HOW INDONESIA DEAL WITH COVID-19 PANDEMIC

As stated by Bank Indonesia in a press release on April 14, 2020, the COVID-19 pandemic that is increasingly widespread throughout the world has led to the increased risks for a global economic recession in 2020, while the panic of the world financial markets will decline gradually. The risks for a global economic recession in 2020 will come from the declining demand and disruption of the production process, due to the social distancing protocol for reducing the risks of COVID-19 pandemic.

Related to the global recession risks, the economy of some developed countries such as the United States and many countries in the European region is expected to experience a contraction in 2020, despite the implementation of various ultra-accommodative policies, from fiscal to monetary policies, by their governments. Likewise, the economy of the developing countries is also predicted to decline. The global economic recession is expected to occur in the second quarter and third quarter 020 particularly, in accordance with the pattern of COVID-19 pandemic, and then will improve again in Quarter-IV 2020.

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For the next year, 2021, the global economy is predicted to increase high, driven by positive policies adopted in many countries, next to the base effect factors. Meanwhile, the panic in the global financial market that rose sharply in March 2020 will begin to lessen in April 2020, supported by positive responses over various policies adopted in many countries. The declining risk in the global financial market is reflected in the decrease of the volatility index (VIX), from 85.4 on March 18, 2020, to 41.2 on April 14, 2020.
The global economic downturn and the spread of COVID-19 pandemic in the country will have an impact on Indonesian economic growth. Export from Indonesia in 2020 is predicted to decline, due to the decelerating demand, disruption of supply chains, and the low price of a commodity in the global market. Meanwhile, the social distancing protocol to prevent the spread of COVID-19 will have an impact on the people's income and cause a decrease in productivity, and eventually lower the domestic demand, both for household consumptive goods and investment.

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A downturn in the Indonesian economy is expected to occur in the second quarter and third quarter, 2020, affected by the contraction of the global economy and economic impacts from the efforts to prevent the spread of COVID-19. The Indonesian economy is predicted to start to recover in Quarter IV-2020. Overall, the national economy is predicted to grow by 2.3% in 2020 and will increase higher in 2021. The recovering growth of the national economy is not only influenced by the global economic recovery, but also driven by various policies applied by the Government, Bank Indonesia, and the related authorities.

The current account deficit is predicted below. Although the export will decline in line with the decreasing demand for and prices of commodities in the global market, the trade balance is predicted to improve. This is a result of a higher decline in imports due to the decreasing demand in the domestic market and the decreasing need for production inputs for the export activities. The services account deficit is also predicted to be lower, driven by a drop in foreign exchange for the import transportation costs and a decline in foreign currency revenues from the tourism sector. A deficit in primary income account will also decline, in line with the lessening of foreign ownership of domestic financial instruments.

Overall, the current account deficit in the first quarter of 2020 is expected to be lower than 1.5% of GDP. Meanwhile, foreign capital inflows are predicted to gradually re-enter Indonesia, in line with the easing of the global financial market and the improvement of the domestic economy. The secured prospect of 2020 NPI can strengthen the national external capability. The foreign currency reserves, which reached USD 121.0 billion per end of March 2020 or equivalent to 7.2 months for import financing or 7.0 months for government import and offshore loan financing, are predicted to increase at the end of April 2020. According to Bank Indonesia, this foreign exchange reserve is more than enough to meet the needs of imports and to repay the offshore government loan, and to stabilize the exchange rate of Rupiah.

Meanwhile, activities of the national manufacturing industry, as indicated by the Purchasing Manager Index (PMI), are predicted to potentially be further depressed in the coming quarters. This could happen if the Government does not immediately overcome the Covid-19 pandemic, correctly and decisively. This will affect the demand of people for industrial products. In March 2020, the PMI was contracted deeply. Based on data from HIS Marker, PMI of the Indonesian manufacturing industry in March was only around 45.3, lower than 51.9 in February 2020.

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Meanwhile, based on a survey by Bank Indonesia, the Bank Indonesia Manufacturing Index also projects that the performance of the manufacturing industry will remain declining in the second quarter of 2020, despite the momentum of Ramadan and Eid Mubarak. Nevertheless, expansions are expected to occur in several sectors, especially in food, beverages, and tobacco industry.

Findings from the survey, which is published by BI on Monday (13/4), shows that the food, beverage, and tobacco industry is the only sector not experiencing a decline in the first quarter of 2020. PMI index for food, beverage, and tobacco subsector was at 50.44% or remained expansion even though it was lower than 52.47% in the previous quarter, and 52.19% in the first quarter of 2019. In measuring the PMI, the 50% level means that the business sector is still experiencing expansion or growth. Meanwhile, if the index is below 50, it means there is a contraction. Based on the BI survey, almost all sectors experienced a contraction in the first quarter of 2020.

The deepest contraction was experienced by the base metal, iron, and steel subsector with PMI of 36.89%, followed by the cement and non-metal mining sub-sector (40.26%), and transportation equipment, machinery, and equipment sub-sector (41.28%). Meanwhile, as a whole, the PMI is in a contraction phase, namely at 45.64%, decreasing from 51.50% in the previous quarter, and 52.65% in the first quarter of 2019. For the second quarter, the manufacturing sector is projected to remain in contraction, though not as deep as in the previous quarter, with a PMI of 48.79%.

Meanwhile, industries severely hit by the Covid-19 pandemic are the automotive industry, steel industry, cement industry, aircraft industry, electronics, and telecommunications equipment industry, textile industry, and machinery and heavy equipment industry.

Furthermore, PT VISI, predicts that Indonesian manufacturing industry will continue to decrease in the second quarter of 2020. Despite the moments of Ramadan and Ied Mubarak, the manufacturing industry is predicted to only increase by 2.12%, if the national economy could grow by 4%. If the figure is lower, in fact, the growth of the national manufacturing industry will even drop lower than 2.12%. This situation could be worsening, since the people are predicted to hold their consumption, due to the decrease in their income.

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Meanwhile, as a legal effort to overcome the COVID-19 pandemic and impacts, the Indonesian Government has issued Government Regulation, which is signed by President Joko Widodo (Jokowi) on March 31, 2020. Based on coercive urgency to respond to the spread of COVID-19 epidemic and the increase in death tolls, the President has issued the Government Regulation in Lieu of the Law (Peraturan Pemerintah Pengganti Undang-Undang/Perppu) No. 1 of 2020 concerning the State Financial Policy and Financial System Stability for Handling the Corona Virus Disease 2019 (Covid-19) and/or In the Context of Overcoming the Threats to the National Economy and Financial System Stability. In addition, there are already the Government Regulation No.21 Year 2020 Concerning the Large-Scale Social Restrictions or Pembatasan Sosial Berskala Besar (PSBB) in the Context of Accelerating the Effort To Overcome the impacts of COVID-19 pandemic, and the Presidential Decision No.11 of 2020 concerning the Determination of Public Health Urgency related to COVID-19 pandemic. Through these regulations, the Government as the fiscal authority is now more flexible in determining the budget and policies needed to overcome the impacts of COVID-19 pandemic, which is far worse than the monetary crisis or the Asian currency crisis in 1998, and the global financial crisis that originated in the United States and Europe 2008.

The Government has also set IDR 405.1-trillion additional budgets and fundings for overcoming the Covid-19 pandemic and impacts in 2020. These are allocated for the health sector (IDR 75 trillion), social safety nets (IDR 110 trillion), tax incentives and People's Business Credit (KUR) (IDR 70.1 trillion), and for financing the national economic recovery program (IDR 150 trillion). The Government also allocates additional IDR 24 trillion direct social aids (bansos) for the people in rural areas, with funds taken from the Village Fund (Dana Desa).

At the same time, Bank Indonesia (BI), as the monetary authority, has also announced IDR 117.8-trillion additional liquidity fund or quantitative easing, bringing the total stimulus funds to IDR 417.8 trillion by the Central Bank. To support the national economic recovery after the Covid-19 pandemic, BI also still open for the declining of BI 7-Day Reverse Repo Rate (BI 7DRRR), along with the low inflation and the importance of low interest rates to boost the economic growth, which is now projected to be in minus level (the worst-case scenario). Meanwhile, during the Board of BI Governor Meeting (RDG) on April 13-14, 2020, the benchmark interest rate is still maintained at 4.50%. Likewise, the fixed deposit interest rates remain at 3.75%, and the lending facility rate is 5.25%.

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On the side, the Financial Service Authority or Otoritas Jasa Keuangan (OJK) also provides a stimulus to enable the banking companies to do restructuration of debts for the debtors affected by Covid-19 and not in the category of non-performing loans (NPL), so their collectability is still normal. Thus, companies affected by the Covid-19 will not be included in the banking blacklist for arrears in interest and basic loan installment payments. The OJK will also continue to ensure the health of financial service institutions, particularly banks so that the public confidence will remain maintained.

Back to the source of trouble, namely the rapid spread of Covid-19, the determined policies must be immediately implemented, decisively and indiscipline, to effectively break the spread of the coronavirus. The stimulus budget of IDR 75 trillion must also be immediately disbursed to overcome the impact of the pandemic effectively. This is also for the social safety nets for the public and the recovery of business activities.

Unless the stimulus measures are carried out quickly and precisely, and also the Large-scale Social Restriction is carried out expressly, there will be massive and large termination of employment occurred in the country.

Furthermore, based on internal processing, PT VISI predicts that Indonesian economic growth will not reach the target of 5.01%. As the pandemic is expected to end in May, the growth will only reach 60%-70% of the target, or only at around 3.5%.

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