



FOREIGN POLICY
COMMUNITY
OF INDONESIA

Indonesia's 6-Month Economic and Political Review 2021

Key Talking Points

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Indonesia's 6-Month Economic and Political Review 2021
Virtually Held on Monday, 28 June 2021 at 14:00-15:40 Jakarta Time

Hosted by Dr. Dino Patti Djalal
Founder and Chairman of Foreign Policy Community of Indonesia (FPCI)

Panelists:

1. **Bambang Harymurti**
Commissioner of PT Tempo Inti Media, Tbk.
2. **Abdoulaye Sy**
Senior Economist of World Bank Indonesia
3. **Andry Asmoro**
Chief Economist of PT Bank Mandiri, Tbk.
4. **Yongky Susilo**
Board of Experts of Indonesian Retail and Mall Tenant Association (HIPPINDO)

Moderator:

Donny Agustiady
Director of PwC Indonesia

(KEYNOTE PRESENTATIONS)

Bambang Harymurti:

- The second COVID-19 outbreak in Indonesia is the elephant in the room. This will be the game changer or the main thing that impact our politics in the future – whether it is manageable or not? Whether this will be the last wave or merely one of more in the future?
- Why is the ability to manage the second COVID-19 wave important? We are just at the beginning of our second wave and it has already passed the highest peak of the first one. Learning from India, this is not good news. There is no way we can handle a wave that high; our health facilities will collapse. If we look at other countries that do not do strict lockdowns at all and considering the public behaviour, most of them are likely to have multiple waves, such as Sweden and South Korea.
- There are 9 scenarios for health and economic recovery that may happen and impact our politics. All are based on the priority of the country: the health of the people or economy. In the case of Spanish Flu of 1918, those that had paid attention to the people first recovered faster. In the end, the worst that could happened to us, and whether the force for continuity will get stronger, shall be seen in 2023.
- Here is a brief background on our presidential election: our constitution only allows political parties to propose presidential candidates with a 20% presidential threshold.

Only PDIP can propose unilaterally as it holds 22% of the threshold. Therefore, the possibility for presidential candidates would be between 2 to 4 candidates.

- A semi-open polls shows that the favorability of the biggest three political parties are relatively stable with PDIP at 25.9%, Gerindra at 10.9% and Golkar at 10.7%. The following three parties (PKS, Demokrat, and PKB) are also stable. Those undecideds remain stable at 20%. If the presidential election is to be held today, Prabowo Subianto is still most likely to win. He still holds the most popular position (and remains stable), compared to other names, such as Ganjar Pranowo, Anies Baswedan, and so on.
- Another interesting talk in town is whether President Joko Widodo should extend his presidential term. It started because Ibu Megawati (Chairwoman of PDIP) wants Indonesia to re-apply the Broad Guidelines of State Policy (GBHN), since the current situation imposes low possibility to establish a long-term plan. The problem with this is that the next president is not allowed to have any programs other than the GBHN. Therefore, rationally he/she shall be elected by the MPR just like in the New Order era.
- Following this idea also means that we have to amend our constitution, but once we do that, other parts can also be altered including the limitation of presidential term. This amendment may be successful with one additional party in PDIP coalition, probably Demokrat, as they only need 2/3 votes in MPR to do so.

Abdoulaye Sy:

- The world is facing one of the most serious recessions in 2020, but Indonesia's was milder compared to other developing countries. The second quarter of 2021 showed a positive signs for economic growth with increasing consumer spending and sentiments.
- In terms of Government response on the fiscal side, Indonesia has a significant impulse. The real spending has grown significantly, doubling the figure compared to last year's. On the monetary side, the response was bold, but also faced with some difficult trade-offs between stimulating the domestic economy and managing external pressures, considering the reliance on external funding.
- Indonesia's inflation is still below the target, while real policy rate is on the positive note. Credit growth has not picked up. There are several factors that come into play, such as concerns over high debt. Weighing in Corporate Vulnerability Index, the most vulnerable being consumer services. Compared to other Southeast Asian countries, it is not that recovering.
- On the fight against COVID-19, as of May 31st, World Bank is projecting a 4.4% GDP growth in 2021 and 5% in 2022 with a more contained pandemic acceleration, vaccine campaign, and customer's consumption rate. There are upside risks (i.e. boost in consumer confidence and successful vaccination campaign) and downside risks (i.e. new COVID-19 wave, tight external finance and weaker global growth).
- There are three critical policy challenges: First is whether or not Indonesia winning the race against infections. Despite having a sound vaccination strategy, the recent acceleration in daily cases has caused health, social and economic concerns.
- Second challenge is to maintain accommodative monetary policy and managing external pressures. The domestic side calls for accommodative monetary policy while the external front, policy formalization calls for a tightening, but it would be costly. Bank Indonesia has a lot of room to balance these, to keep the fire power for the future.

- Last is balancing fiscal support with fiscal sustainability. The crisis has impacted firms and households that are vulnerable. Research from colleagues in the World Bank highlighted that the risk of poverty could increase due to the slower recovery. Another issue is addressing Indonesia's low revenue base. This is a challenge that without reform, the revenue may not rebound. Therefore, reform will be important to tackle the issue.

Andry Asmoro:

- We will still expect that global growth and rates are still low by 2022. But we have to prepare for a new system in 2023, as it will be different by that time. Bank Indonesia with the Government will support economic recovery in 2021 after the second wave. But the market is expecting what time The Fed will start their initiatives.
- For Indonesia, 2023-2025 will be more interesting since there are elections in 2024. This will affect policy making. We have to prepare for a different cycle of global fiscal and monetary policies.
- Many people asked how the situation would be different in 2013 and 2021? If we compare, the current account balance is way lower now, with inflation rate in the last five years could drop below 2 percent, unlike 2018's 8 percent. We have a relatively stronger Foreign Reserve. We still have challenges in debt to GDP, but it is relatively lower than other Southeast Asia developing countries.
- In terms of the capital market, the foreign capital starts to kick in with net inflows to Indonesia around 22 trillion Rupiah but if compared to the net outflow in 2020, the number is still very low. We cannot push the bond yield much lower. Foreign participation is still rather low. But due to it, the foreign ownership in government bonds only comprises 23 percent. The volatility because of the capital is much less.
- We tried to do the simulation: what if the changes of the global economy policy direction happens? Even though the level of crises dropped 9% from the current position, the effect is still less severe compared to what we had in 2013.
- If we take the average additional GDP prospect, the growth will be 7.21 percent. But the baseline is around 6%. This is very dynamic.
- In terms of the spending trend or momentum of growth, Indonesia has all the room to recover. Indonesia's spending index is improving and above what we have in January 2020. The willingness of Indonesian to spend money is there. It depends on how the Government puts their confidence to spend.

Yongky Susilo:

- We are in the middle of momentum growth but unfortunately, we face a new COVID-19 wave, which will slow down the growth. Post-holiday spikes statistics and the restriction policies are very crucial. We should have actions. The impacts on spending are plummeting online and offline spending (down by 20 percent in the middle class). New studies instead show that those who usually buy in supermarkets or hypermarkets move to smaller markets (minimarket) (4% and 12%). McKinsey, already corrected that it is not a permanent change, but instead we will go back to normal. Number of deliveries were up during COVID-19 and work-from-home are lowering now.

- There are also a lot of reports that Indonesia is switching from offline to online. But the fact is online still very small. Indonesia's use of online FMCG is only 1%, Malaysia is only 2% and Australia is only 3.1%. Therefore, do not push about online. It helps in certain stages but it is not going to fulfil the trade dead loss.
 - The growth momentum is toward the festive. Many of our friends in the manufacturing industry are out of stock about two weeks before Lebaran. However, it was going down again after Lebaran. We do hope that for Q4, there will be acceleration again. We need 1-2 months to recover from the high number of COVID-19 cases.
 - Indonesia's retail annual growth cycle will be impacted by the wave. When divided in Q1-Q4, there are potential trends that might emerge. Q1 with weak growth due to flood and planning budget, Q2 the highest due to Eid Fitr, and as Q3 is faced with a wave, Q3 may happen faster.
 - The difference is the COVID-19 wave today is very exponential. We do not know the peak yet. The chart is going up in a very short time. Jakarta alone experienced 10 times of cases growth just in three weeks
 - As we face another micro social restriction policy (PPKM), it has to be reviewed to be tighter. The projection for Q2 growth, it will be 2.5-3%.
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(DISCUSSION SESSION)

1. Pak Yongky mentioned earlier that we might need to have another lockdown policy, not only a micro one, my question is can we afford that?
 - **Bambang Harymurti:** I think is more to political issue than to money issue.
 - **Abdoulaye Sy:** Something that I like about the Government's fiscal plan is its flexibility to reallocate budget based on needs and priorities. The second is how closely the Government monitors the crisis and being agile in responding.
 - **Andry Asmoro:** The Government has allocated some money to respond. They can use it flexibly. The scenario will be if we will be going back to last year's situation or not. Some of the spending of ministries will be concentrated to mitigate the pandemic. But still, there are still high uncertainties.
 - **Yongky Susilo:** This will become a political situation. They have to be very careful since this wave is uncontrollable. But basically, Indonesian can recover anytime due to high-entrepreneurship, so long as the Government would listen and give them chances. We are also promised that the Omnibus Law would increase the ease of doing business in Indonesia, although I do not yet see any improvement based on the meetings I attended related to the law.
2. Pak Bambang, can you elaborate your earlier comment on not having political will?
 - **Bambang Harymurti:** The COVID-19 problem has been politicized. The National Government has an anti-lockdown attitude, while the opposing sub-national Governments have different one. Therefore, a lockdown policy would make the opposing side looks good. We should depoliticize this: lockdown or not should be a matter of scientific data.
3. Say Pak Yongky prediction is correct, what kind of steroid do we need to jumpstart the economy once again?

- **Andry Asmoro:** For the recovery, the Government has done quite a lot. The restructuring of the banking sector, for example, has already been done. The other support is to the tourism sector such as the private sector in Bali and Nusa Tenggara. Other than that, the support is also by giving assurance of the needs of the working capital so they will be easier to jumpstart.
 - **Abdoulaye Sy:** This is a public health problem. I've tried to highlight in my presentation the adequate testing, tracing capacity so we can target mobility restrictions or even vaccination. Another way to look at it is that Indonesia has learnt a lot in terms of what could happen. That could be the starting of evidence based policy making.
4. Is the Government stimulus went to the right target? If we want to stimulate the economy further, what stimulus needs to be given?
- **Bambang Harymurti:** Like most policies, you cannot expect a 100% leak-proof target. But if we do a global benchmarking, comparing notes of institutions both in support and opposition of the Government, we have worked very hard and doing well.
 - **Yongky Susilo:** In retail, we do not have stimulus. We did request it, but it was not given. We request the Government not to tax (property tax) retail industries. It will eat up the cash flow due to the low number of customers and visitors. Second, the tax for advertising, parking, and electricity. If there is no stimulus, please do not tax them. Moreover, before easing down the lockdown, we have to upgrade our health protocols, for example not only mask, but double mask; not only body temperature checking, but also oxygen saturation checking. Moreover, they should focus on the upper-middle class as they spend more. How do we stimulate these riches? Perhaps, do not tax them.
5. Do you see the tax break for new cars and apartments working?
- **Yongky Susilo:** Basically it is working. But the target should be more to the upper-middle class.
 - **Abdoulaye Sy:** If you benchmark Indonesia on taxation, Indonesia has a very low tax to income ratio. The crisis has shown that we need not just help the economy at large but those who need it the most. It is constrained by low revenue in high-financing needs. For a sustainable recovery post COVID-19, the revenue mobilization is the debate.
6. What are the impact of the proposed increase of VAT (PPN) and Income Tax (PPh) to the economy and politics? Will it hit the right people?
- **Bambang Harymurti:** There is a gap between the paper and the implementation. It is not about whether we need to raise the tax or not, but when. It is not ideal for the Government image to squeeze people's money during the pandemic. Why not open a casino in Jakarta so that the rich do not spend their money gambling on Christmas Island or Singapore? You will be surprised that their tax for this could reach a billion Rupiah a year. Why do not we organize better charities system as well to make the rich spend more money? We are among the most charitable countries in the world. But we have to improve the trust in the system. I can think of many innovative ways to increase the Government income, but not from the text-book. A crisis is not a

normal situation, therefore it needs out-of-the-box solutions. Increasing VAT and Income Tax are text-book solutions.

- **Abdoulaye Sy:** That is a way to build in a different way. But in order to innovate you need to have a strong foundation. If your foundation is not strong then it will not last.
7. What kind of reform can the World Bank suggest to the Government of Indonesia to increase its revenue base?
- **Abdoulaye Sy:** First is to widen the base. Do not have the tax base so narrow. Second, we need to address the distortion. So we can get more revenues from products that have a negative impact on the health or environment. Third, administrative reform needs to be done so people can have compliance in paying taxes.
 - **Andry Asmoro:** We actually have categorized which sectors are the most affected. Then we can identify which sectors that can be taxed. I agree with what Pak Bambang mentioned earlier, it is about the timing. It is not easy but I think with the current situation, the Government should see some areas that are not subject to taxation. It will be going back on how we manage the COVID-19.
8. Does the green sector help the recovery?
- **Yongky Susilo:** It will not be huge in the next 2-3 years. Basically, it is still traditional energy in Indonesia. We are moving towards it, but not now.
9. If you were to advise the President to throw the tax-book away, what would you advise the President?
- **Yongky Susilo:** We have witnessed countries like Singapore and Malaysia who were giving incentives to business so that the employees are not laid-off. Of course, Indonesia is way larger and need more budget for this. Therefore, the Government needs to extend the tax bases and let the business sector breath by not taxing them more.
10. Who should be blamed of this current outbreak?
- **Bambang Harymurti:** The Government has a good policy but not implemented it nicely. I think I agree with Pak Abdoul that what we can blame to the Government is the contact tracing. The reason is very simple: we use a security approach to trace. Hence people are afraid to report.
11. Just recently, energy company is pulling out from Indonesia. Why are they pulling out and what can we do to reverse the trend?
- **Bambang Harymurti:** I think it is happening all over the world. For Indonesia, this is a very big opportunity, the consumption of biofuel would increase 62 times and the most efficient biofuel in the world is palm oil. Hence, if we can assure that our palm oil production is good enough, it will be a huge opportunity. We should shift our coal exports to biofuel. I also remember that Indonesia has a huge resource of biomass and we produced half of nickel global demand. The main problem is political interest. We should persuade the players in coal to move to these green businesses, because coal is a sunset business anyway.

- **Andry Asmoro:** By 2060, the PLN will have to reduce its coal usage. But what I like is that Indonesia has the opportunity. We have several resources including nickel products that are related to environmentally friendly energy. The point is how to create a good investment climate for this opportunity
- **Abdoulaye Sy:** I fully agree with Pak Andry and Pak Bambang. Indonesia has a lot of potential competitiveness. Some of our colleagues are looking into what the challenges Indonesia is facing.

12. For Pak Bambang, what are the long term effect of COVID-19 to the 2024 election?

- **Bambang Harymurti:** If we manage it well, the sense of continuity will be very strong. But if the Government manage it poorly, they will be blamed and whoever endorsed by President Jokowi will look bad.

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