



**REGIONAL OFFICE FOR  
ASIA AND THE PACIFIC**

# **Asia-Pacific Regional Seminar**

## **Indonesia – Economic Outlook and Policy Priorities**

**James P. Walsh**

Senior Resident Representative  
IMF Resident Representative Office for Indonesia

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**IMF.org/OAP**

# Outline

**How has COVID  
affected  
Indonesia?**

**What has  
Indonesia's  
response been?**

**How has the  
economy  
responded?**

**What are the  
priorities going  
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# COVID-19 Short Timeline in Indonesia

## 1<sup>st</sup> COVID-19 Case

Detected in Jakarta on March 1<sup>st</sup>, 2020

**July 2020;**

**July 27<sup>th</sup> #100K case recorded**

Government introduce the COVID task force and PEN

**June 2020**

“Burden Sharing” Scheme introduced

**August 2020**

Clinical Test for SINOVAC in Indonesia  
1st Burden sharing allocation

**Jan 2021**

President Joko Widodo became first Indonesian inoculated by SINOVAC  
**Jan 26<sup>th</sup> #1 Million case recorded**

**Dec 2020**

Local elections held in 9 provinces, 223 regencies and 37 cities  
President replaced Minister of Health

**Q2-2021**

Indonesians flocked tourism area for Eid Period  
**May 28<sup>th</sup> #50k Death case recorded**  
**June 21<sup>st</sup> #2 Million case recorded**

**July 2021**

**Highest daily case 56,757 on July 15<sup>th</sup>**  
Government implement community activities restrictions

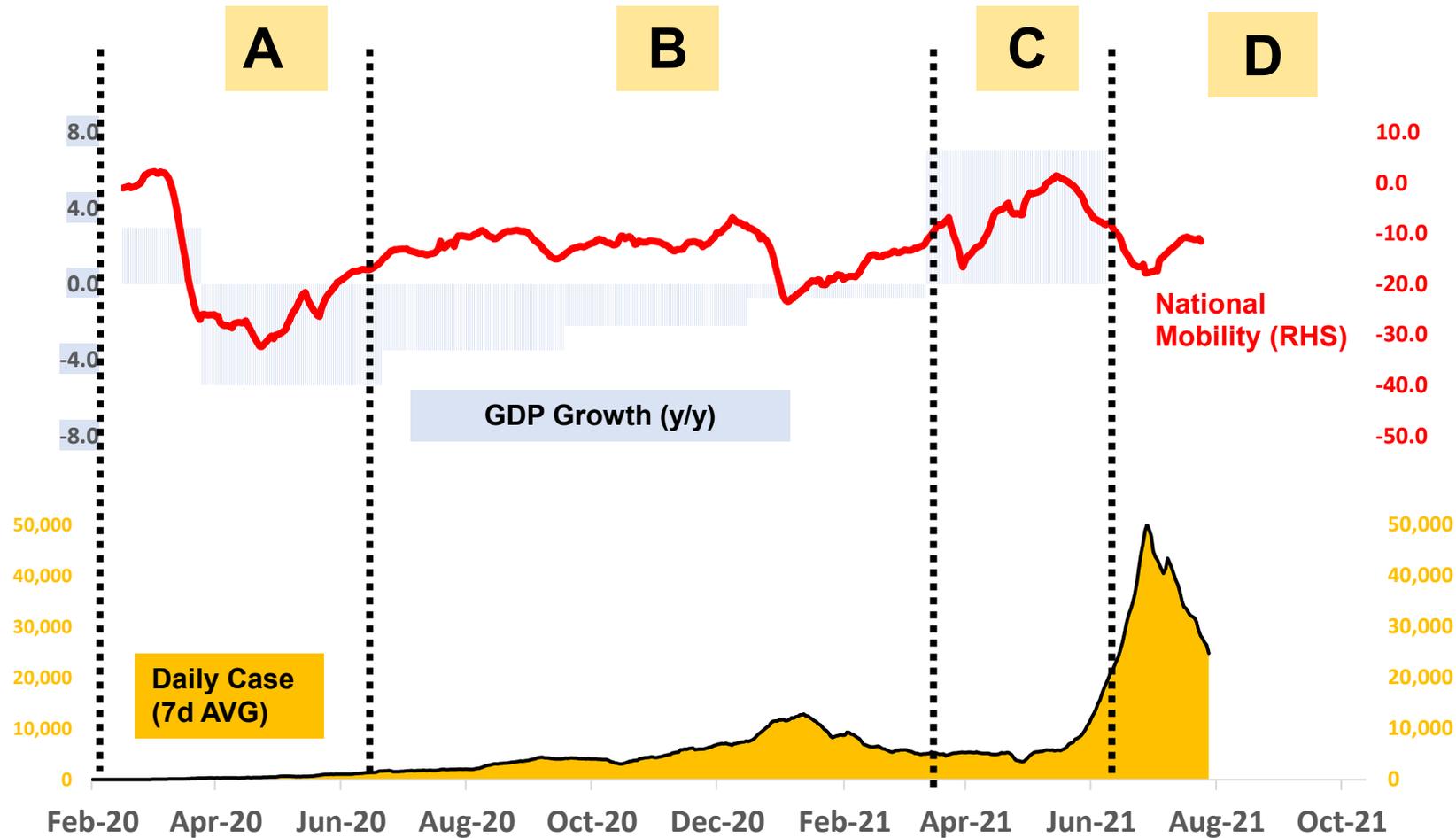
**Aug 2021**

Jakarta no longer top-10 active cases  
Daily new cases outside Java now higher than in Java  
**Aug 4<sup>th</sup> #100k Death case recorded**

**Aug 24<sup>th</sup> #4 Million case recorded**

- Vaccinations in Indonesia now exceed 1 million doses per day
- National economic recovery program focused on the PEN allocation in the budget
- Financing was partly supported by CB bond buying program.

# Policy response can be divided into stages



## **Period A**

Initial response of COVID  
Shock to mobility & GDP

## **Period B**

Adjusting to the Pandemic  
GDP gradually recover  
Tight restriction on X-mas and new year  
COVID shock in early Jan 21

## **Period C**

Stable daily case  
"Artificial" new normal  
Increase mobility induce strong  
economic activities

## **Period D**

Delta Variant  
Lower mobility with restriction  
**Delayed growth recovery?**

Source: BPS, Google, KPC-PEN

# Current Range of Restriction Measures in Indonesia

Restriction Level in each Area (City/District), based on two factors:

- **Rate of transmission** : Number of confirmed cases, hospitalizations and deaths.
- **Health response system** : Positivity rate, tracing ability, and occupancy of beds in hospitals.

## Level-1

- Non-essential jobs 75% work from office (WFO), Essential jobs 100% WFO.
- Shops, Malls, Restaurants, Traditional Markets open 75 % capacity.
- Dine-in given a maximum time limit of 30 minutes.
- School activities and place of worship open 50% capacity.

## Level-2

- Non-essential jobs 50% work from office (WFO), Essential jobs 100%.
- Shops, Malls, Restaurants, Traditional Markets open with 50% capacity.
- Dine-in given a maximum time limit of 30 minutes.
- School activities and place of worship open 50% capacity.

## Level-3

- Non-essential jobs fully work from home (WFH), Essential jobs still allowed to WFO for 100%
- Shops, Malls, Restaurants, 25% capacity.
- Traditional Markets open with 50% capacity
- No dine-in, only takeaways
- School activities closed (100% School from home), place of worship open 25% capacity

## Level-4

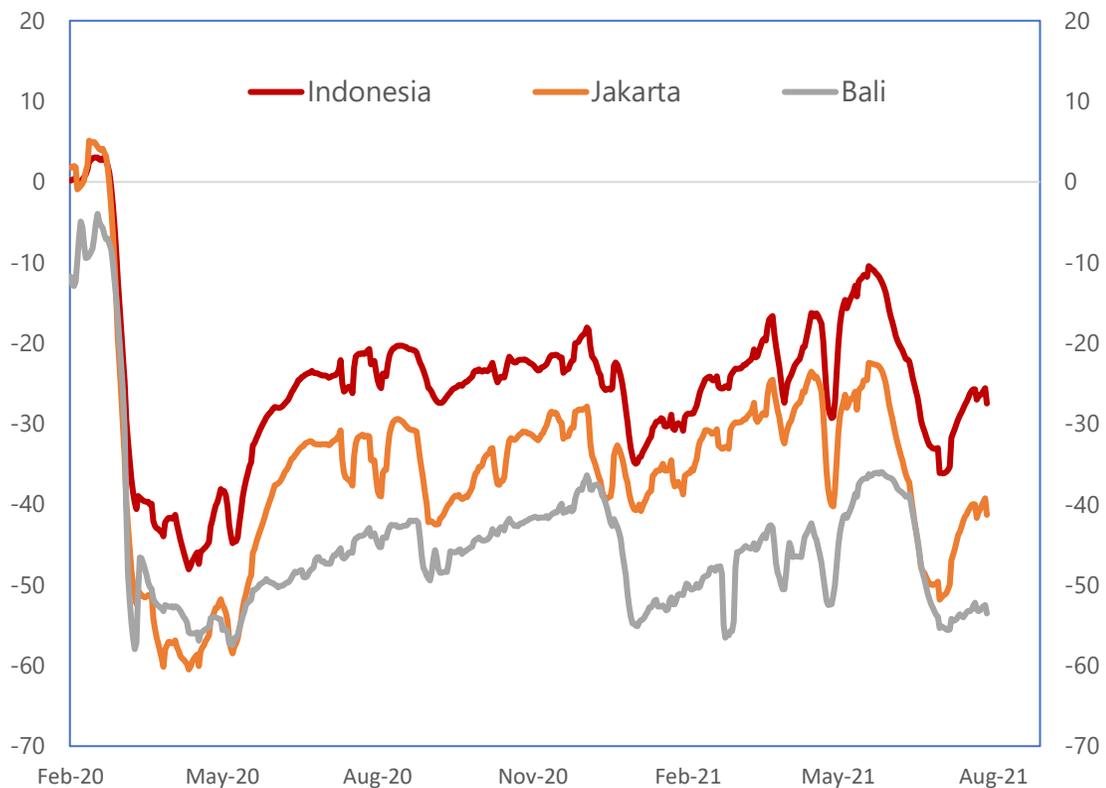
- Non-essential jobs fully work from home (WFH), Essential jobs still allowed to WFO with 50% capacity
- Shops, Malls, Restaurants, closed. Open only for Pharmacy and Drug store.
- Traditional Markets can open with 25% capacity.
- No dine-in, only takeaways
- School activities and place of worship closed

Loose

Strict

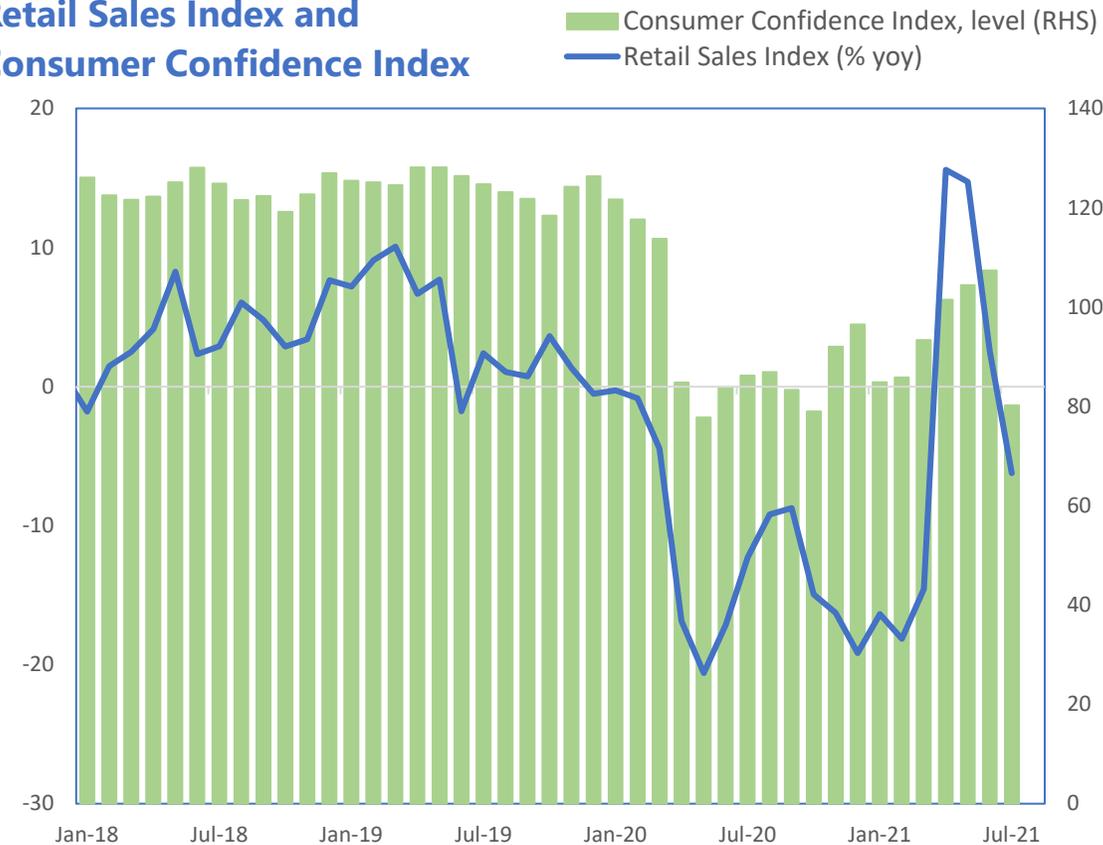
# How is the Current Delta Variant Wave Affecting the Economy?

**Change in Mobility in selected Provinces**  
(Percent, Average of Retail, Transit and Work)



Mobility across : Retail/Recreation, Grocery/Pharmacy, Parks, Transit, Workplaces, Residential

**Retail Sales Index and Consumer Confidence Index**



Source: CEIC, BI

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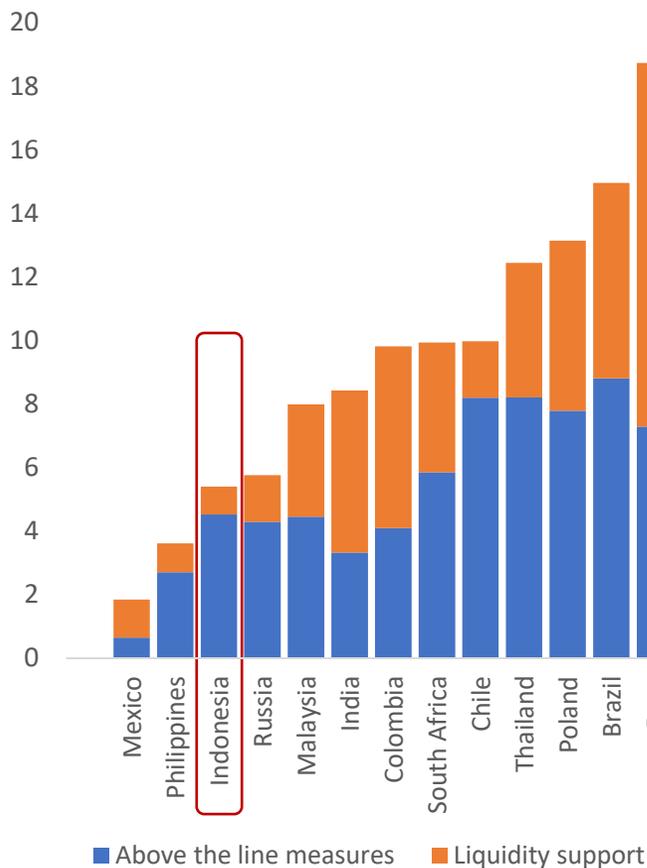
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# Indonesia in Context of Other EM Responses

Fiscal expansion and monetary policy easing to mitigate the impact of COVID-19 pandemic

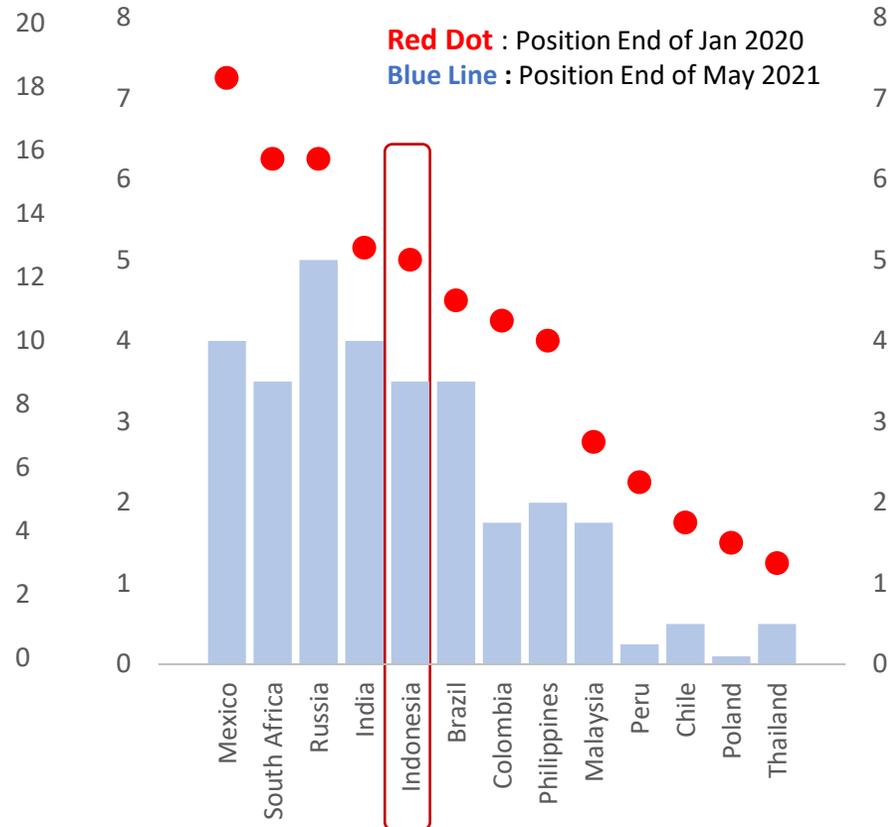
## Support (% GDP)



Source: IMF

## Policy Rate (percent)

-from Jan 2020 to May 2021-



Source: BIS

## Other Support

- **Brazil** : Loan to microbusinesses; guarantee fund and tourism sector.
- **Indonesia**: Capital Injection to SOE
- **Philippines**: Loans to agriculture sector and equity injection to SMEs loan
- **Thailand**: Soft loans for individuals
- **Vietnam**: defer contribution to the pension fund.
- **Russia**: Regional debt restructuring and Recapitalization of leasing firms
- **India**: Equity infusion for MSMEs & infrastructure financing funds
- **Colombia** : Equity injection for development banks and credit line
- **Turkey** : Capital injection to state banks, funded by issuance of Treasury bonds.

Source: IMF

# Fiscal response has focused on health and income support

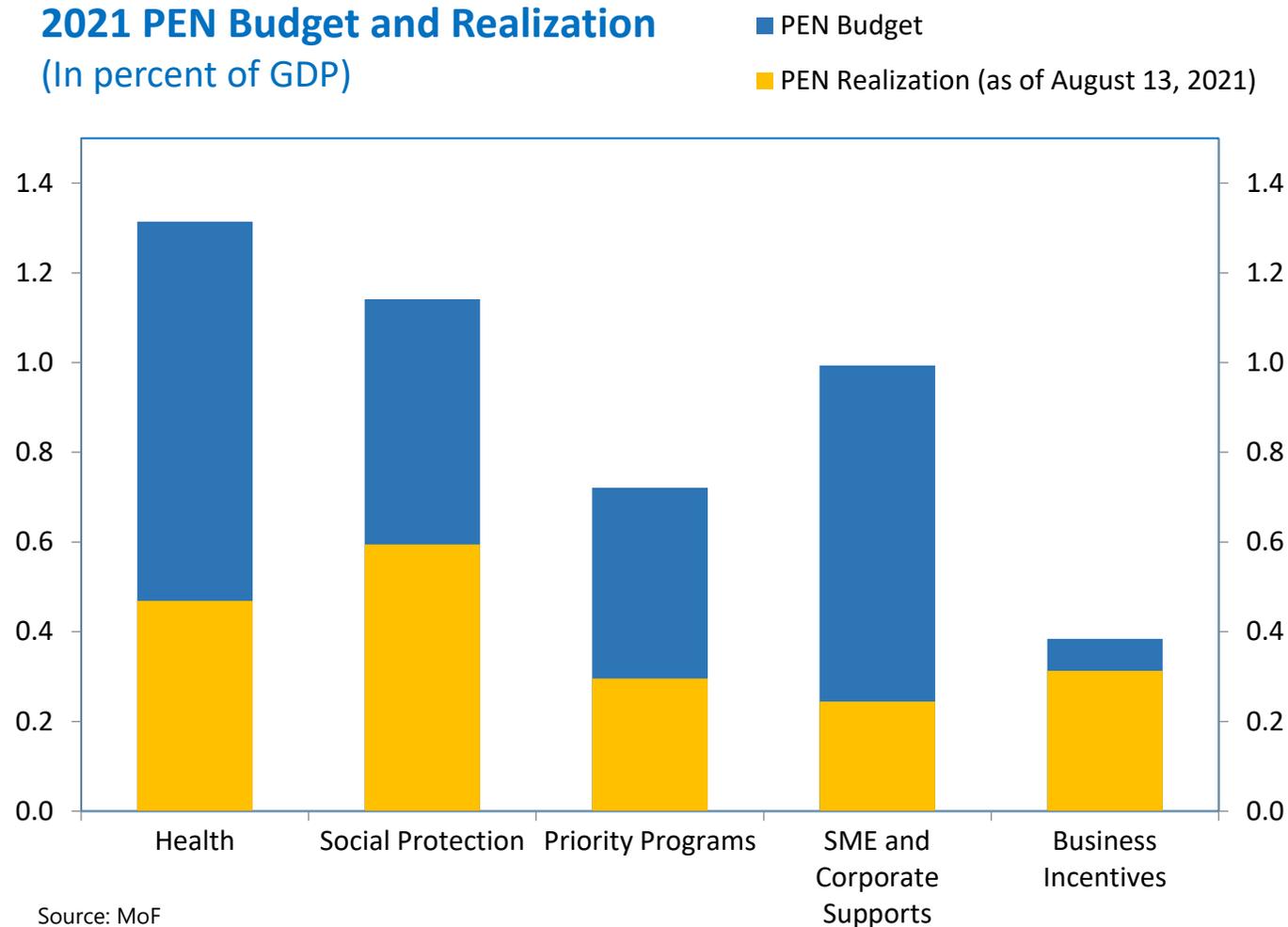
The National Economic Recovery Program (PEN) is the government's state financial policy to accelerating the handling of COVID-19 and restore the national economy.

## PEN allocation:

- 2020: IDR575.8 trillion (3.7 percent to GDP)
- 2021: IDR744.8 trillion (4.6 percent to GDP)

Program	Detail
Health	Diagnostic, therapeutic, and vaccination
Social Protection	Assistance for the bottom 40 and vulnerable group (conditional cash transfer, non-cash food assistance, etc)
Priority Programs	Labor intensive, tourism, food security, ICT
SME and Corporate Supports	Govt assistance for microenterprises, interest subsidy, fund placement
Business Incentives	Tax incentives (income tax borne, MSME final income tax borne, luxury tax on vehicles borne)

## 2021 PEN Budget and Realization (In percent of GDP)

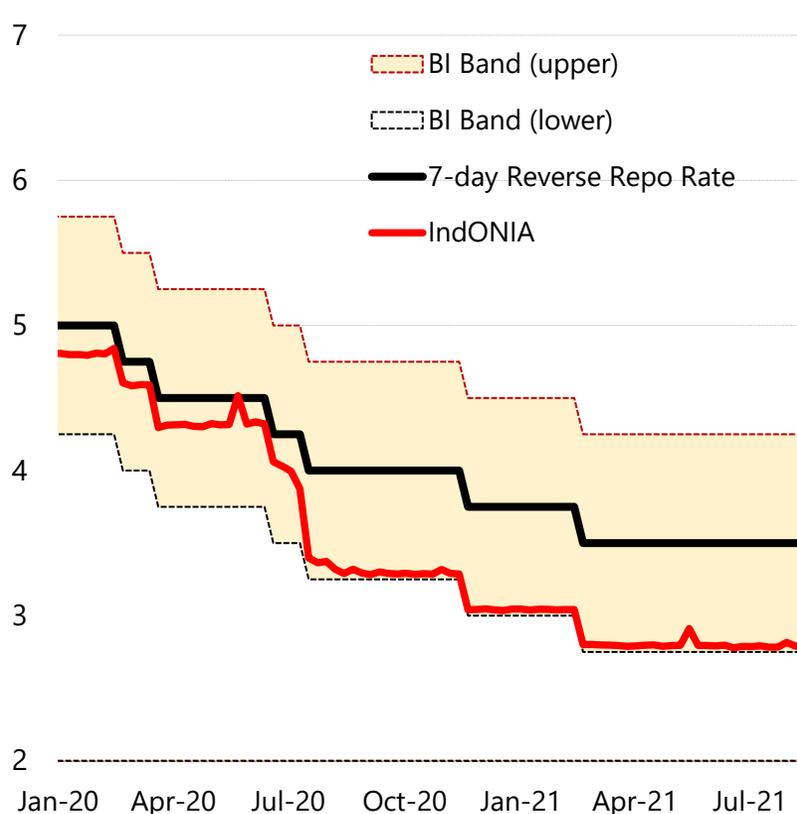


# Monetary Sector: BI's Three Lines of Defense

Overnight interbank rates approaching the lower band of BI policy rates. CB use a “triple intervention strategy” to stabilize domestic market conditions and purchase the government bond in primary market.

### BI Policy Rate and Money Market Rate

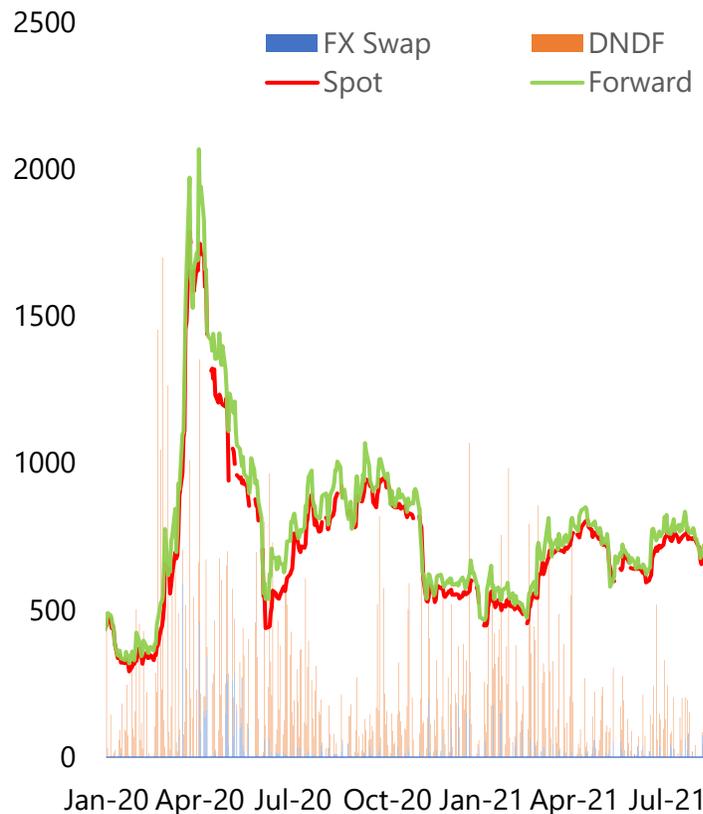
(in Percent)



Source: BI

### FX Swap and DNDF

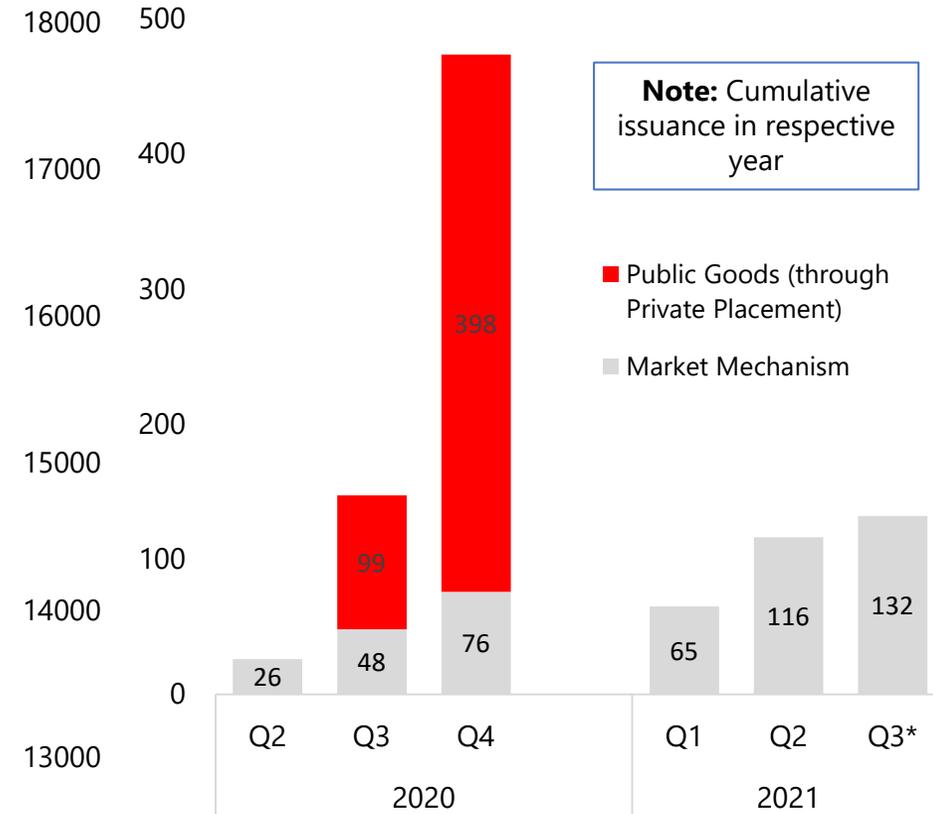
(in US\$ million, Spot/Forward ER on RHS)



Source: BI, Bloomberg S.P., IMF Staff Calculation

### BI Bond Purchase in Primary Market

(in IDR trillion)



Source: BI, IMF Staff Calculation

\*up to August 16, 2021

**Note:** Cumulative issuance in respective year



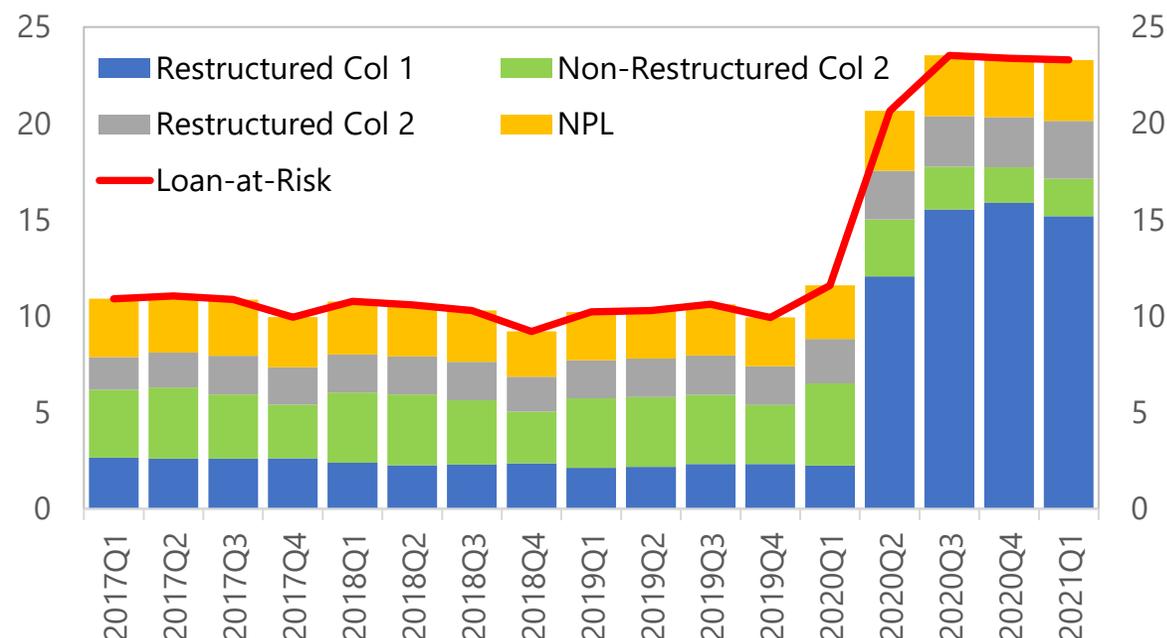
# Financial Sector: Financial Regulatory Flexibility

Crisis management and resolution framework need to be updated to prepare for financial sector stresses while maintaining credit flow

## OJK policy to support economic recovery:

- Extending loan restructuring policy:
  - Banks: until March 31, 2022
  - NBFIs: until April 17, 2022
- Reducing risk weight of house-collateralized loan, in accordance with LTV policy
- Reducing risk weight for vehicle loan which obtained luxury sales tax relaxation (PPnBM)
- Applying risk management and prudential principle

**Loan-at-Risk**  
(in % of total loan)



Source: Bank Indonesia, IMF Staff Calculation

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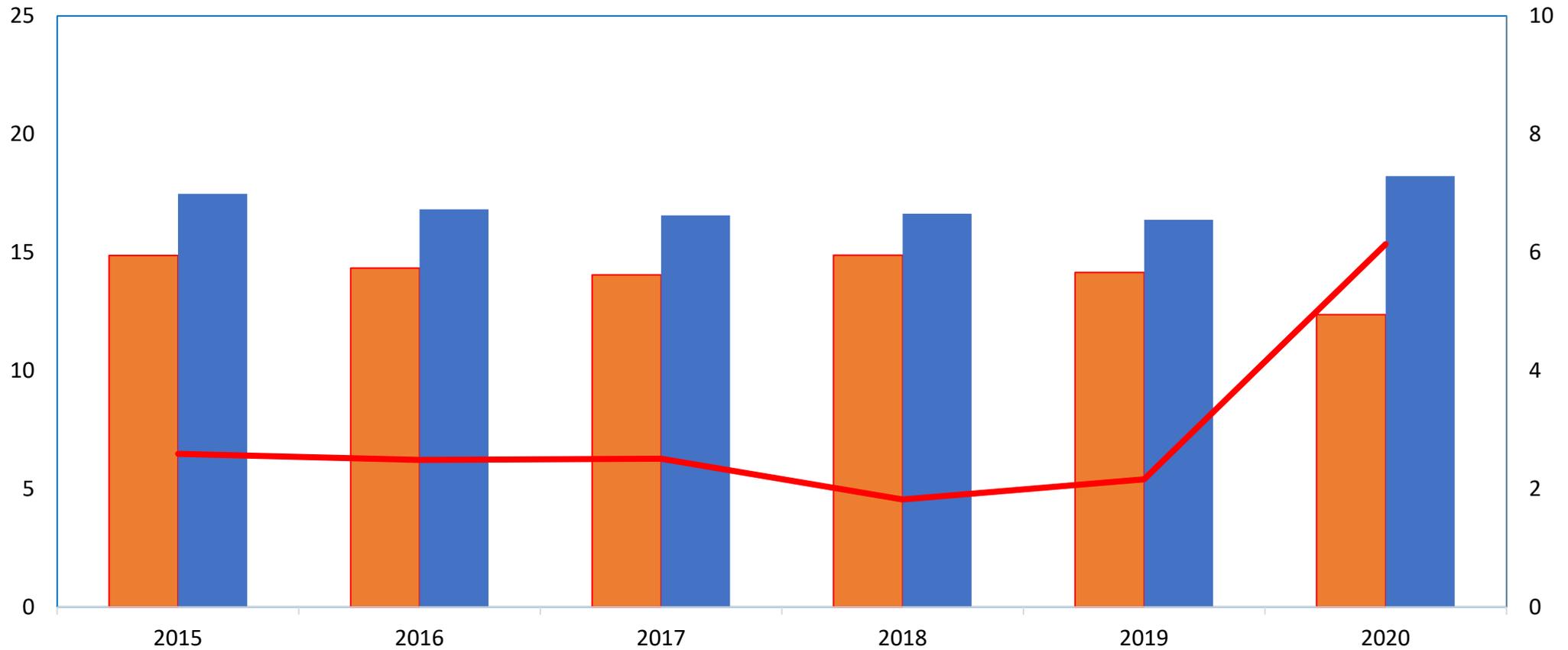
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# Temporary Suspension of Budget Deficit Rule

## Revenue, Expenditure, and Deficit (In percent of GDP)

Revenue to GDP Expenditure to GDP Deficit to GDP (RHS)

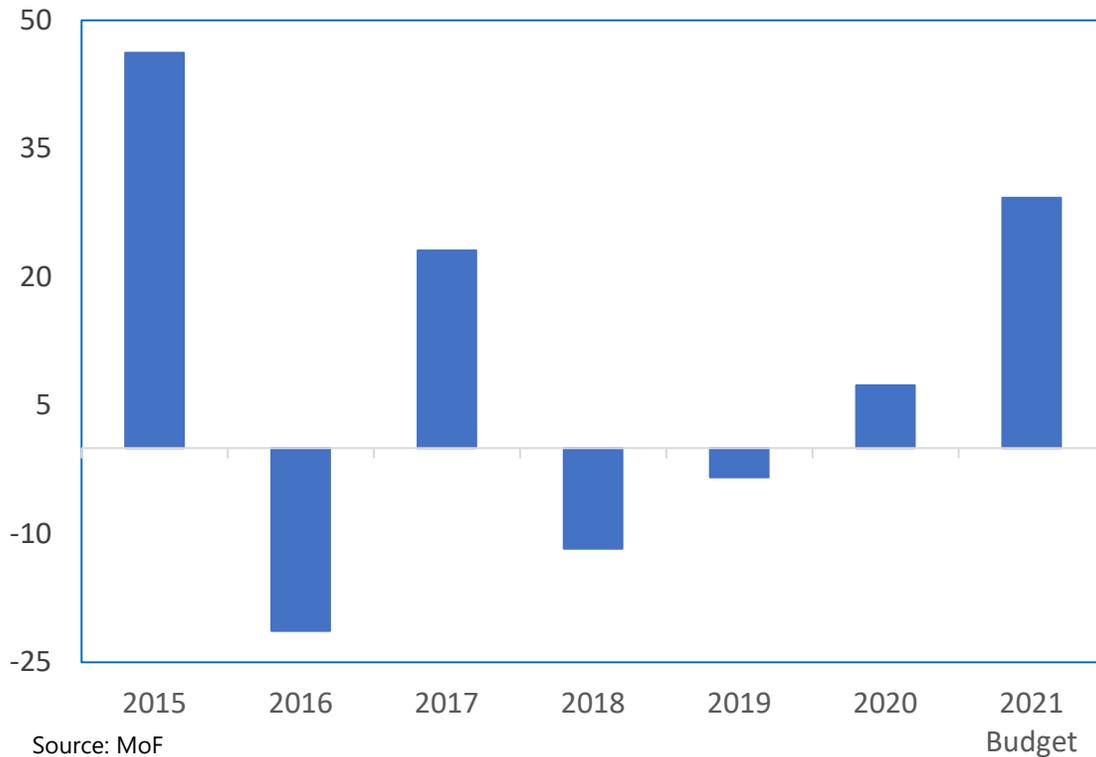


Source: IMF, MOF

# Investment began to recover in Q2 – public investment should support recovery

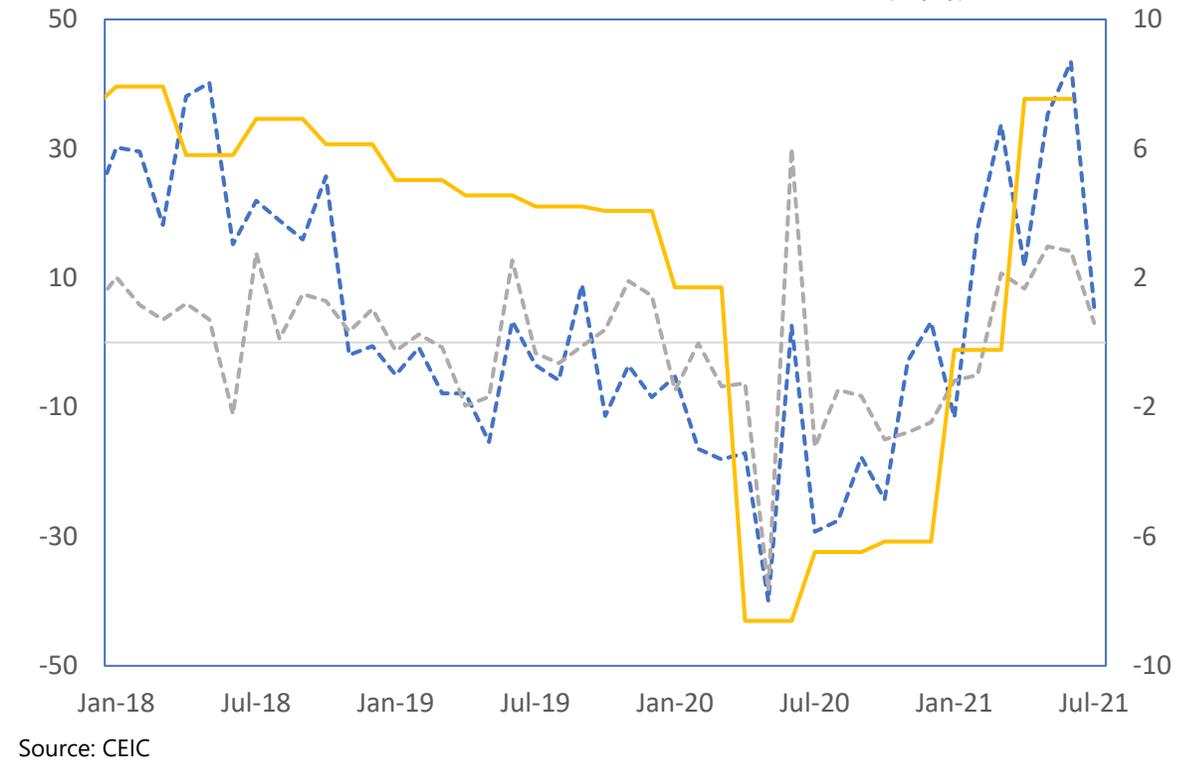
## Government Capital Expenditure

■ Capital Expenditure Growth (% yoy)



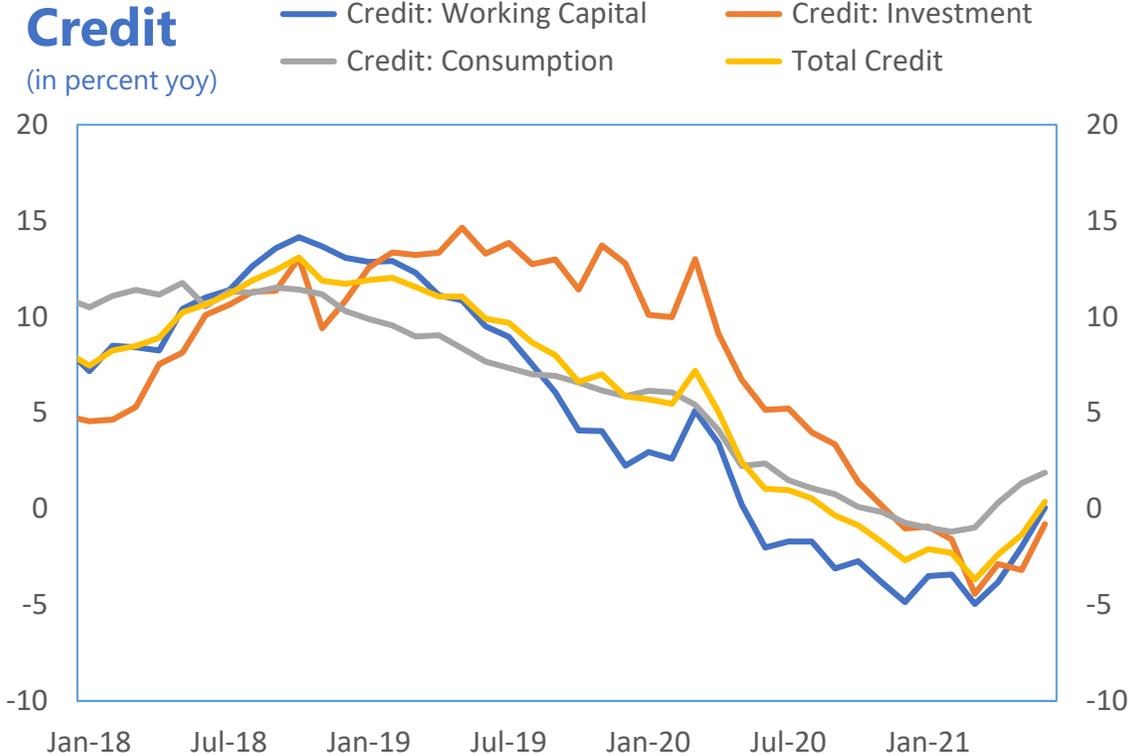
## Capital Goods Imports and Domestic Cement Sales

--- Capital Goods Imports (% yoy)  
 --- Domestic Cement Sales (% yoy)  
 — GFCF - RHS (% yoy)



# Credit Growth Remains Slow – Risks May Be Rising

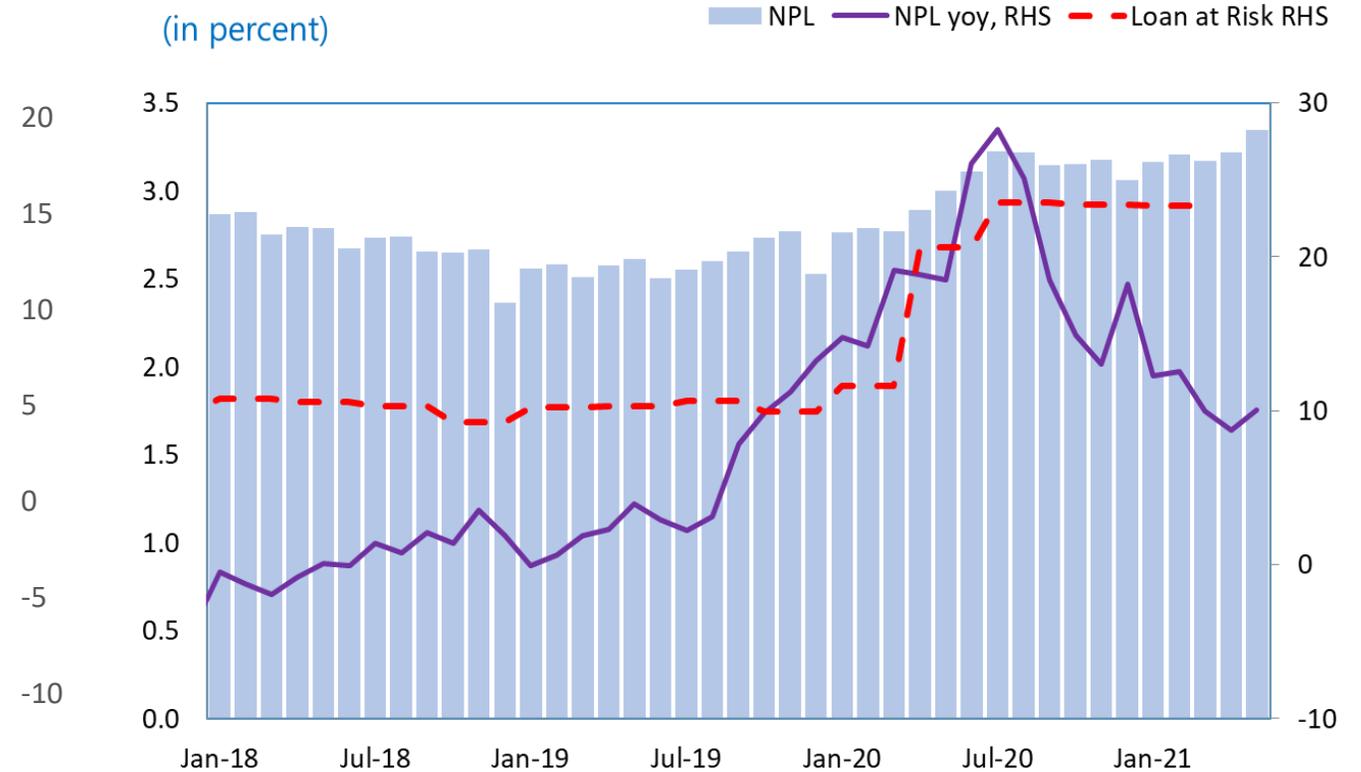
Credit growth, already on steady decline before Pandemic



Source: BI, staff calculation

### NPL and Loan at Risk

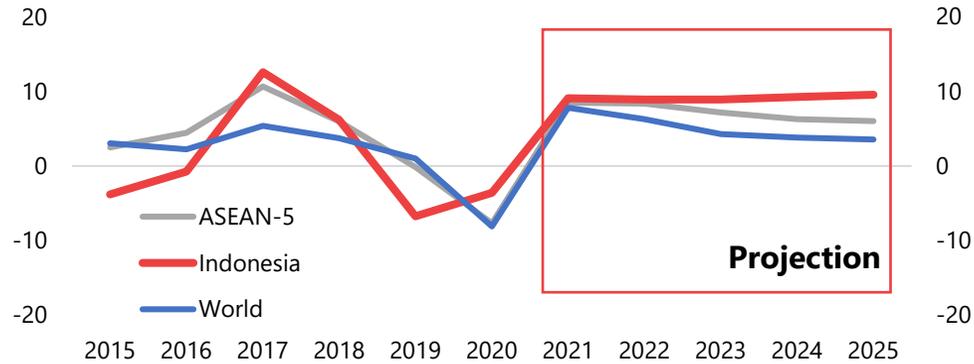
(in percent)



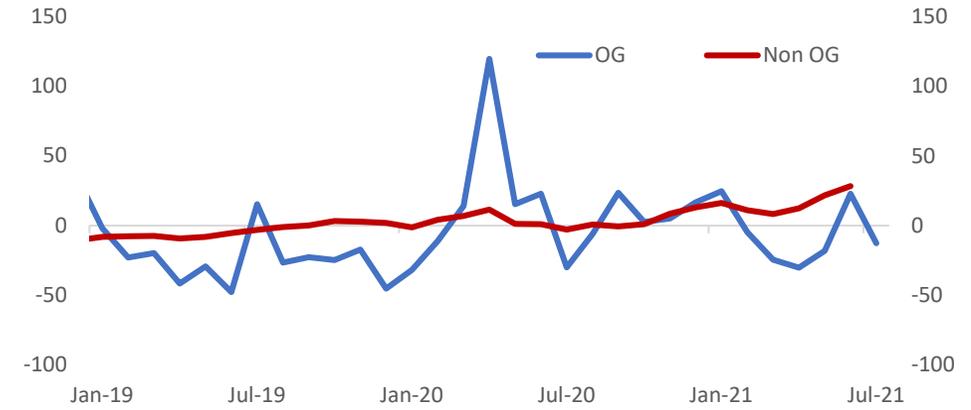
Source: OJK

# Trade: Global recovery buoys exports, but slow growth weighs on imports

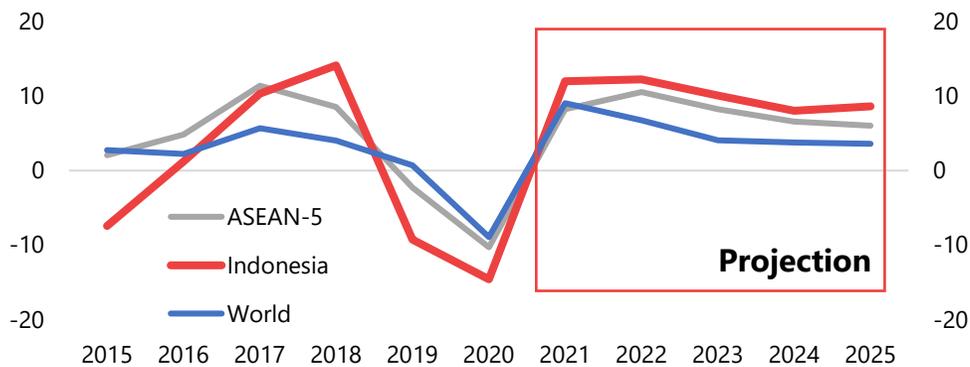
**Volume of Exports of goods and services**  
(% change, yoy)



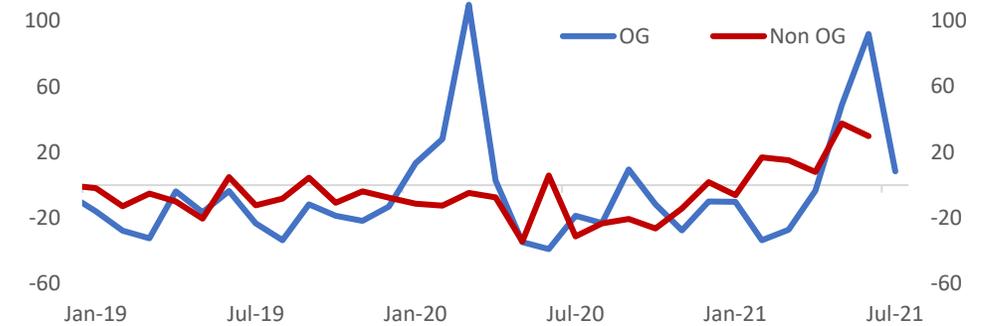
**Indonesia: Real Exports**  
(% change, yoy)



**Volume of Imports of goods and services**  
(% change, yoy)



**Indonesia: Real Imports**  
(% change, yoy)

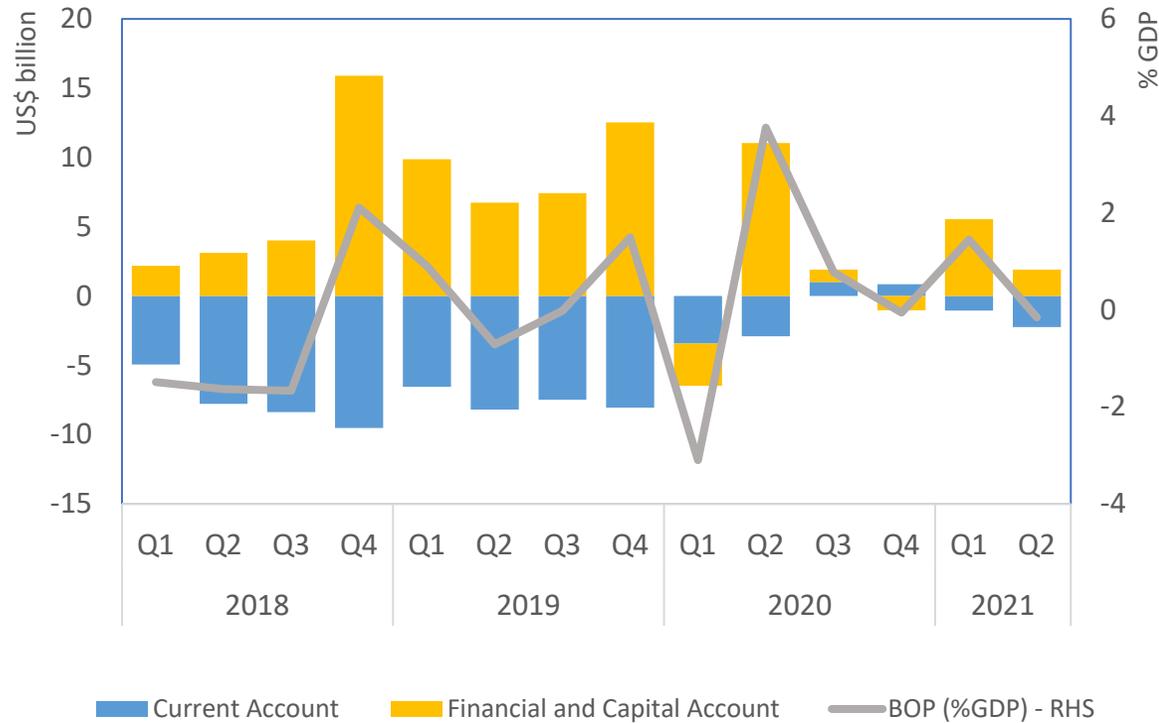


Source: WEO database, April 2021

Source: BPS, CEIC, Staff Calculation

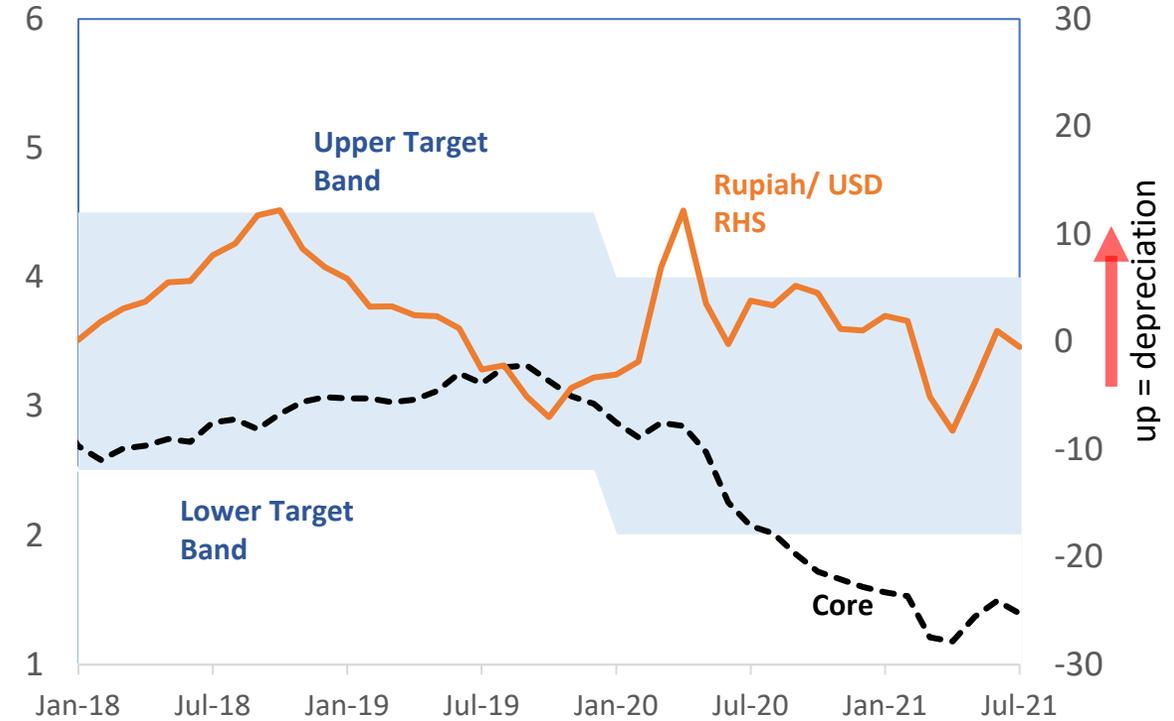
# Capital flows and rupiah have been relatively stable

## Balance of Payment Profile



Source: CEIC

## Core Inflation & Exchange Rate (year-on-year percent change)

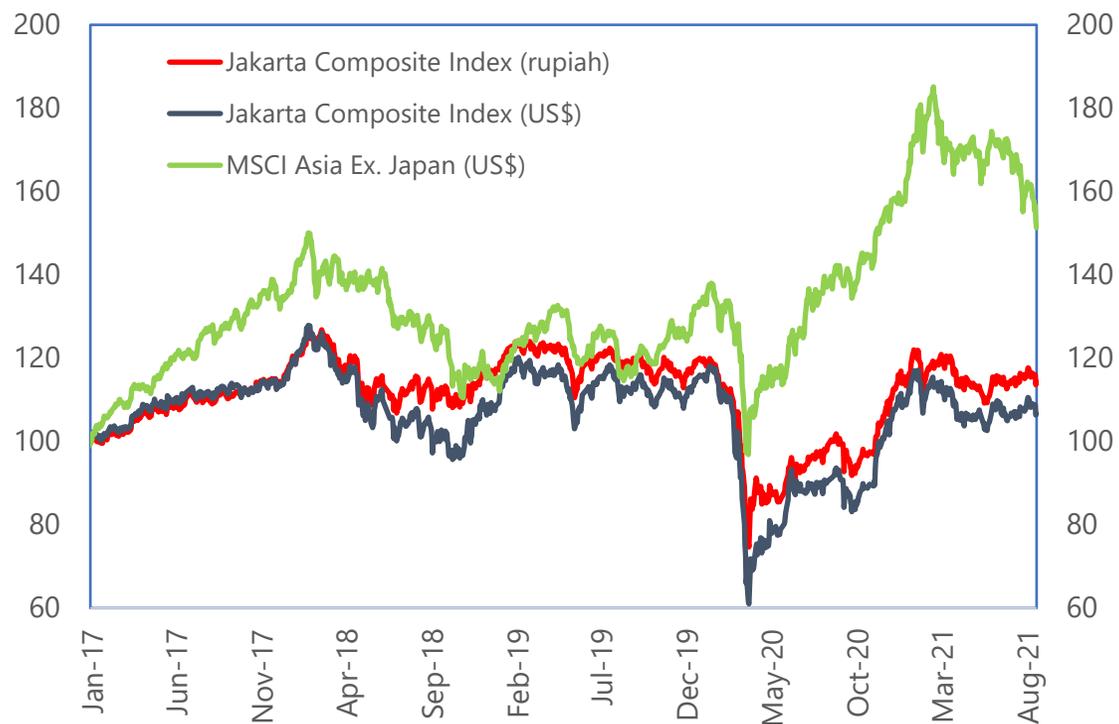


Source: CEIC, BPS

# So Far Little Evidence of Repricing Indonesian Assets

## Jakarta and Asian equity indices

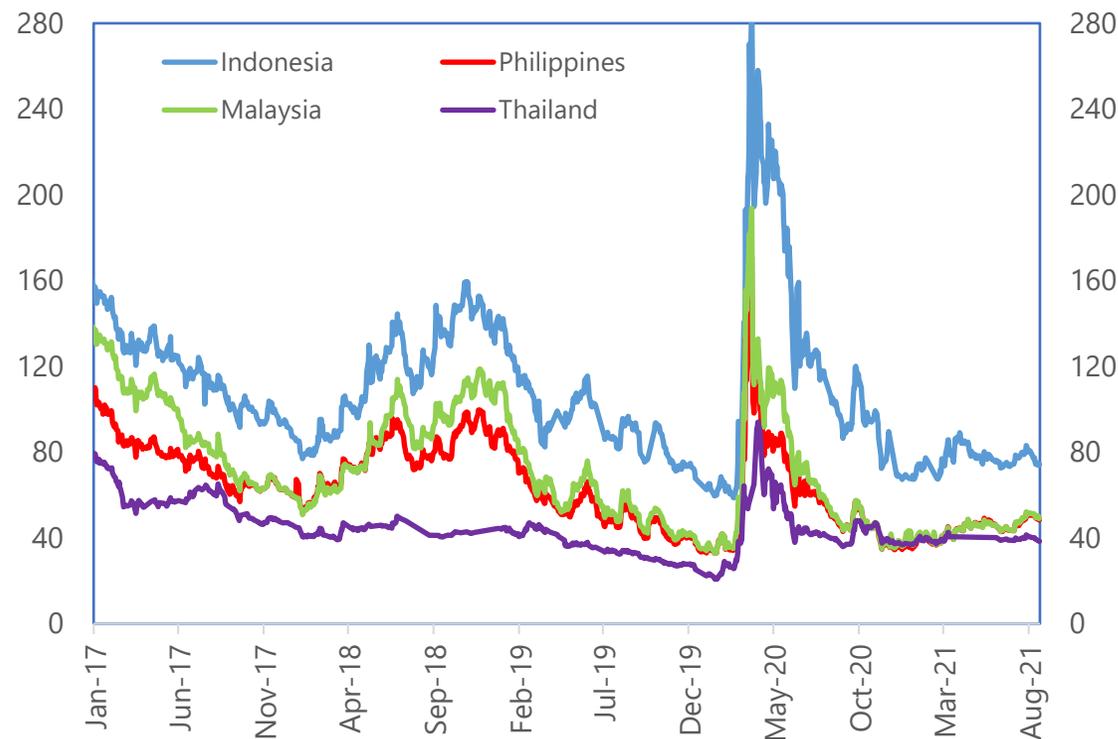
Jan 3, 2017 = 100)



Source: Bloomberg and IMF staff estimates.

## Premium for protection against default on sovereign bonds

(in basis points)



Source: Bloomberg

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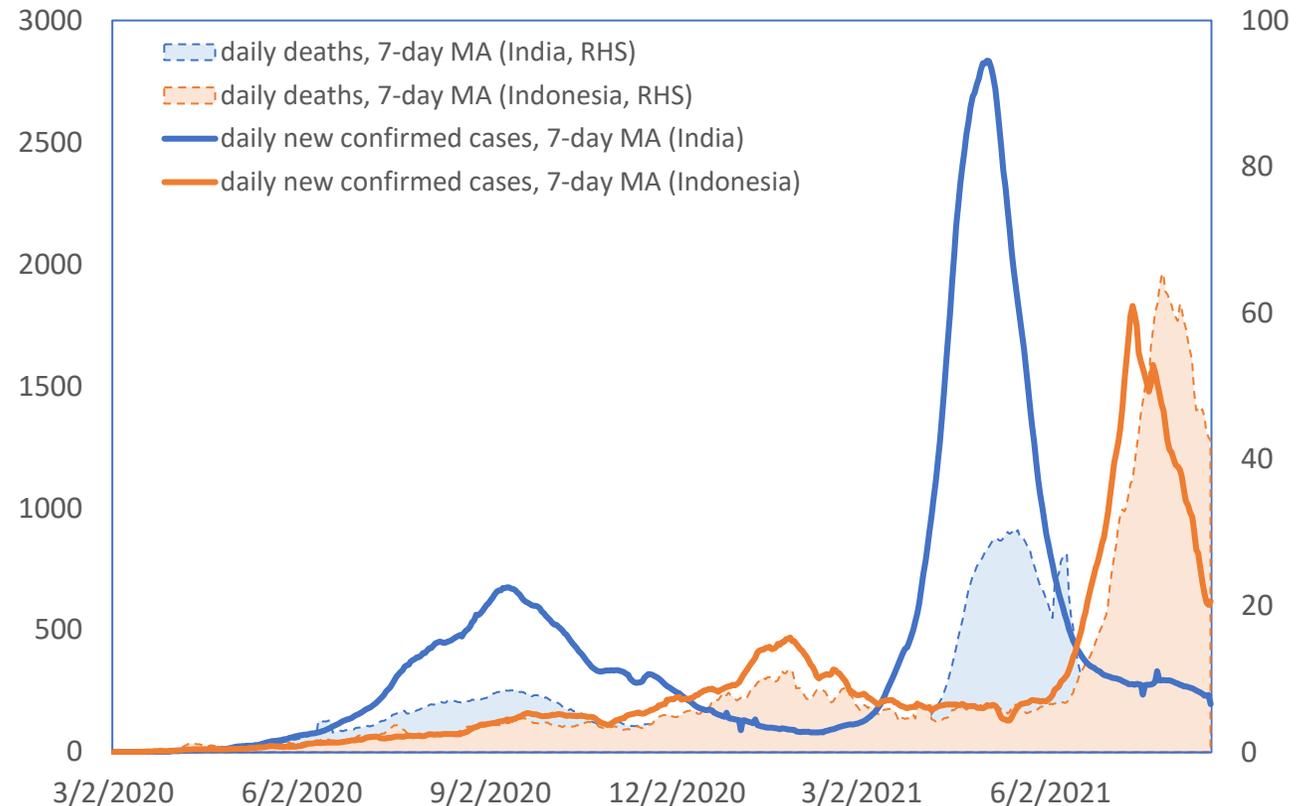
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# When to Loosen Restrictions?

## Pressure abates but risk remains

- Restrictions have very clear economic impact. But letting the virus spread has costs to confidence that are less clear
- Allowing small business to open raises risks of transmission but provides economic support. When targeting is difficult, this is a second-best option
- Countries that waited until cases were 80 percent off peak fared better than those that opened faster.
- Confidence rises after more complete suppression.
- With Delta variant, both rise and fall of cases is faster than previous waves.

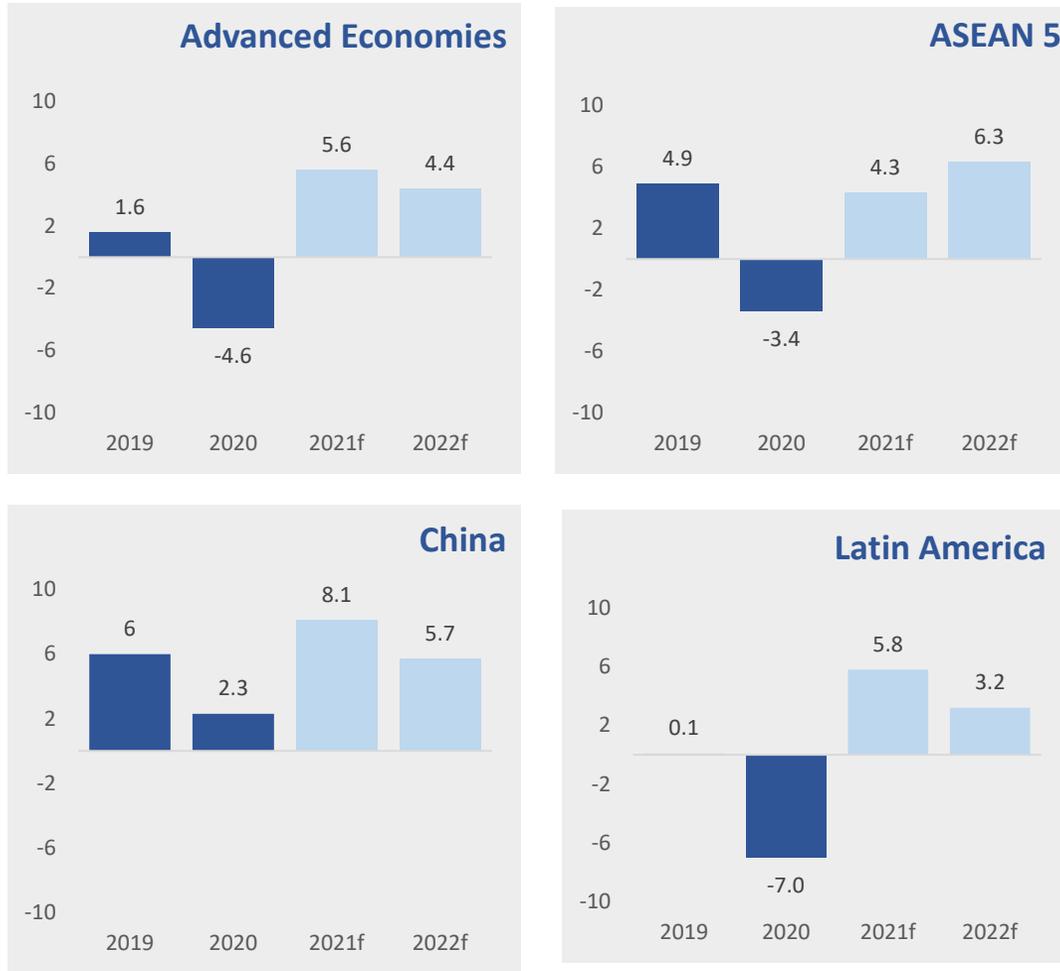
## Daily new confirmed COVID-19 cases and daily deaths per 100,000 people



Source: Johns Hopkins University CSSE COVID-19 Data, Our World in Data

# More Vaccinated Countries are Recovering Faster

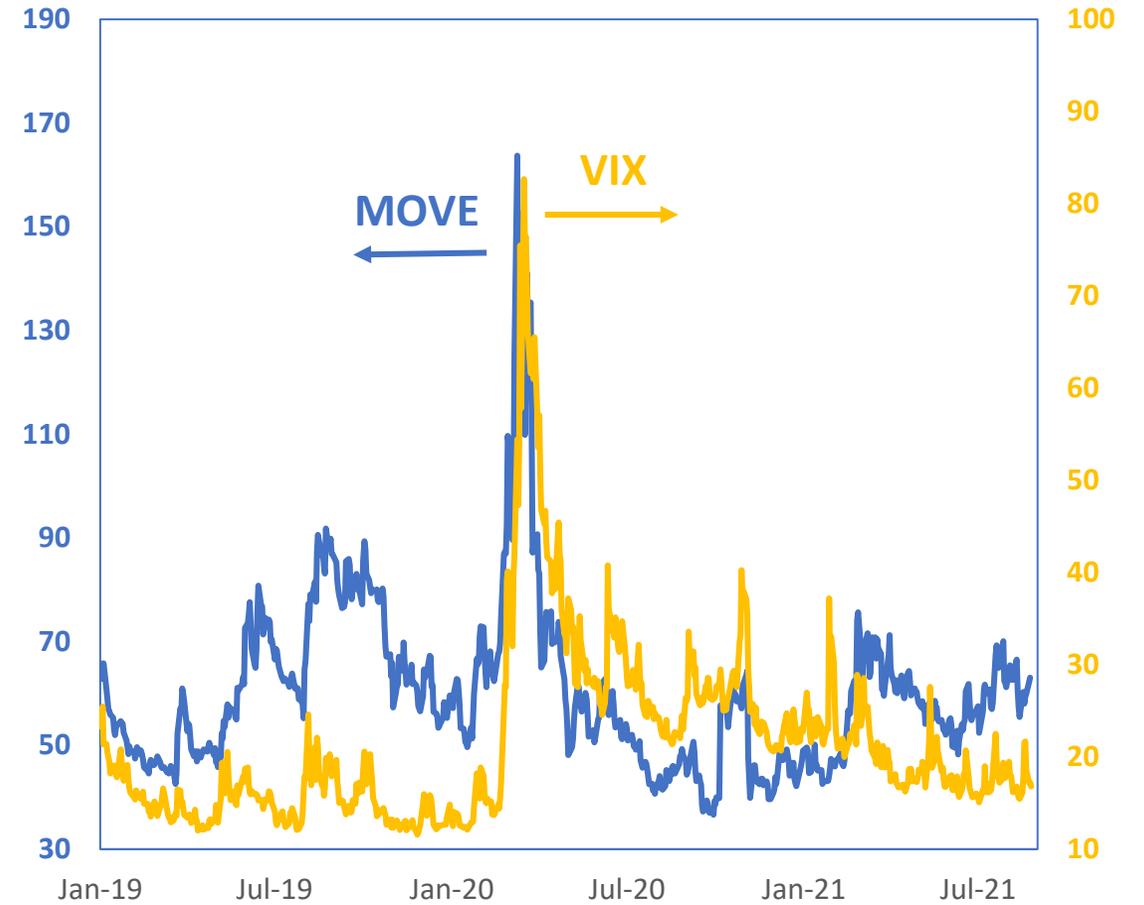
## Economic Growth Projections (% yoy)



Source: WEO July 2021

## Volatility Indices

(Percent)



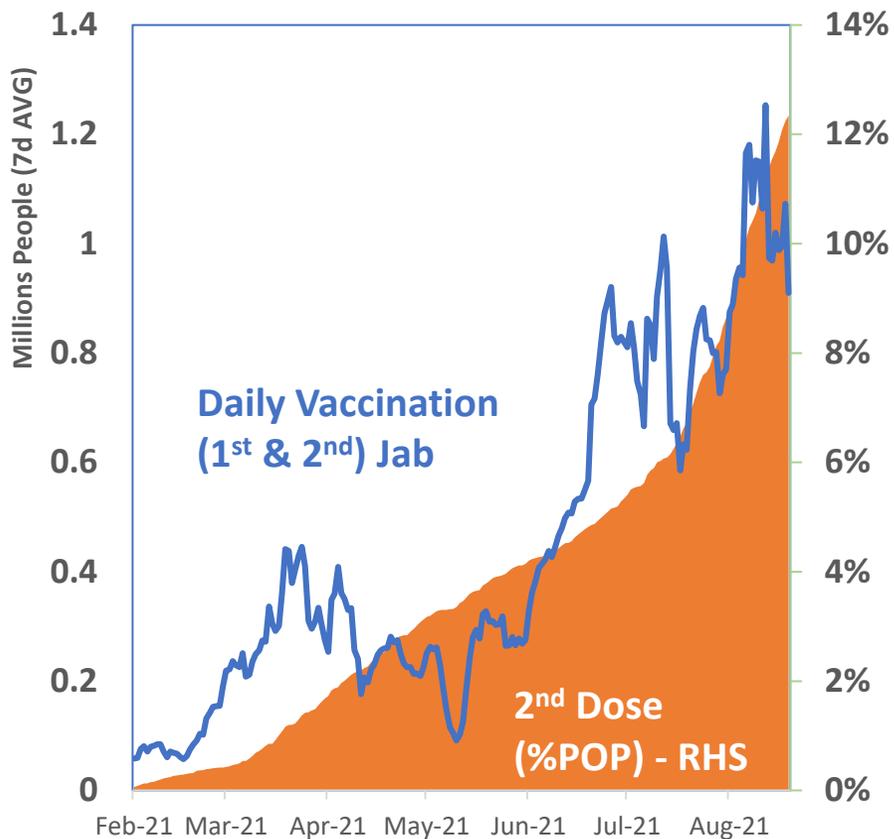
Source: Bloomberg

# Vaccination Progress in Indonesia

However, rate of vaccination differ across the archipelago

## Vaccination Rate

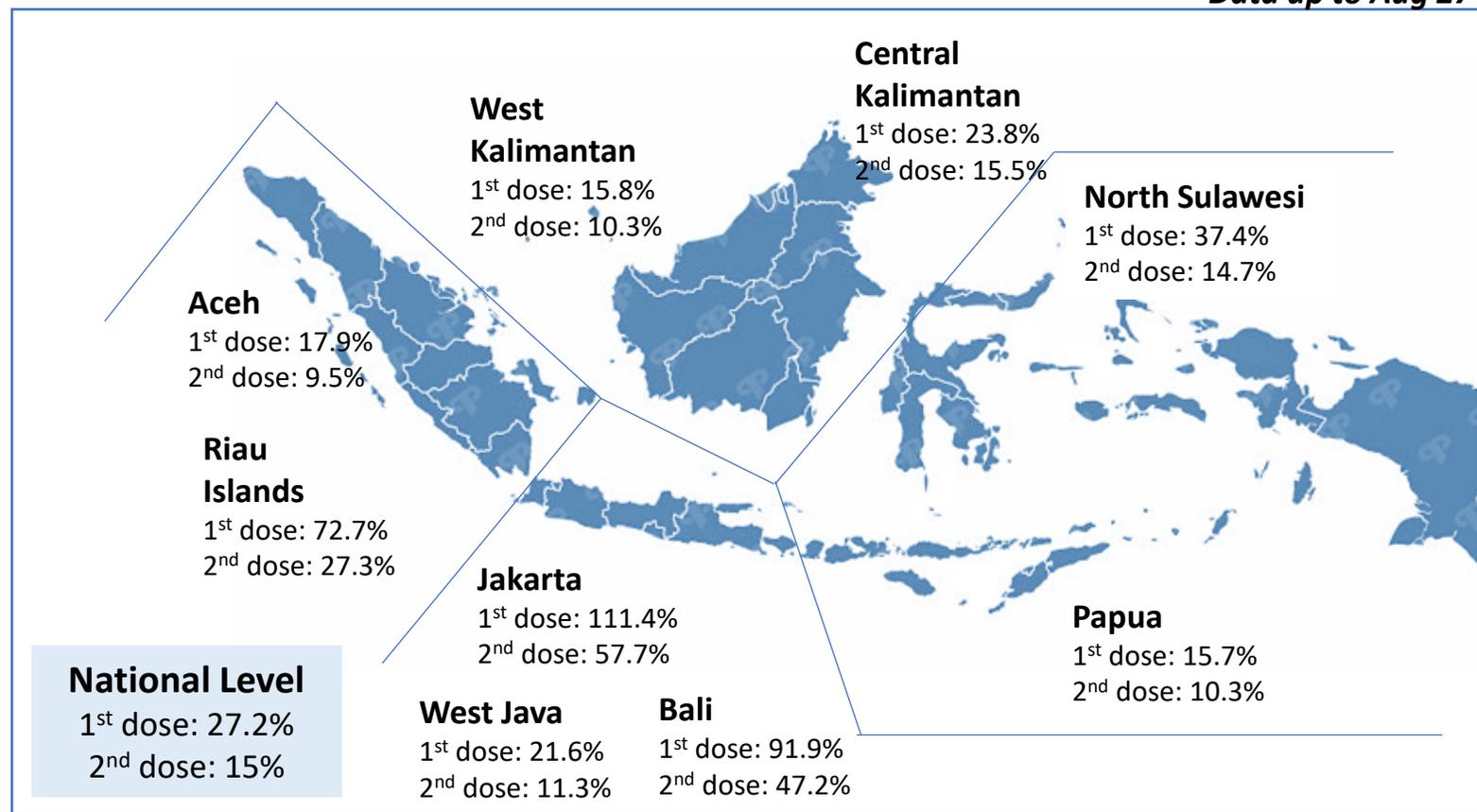
(#People, % of Population)



## Vaccination Rate Across Indonesia

(The High and Low in each region, % of Target)

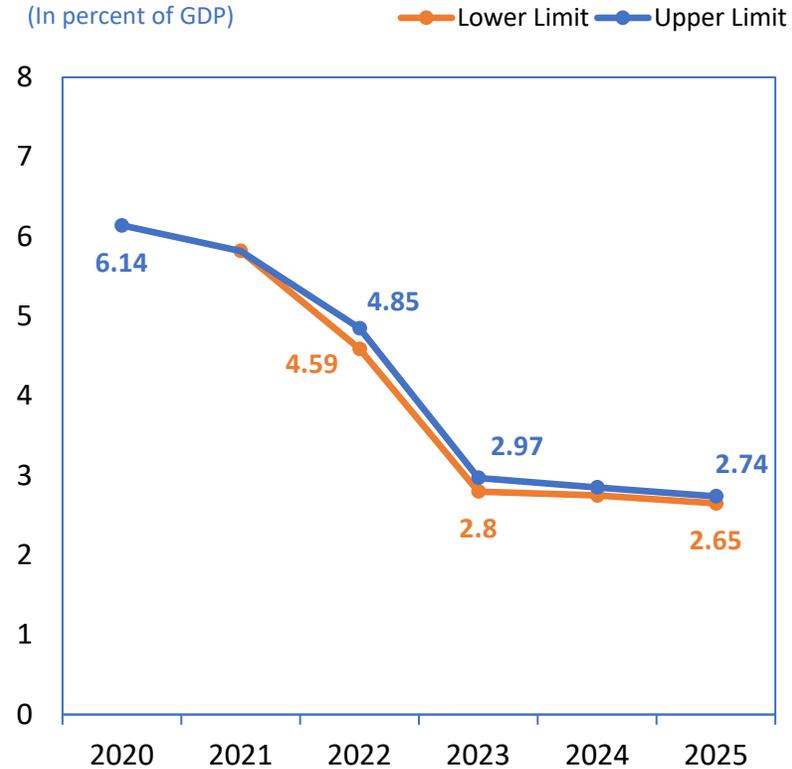
Data up to Aug 27



# Budget Deficit: Getting Back to 3 Percent

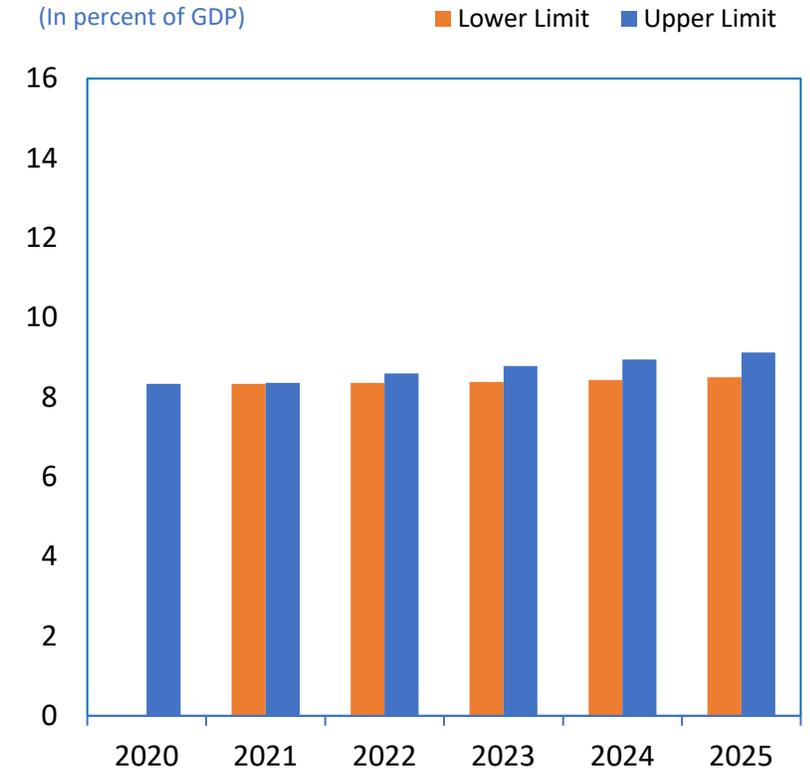
- Strengthen spending through PEN
- Credible and accountable in managing deficits
- Serious revenue reform will have to underpin credible fiscal policy

**Budget Deficit**  
(In percent of GDP)



Source: MoF

**Tax Revenue**  
(In percent of GDP)

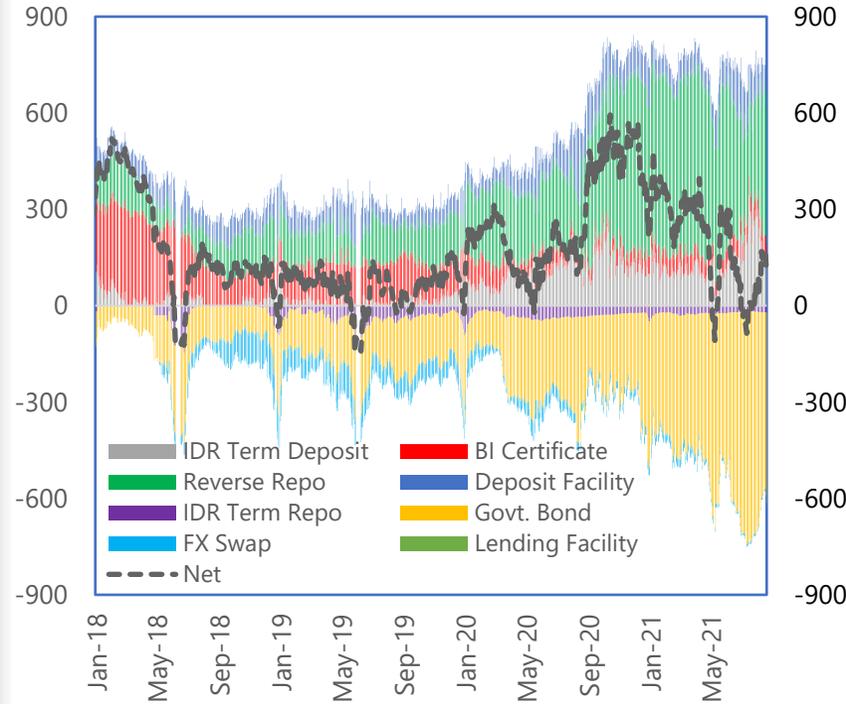


Source: MoF

# New Normal in Monetary Policy

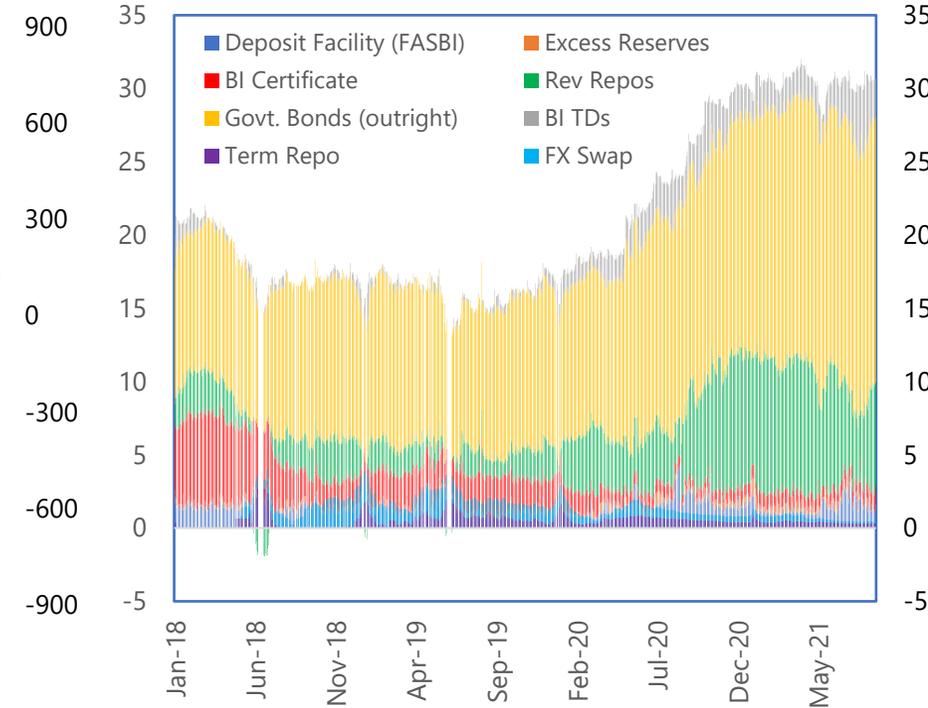
- Exit strategy for BI purchases of government debt
- Gradually reduce other asset purchases
- Raise rates as inflation circumstances change

**Liquidity injection and absorption by BI**  
(In Rupiah Trillion)



Source: BI, CEIC, DMO, IMF Calculation

**Banks' liquid assets**  
(In percent of Rupiah Deposits)



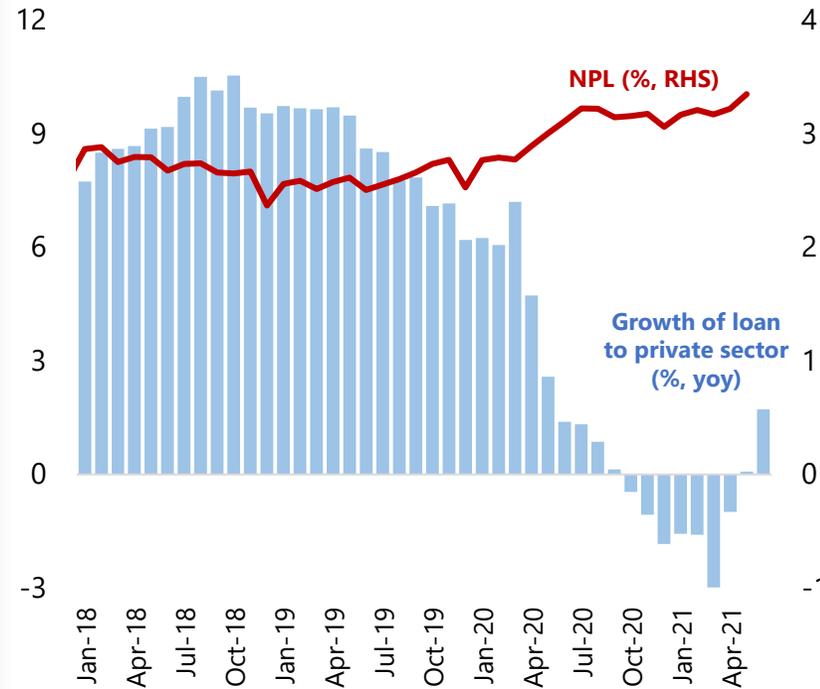
Source: BI, DMO

# Financial Sector: Growth and Stability

- Banks should objectively assess creditworthiness of their portfolios and prepare capital plans accordingly
- As liquidity normalizes, banks will have to ensure management under tighter conditions
- Continued development of financial markets, long-term funding, money market

## Loan to Private Sector

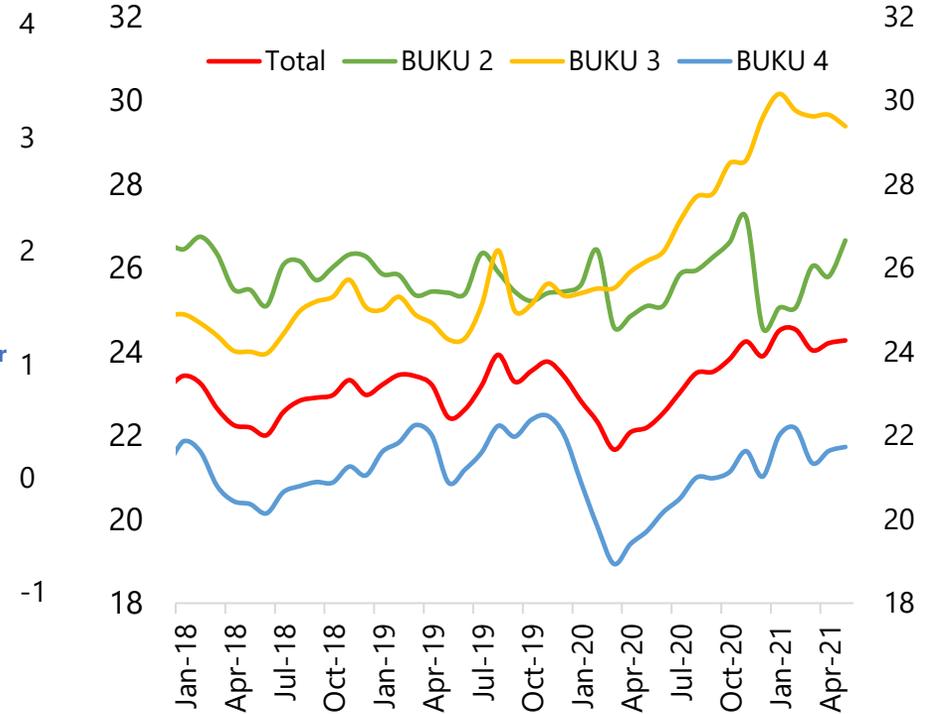
(growth in percent yoy, NPL in percent of total loan RHS)



Source: BI, IMF Staff Calculation

## Capital Adequacy Ratio of Conventional Bank

(monthly, in %)

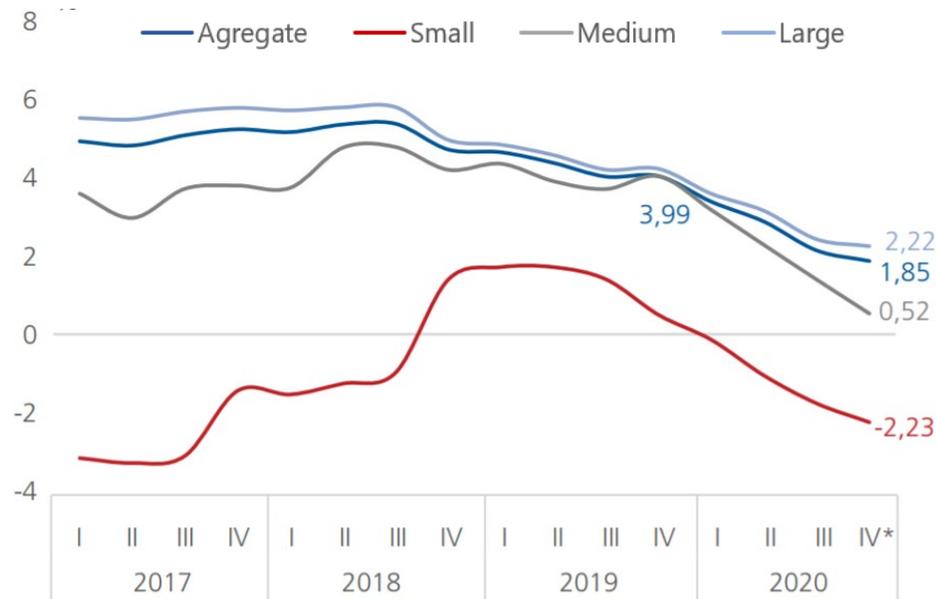


Source: OJK, IMF Staff Calculation

# Corporate Sector: Potentially High Risks

Better regulation, supervision, and risk management at the firm level should be in place before any compensation schemes are introduced to better protect consumers with minimum moral hazard

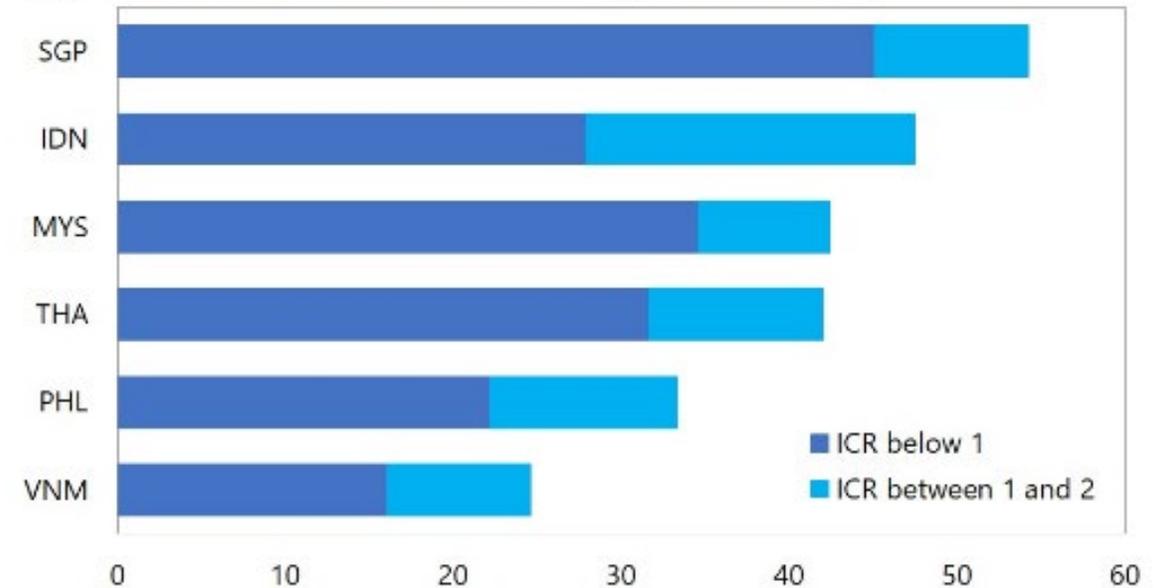
**Return of Assets (ROA) of publicly listed company**  
(in percent)



Source: Bloomberg S.P.

**Firm-at-Risk**

(In percent of sample firms in each economy, as of end-2019)



Sources: S&P Capital IQ; and IMF staff estimates.

# Financial Deepening

Indonesia Insurance and Pension market is among the smallest in EM. Pension could act as shock absorber from currency depreciation. The upcoming omnibus law in financial system should address the issue of promoting market deepening

% to GDP	Pension*	Insurance**	Stock Mar Cap***
Brazil	12.7	14.7	46.3
Chile	68.8	25.7	106.4
India	1.1	22.0	87.9
Indonesia	1.8	4.3	51.3
Malaysia	59.9	22.4	142.8
Mexico	13.7	6.4	36.0
Thailand	6.8	0.0	120.3
United States	135.8	30.7	164.6
Australia	121.7	18.8	113.5

**Source:**

\* 2016 Assets of pension funds, data from Global Financial Development (GFD) World Bank

\*\* 2017 Asset of Insurance, data from OECD

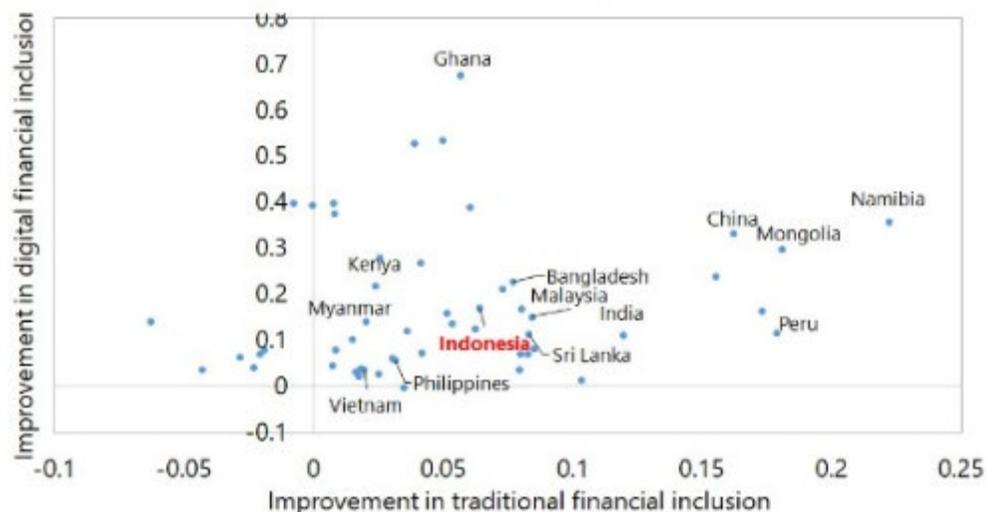
\*\*\* 2017 Market capitalization of listed domestic companies, data from World bank

# Digitalization and Inclusion

Investing in and expanding access to digital-friendly infrastructure should be prioritized.

**Progress in Financial Inclusion: Traditional vs Digital, 2014-17**

(+/- indicates increase/ decrease in financial inclusion)

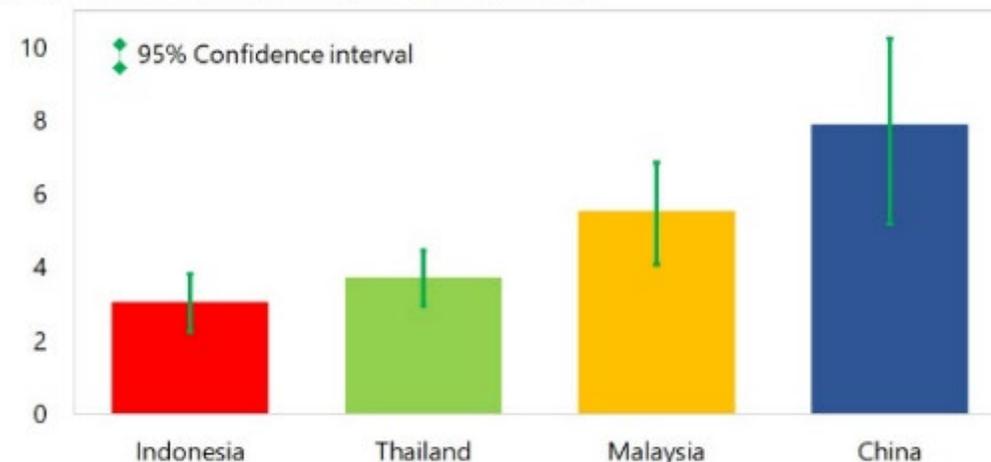


Source: Sahay and others, 2020.

Important economic benefits from broader adoption of digital payments.

**Impact of Increase in Adoption of Digital Payments on Growth 1/**

(In percent of average GDP per capita growth)



Sources: IMF staff estimates; and Khera and others (2020, forthcoming).

1/ The impact on the per capita real GDP growth is obtained from the LIML regression analysis, assuming other factors remain unchanged.

- Addressing barriers to digital technological adoption should go hand-in-hand with investing in education, as well as encouraging the usage of digital financial services in government transaction.
- Continuing to strengthen regulation and interagency cooperation to address challenges across multiple traditional business lines.

**Thank you!**