
FPCI Virtual Public Discussion
COVID-19 Update: Indonesia's Economic and Political Review 2020
Wednesday, May 20th 2020

Speakers:

1. **Masyita Crystallin**
Special Advisor to the Minister of Finance
2. **Andry Asmoro**
Chief Economist of Bank Mandiri
3. **Yongky Susilo**
Board of Experts of Indonesian Shopping Center Tenants Association (HIPPINDO)
4. **Bambang Harymurti**
Commissioner of PT Tempo Inti Media Tbk.
5. **Ralph Van Doorn**
Senior Economist of World Bank Indonesia

Moderator:

1. **Donny Agustiady**
Director of PwC Indonesia

Host:

1. **Dr. Dino Patti Djalal**
Founder of Foreign Policy Community of Indonesia (FPCI)

MODERATOR OPENING REMARKS**Donny Agustiady:**

- According to the Chinese zodiac, 2020 is the Year of the Rat. If I had a choice, I would change it to the Year of the Black Swan. There is no country that is spared from COVID-19. Although there are few signs that showed some countries are able to flatten the curve, unfortunately Indonesia is not one of them. We still have so many uncertainties and it is only May, we still have another seven months to go in 2020.

SPEAKERS PRESENTATION

Masyita Crystallin:

- If we remember what happened to the economy last year, the discussion was merely about oil, trade turf between the US and China and around the end of the year until mid-February there was actually a quite strong inflow into the emerging market. Even though COVID-19 first incident happened before the Chinese New Year specifically in December 2019 but up until February I guess the global investors were still very optimistic about the outlook of the world.
- Many things happened within a month. If you are looking at the economic indicators for January and February, Indonesia's economy would probably still grow around 4%. However, within a month all the numbers quickly went south. Indonesia's consumption number is usually above 5%, but now it is at 2.7%. Investment went down quite significantly which is now less than 2%. As for the government expenditure, we try to fast forward but many of the government non-priority spending cannot be disbursed because of the situation. On the external balance side at least we got help from lesser imports. Overall the number is not bad, in fact in several months it recorded a surplus, but there is a disruption in the global value chain which will affect production. In the first quarter, production affected not only tourism and the food industry but it also affected trade, manufacturing, transportation, even agriculture, which we thought at first will not be very affected by the pandemic.
- Before the COVID-19 outbreak, Indonesia was in the middle of reform, the government was working hard to escape the middle income trap by 2045. To be able to grow above the potential growth, which we estimated for Indonesia is at around 5%, Indonesia has to grow between 5.5% to 6% in order to escape the middle income trap. This is why the government's goal is always above 5%, in fact this year's goal was 5.3%. However, due to the pandemic, we have estimated that growth will be around -0.4% to 2.3% for this year. If we reach a severe scenario

under the assumption before the government's stimulus package, unemployment will increase by more than 5 million people and poverty by almost 4 million people.

- In the previous two crises which are the 1998 Asian Financial Crisis and the 2008 Global Financial Crisis, Indonesia's non-formal economy and the Small Medium Enterprises (SMEs) were actually playing as the shock absorber to the economy. Because the crisis started in the financial sector, sectors with high links to the financial sector were directly affected but the non-formal sector and the SMEs are not really connected to the financial sector. People said it was a blessing in disguise for Indonesia. The differences between the past crises with the current pandemic is that the non-formal sector and the SMEs are the first to get hit because of the nature of the pandemic that requires physical distancing measures. This is why the current government stimulus is actually focusing on three main priorities:
 - First, health policies to contain the pandemic.
 - Second, social safety net because of the physical distancing, the hit to the non-formal, consumption
 - Third, support to the private sectors especially the SMEs.
- Policies to cushion the economy from demand shocks focus on stabilizing consumption, maintaining investment flow (not to increase investment because output will go down but more to support the business to prevent massive layoffs), and bolstering trade activities.
- The first thing that we are doing for the SMEs is the interest rate subsidy. Interest rate subsidy beneficiaries will be at around 61 million accounts. Second, fund placement in banks affected by Micro Small Medium Enterprises (MSMEs) loan restructuring. This is to provide liquidity support to banks that restructure MSME loans and provide new additional working capital loans for the MSMEs. Third, guarantee of working capital loans of SME through PT. Jamkrindo and PT. Askrindo. Fourth, tax incentives for business which has been discussed since the first and the second stimulus packages. The total incentives reach Rp 123 trillion for not just SMEs but also for several Export Oriented Import (KITE) taxpayers.

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- On top of that, we did reallocation of state budget support for the regional government to bolster economic recovery. We have an additional Rp 15.1 trillion to help the regional government consist of Rp 5 trillion of Regional Incentive Funds (DID), Rp 9.1 trillion of Physical Special Allocation Fund (DAK), and Rp 1 trillion of provision of loan facilities to the regions.
 - State budget support for national economic recovery are in the form of:
 - government expenditure at Rp 427.46 trillion including the consumption support, tax support for the business sector, loan interest subsidies, biofuels subsidy, collateral fee, and compensation payment.
 - Financing at Rp 133.51 trillion including the State Capital Participation (PMN), placement of government funds, guarantee, and investment.
 - Additional expenditures on sectoral and line ministries, and for the local government.
 - To sum up, many countries and international organizations are still expecting a V-shaped recovery, slow growth this year and start to recover next year. However, the trajectory of the recovery will probably start in the fourth quarter of this year assuming that the large-scale social restrictions (PSBB) and the physical distancing measure are able to lower the spread of infections. The first that will get hit is the impact to production in Q2 and Q3: slowdown in tourism, trade declining sharply, manufacturing activity disrupted. The consumption side is also affected in Q2 and Q3: PSBB reduces public consumption both formally and informally, poverty and unemployment have risen sharply. But in Q4, the condition will start to improve, tourism, trade, and manufacturing will begin to normalize, consumption activity gradually increases, poverty and unemployment begin to decline.
 - We have revised the current state budget for 2020 because of the additional expenditures needed to handle the pandemic and lower tax revenue. Tax revenue grew negative by 9.2% and there is higher state expenditure at Rp 103.6 trillion. Deficit will change from 5.07% to 6.27% of GDP this year.

Andry Asmoro:

- First of all, we have to be aware that the impact of COVID-19 to Indonesia is significantly different to what we had in 2008 and 1998, the current economic crisis caused by COVID-19 is bigger. The impact occurs in all lines of businesses from retails, consumers, SMEs, (including value chain SME) and spreading to corporates.
- At the beginning of this year, Bank Mandiri made a stress test and we believed at that time that the pandemic will only last 3 months or one quarter. Obviously we need to revise it. Moreover, the oil price war between Russia and Saudi Arabia changed our basic commodity prices assumption. Previously, we only discussed the first round impact (3 to 6 months), now we are discussing both first round impact and second round impact (>6 months). For example, at the first round impact, we predicted industries/sectors that will be impacted are hotel, restaurant, transportation, retail, and wholesales. According to our data in March, the number of tourists and hotel occupancy have dropped significantly, right now I think the occupancy rate is at around 6-10%.
- The combination of weak demand and disruption in supply have caused many industries to cut their initial target. For example, the sales of the automotive industry is expected to drop around 40% to 50%, which is the worst scenario for the automotive sector. In fact, it has already declined by 10% last year due to the decline in commodity prices since last year. This is why it is not surprising that most of the business associations have revised their own target.
- Indonesia is still really dependent on the commodity-related sectors until today. The impact of the COVID-19 to the domestic economy and real sectors have been also affected by lower commodity prices which happened faster than what we have predicted. Previously we did not predict that the oil prices could drop to negative territory or even \$10 per barrel in March or April. The Organization of Petroleum Exporting Countries (OPEC) has forecasted that the global oil consumption growth will decline to 0.99 million barrel per day lower than previous prediction of 1.2 million barrel per day. Lower oil price will also have an impact on other commodity

prices including CPO, and rubber. The only commodity prices that will go up is only gold. The COVID-19 pandemic also affected the Crude Palm Oil (CPO) demand from China. China's import of raw materials will decline as well as its exports.

- How big is the impact if small enterprises and the people had no income at all? The COVID-19 outbreak has created tremendous pressures on business sectors especially on SMEs through 2 channels: supply and demand. On the supply side, restrictions on the population mobility through social distancing or work from home policies have reduced the number of workers that are operating businesses. Lockdown and quarantines created operational shutdowns, and this impacted SMEs that are unable to switch their operation into virtually. Based on our calculation for Jakarta, it could lose output around 3.4% of Jakarta's Gross Regional Product due to the three months SMEs sudden sale halt. As for the neighboring region (Bogor, Depok, Tangerang, Bekasi) may lose output up to 15.2% of BoDeTaBek's Gross Regional Product. Therefore, the potential economic loss in Jakarta is much lower than its neighboring cities partly because largely Jakarta's economy has medium and large enterprises. On the other hand, MSMEs have flourished in Jakarta's surrounding cities.
- As for the impact where people could not work and have no income, people will depend on other incomes besides from their salary/active income, like asset income and business income. Based on the simulation from the Social Economic National Survey (Susenas) 2019, we estimated that 49 million households or around 174.9 million people may survive without working for 1 month out of 71 million households or 266 million people if they have asset income. While for the 3 months scenario, only 28.5 million households or 92 million people can manage. Furthermore, we estimated that 64 million households or 234.4 million people may cope well without working for 1 month if they have both asset and business income. As for the 3 months scenario, 42.7 million households or 146.28 million people can manage.
- The challenges for the banking industry will come from six areas:
 - Uncertainties over the duration and severity of the pandemic

- Downturn in the global economy and its impact to the Indonesian economy
 - Lower commodity prices due to global economic slowdown
 - Weakening purchasing power because of the weak economic growth
 - Tightening liquidity in the banking system, especially in smaller banks
 - Worsening asset quality due to weak economic condition
- Strategies to fight the threats posed from the COVID-19 pandemic for the banking system is to conduct loan restructuring to assist debtors that are being impacted by the pandemic and this move is supported by the government through their economic stimulus. As economic concerns are rising, banks will be very prudent in loan disbursement right now. Asset quality must be maintained and prospective sectors that are not directly affected such as pharmacy, telecommunication must be focused. The banking sector will also maintain liquidity to meet its daily needs. This can be done through several ways namely tight control in loan disbursement, long term bond issuance for FX and Rupiah, bilateral loans, increasing government bond ownership.

Yongky Susilo:

- In the first quarter of 2019 economic growth has declined to 2.97%. The two biggest contributors to the Indonesian economy are industry and trade. The government needs to help both sides because they are both inter-related, industry could not function without trade and vice versa.
- Due to the large scale social restriction measure, malls and traditional markets are closed except for the Fast Moving Consumer Goods (FMCG). The word “new normal” is being discussed everywhere, but I think we will go back to ‘normal’ in terms of the consumer behavior. Some marketing perspectives explain certain potential for ‘winner’ or ‘loser’ in some sectors but I think all sectors are ‘loser’ there is no ‘winning’ sector. In March 2020 retail lifestyle went down to 40% but in April 2020 the number is at 5% or 0%. The same significant decline happened to hotel and Food and Beverage (FNB) businesses. Despite doing the sales via online, they are doing business for only 30% of regular business.

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- What both the central and the local government can do for the businesses is to eliminate tax until December 2020. This will be a big help for them to survive until the end of this year
 - This is a “chain locked” condition. Shopping malls today could not operate because the tenants do not want to open their store because they are all in a negative cash flow. They do not want to be charged with the rental fee, and tax. If the mall can operate, the retailer can open their stores, the manufacturers who supply to the retailers also will get to continue their business.
 - The sales for canned meat and fish boosted up due to the panic buying before it slowed down. However, it is increasing again because people are fasting during Ramadan. Sales for frozen food, instant noodles, and vitamins also went up and down due to the panic buying behavior and fasting season. However, both instant noodle and vitamins sales are declining. Government needs to improve the people's purchasing power because without it, it is useless to open shopping malls and retailers.
 - I have created a consumption projection for 2020 and 2021. The FMCG is doing fine because supermarkets and minimarkets are still open. I expect a stable growth, not a big jump. Nevertheless, FNB and lifestyle retail are struggling with zero growth and negative cash flow. Even if they are recovering their business at the end of this year, it will not be a hundred percent back to how it used to be before COVID-19 because of the people's purchasing power and the social distancing measures.

Bambang Harymurti:

- People in social-political or management studies often think about the trolley problem, which is what the government should address amidst this COVID-19 pandemic. It is an illustration whereby the government has control over the switch for two rails, one is the people and the other is the economy, as the COVID-19 train approaches the two paths to ‘kill’ either of these options. However, the two

rails are connected circularly in the end. Therefore, no matter which path the train takes, it will circle back. Perhaps the train would 'kill' the people first and then the economy; as the latter would not exist without the former. The same case applies vice versa.

- Governments around the world react in different ways. For Indonesia, our response can be labeled as 'Denial First, Overwhelmed Later.' In the context of global benchmarking of the response, Indonesia can be said to have a 'Late and Haphazard Response.' We are within the same category as Brazil and the United States; whereas the best response is found in Vietnam & Taiwan with their 'Early & Aggressive Response.' This is very interesting as Vietnam is a communist country while Taiwan is a very democratic country. During this pandemic time, Vietnam does not even have a Minister of Health as the minister retired in November of last year. In Taiwan, the President is an epidemic expert. Similarities found in these two countries are both were traumatized by their experience of the previous SARS pandemic in 2002. So many doctors and medical experts died then. Therefore, when they heard of the news of China's viral infection, they reacted faster before China did. This is due to the mistrust that both countries share with China because of their historical backgrounds. Thanks to their fast reactions, there were no deaths recorded as of now in Vietnam and as for Taiwan, very few people died as well. Thus, they do not have to impose major lockdowns.
- For China and Korea, they enforce 'Aggressive Response' such as locking down cities like Wuhan.
- In the 'Late but Aggressive Response,' category, Italy was too late in responding once there were too many infections already. However, there are relatively few deaths recorded in Germany, for comparison.
- For 'Late and Measures Response' we have the Netherlands and Sweden, where it was akin to herd immunity response, but it was managed a little.
- Indonesia is in the 'Late and Haphazard Response,' but is doing better than Belarus who has 'No Response' and is still in denial until now. Why is it that Indonesia, Brazil, and the U.S. responded in such a way? I think this is due to our

political situation domestically. In the case of Indonesia, if we go down the memory lane, our country has very strange bedfellows. First, it was started when Megawati supported Jokowi and Ahok as Governor and Vice Governor of Jakarta. Then, Megawati was so close to Prabowo that she chose to not support her husband at the time. When Jokowi finally became a governor, Megawati also supported him at the last minute during his presidential bid to become Indonesia's President against Prabowo. Jokowi had a spokesperson to assist his race against Prabowo, Anies Baswedan, who was made to be his Minister of Education after he came into power. For some reason, Anies Baswedan was fired thereafter. Baswedan was then supported by Prabowo to compete against governor candidate Ahok. So, it became a competition between Prabowo's former candidate and his current one. When Anies won, it led back to square one of Jokowi and Prabowo presidential race again. Jokowi won. This is certainly unique to Indonesia that the loser of the presidential race was made to be the winning administration's Minister of Defense. Now, since Jokowi can no longer run in 2024, he is looking at individuals who might run at the next race, one of whom is possibly Anies Baswedan according to polls. This is what I call a frenemy situation, whereby a person or a group is friendly toward another because it brings benefits but harbors feelings of rivalry and resentment.

- The other reason why Indonesia, Brazil, and the U.S. all responded in the same way is because our country is a big and diverse country. We are the largest archipelago state, is the fourth most-populated in the world, the Java island alone has a population of around 100 million; but we also have one of the least dense big islands. Thus, when we are looking at COVID-19 data in Indonesia, the national epidemic curve does not make sense. However, when we look at the curves of each area separately, it does make sense. The reason for this is because the virus did not start infecting each area at the same time, it has its own course. What is really challenging to our leadership is, as aforementioned, the trolley dilemma or the Tyranny of 'Or.' But, is it really the Tyranny of 'Or'? Now the situation became a competition on Jokowi's handling of the pandemic versus Anies'.

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- All three presidents of Indonesia, Brazil, and the U.S. came from a business background. Hence their reaction is to save the economy. Anies Baswedan, in contrast, came with an academic background, where it has a tendency to side with the people. It seems like we are trying to choose between the economy and the people. But is it really? I do not think so. If we follow the scientific recommendations and impose order for the people to stay at home for two weeks, then we would have no cases of infection. The problem with this scenario is that if even a few disobey the rule, we would have more infections. This is why we look at countries with leaderships who are good at uniting people, like New Zealand. I have to admit that women leaders are particularly commendable in their strength to unite their people against adversity. On the other hand, 'male alphas' tend to split the people into A and B where only one can win. The U.S. exemplifies this case where guns were brought into protests against lockdown measures. If I take a long-term view to 2024, this is an opportunity for the country to see which amongst our local leaders have the capacity to be our president in 2024. This will be the person who will find a way to get out of the Tyranny of 'Or' and enter the Genius of 'And.' If you look at the area of Indonesia, it is very interesting to find that Bali is surprisingly handling the pandemic quite well. The reason why is because what works in Bali is not the modern political system, but it is the '*adat*' customary leadership. Balinese is a Hindu-dominated region, and this religion teaches a way of life that is balanced with nature, not one where humans are superior to nature. Thus, this religion already has a wisdom in place for facing adversities. Let us watch how local leaders handle this pandemic, and through it we can see who will be a good candidate for our future president in 2024.

Ralph Van Doorn:

- According to the International Monetary Fund (IMF) latest global projections post COVID-19 in level terms, we can see that the level of global demand will be lower whether we are looking at advanced economies or emerging markets and developing economies. Similarly, if you look at the commodity price projections which are also relevant for Indonesia, energy prices as well as metals and minerals prices will not recover for the next few years. Food prices, however, will recover. Our projections at the World Bank in East Asia, indeed show that before the crisis started, growth rates were averaging at around 5% to 6%. For Indonesia, our baseline of early April growth forecast is at 0% but now it has significantly downgraded. In the worst case if the Large Scale Social Restrictions continues in the next few months beyond what has been announced, growth would even slip down to -3.5%. However, Indonesia will not be the only country. Especially true for open economies such as Malaysia and Thailand, who are most exposed to growth shocks.
- We do expect medium-term recovery, for Indonesia and the global economy. However, this will be with a higher level of poverty, which is expected to go up very strongly. This becomes the unmitigated impact. The government has announced a whole range of social protection measures. Last month Rp.110 trillion was allocated for this and a few days ago some of the social safety programs were extended for three months, which includes free or subsidized electricity and direct cash transfers. This, of course, makes sense as we think that the programs announced in April as well as the allocated budget were not enough to completely offset the impact and we will have to do a simulation to see to what extent that this helps as an adequate safety measure.
- We think that Indonesia's Current Account will not be impacted a lot. We expected major adjustments in the Current Account of Balance of Payments on the financing side. Initial projections of very large sustained outflow of non-resident investors have slowed now, which is very good news. At the same time, Indonesia has been issuing bonds of up to \$7 billion and initially, we expect around \$4 billion from

multilateral and bilateral partners. Together with the use of reserves, this will probably offset the impact of deficit payments. Pre-crisis reserves are pretty adequate, covering at about 9.1 months of imports. Post-crisis, we also expect that the reserves remain to be adequate. Lastly, we have a network of currency swaps with the US Federal Reserves for \$60 billion. Overall, we see that Indonesia will go through this well.

- On the fiscal side, we do see a widening fiscal deficit of 6.3% of GDP announced earlier in the week. We do think that there will be more challenges to come in financing this deficit but we know already that Indonesia will use its own funds. Bank of Indonesia has already pledged to buy about 25% of the bonds that will be used. Together with the slowed-down outflow of non-resident investors as well as the multilateral and bilateral packages, this deficit will be able to be financed.
- However, we expect that debt will go up to 37% of GDP and continue in the medium-term. As illustrated by the typical debt sustainability analysis of a baseline and projection of alternative scenarios, we do think that Indonesia's debt will stabilize in the medium-term. However, it is important to remain credible. For example, Indonesia must maintain its hard-earned market confidence which took years to build up and which can be lost very easily. Markets seem to have welcomed the recent package, but credit-rating agencies have signaled concerns about the medium-term. So it is important to show the credible path for the economy, how it can unwind all these exceptional measures such as reinstating the deficit ceiling, ending the partial financing of the deficit, and also making sure that revenues go back to its pre-2018 levels; which can happen with additional tax reforms.
- In the short term we expect Indonesia to continue to work on the containment efforts, protecting livelihoods and food security, as well as to help firms hibernate by minimizing fixed costs. The country also has to start thinking about recovery, the gradual opening, how to 'wake up' hibernating firms, avoiding moral hazard but also erosion of tax base which is already narrow, how to repair balance sheets, ensure that workers do not lose their skills, and especially how to attract new

investments, which means structural reforms such as the Omnibus law and job creation has to be improved and adopted. Investments in infrastructure and human capital also have to be considered.

- How can this be done? First, we hope that Indonesia can safely minimize mobility restrictions that need to be in place. Second, support the poor, vulnerable and informal sector workers and assure adequate food supply. Second, help Indonesia repurpose or hibernate firms. Finally, implement structural reforms, especially the Omnibus law. We think that the bill has a very strong reform momentum in it, however, the strong environmental protections that Indonesia has today should not be thrown out. Similarly, the labor reforms provisions may be postponed to the future for more comprehensive reforms that also considers the post COVID-19 situation. These will speed up the adoption of the bill and start attracting investments that Indonesia needs very much after this crisis.
- Therefore, Indonesia will need to spend more and better post-crisis. However, there are permanently fewer resources because of tax breaks and permanent tax cuts. The question is how can the country finance more for its spending?
- Lastly, I would also like to touch on Indonesia's testing numbers. Compared to ASEAN countries and the world, Indonesia has only been testing 743 people out of a million. On the other hand, we have the Philippines who is doing two and a half times as many tests per million than Indonesia. It seems that Indonesia does not really know how widespread the infection is. However, mobility restrictions have had a bite. The drop in mobility from January to March is about 15%. In April, mobility dropped even more significantly by 60%, even outside of areas that have imposed partial lockdowns.
- This means that there has been mounting loss of activity and significant rise of poverty. Especially for Indonesia and lower-income countries in general, where many sectors are exposed and there are fewer jobs that can be done at home, lockdown restrictions have a very large disproportionate cost.
- Therefore, there is indeed a dilemma. How can the country avoid widespread economic distress but also ensure that the pandemic is controlled? How can policy

action be better informed? At the end of the day, it all comes down to doing more testing that should go beyond what Indonesia is currently doing today. You need to do representative tests across the country using the SUSENAS or the health service style testing. Test not only to save people's health but to also get a statistical sense of how widespread the infection is in other provinces. Consequently, they may be able to tailor your lockdowns on the actual spread statistics. This will expand Indonesia's possibilities. The trade-off between health benefits and economic benefits expands with more testing.

- The key messages are: there will be a global downturn and this will impact Indonesia; there will be a sizable rise in poverty; fiscal packages are shifting away from infrastructure to health, social safety, and industry support. There is still a lot to be done in 2020. In recovery, focus on boosting spending on infrastructure, maintain spending on human capital and ensure financial soundness. Focus fiscal strategy and credible measures to raise revenues back to pre-2018 level in order to flatten the debt curve. Testing is not a silver bullet, but Indonesia needs to test a lot more to help alleviate the very strong trade-off between public health and economic health.

MODERATED DISCUSSION

Setyo Djuandi Darmono:

- I have a question for Bu Masyita and Pak Bambang. For Bu Masyita:
 - Ibu Sri Mulyani has already mentioned that this crisis is worse than 1998. She predicted that growth rate will be at around -2.6%. However, in 1998, the growth rate was -15%. This is inconsistent and I am wondering how can businesses get a clearer prediction on this?
 - In 1998, we also received a \$40 billion injection, so the economic recovery was relatively fast. Today, the IMF can not bail out so many countries that are in trouble. What is the strategy for economic recovery that will make Indonesia competitive for foreign investors to come? We were hoping that the Omnibus law would pass, although it seems to be very difficult.
- As for my question for Pak Bambang:
 - The strange bedfellow in the political world that you mentioned previously, is that a good thing or a bad thing? As in my opinion, we need to have a balance between the economy and public health. So, having the aforementioned strange bedfellows works well. Today, we prioritize health and tomorrow we prioritize the economy. The real question now is regarding the war between China and the U.S, if these two blocs keep fighting, the rest of the world will suffer, especially in this kind of situation.

Masyita Crystallin:

- While I can not answer for Bu Sri Mulyani, I will share my understanding of the situation right now. As the source of the crisis is the pandemic itself, of course the trajectory of economic recovery and the impact of the economy will depend on the pandemic, how long it lasts and its death as well. A lot of analysts have been talking about a 'U' shape, 'L' shape, or 'V' shape recovery curve. In fact, if you believe that there will be a second and third wave of infections, the curve can even take the form of a 'W' shape, where the economy recovers before going back down again.

The difference between the 1998 crisis is these possible recovery curves, that the economy can go to a recovery period that is longer and deeper than what people expect, depending on the length and death of the pandemic itself. As we are not health experts, we do not know when this pandemic will end. However, the government has to have some kind of scenario. With the current information that we have and how we read the economy, we are making the scenario that the economy will probably grow between -0.4% to 2.3%. Of course, second and third quarter growth will go down even to the negatives, but I am referring to the overall annual growth rate. Perhaps the difficulty of determining the impact on prices and how to create policies to respond to this depends on the pandemic.

- Secondly, regarding the Omnibus law, it is aiming to improve investment conditions in Indonesia. There are two big parts for taxation within this bill. The first one is the tax rate cuts, which has been addressed in the Government Regulation in Lieu of Law No.1 Year 2020 (Perppu No.1 Tahun 2020). The second part encompasses tax holidays, super deductions, and tax incentives which are all addressed within different sets of Regulation of the Minister of Finance (PMK); and a big part of it has already been implemented. So, despite the fact that the Omnibus bill has not yet passed, a large part of it has actually begun rolling currently.

Bambang Harymurti:

- I totally agree that the practice of strange bedfellows works for Indonesia. For instance, imagine if Prabowo is still in the opposition and is not in the cabinet, we would be in a very unstable situation right now. Pointing again at the uniqueness of the fact that a former presidential candidate who lost became a minister to the winning administration. Probably, this can be chalked up to the Pancasila way. This made the situation manageable, politically as well, compared to the case if it did not happen.
- The other thing that is good is the fact that both Gerindra and PDIP are nationalist parties and are now in coalition. Otherwise, extremities of both sides will be more influential, as seen from the case of Israel. There, the Labor party and the Likud

party, which are two big moderate parties, constantly fight with each other. The smaller and more radical parties on each side then became much more influential than their size. Gerindra and PDIP's coalition gives more stability to Indonesia. However, this stability is concentrated only in Jakarta because the competition is initially more intense in the capital and some other, say, three provinces. Therefore, if President Jokowi can manage this strange bedfellow practice in a 'Javanese King' way in Jakarta, as the city has 50% of the money in Indonesia, I think this will become better. This is why I do not disagree with CEO Magazine's statement that Indonesia is considered to be amongst the top four countries to invest. The reason being that compared to other countries' socio-political arena, Indonesia is okay as we are an archipelago state so if there are clashes somewhere over the seas, the conflict is manageable.

- Therefore, in this case, with Bu Masyita as well, we should not look at Indonesia as one big lump of a country but rather as a very large and diverse country and we must manage it accordingly. Say in the future if we are to be attacked by a virus, we are much easier to defend, learning from our experience now. If we use Taiwan's and Vietnam's response in the future, Indonesia would probably be a capital heaven. We are like a ship with a lot of containers. If one leaks, we can contain it within that border. Thus, I am actually very optimistic that if we can learn from what is now happening, we will be in a better position to compete with the rest of the world economically.
- Remembering back during the Great Depression of the U.S., there was no minimum wage. The idea of a minimum wage thereafter was then accepted by the whole world. Perhaps, going out of this pandemic, the idea of Universal Basic Income (UBI) will be much more widely accepted. In fact, Spain is currently adopting it. Let us not forget that the idea of UBI did not originate from the hard liberals. Rather, it originated from the Republican party (GOP). This is because UBI allows minimum wage to be abolished. One can easily fire and hire a person. You can be very efficient, especially in this kind of pandemic, there will be no need to hibernate as there is UBI. If we have the UBI based on taxes, this means that

the country's only job is to ensure that most people are paying more taxes than the UBI. Everybody will receive the same amount, and everyone is entitled to it. Therefore, I hope that Bu Masyita in the Ministry of Finance, will start considering ways to implement UBI in post COVID-19 Indonesia.

Donny Agustiady:

- I will now read questions that we have received from three audiences. These are not addressed to anyone in particular. The first one is from Mr. Davidson from the New Zealand Embassy. "Post COVID-19 is a change to prioritize and advance climate change. Does Indonesia have any plans to support green recovery?" Her second question is as follows. "What advice does the World Bank and others have for Indonesia to support a green transition?"
- The next question that I have is from Akmal Fadhlurrahman for Bu Masyita. "Bloomberg recently had a story about the unhealthy balance sheet of Perumnas and Garuda. The debt to EBIT ratio is four times. Does the government prepare for a State Owned Enterprises (SOEs) bailout in the future?"
- The last question is from Benny from Astra. "What are the major changes in social and market behavior due to COVID-19 in the near future that may impact companies in production and creating business?"

Bambang Harymurti:

- As I am involved with the electric vehicle project in Indonesia, a lot of people do not realize that Indonesia is the largest producer of high-grade nickel in the world. Many countries, such as China, South Korea, and the U.S., are interested in creating battery production in Indonesia because we have all the materials, including the red earth as well as the market for it. Right now, Indonesian policy makers are thinking of the problem between the US and China which may possibly cause companies to move from China to Indonesia. This also includes, not just any foreign companies, but also Chinese companies who would like to access the U.S. market. One of the things that hinders the future of e-vehicle is what we call

the carbon footprint of the battery. There is now a very good push to produce this battery in a green way such as not producing it with coal but by using greener energy such as hydro or geothermal. I can already see on the horizon, there is a very good opportunity, as long as we can do it right. Indonesia has a track record of making bad policies during good times. I hope that this track record remains, as we are currently in a very bad time, Indonesia will make good policy.

- To answer Pak Darmono's question regarding China versus the U.S, Indonesia will have to start its own geniusness as seen from the Cold War, the so-called Non-Aligned Movement (Gerakan Non-Blok). We have to start this and I think ASEAN is at the forefront of it and I think we can benefit from that. This would be a green non-aligned movement because of the future of the planet earth. We created a similar movement during the Cold War because our earth was threatened by nuclear powers, now we are threatened by global warming.

Donny Agustiady:

- Ralph, perhaps you would like to share the World Bank's view on taking a green transition? After that we will have Bu Masyita to answer the bailout question and Pak Yongky to answer the future of business in the post COVID-19 world.

Ralph Van Doorn:

- There are five parts that we can talk about on creating a more sustainable future for Indonesia in the post COVID-19 world.
 - First, the trade-off between investment and environment. In our opinion actually, there is no such trade-off. Yes, there may be individual firms that would like more relaxed environment regulations. However, many firms that are increasing funds want the opposite. So, you may lose some investors and gain a lot more investors if Indonesia keeps its environmental standards today, which is at a very high level. Do not lose these standards, this will invite a lot more investors and also help the poor who are living in environmentally vulnerable areas.

- Second is marine plastics, which affects the fisheries and also the tourism sector. The country needs more plastic excise, which will give both good gains: you get environmental benefits and also increased tax base, which is what Indonesia needs most.
- Third, think also about fuel excise which makes companies more efficient in energy production and consumers more efficient in energy consumption. It might also help narrow down current deficit as you can decrease imports of less-refined oil and reduce green gas house emissions.
- Fourth, put renewable energy at a more equal footing with conventional energy and maybe, this is the time to do big reforms such as this.
- Finally, the green future also means agricultural reforms. The many benefits of increasing the agriculture spending in Indonesia, which at the moment are going into fertilizer subsidy. However, the subsidy does not go to farmers who need it most, it tends to be repurposed for non-subsidized businesses and benefits the big farmers. If you want to reallocate spending into introducing new seeds to farmers, giving income support to small-scale farmers as well as sponsor agriculture R & D, you may have ended up having a lot more benefits. For example, improved food security, increased agricultural reforms, reduced overused fertilizer which lead to externalities for farmers and environmental footprints.
- However, again, Indonesia will have a tight budget in 2020 and even in the post COVID-19 world, after excluding health and social security, because the country has a lot of debt and may spend more on interest than on other items in the budget. But, you can work toward a more sustainable future which is consistent with a stronger fiscal position and better income. This is something that we support.

Donny Agustiady:

- Bu Masyita, perhaps you would like to answer the question regarding SOEs bailout?

Masyita Crystallin:

- The government is currently working on different kinds of support for the SOEs. We know that they have similar issues as the corporate sector in terms of disrupted supply and weaker demand and other operational limitations due to this pandemic. Limited business activity, solvency and liquidity issues, that also affect profitability issues. In the Presidential Decree Number 54, we have a revised budget with allocations for subsidy expenditure, compensation, and capital injections for SOEs, among other supports that I mentioned earlier. But again, funding is not unlimited and we have to take into account the space available on the fiscal side. In order to make this a priority, the government has five criteria for eligible SOEs to receive this support:
 - Impact on people's lives, such as basic necessities like PLN and Pertamina. The higher the impact that they have, they will become a higher priority,
 - Its sovereign roles in the SOEs operation,
 - Exposure to financial systems, as this could have systemic impact to the banking and financial systems,
 - Government ownership within that specific SOE that needs to be supported,
 - The size of assets as compared to the economy.
- For one-on-one bailouts that were asked in the question, we do not have any announcements yet. We are working on this on a case-by-case basis with the Ministry of State Owned Enterprises.

Donny Agustiady:

- Next, I yield the floor to Pak Yongky on the question of social and maker behavior changes in the post COVID-19 world including business trades.

Yongky Susilo:

- I think Pak Andry is more suitable to answer this question as he is equipped with comprehensive data of manufacturers.

Andry Asmoro

- The first one that we have to remember is that the vaccine will not be found in the near future. Therefore, we have to deal with the new normal.
- Second, health is the number one priority. Without this, we cannot produce and be more productive.
- Third, one thing that we have to learn from WFH is how we can optimize digitals. I think the social and market behavior will be directed towards these kinds of changes, such as accommodating arrangements for social distancing measures.
- Until the vaccine is found, we cannot have total maximized sales or revenue like what we had pre-crisis.
- I also think that Indonesia still has opportunities for the health and food & beverages industries. This is what we call the 'defensive industries' which always have huge growth opportunities in the future.
- We also have to remember that this pandemic gives us one thing: many countries and producers have started to reallocate their source for raw materials away from China to other countries. Indonesia has the chance to grab this investment and production opportunities. Given this situation, I predict that the raw materials provider and producer will only get bigger in the next five, six, or seven years.
- In the near term, I also think that the electronic and automotive industries will still have opportunity to grow as the potential to export to our neighboring countries remains huge. Furthermore, Indonesia has become a manufacturing hub. Nevertheless, we still have to improve our productivity and competitiveness, by putting our health first.

Yongky Susilo:

- Consumer behavior based on my 25 years annual study with Nielsen, including the 1998 and 2008 crisis. First, after this pandemic, we see that people will increase their savings temporarily by, say, buying cheaper brands. Once the

economy gets better, they will get back to their premium brands. But before that, people will hold on to their cash instead of participating in spending-spree.

- Second, people will return back to offline or traditional shopping at supermarkets, minimarkets, or traditional stores. Online shopping methods certainly helped during the pandemic, however, Indonesians will return to offline shopping after. The current market shares are as follows: 70% in traditional markets, 29% in modern market, and 1% in e-commerce, which is very small. I took a picture in early April of a supermarket crowded with lines at the cashier. This was taken just after payday and at the beginning of Ramadan, yet Indonesians are still flooding the stores.
- A McKinsey study found that 50% of consumers have switched their regular grocers to somewhere closer and easier to access. However, 98% plans to return to their original grocers.
- As for the online market, this is only better for baby products such as diapers and powder milk, as well as cosmetics. Their shares are a bit larger at around 3%. The five top ranked categories are fashion, cosmetics, health & beauty, mom & baby products, sports goods, and home living. The rest are not aspirative categories as people tend to look for trendy products online as they are faster to find than offline. So, retailers should not change to online platforms as you will not be able to switch completely using only two or four months' force.
- It is reported that people's behavior will go back to normal. Initial projections that the canned meat and fish will do well due to the crisis is true only for a little while, before sales fall back again eventually. This applies both to instant noodles, frozen foods, and vitamins sales.
- The growth of sales for FMCG (Fast Moving Consumer Goods) is also low particularly in Jakarta. This is because Jakartans have more to spend on restaurants, cafes, and not FMCG.
- In terms of social behavior, everyone will go back to normal as humans are social beings so they will still prefer to do offline shopping rather than online.

- The peak of the pandemic in Australia caused rush-buying of toilet paper until no supply is left. However, the situation has stabilized after lockdown restrictions eased up. Similarly, Australians who usually like to go to the beach cannot do so in this crisis. However, they will return to go back to the beach after this is over.
- Jack Ma's big department store, Taobao, has started to do live streaming sessions so that salespersons can emulate a home-shopping experience for customers. This is what helps Alibaba's business.
- Therefore, Indonesia should not hurry so much to switch to online platforms as our people love to shop. Buying and shopping is not the same time. The former means only purchasing, say, on an online website. Whereas the latter involves a whole other experience, the five human senses. I can attest to this I have received pictures and information that people have already started rushing stores outside of Jakarta.
- In conclusion, there will not be much difficulty in increasing consumption and offline platforms should not immediately switch to online ones. However, digitalization will still be a long trend in the future and we do still need to digitize shopping.

Donny Agustiady:

- Our next question will be given by Pak Thiyagarajan, CEO of TVS Motor Company.

V. Thiyagajaran:

- My question is for Ms. Masyita. We know that due to the virus originating from China, there is an emotional and economic backlash of Chinese products from Europe, the U.S., and of course, India. I heard that some of the government-owned factories in China have been impacted and are doing layoffs. As Mr. Bambang has mentioned, many companies are shifting away from China and they are looking at India and Indonesia. Therefore, will the government come out with an incentive package to attract manufacturing companies so as to create employment opportunities and kick start the economy?

Masyita Crystallin:

- The issue of investment in Indonesia, like in many emerging economies, is the red tape. Of course, our government is working in reducing this. We can see this issue in two streams of thought. The first one is to make sure that the economy stays afloat, meaning the people. We want to save them through social safety nets and companies as well. Prioritization in this regard is the trolley dilemma that Pak Bambang has presented earlier. The government's priority to save the private sector is to avoid massive layoffs. We know that output and growth will go down significantly this year, not only in Indonesia, but everywhere else in the world. However, we want to make sure that everyone can stay afloat in this crisis so that when the economy is over we can jumpstart the economy again.
- When I had another talk with the US Chamber of Commerce, the same concern arises whether the government would like to invite the aforementioned companies that are relocating outside of China. The simple answer to this is of course, yes, depending on the employment and output creation that it has on different sectors. However, this is a different stream of thought and our priority first and foremost is to ensure that our people can stay afloat. The government is, of course, open to giving incentives and this has been something on our table that we have considered even before this crisis. We are now still in the process of identifying companies who are looking to relocate, including pharmacies, and doing a one-by-one approach if they have other needs in relocating fast to Indonesia.

Donny Agustiady:

- Thank you everyone and for tuning in to our Indonesia's Economic and Political Review 2020. To all the panelists, thank you. We will see you again at the next Indonesia Economic and Political Review 2021. Hopefully things are better by then.