

Indonesia Economic Prospects July 2020

The Long Road to Recovery

Frederico Gil Sander
Lead Economist

Entering
2020, the
road
seemed
long but
straight...



Competitiveness reforms
to boost Indonesia's speed:

- Openness
- Human capital
- Infrastructure

2045?

⋮

2022

2021

2020

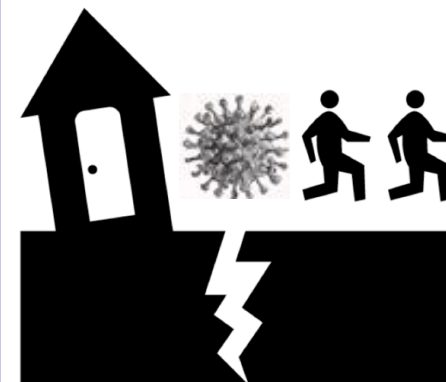
2019: Indonesia crosses
Upper-Middle Income
threshold

...but
then...



**KURANGI
KECEPATAN
SEKARANG**

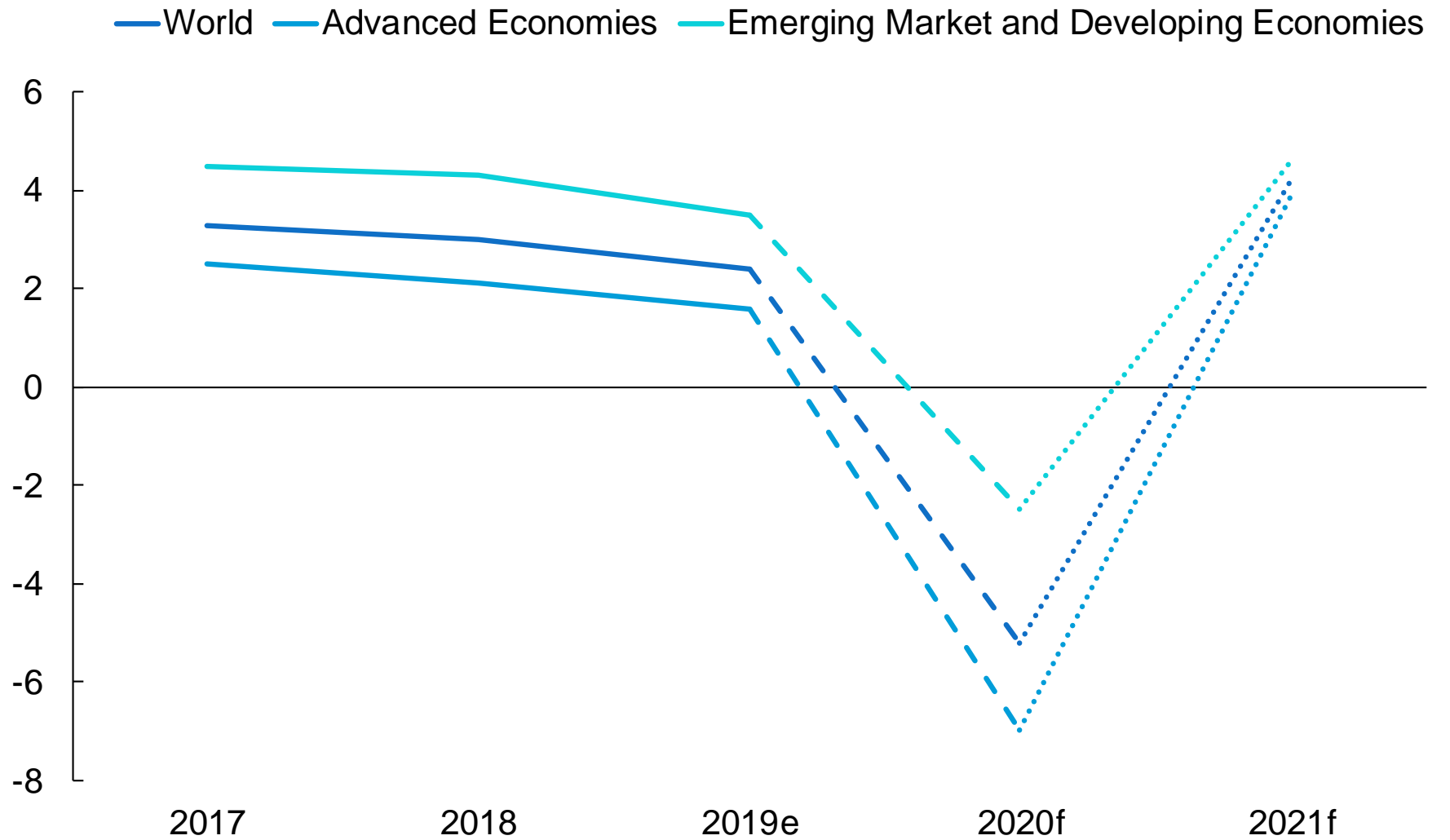
AWAS!
COVID DI DEPAN



...covid-19
led to a
major
global
economic
shock...

Annual World GDP

(yoy growth)



Source: World Bank Global Economic Prospects

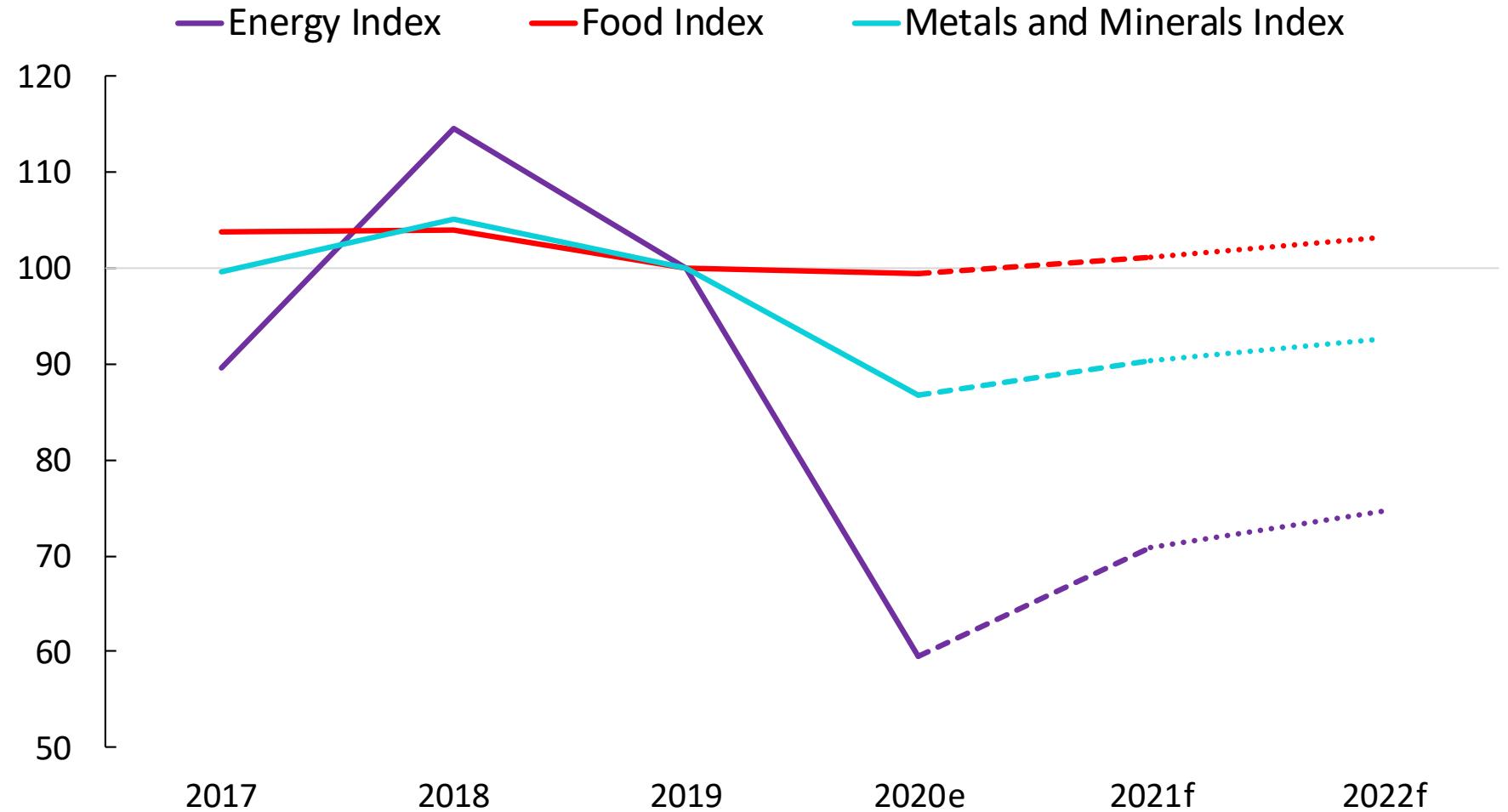
Note: (e) is estimated, (f) forecast



...lower
commodity
prices...

Commodity Prices and Projections

(Index: 2019 = 100)



Source: World Bank commodity price projections, April, 2020

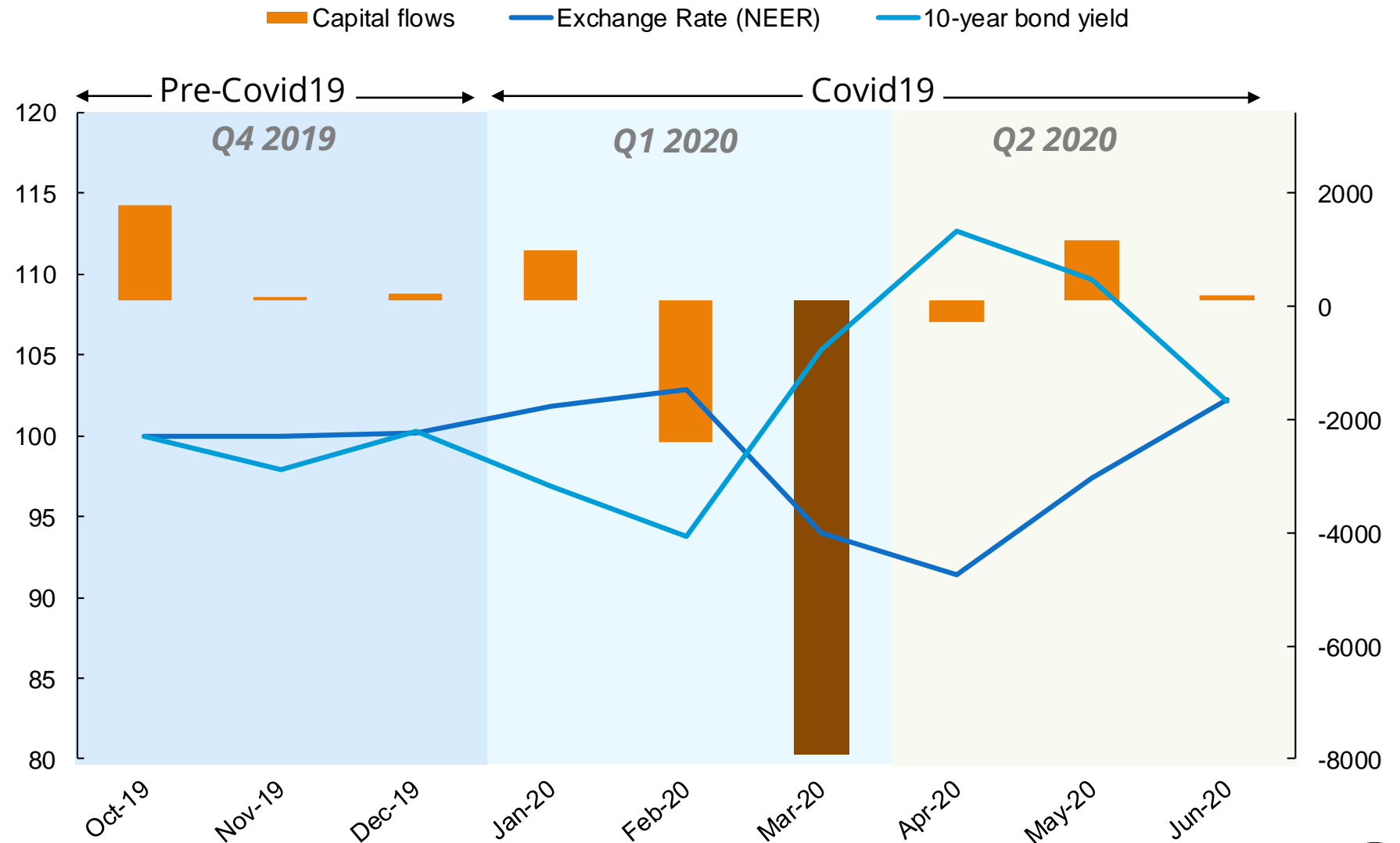
Note: 2019=100, (e) is estimated, (f) is forecast



...massive
capital
outflows
from
emerging
markets...

Exchange Rate, Bond Yields, and Capital Flows (Indonesia)

(NEER Index and Yield Index, LHS; Capital flows, USD million, RHS)



Source: IIF, BI, BIS, World Bank staff calculations

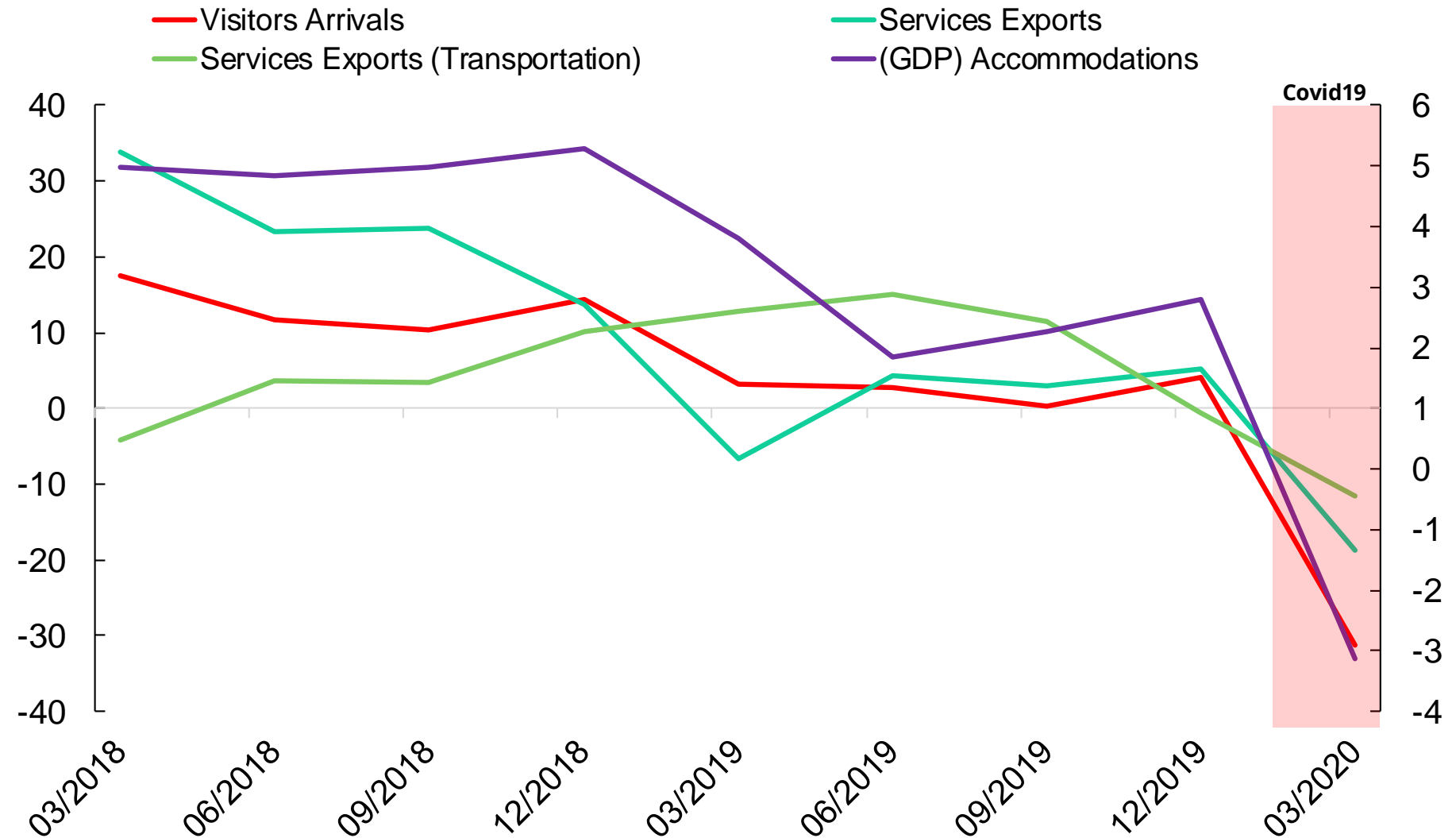
Note: October 2019 = 100 for NEER and 10-year bond yield



...and
freezing
tourism
flows

Tourism Indicators (Indonesia)

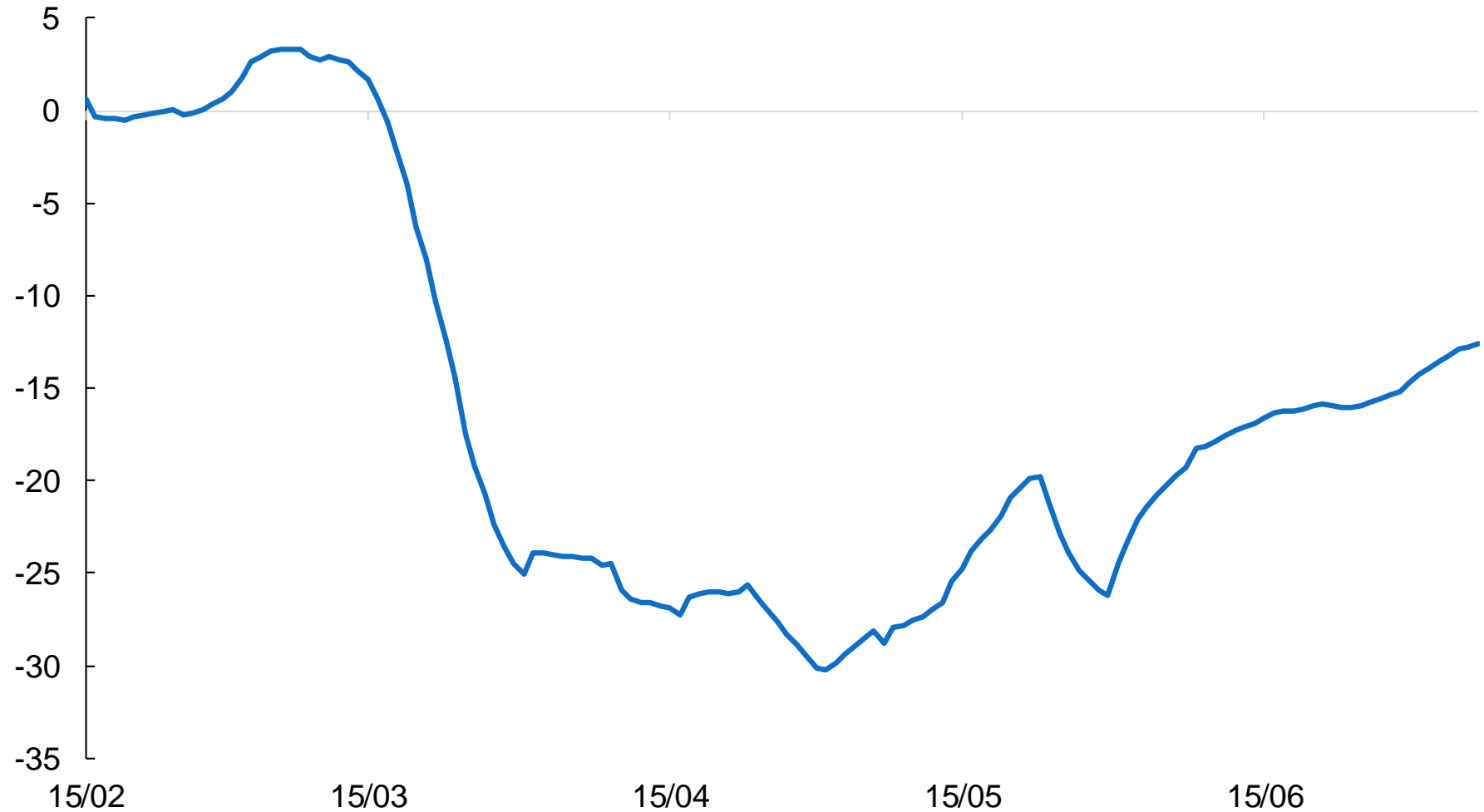
(yoy growth, LHS; yoy growth for GDP, RHS)



Domestic mobility restrictions to manage the spread of Covid limited both supply and demand

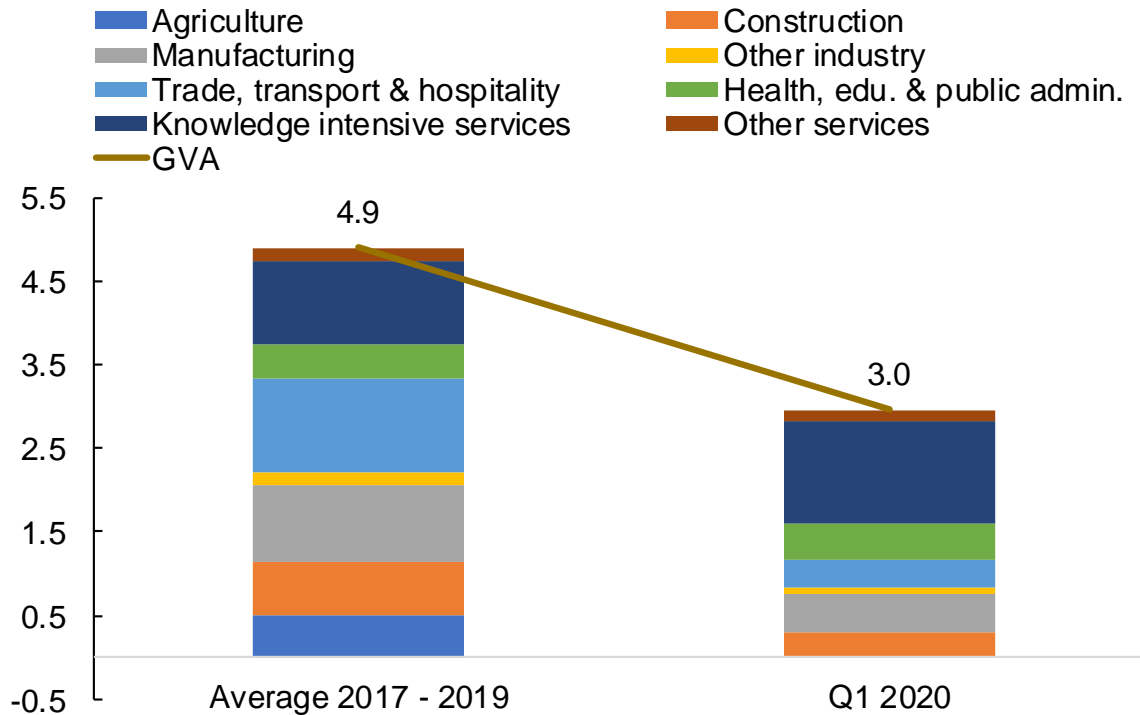
7-Day Moving Average of Google Mobility Index

(Percent change from baseline (=0))



GDP by Industry

(contributions to growth yoy, percentage points)

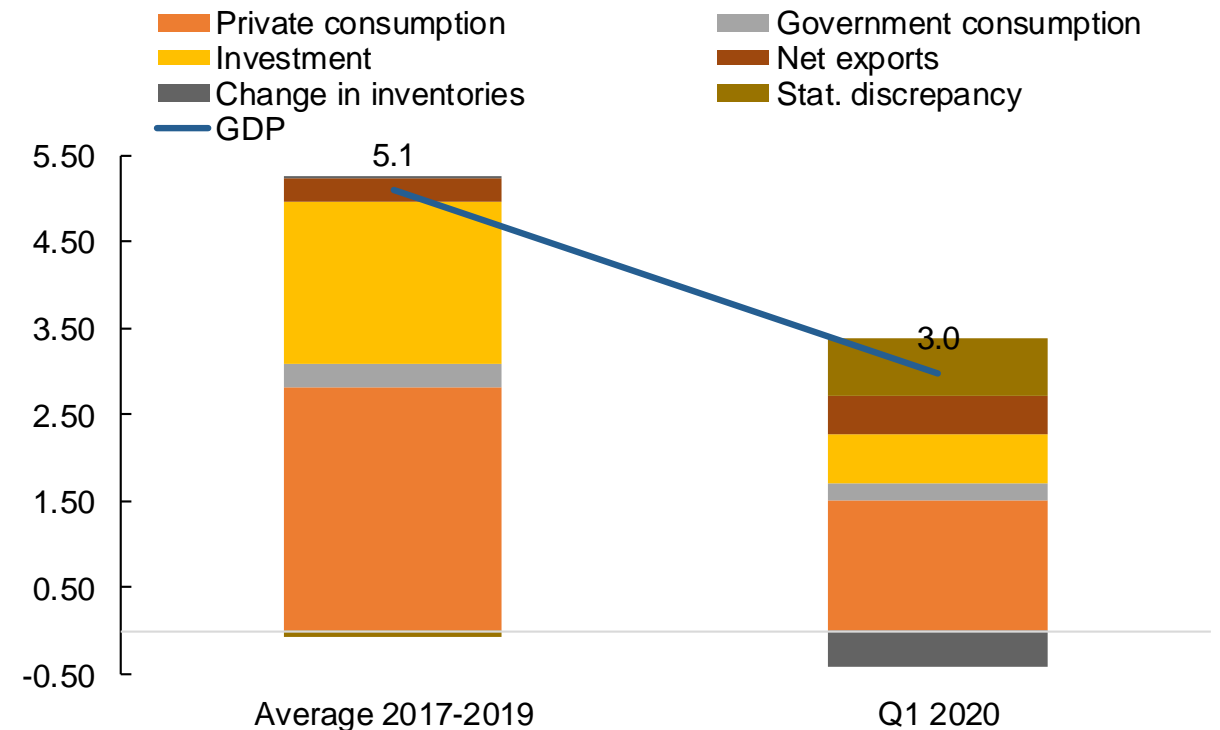


Source: BPS; World Bank staff calculations

Notes: Knowledge intensive services consist of information and communication, financial and insurance activity, real estate, and business services. Trade, transport & hospitality consist of wholesale and retail trade, repairs, transportation and storage, and accommodation and F&B activities

GDP by Expenditure

(contributions to growth yoy, percentage points)



Labor-intensive sectors slowed, while knowledge-intensive sectors were resilient

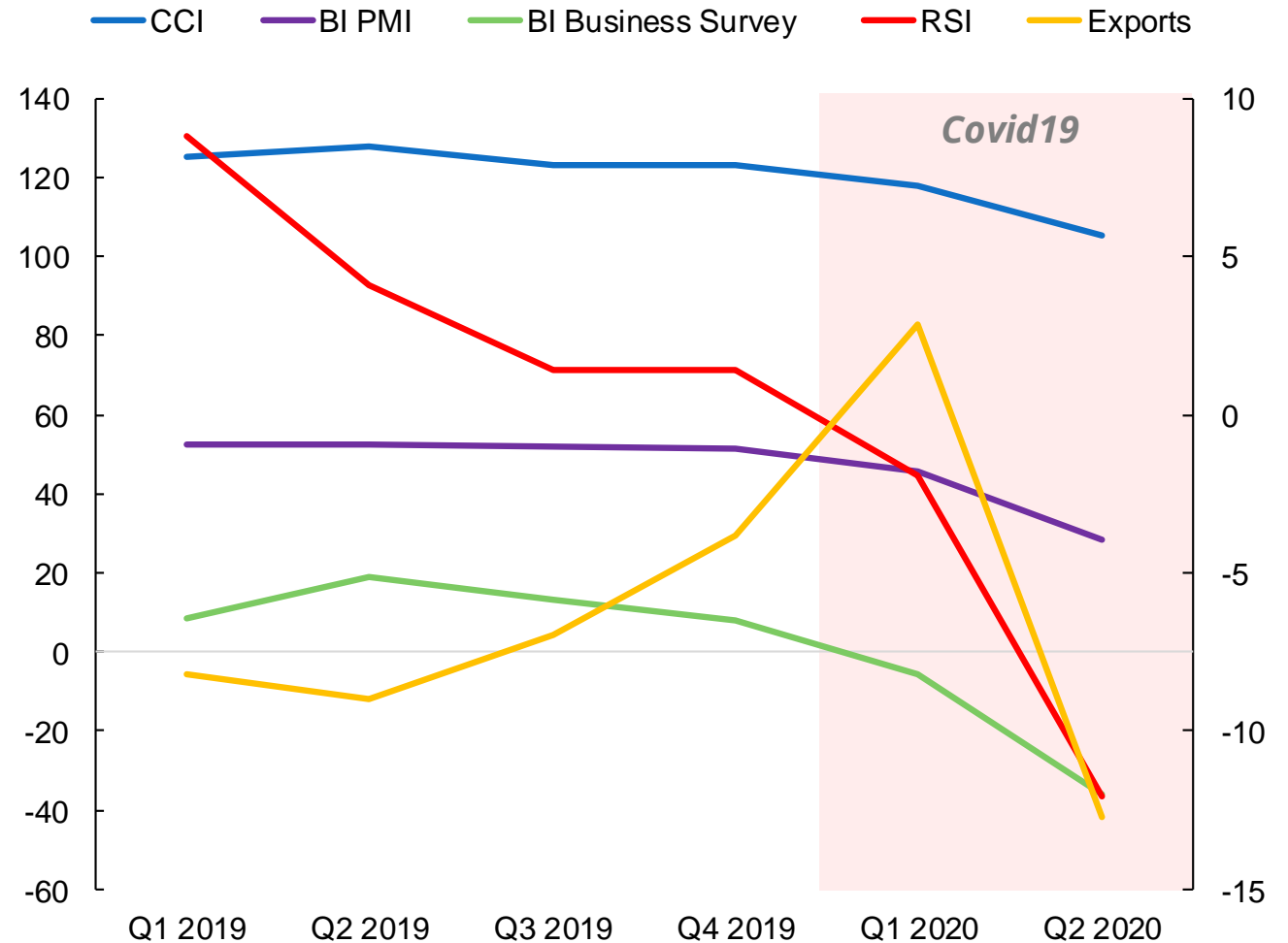




The shock deepened
in Q2, likely leading
the economy to
contract

Retail sales, consumer confidence, BI Business Survey, BI PMI, and exports

(index, LHS ; yoy growth, RHS)



Source: Bank Indonesia, BPS; World Bank staff projections

Note: CCI is Consumer Confidence Index, RSI is Retail Survey Index, BI PMI is Bank Indonesia's Prompt Manufacturing Index, BI Business Survey Index. Other than BI PMI, the chart shows the average value of months in each quarter. The right-hand side axis shows yoy growth for exports and retail sales index

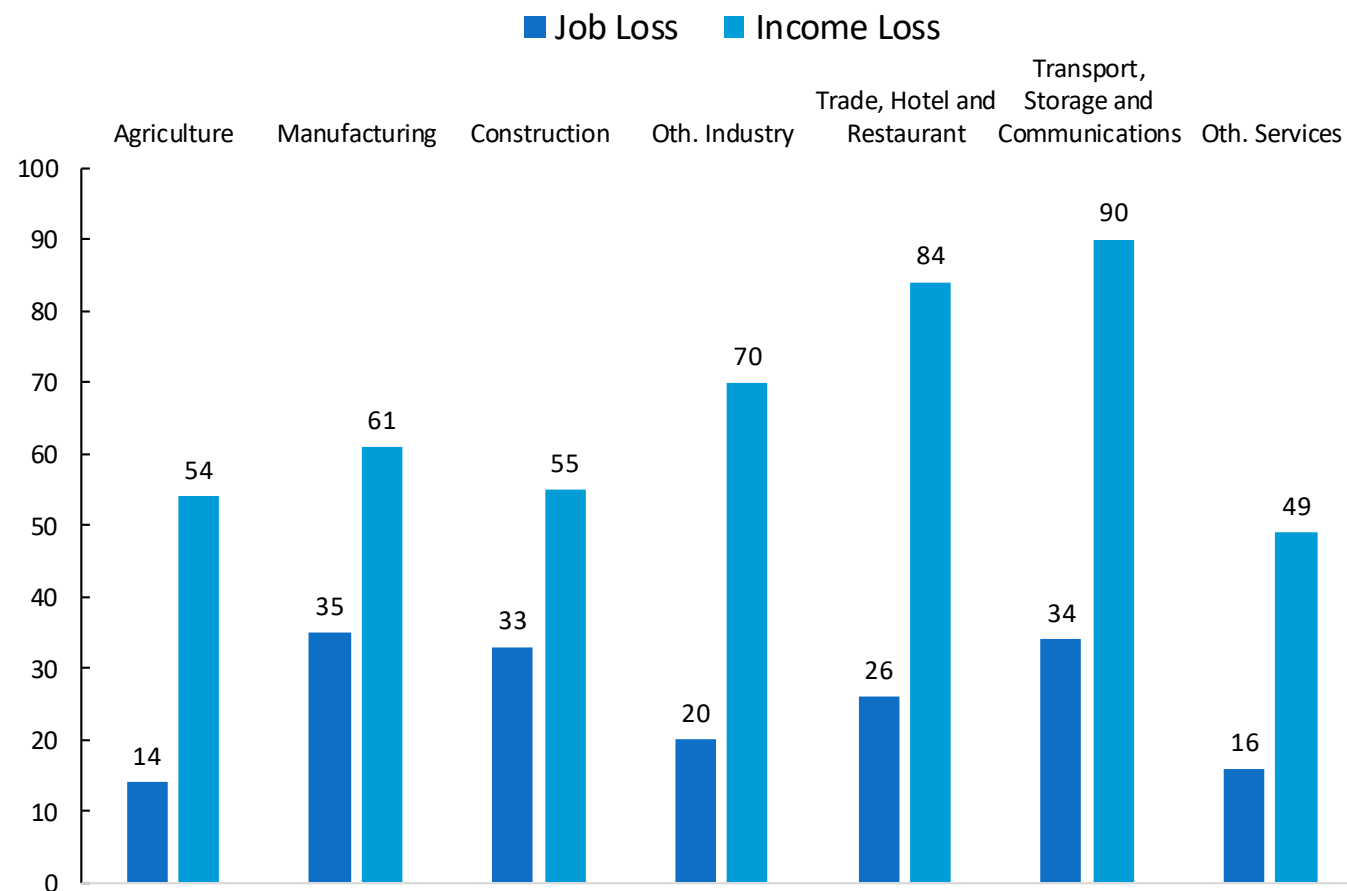




Livelihoods have
been severely
affected

Share of household heads who experience income and job losses relative to pre-crisis* by sectors


(Percent)



Source: World Bank staff calculation.

Note: Job loss here includes both unemployment and working age individuals whom become inactive. This is because it was not feasible to distinguish between the two in Susenas March 2019 data from which the simulation is based on. (*) Pre-crisis level refers to year 2019, and adjusted with the actual coverage of social assistance (SA) measures





In response to the shock, the government announced a series of fiscal packages...



Healthcare

IDR 84.6 trillion (0.5 percent of GDP)



Social Protection

IDR 139.8 trillion (0.9 percent of GDP)



Supporting MSMEs

IDR 121.1 trillion (0.7 percent of GDP)



Support to SOEs

IDR 112.2 trillion (0.7 percent of GDP)



Tax Relief








IDR 123 trillion (0.8 percent of GDP)

Source: World Bank staff compilation from various sources.

Note: The written figure may be different from the Government-announced stimulus package.



...which includes a massive expansion of social assistance to protect livelihoods

Program name		Increased coverage above pre COVID-19	Benefit incidence & duration
	Sembako (Staple food)	Additional of 5 million households (HH) to 20 million HH , identified among those already in the DTKS	Increased benefits of IDR 200,000/month (for 12 months)
	PKH	Additional of 800 thousands HH to 10 million HH , identified among those already in DTKS	Increased benefits by 25% for 12 months
	Kartu Prakerja (Pre-employment card)	Additional of 3.6 million to 5.6 million individuals in total	<ul style="list-style-type: none"> • Training: IDR 1 million/month, • Benefits: IDR 600,000/month (4 months), IDR 50,000/months (3 months)
	UCT (Non-Jabodetabek)	9 million HH	IDR 600,000/month (3 months), then IDR 300,000/month (6 months)
	Sembako (Jabodetabek)	<ul style="list-style-type: none"> • 1.2 million HH in Jakarta, • 600,000 HH in periphery districts (<i>Bodetabek</i>) 	Food package equivalent to IDR 600,000/month (3 months), then IDR 300,000/month (6 months)
	Electricity Subsidy	All households subscribing to 450VA and 900VA electricity connection.	HHs with 450 VA – fee waiver (6 months) HHs with 900 VA – 50% off bills (6 months)
	BLT Dana Desa (Village Fund)	11 million rural HH , prioritizing those who lost main source of income due to COVID-19	IDR 600,000/month (3 months), then IDR 300,000/month (3 months)

Source: World Bank staff compilation from various sources. Note: The written figure may be different from the Government-announced stimulus package.



Key economic indicators (Indonesia)

Baseline Scenario		2019	2020e	2021f	2022f
Real GDP	<i>(Annual percent change)</i>	5.0	0.0	4.8	6.0
Consumer price index	<i>(Annual percent change)</i>	2.8	2.6	2.8	3.0
Current account balance	<i>(Percent of GDP)</i>	-2.7	-1.9	-2.0	-2.1
Government budget balance	<i>(Percent of GDP)</i>	-2.2	-6.3	-4.1	-3.1

Severe Scenario

- Under the assumptions of longer mobility restrictions and deeper global economic contraction, the annual real GDP growth is estimated to reach -2.0 percent in 2020.

Source: Bank Indonesia; Central Bureau of Statistics (BPS); Ministry of Finance; World Bank staff calculations

Note: 2020-2022 are estimated and forecast figures.

Overall, the recovery will be gradual and GDP is expected to be flat in 2020, contributing to a narrowing of the current account deficit

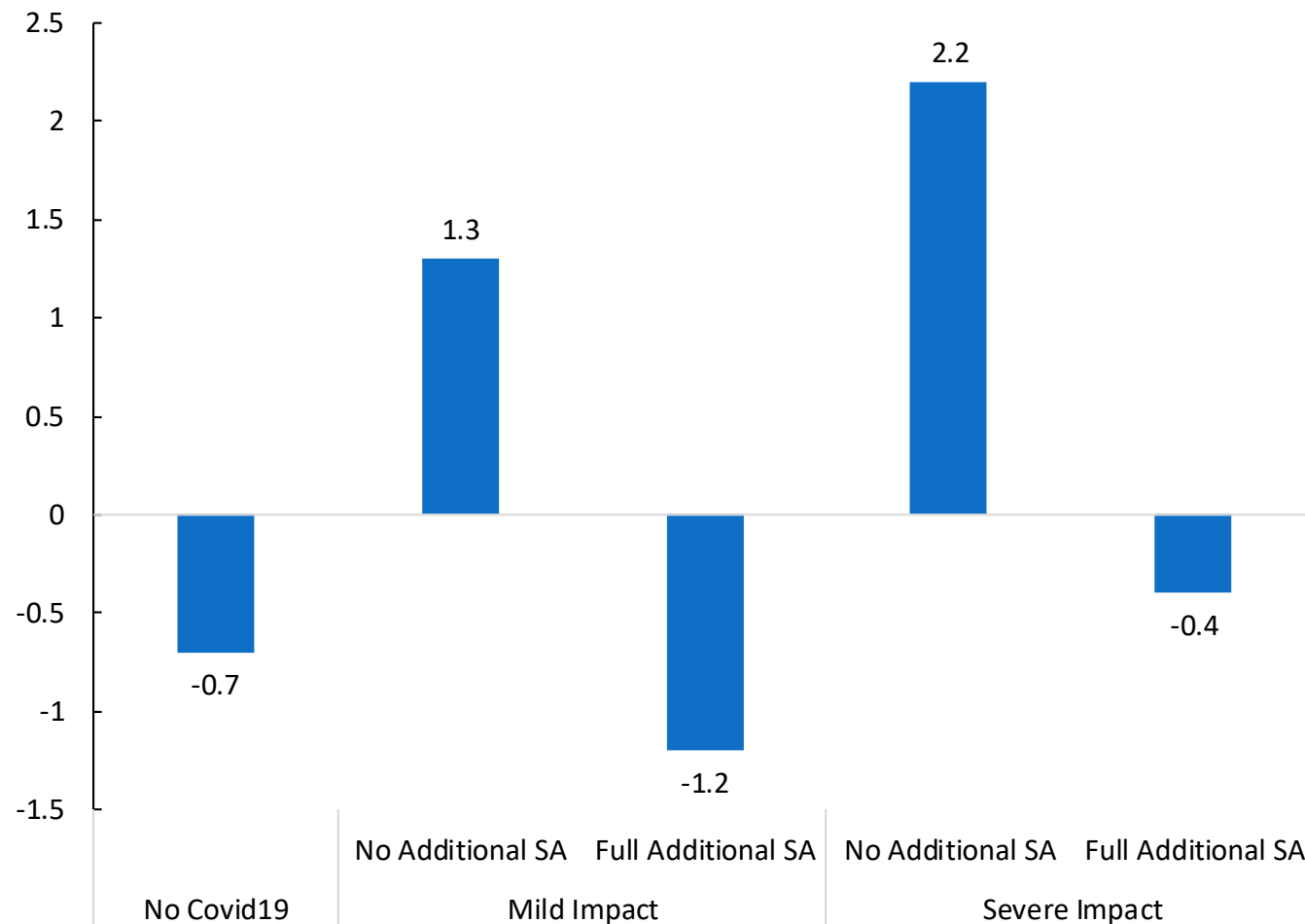




Without Government support, millions would fall into poverty

Change in the poverty rate in 2020 from 2019 under multiple scenarios

(poverty rate in percent)



Source: BPS, World Bank staff calculation.

Note: Benchmark level refers to forecasted changes in poverty level in 2020 without Covid-19 (Poverty rate = 8.7 percent). 'SA' stands for Social Assistance. Mild impact assumes zero growth, whereas Severe Impact assumes -2 percent growth. 'No additional SA' refers to change in poverty rate relative to the pre-crisis level when there is a absence of government compensation; 'Full Additional SA' scenario shows 2020 poverty rate (simulated), after taking into account the full social assistance package. 1 percentage points of poverty equals 2.6 million individuals.





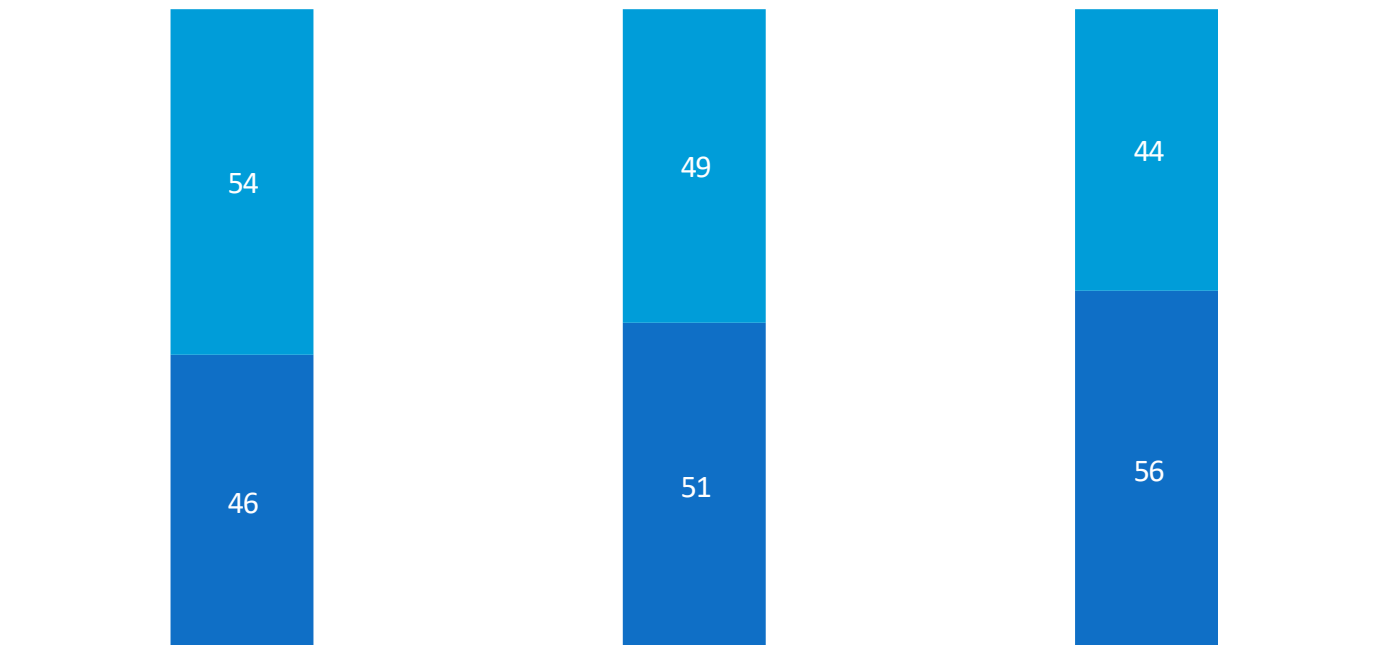
Assistance needs to reach more of those in need to fulfil its full potential to mitigate the shock

Household-Heads who received Social Assistance Programs*

(percentage of household-heads)

■ Do not receive any Social Assistance Program ■ Receive any Social Assistance Program

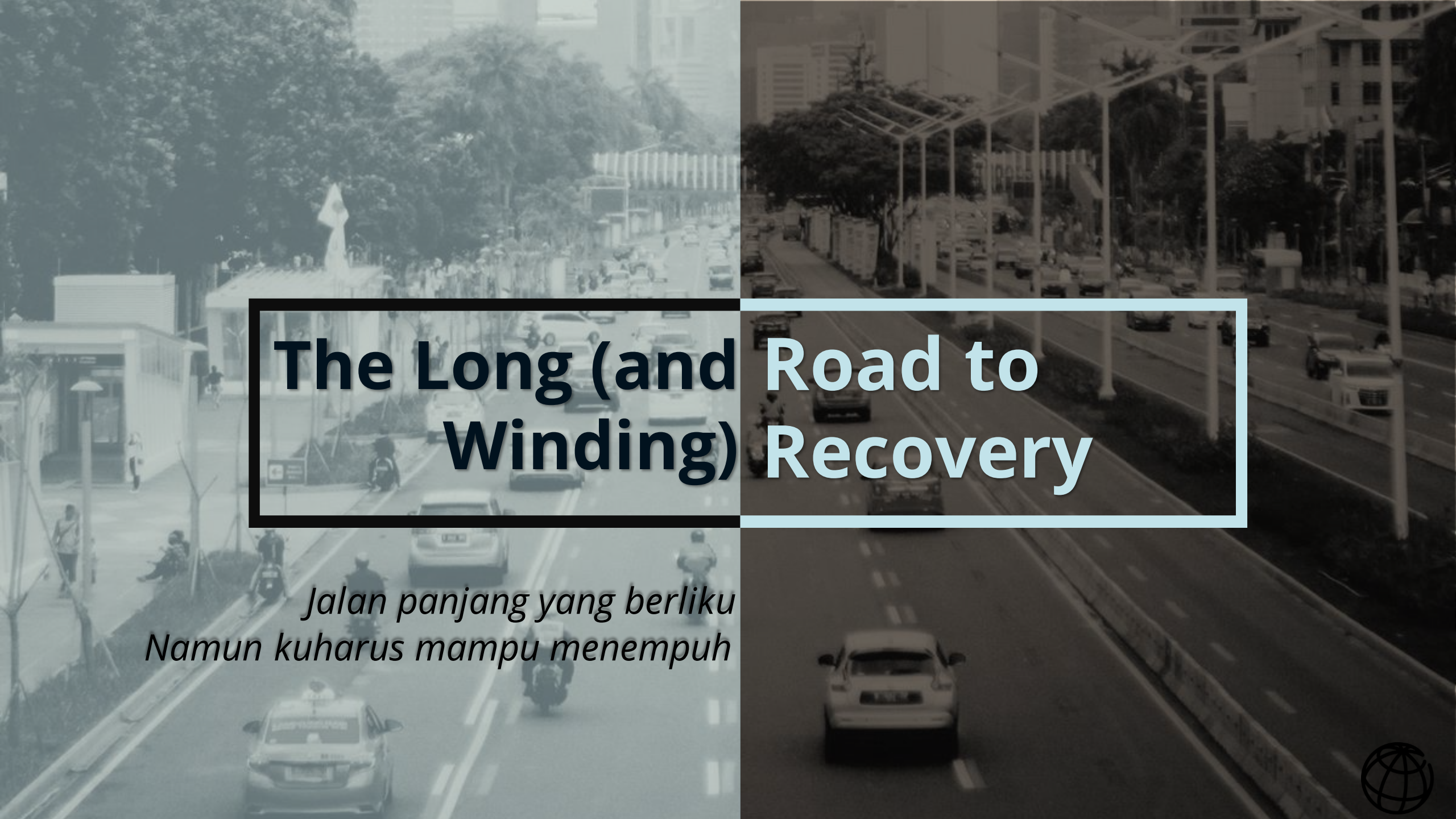
HH Bottom 40 HH-head experiencing income loss HH-head experiencing job loss



Source: World Bank staff calculation.

Note: The above figure presents number of surveyed household-head who receive any kinds of social assistance as of Round 1 Hify Survey (1-17 May 2020). (*) includes PKH, Sembako, BLT, Kartu Pra-Kerja, public works

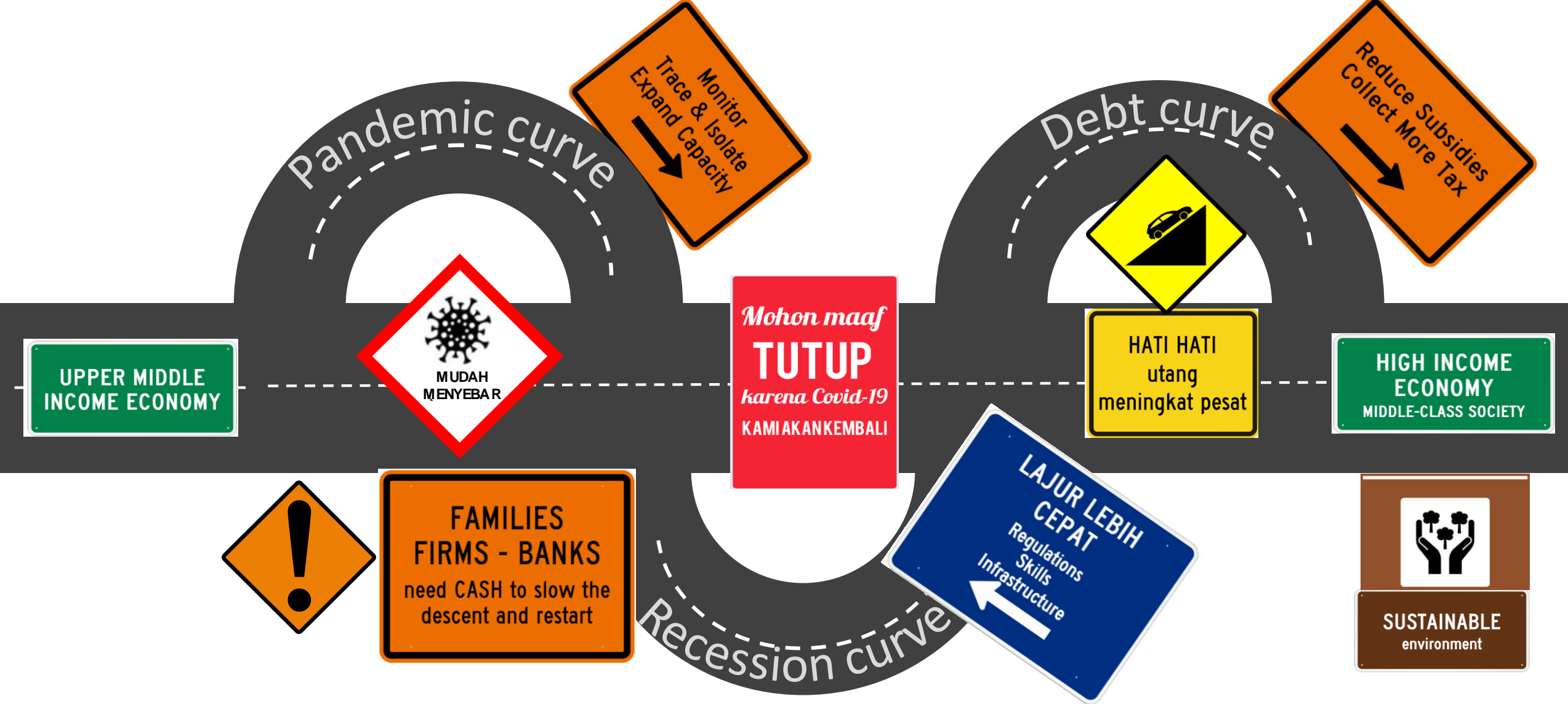




The Long (and Winding) Road to Recovery

*Jalan panjang yang berliku
Namun kuharus mampu menempuh*



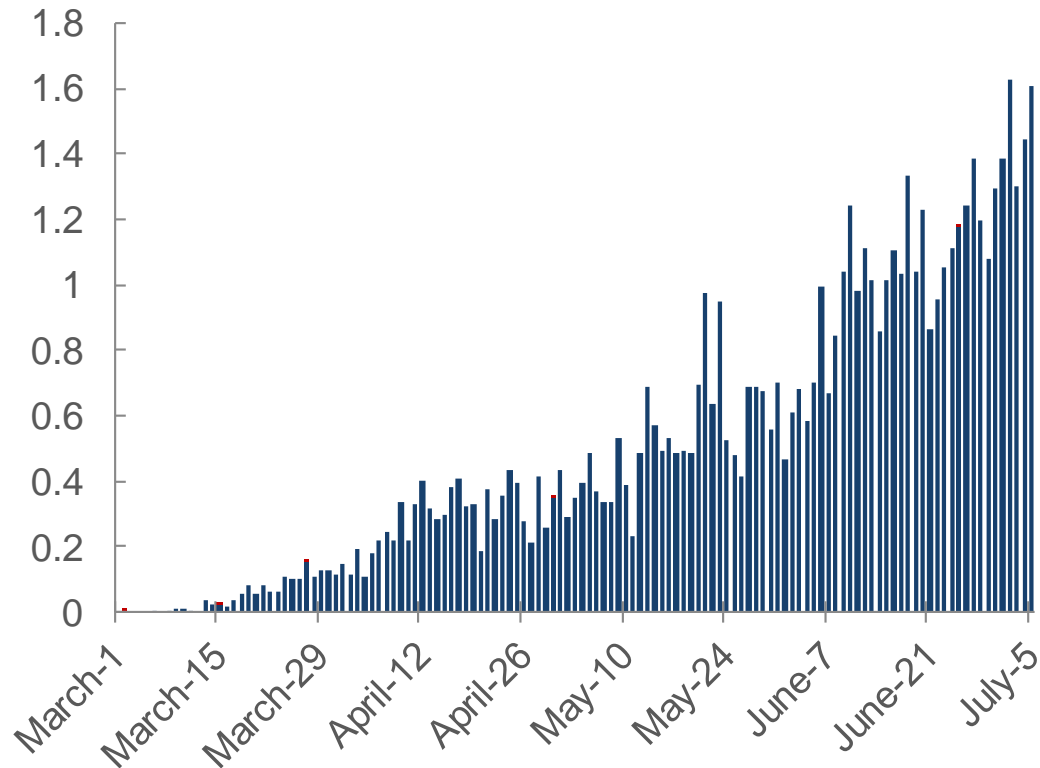


Now the road to recovery has three sharp curves that policy makers must handle



Handling the pandemic curve

(daily confirmed new COVID-19 cases, thousands)



Source: Our World in Data

**Monitor
Trace & Isolate
Expand Capacity**





More tests

Scaling up capacity for **confirmatory and sample-based testing** to regularly track and monitor infection transmission and progression



Trace and isolate

Undertaking **contact tracing and isolation** of confirmed cases and their contacts to contain spread



Readiness
to care for all

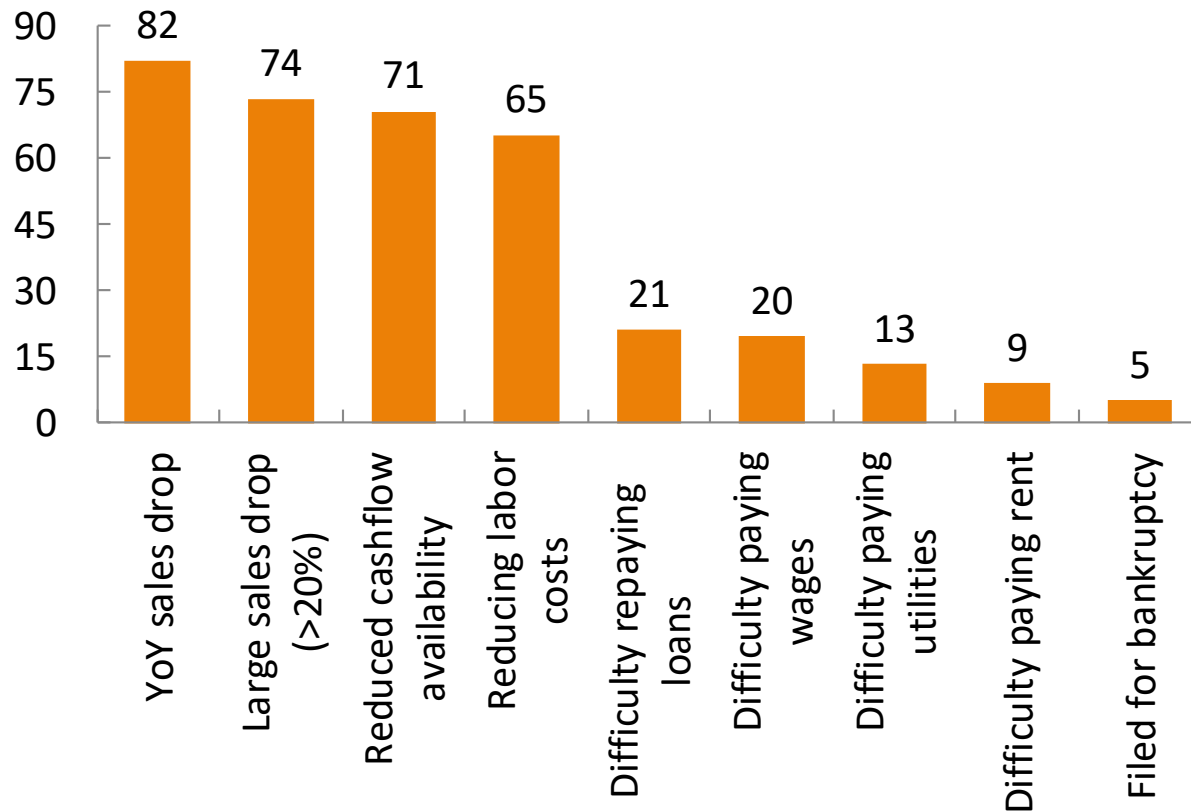
Expanding the capacity of the health care system to meet possible surges in COVID-19 cases **while being able to continue basic health services**

Robust health system preparedness to handle the pandemic curve gives safety and confidence for the recovery



Turning around the recession curve...

Share of firms experiencing difficulties in May and June 2020, percent



**FAMILIES
FIRMS - BANKS**
need CASH to slow the
descent and restart





Dynamic database

Reaching all **poor and vulnerable families** has been challenging: current efforts need to be sustained and leveraged towards a larger, more dynamic DKTS



Broaden target groups

Assistance has focused on poor households with children – **the elderly and people living with disabilities** can also be targeted



Reach the **'missing middle'** and **'newly poor'**

High informality and limited social insurance means many **'newly poor'** have not been covered – reaching this group will be important now and in the future

Addressing challenges in delivering social assistance will help families today and tomorrow





Keep the lights on

Help firms ‘keep the lights on’ by ensuring they have enough cash to pay for minimum expenses



Support to start, restart and expand production

Help firms start, re-start or expand production, to take advantage of growing demand and adapt to changing demand patterns



Uneven pace of recovery

Recovery will be slow for some firms and could involve new opportunities for others, calling for a targeted approach

Firms across many sectors will still need help to stay afloat - and then to start and restart





Restructuring or relief?

Current restructuring efforts and loan forbearance may only delay a spike in non-performing loans (NPLs) if firms remain illiquid longer – **additional measures to manage banks' asset quality** may be required



Expand resolution to boost system resilience

Updating recovery and resolution planning for **banks** and putting in place NPL management frameworks with industry-backed resolution funding would make the sector more resilient



Keep minimum prudential standards

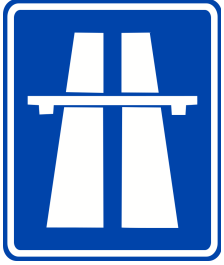
Minimizing moral hazard among banks and their clients and maintaining prudential standards and risk **management** is paramount to financial stability

Avoiding spillovers from the real to the financial sector and deepening reforms is critical to the recovery



...and accelerating towards recovery





Openness=Investment=Jobs

Revising the Investment Law and eliminating discrimination against FDI in sectoral laws will boost investments and create jobs



Indonesia joins GVCs

The Bill will help plug Indonesia into Global Value Chains by making importing-to-export easier – introducing a risk-based approach to import/export licensing can reduce trade costs



Avoiding pitfalls

The Bill also includes reforms that could be detrimental to the environment, health and safety, and incomes of Indonesians – dropping or modifying them will ensure the Bill brings maximum benefit for everyone

The Omnibus Bill has the potential to turbocharge the economic recovery, but some proposed reforms could be detrimental





Minimize dropouts

School closures amplify the dropout risk for lower income students – working with schools to lower this risk limits the erosion to Indonesia's skills base



Incentivize skills acquisition

Programs such as Kartu Prakerja can incentivize skills acquisition through short-term training in an enhanced TVET system that helps develop the skills needed to adjust to work post-COVID



Improve labor market information systems

Improve the quality of labor market information and use it to inform education and training and to support efforts to match workers with jobs

Workers seeking jobs in the post-COVID economy are likely to require different and often higher-order skills





More public resources

Increasing public resources available for infrastructure at all levels of government and across sectors – including expanding digital connectivity – remains key to competitiveness



Better laws & institutions

Public funds will not be sufficient – improving the regulatory, institutional and financial environment for **private sector participation in infrastructure** is needed



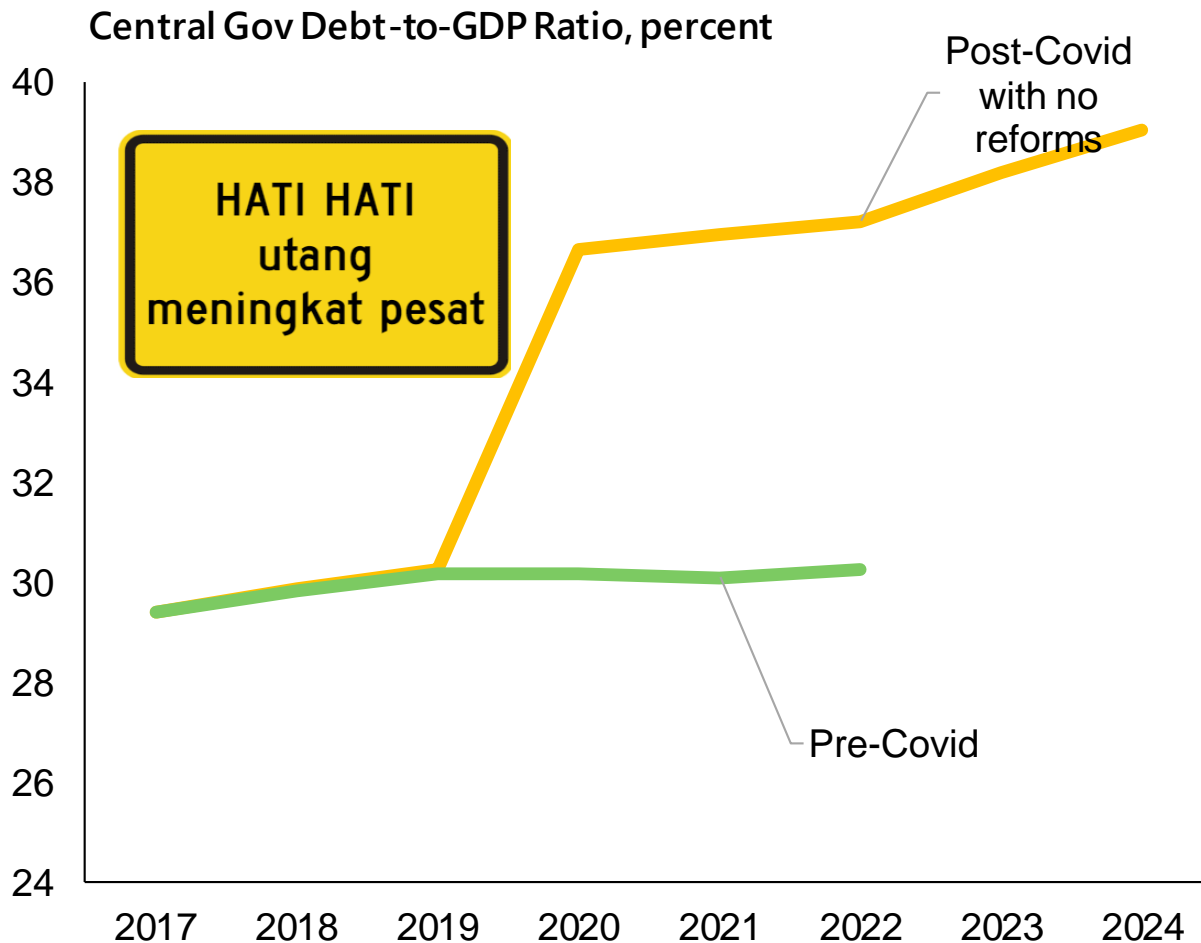
SOEs need to make room for the private sector

Recalibrating the role and incentives of SOEs will catalyze private sector entry, increase competition, and boost infrastructure quality

Resuming the effort to close Indonesia's large infrastructure gap will be key to the post-Covid recovery



Flattening the debt curve



If Indonesia does not **flatten the debt curve**, mounting interest payments can reduce fiscal space, undermine its hard-earned investment-grade rating and derail the recovery

**Reduce Subsidies
Collect More Tax**



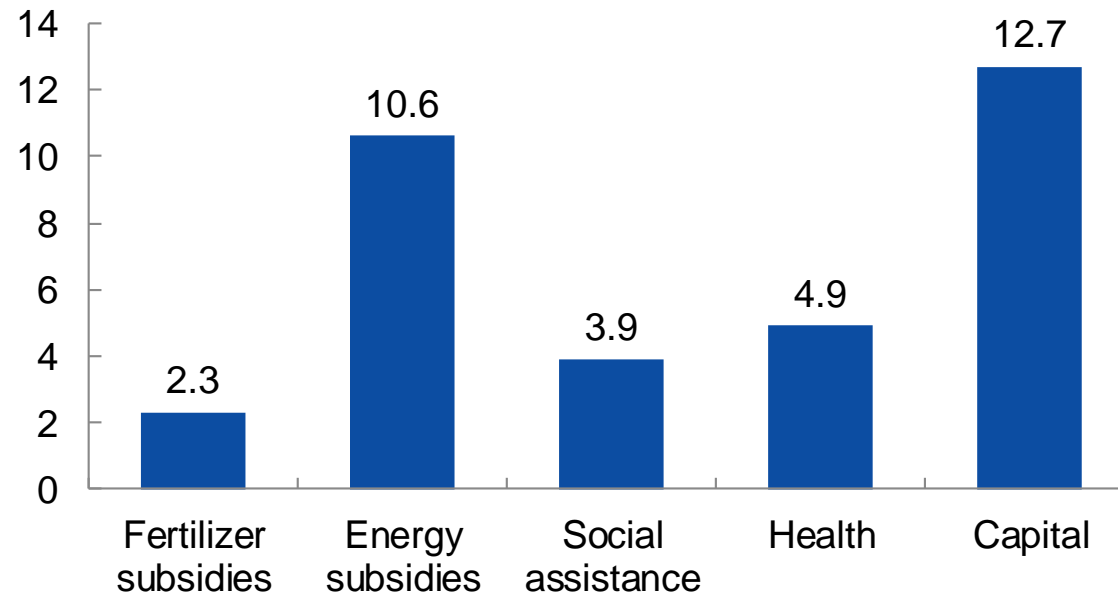


Subsidize people, not products

LPG, diesel, and fertilizer **subsidies** are expensive and poorly-targeted

Eliminating energy subsidies could yield 0.4 percent of GDP in fiscal savings after compensating the poor and vulnerable

Share of central government spending in 2018, percent



Reallocation and elimination of subsidies will help increase investments in infrastructure and human capital...





Inclusive taxation

More firms should be **brought under the scope of major taxes** such as the VAT and CIT



Gotong Royong

Raise personal income taxes, including in the middle, while also ensuring that those who have more, contribute more



Excise taxes are smart taxes

Expand the use of excise taxes on tobacco, plastics, sugar-sweetened beverages and fuel to raise revenues and create incentives to reduce use

...but given spending needs, only tax reforms can stop Indonesia from climbing further along the debt curve





INDONESIA
ECONOMIC
PROSPECTS



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The Long Road to Recovery

Terima Kasih

ကျေးဇူးတင်
ဧည့်သည်

Questions

fgilsander@worldbank.org

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