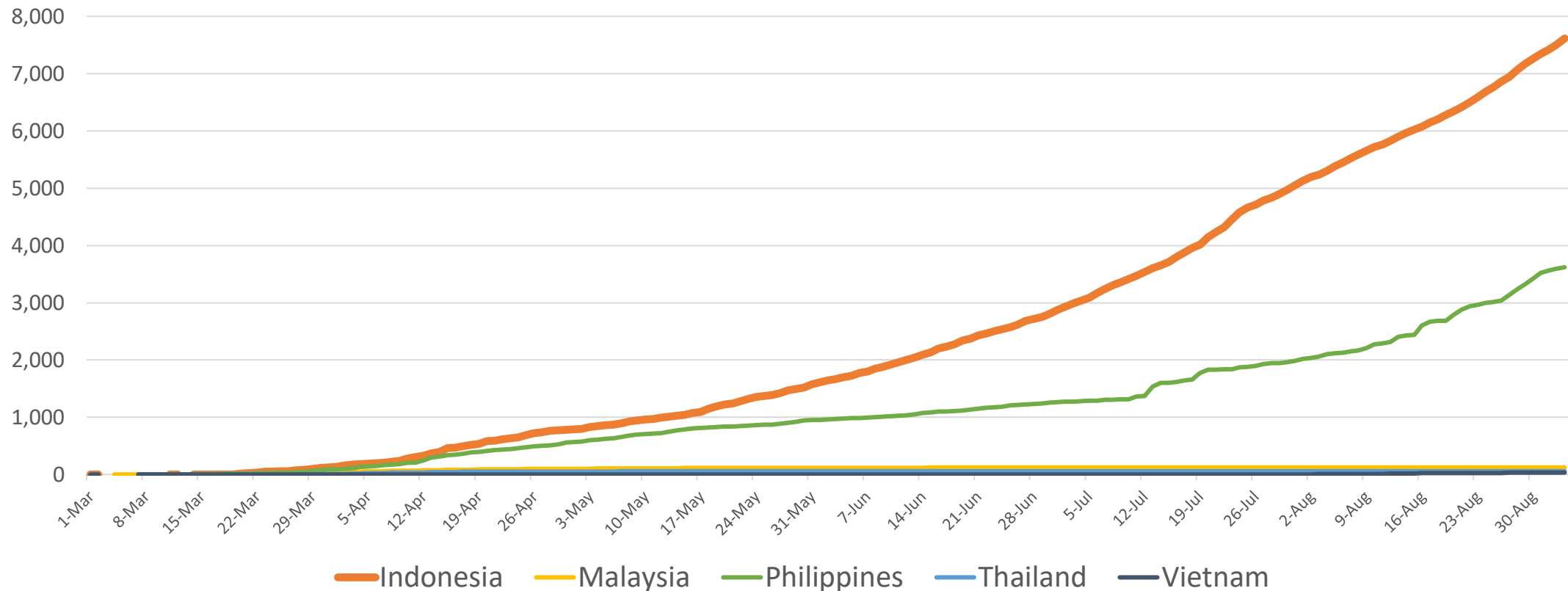
Strong increase in cases relative to region

Total cases in Indonesia and neighbouring countries (Mar-Sept 2020)

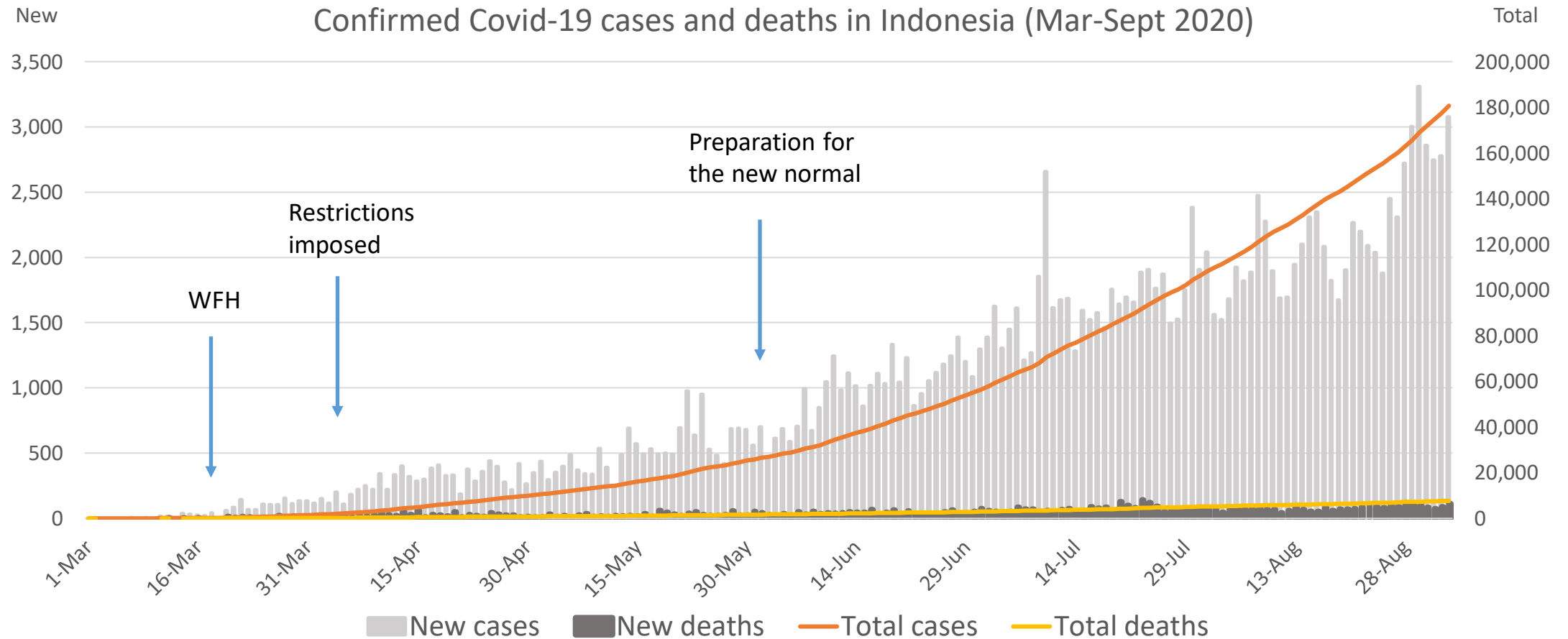


Strong increase in deaths relative to region

Total Covid-19 deaths in Indonesia and neighbouring countries (Mar-Sept 2020)

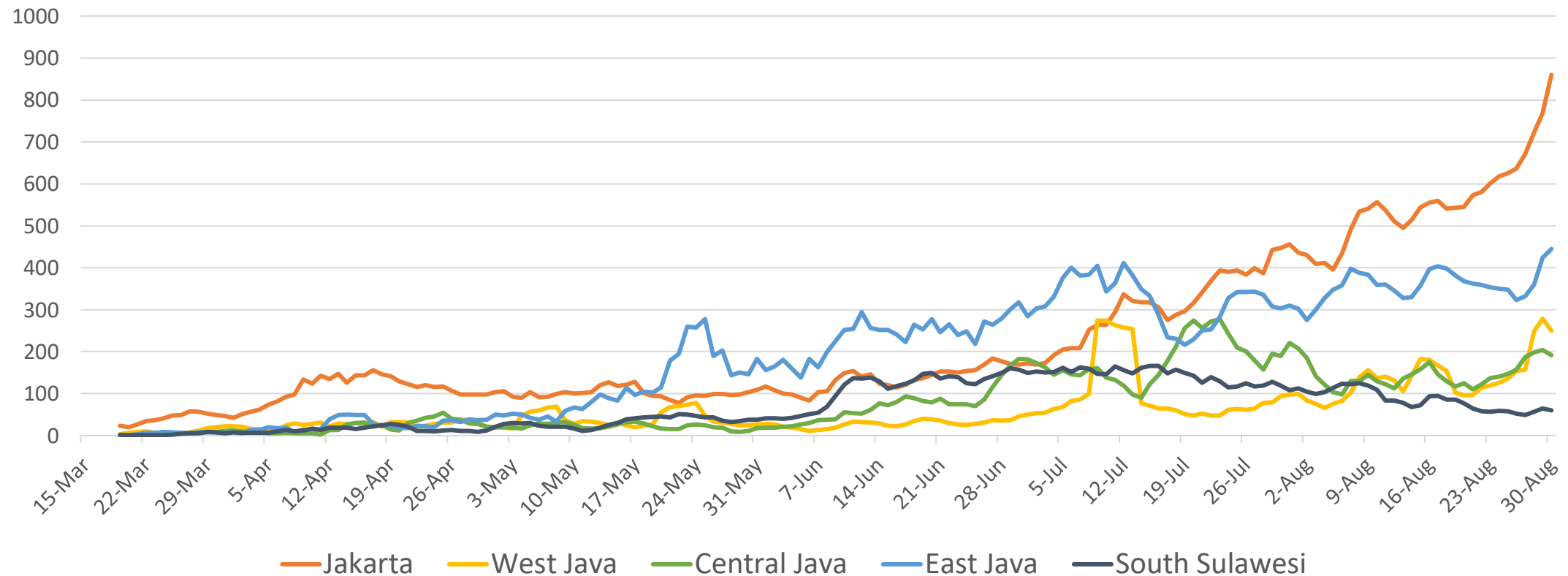


Infections and deaths still accelerating

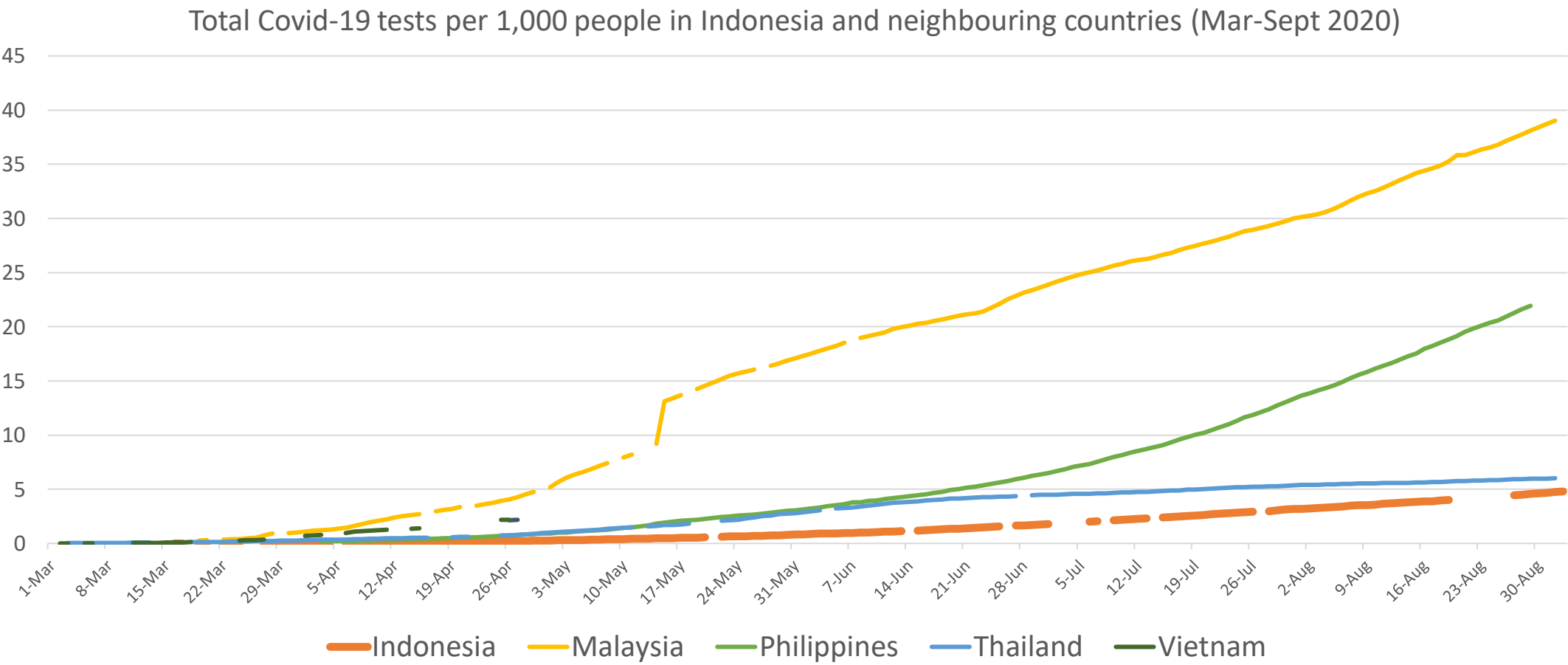


Increase strongest in East Java and Jakarta

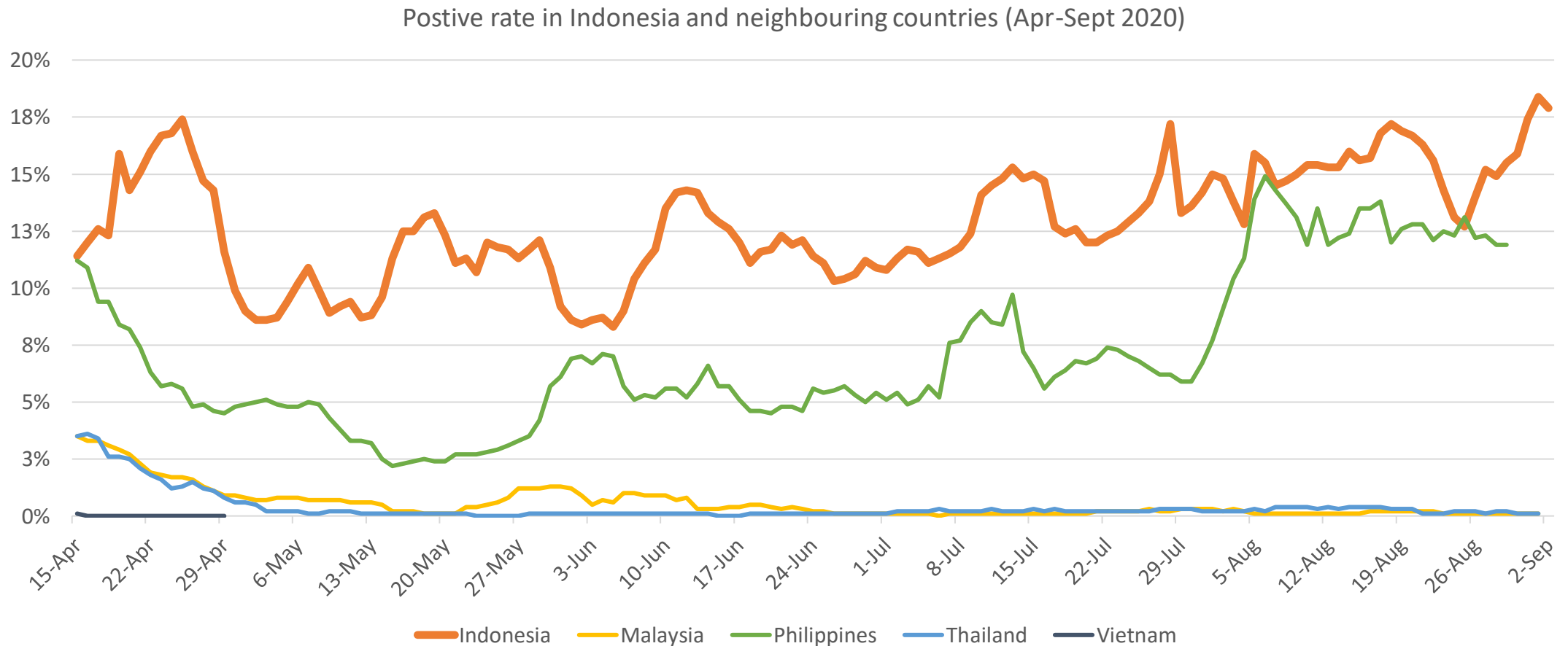
Daily new cases in selected provinces
(5-days moving average in the 5 most affected provinces)



Testing and contact tracing remains limited



Narrow testing: positive rate remains high



Issues and implications of testing in Indonesia

- Systemic constraints
 - Lack of testing capacity (facilities, tests)
 - Lack of coherent procedures for contact tracing
- Narrow testing limits ability to slow down disease spread
 - Asymptomatic and mild cases unlikely to be detected
 - Positive rate currently between 13-18% (WHO target: 5%)
 - High death rate as further sign

Covid-19 in Indonesia

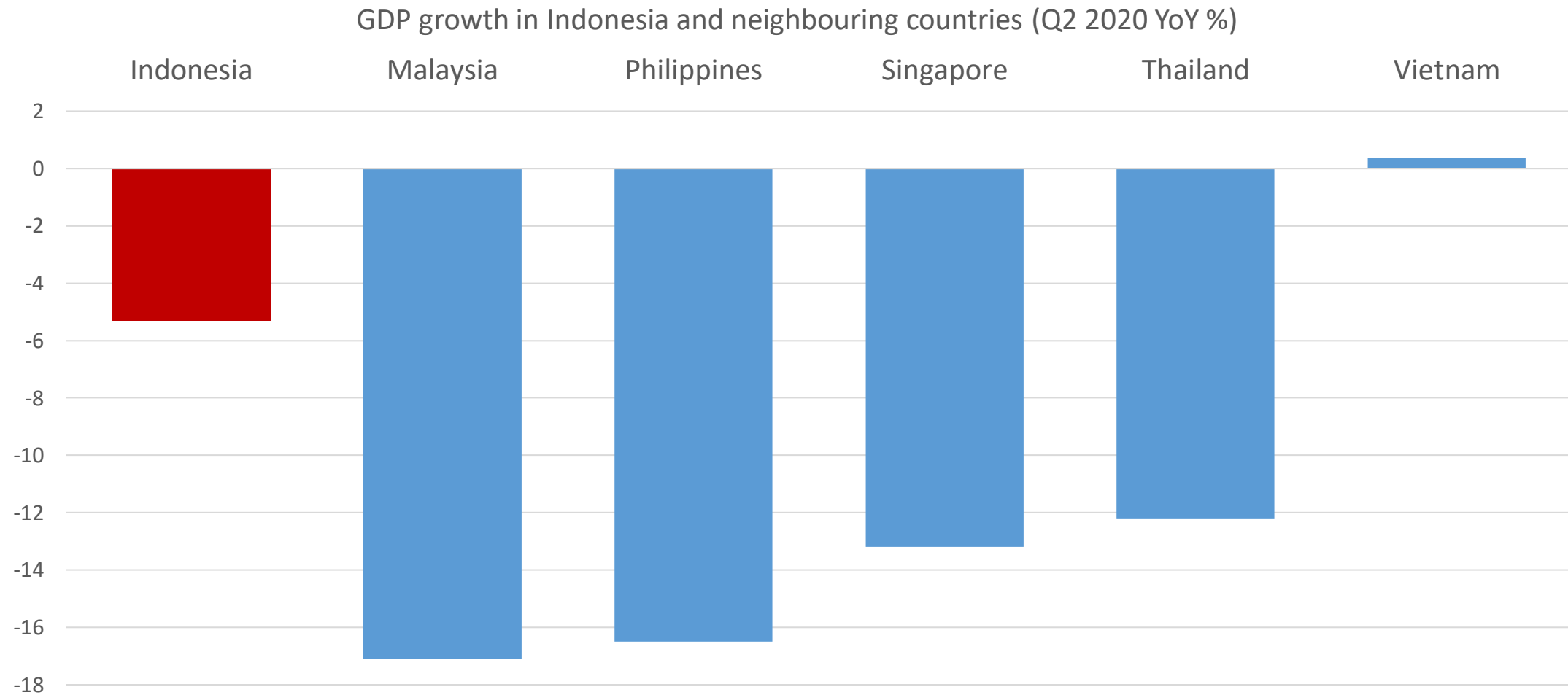
- Covid-19 is not under control
 - Infections still increasing
 - Restrictions relaxed when infections still accelerating
- Systemic shortcomings to policy instruments
 - Lock down ruled out
 - Testing and contact tracing capacity limited
 - Compliance to preventive public health measures

ECONOMIC DEVELOPMENTS

Strongest quarterly GDP slump since 1999

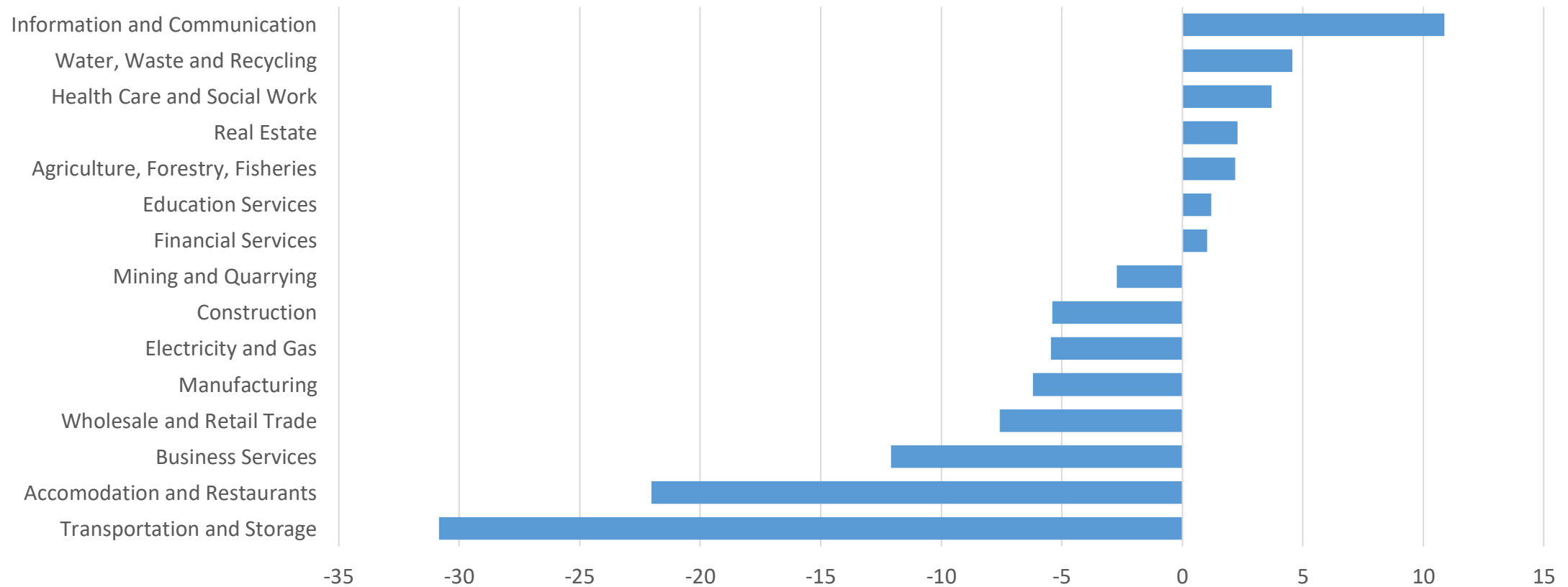


... but relatively modest compared to region



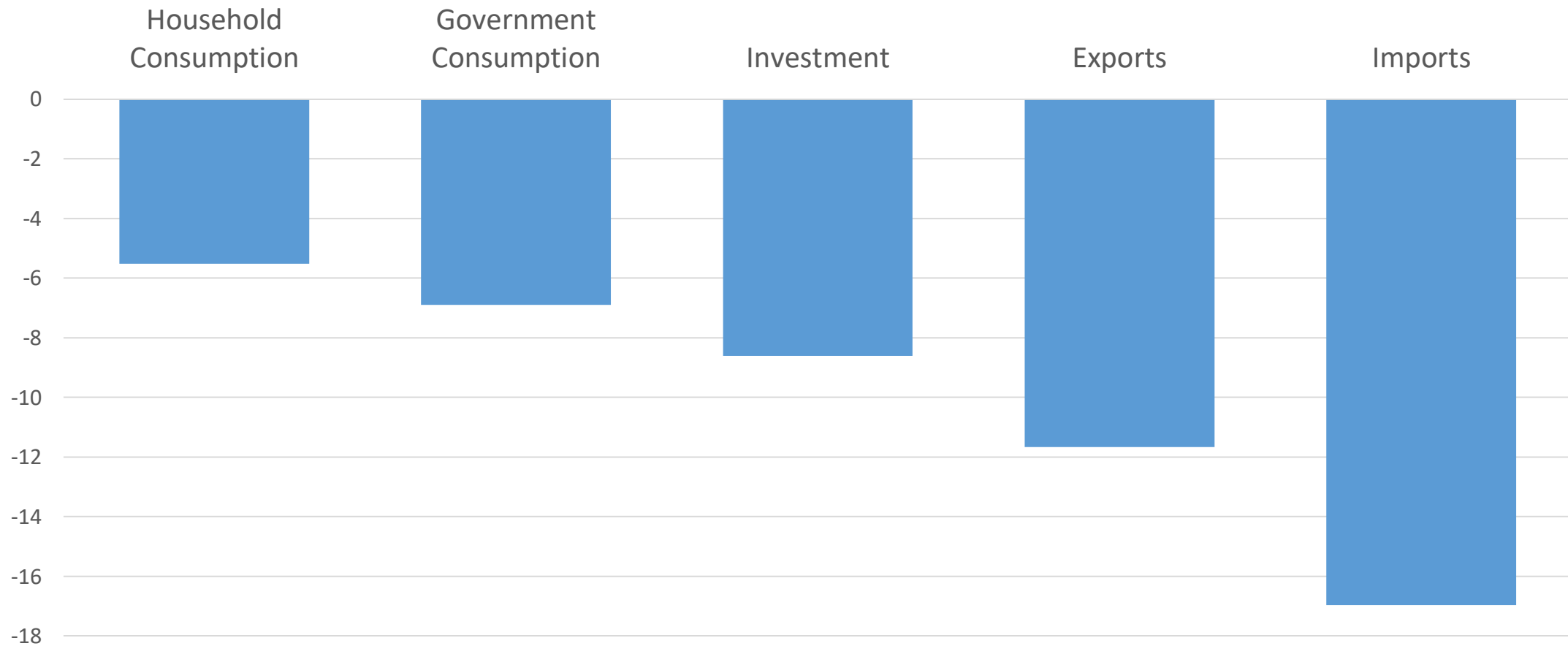
... and large variation across sectors

GDP growth by sector (Q2 2020 YoY %)



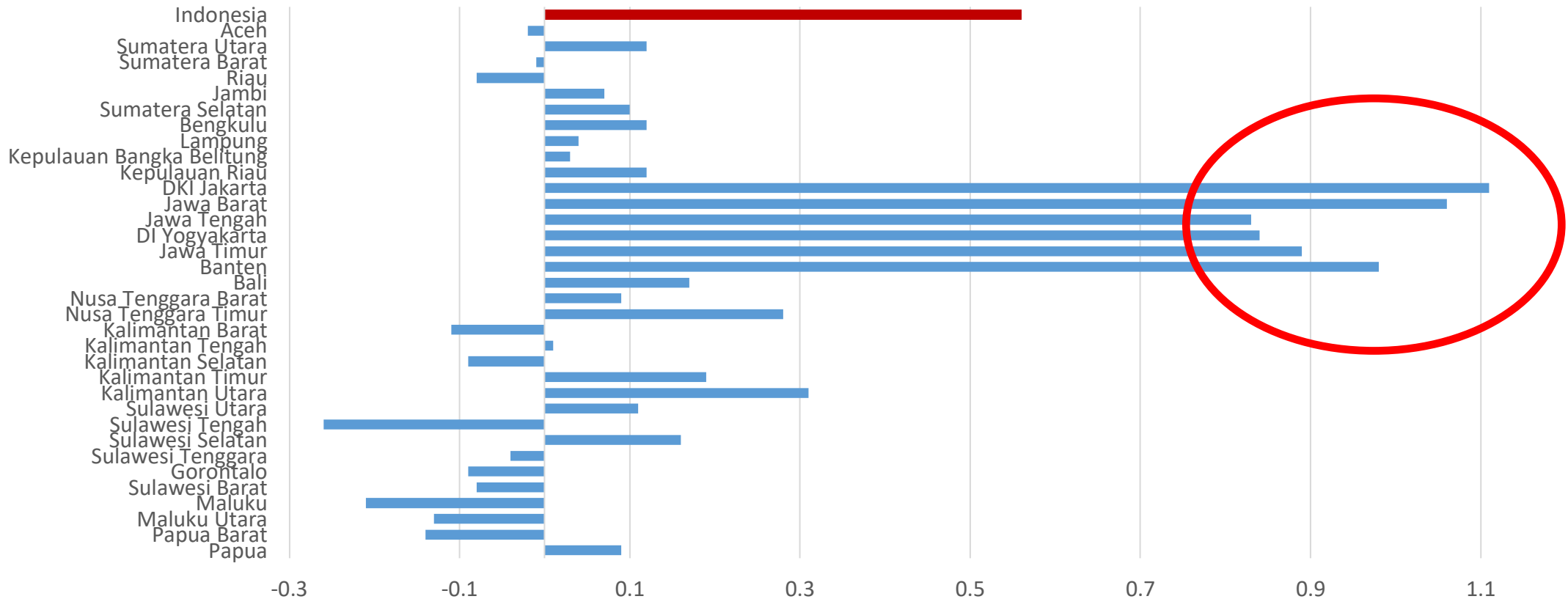
Expenditure and trade declined

GDP growth by expenditure (Q2 2020 YoY %)

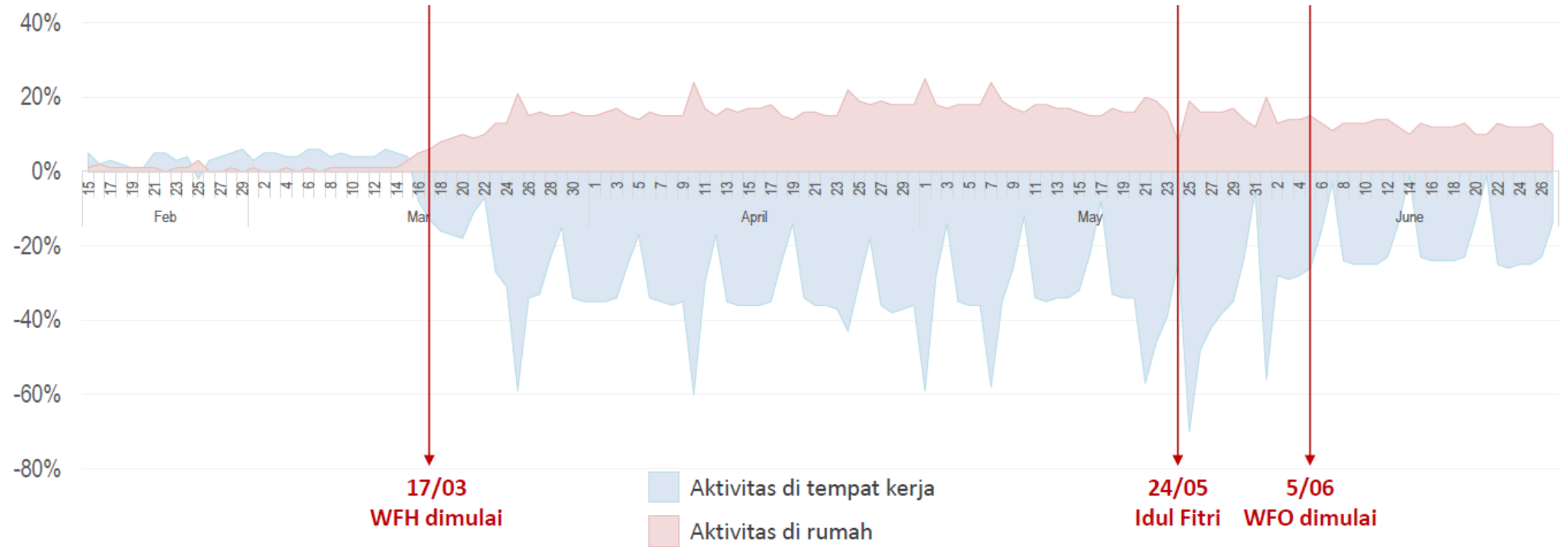


Early signs of poverty increase, mainly on Java

Change in poverty incidence September 2019 to March 2020 (%-point)



Economic mobility reduced following WFH



Source: BPS (2020)

Poverty effects: transient or structural?

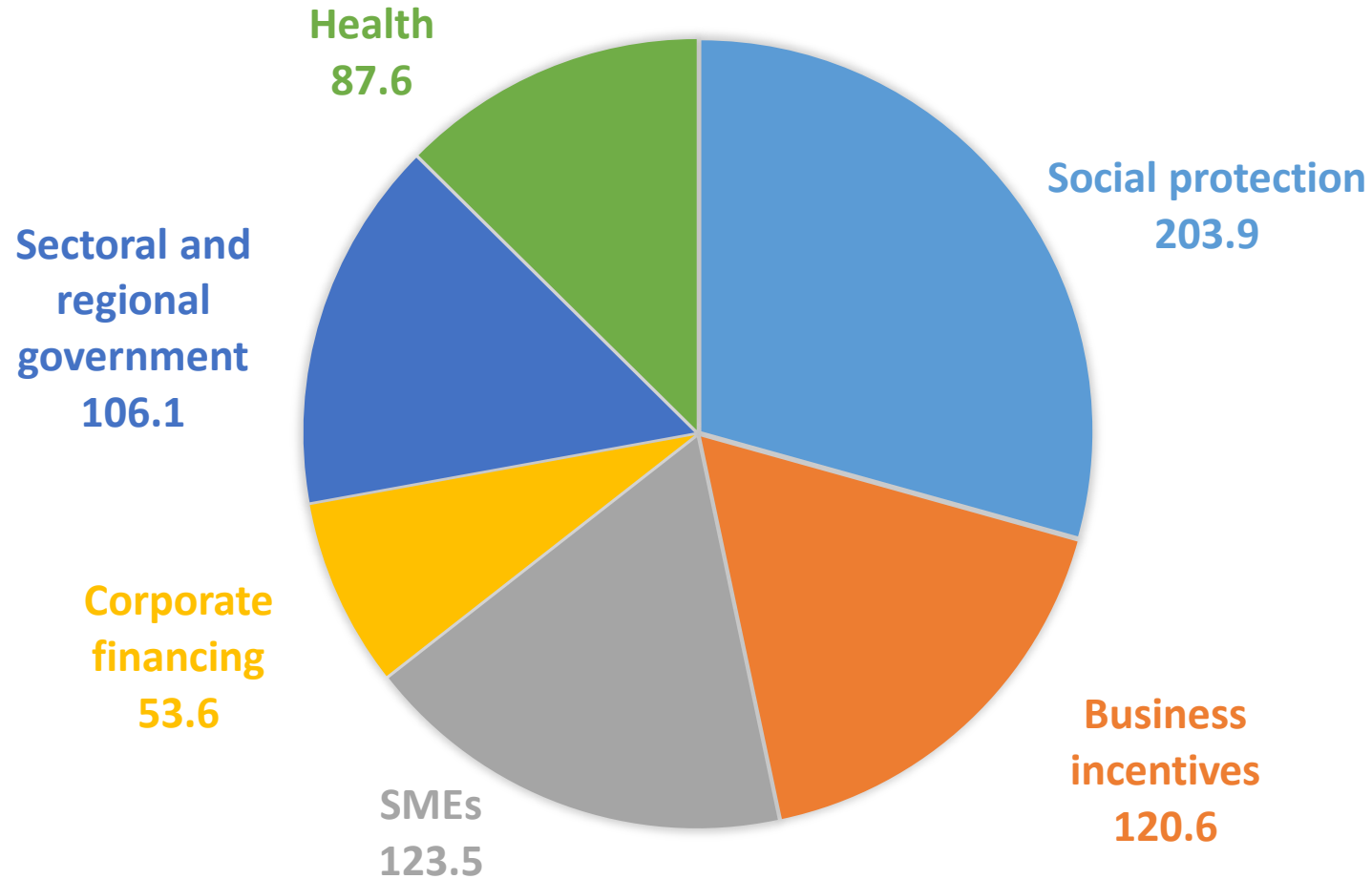
- Short-term poverty reflect immediate income effects from restrictions
 - Potentially transient
 - Role for social protection programs
- Long-term poverty effect driven by structural causes
 - Economic recessions and unemployment
 - Potential skill-biased recovery
 - Beyond social protection programs
 - Support private sector

Economic developments

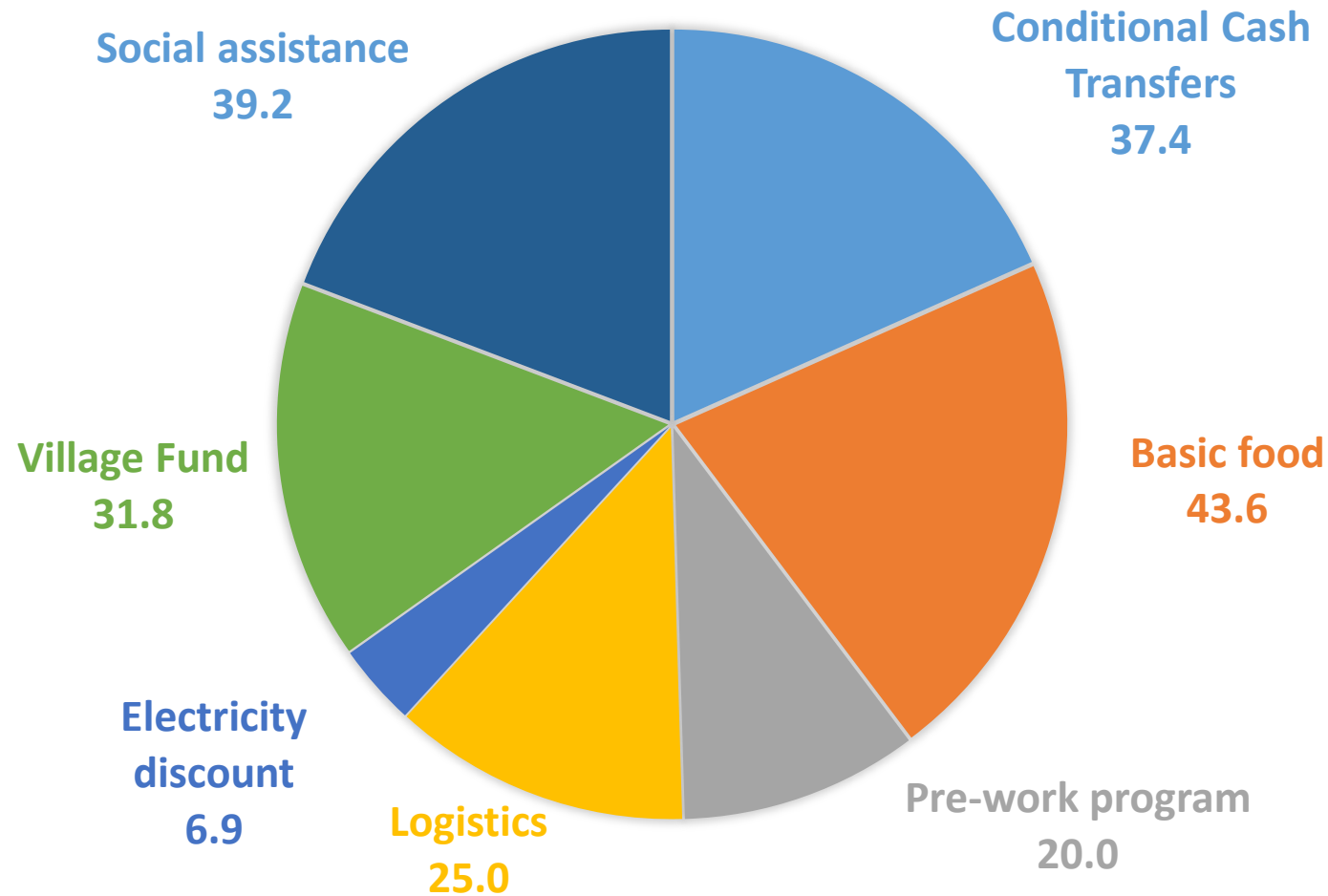
- Economy was hit hard by the Covid-19 crisis
 - GDP reduced by 5.3% in second quarter of 2020
 - Fears of further recession if Covid-19 not contained
- First signs of poverty increase already in March
 - Mainly Java; mobility reductions
- Long-term poverty profile is likely to change
 - Potential skill-bias
 - Policy focus on job loss and supporting private sector

POLICY RESPONSE

Recovery package: 695 trillion (4.2% GDP)



Social protection: 204 trillion (1.2% GDP)



... but disbursements are slow

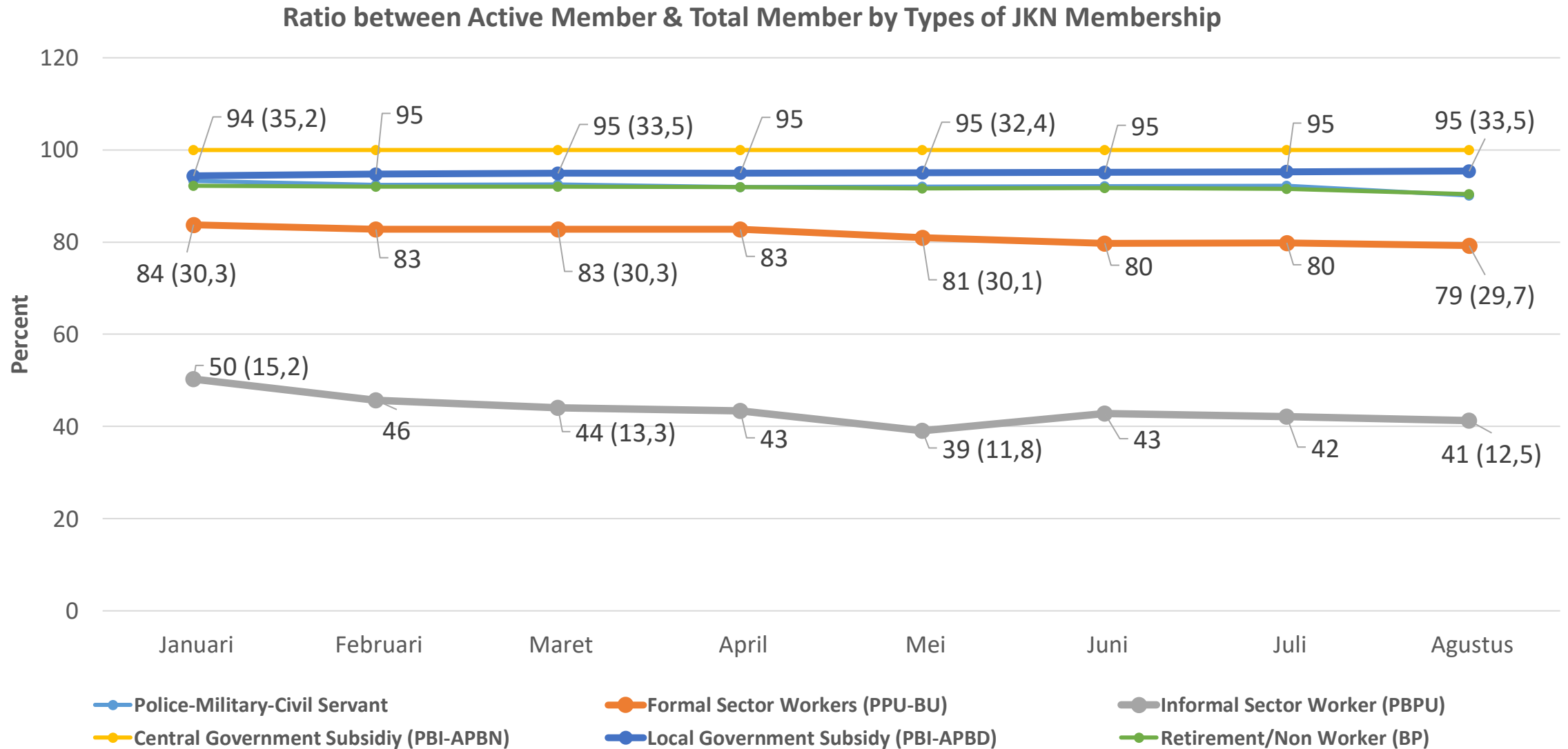
- Total recovery package: 31%
- Social protection: 56%
- SMEs : 42%
- Health: 17%
- Sectoral and regional government: 17%
- Corporate Financing: 0%
- Businesses incentives: 16%

Source: Ministry of Finance, August 31, 2020 (% of allocated budget)

Limited scope of social protection programs

- Focus on consumption and poverty reduction
- Provided through existing programs (i.e. CCT, food, village fund, ...)
- However, these programs are not designed for a pandemic
 - Mainly reaching poor and rural households
 - Gaps with urban (lower) middle incomes affected by Covid-19
 - Targeting data base good instrument for normal times
 - But not for large shocks and poverty dynamics
 - Designing new programs has so far been unsuccessful
 - No focus on long-term unemployment

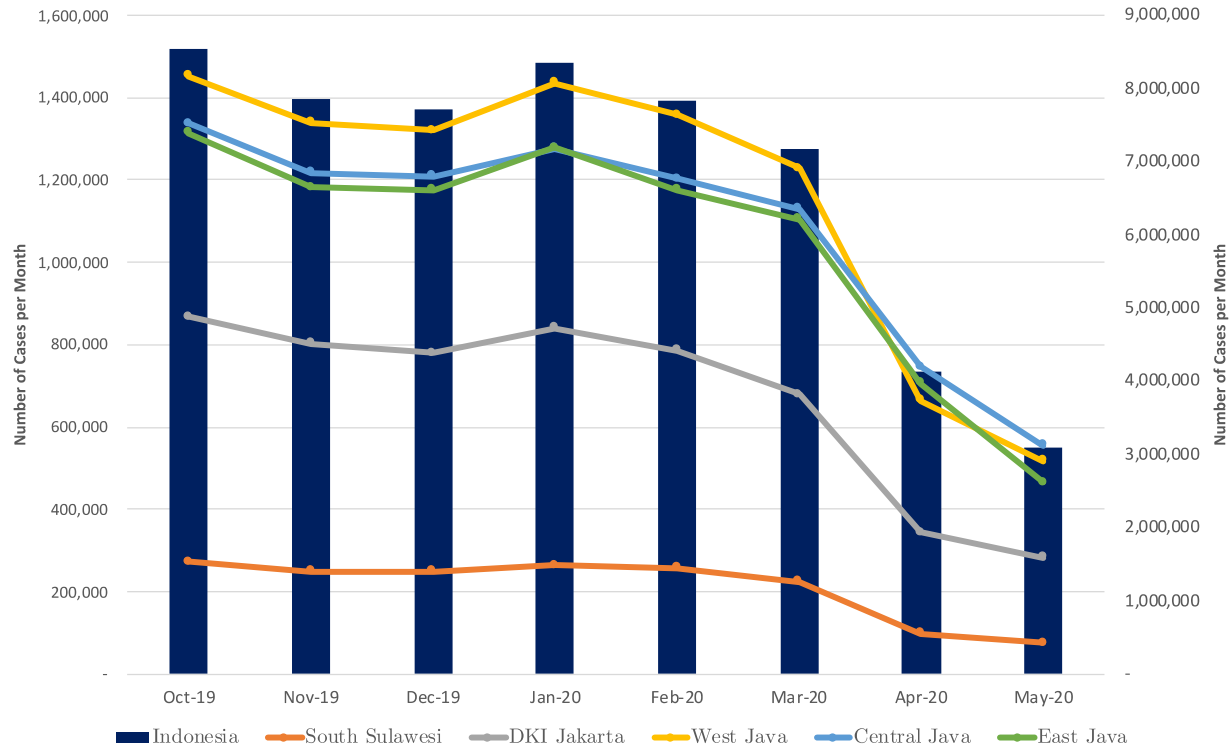
Social Health Insurance: drop outs



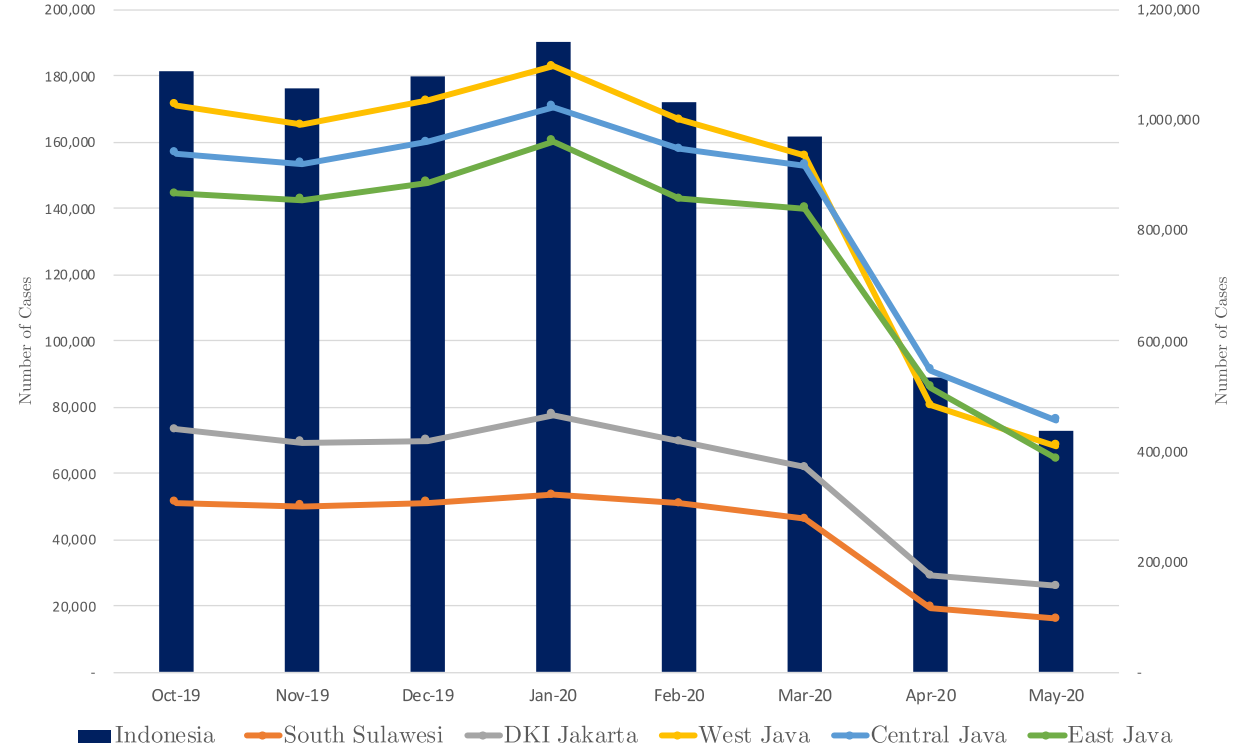
Note: figures in parenthesis are active members (millions). Source: BPJS Kesehatan

Strong reductions (delays) in utilization

Trend of Outpatient Referral (Advanced Medical Treatment)



Trend of Inpatient



Social Health Insurance: financial sustainability

- Active memberships decreased by 5.43 million
 - Informal sector workers: 2.65 million
 - Local government subsidized group: 1.72 million
 - Support through recovery budget not yet disbursed
- Implication for financial sustainability
 - Revenue losses (membership premiums)
 - Reduced utilization (social distancing; reduced health services)
 - In the short-run: reduced utilization delays impact
 - In the long-run: expected rebound in utilization but lower revenues

Policy response

- Focus on safeguarding the economy
 - But without controlling infection rates this may not be successful
- Recovery package in place, but the implementation is slow
- But strong focus on boosting consumption and poverty reduction
 - Existing social protection programs not designed for pandemic
 - Excludes (lower) middle incomes
 - More support for private sector, for example through firm subsidies instead of wage subsidies to workers

Terima kasih



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