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**FPCI Virtual Public Discussion**  
**Anticipating a COVID-19 Global Economic Crisis:**  
**How Should Indonesia Get Prepared?**  
**30<sup>th</sup> April 2020**

**Speakers:**

1. **Gita Wirjawan**  
*Indonesian Minister of Trade (2011-2014),  
Vice Chairman of Consultative Council, KADIN*
  
2. **Shinta W. Kamdani**  
*Vice Chairwoman for International Relations,  
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**Moderator:**

1. **Dr. Dino Patti Djalal**  
*Founder, Foreign Policy Community of Indonesia*

**MODERATOR OPENING REMARKS****Dr. Dino Patti Djalal**

- Today, we are going to discuss about how should Indonesia get prepared for a possible global economic crisis. I had a board meeting and the Director General of the World Health Organization (WHO) Dr. Tedros Adhanom Ghebreyesus was there. He said that the COVID-19 pandemic will be around for quite a long time but he did not specify for how long. However, any tendency for a short term thinking will be doomed to failure. The Managing Director of the International Monetary Fund (IMF) Kristalina Georgieva also said that 160 countries were going to have a positive growth this year but as a result of the COVID-19 pandemic, 170 countries are now likely to register a negative growth. The global economic situation is the darkest ever since the Great Depression. The projection for ASEAN-5 alone is that the growth will be negative 0.6 %. While Indonesia's growth will go to 2.3%, but many predict that it is likely to have 0 or even a negative growth.

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## SPEAKERS PRESENTATION

### Gita Wirjawan

- I will talk about how this health crisis has enveloped the world over and how it has effected global and the Indonesian economy. Then I will end my presentation with a possible solution by way of looking at what might have happened on the demand and supply side.
- To start, there are three types of shock that we all have experienced in recent weeks:
  1. The over information everybody is receiving
  2. The shock of lifestyle: from physical and communal manner to virtual and non-communal manner
  3. Policy responses that are happening in such an excessive and frequent manner. Be at the local level to the national level and even beyond to the regional and international level.
- Globally, more than 3 million people have been infected with the average mortality rate about 7%. The mortality rates in a number of countries are in varying degrees. I will highlight the mortality rates of certain West European countries i.e. France, Italy, the UK which stood at more than 12%. While the US and China have a mortality rate of 5%. Whereas Indonesia has 7 to 8%, which is slightly above the global mortality rate and below the Western European countries.
- As the consequences to the health crisis, we have seen a decline in the value proposition of the capital markets around the world. We have seen some sort of a spike in the last couple of weeks in certain markets, particularly that in the US. This is not necessarily an indication of the bottoming out of the market or the economic slump, but I think it is merely a reflection of how much liquidity that has been pumped into the capital markets of certain developed economies including that of the US. Nevertheless, ever since the all-time high in earlier part of this year, most if not all capital markets around the world are still on a level where it is much lower than what it would have been. I think it is still too early to assume that there are going to bottoming out in the near foreseeable future on the basis that we are still confronted with tremendous degree of uncertainties with respect to the health issues. We have seen the flattening of the curve in some countries but until such time that we can actually discover, commercialize, and avail the vaccine to everybody

around the world, it is still too early to assume that there is likely a bottoming out of the health issue, the economic issue, and the capital market issue.

- The unemployment figure in the US has gone to around 30 million. This is quite unprecedented, because it is increasing by four to six million on a weekly basis. The unemployment rate in the US as of February was 3.3%, but it has gone up to about 16% or 17%. I think it is possible for it to increase further until 25% to 30% in the next few months. The difference that needs to be noted is the time required during the Great Depression for the unemployment rate to reach around 24% is three years, as compared to now which is likely to only take a few months to reach the unemployment rate of 25% to 30%. The reason why I am highlighting this issue is because the global economy today is much more intertwined and integrated vis-à-vis how it was in 2008, 1998 much less in the 1930s. I think it is significant to highlight that, the indicators that are relevant to the US economy, would have relevance on the ability of anybody around the world to actually get money or liquidity. As a result of the not-so-great data points coming out of the US economy, we have witnessed stresses in the capital markets in terms of stress in liquidity, credits, and balance sheet. Overall, this has relevance over our ability to get money in the event that we need to come up with the support for either social safety net or even liquidity support for the business community as a whole.
- Indonesia has a labor force of around 130 million people. 97% of the 130 million people is relevant to the Micro, Small and Medium Enterprises (MSMEs). In the past couple of months, a good chunk of this have been severely affected by the physical distancing policy enacted by the government. The income generation for all 130 million people is at around Rp324 trillion on a monthly basis. If we were to assume that 30% to 40% of that 130 million has been under stress, we could come up with an observation that around Rp100 trillion worth of income has been adversely affected. That is something that I think need to be considered in the government's policies to provide liquidity support for the MSMEs.
- The average monthly living cost for Indonesian nationals is around Rp1.1 million per person. If we multiply it to 270 million people, the figure shows at around Rp300 trillion on a monthly basis. The overall demand side is not only in terms of how much people had been earning, but also how much they need to spend for their daily necessities. This is a relatively staggering amount, we are looking at more than Rp300 trillion on a monthly basis that would be needed for people to just live on without augmenting their lifestyle. Around 30 to 40% of that would have been adversely affected and if we are looking at around

Rp100 trillion worth of support that is needed for the MSMEs to live on. If we were to support them for the next 6 month period then we probably looking at around Rp600 trillion worth of support for the majority of the work force in Indonesia.

- Now I will discuss on the supply side. Looking at the balance sheet on the income statement of the banking system in Indonesia, it runs on an asset of around Rp6000 trillion. That is the amount that has been lent to the various debtors around the country, and most of that Rp6000 trillion that has been lent out, the biggest percentage of it relates to the MSMEs which accounts for about Rp1100 trillion. An interest income that the banking system expected to earn on a yearly basis is around Rp800 trillion under normal circumstances. On the balance sheet of Rp6000 trillion for the loans, if adding all the security and everything else that the banking system holds on its balance sheet, the total asset of the balance sheet is about Rp8000 trillion. Theoretically they would be earning Rp800 trillion on a yearly basis. At the rate that many of the debtors are not able to service the payments for principles and interests, there is already a stress with respect to that Rp800 trillion interest income. On the expense side, banks have to pay interest expense to the depositors who actually have placed funds on the banking system. We are likely to go through a crisis within the banking system unless a significant amount of liquidity support is provided. and until this is done we are likely to see issues with respect to the supply side. Because these are the companies, on the basis of borrowing from the banks, that are actually producing the goods and services that are going to be demanded and consumed by people.
- On January 2020, the credit on the balance sheet of the banking system accounts for almost Rp6000 trillion and I argue that a good chunk of it, is already under stress. It is safe to assume that 25% of the current balance sheet of the banking system is already at the stage of requiring restructuring. Unless this get taken care of, that number is likely to go up to around 40 to 50% in the next 2 or 3 months.
- There is a potential for the banking system to run into a negative net interest margin territory unless they could fully and completely restructure the portion of their balance sheet that actually needs to be restructured. As their interest income is declining significantly, not only they will not be able to fulfill their obligations to pay the depositors but they also at risk of not being able to operationalize.

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- Now, I will discuss about a brief comparison among some countries with their stimulus package. The US has come up with a fiscal stimulus package of \$2 trillion. Out of it, \$600 billion will be paid to individuals that fall to unemployment, \$500 billion to large corporations, \$400 billion to the MSMEs, \$300 billion to state and local government, and \$200 billion to public services predominantly for the health care sectors. The \$2 trillion is close to 10% of the US GDP in addition to the monetary policy making that the US has engaged in. The Fed has decided to embark on a proactive monetary policy-making called a “quantitative easing”. It is essentially printing money and they printed \$2.5 trillion in the past 3 weeks. This would have been the big reasons as to why there is a spike in the capital markets in the US. The Fed has acted a little bit differently from how they did in the 2008. At the moment, the Fed has been using the liquidity to buy the Treasury bills, the Treasury notes. However, they are also buying the municipal bonds at the state and local levels and they are also starting to buy the high yield bonds that are being sold off by the corporations in the US. It is likely that they may engage in buying stocks in the stock market.
  - Regarding the stimulus package, from monetary and fiscal standpoint, the US amounts to more than 20% of its GDP as compared to South Korea which is about 3% of its GDP and Singapore’s stimulus package is 12.5% of its GDP. Whereas, Indonesia’s stimulus packages accounts for a mere 2.5% of its GDP. The stimulus package that has been announced by the Indonesian government may not be sufficient in the context of how the overall Indonesian economy has been, to some extent if not great extent greatly affected.
  - Indonesia’s stimulus package can be break down to Rp220 trillion for the MSMEs, Rp110 trillion for social safety net purposes, and Rp75 trillion for the healthcare sector.
  - At the rate that Indonesia’s government budget stands at around only 17% with respect to its GDP, it is a lower level vis-à-vis Malaysia at close to 20% and developed economies such as the US, South Korea, and Singapore at around 30%. In the Indonesian economy, the private sector makes up of about 83%, while the government makes up of about 17%. As the private sector has been under stress it only means that the government need to play a more proactive role. If there is any actor in the economic equation in any country under extraordinarily unusual circumstances such as like now, the only actor that can naturally play a more proactive role would be the government. That would be by way of coming up with a fiscal and monetary stimulus package.

- Indonesia stimulus package is only at around 2.5% of the GDP and it needs to be increased. But we also have to be aware of the fact that the fiscal space of the Indonesian economy has limitations by way of how we have been able to collect taxes last year which was still below target. The other way is to borrow. Indonesia went out to the international market to borrow \$4.3 billion with a fantastic low yield. However, the need for a complete recovery of the economy is much bigger than \$4.3 billion. Alternatively, is to look at the domestic market that is highly characterized by low liquidity nature. Yet there is another alternative to consider on. In the absence of an optimal fiscal monetary policy initiatives, we may have to embrace a rather proactive modern monetary policy making initiatives called “quantitative easing” which has been done by a number of countries. In the last few year, the US, the EU, Japan, China have engaged in quantitative easing amounting to more than \$22 trillion. I think in the absence of viable alternatives, this is something to consider.
- The collapse of demand is pervasive around the world including in Indonesia. In order to preserve aggregate demand, the need is around Rp1600 trillion that is made up of Rp600 trillion for the MSMEs and another Rp400 trillion to ramp up our healthcare sector. On the demand side, Rp1600 trillion may be needed in the new few months, whereas on the supply side may accounts to Rp2400 trillion in terms of there is a need to restructure around 40% of the pre-existing loan facilities on the balance sheet of the banking system. In total it could amount to Rp4000 trillion and I truly hope that we will not reach that level. The government have to act fast and in order for this to get remedied, the amount needs to be large. The speed of the stimulus that needs to get done also has to be at the highest level possible. Because every day’s delay that the economy is not getting stimulated, we are looking at the delay in remedying about Rp43 trillion of economic activities on a daily basis. Indonesia’s GDP is about Rp16.000 trillion, divide that by 365 days, then on a daily basis our economic activity is worth about Rp42 to 43 trillion. Thus, every day’s worth of delay means that some of Rp42 to 43 trillion of economic activities will be adversely affected. We need to be very mindful of preventing the risk of permanent impairment. Because if we were to shift from the risk of temporary impairment to permanent impairment, then the full recovery in 2021 and beyond will be even much more problematic.

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**Shinta W. Kamdani**

- Realistically speaking, economic damage is still undetected because the pandemic' period is unpredicted itself. Several economic institutions such as World Bank, Asian Development Bank, Moody's, and International Monetary Fund have done a forecast projection for Indonesia ranging from -3.5% to 3% with potential rebound ranging from 4.3% to 8.2% in 2021, meaning global institutions have varied confidence on Indonesian capability to control the pandemic and its consequential economic damages. Simply put, we are still in danger and we still need to put a lot of effort to prevent the crisis from worsening.
- I will talk about the economic intervention in the face of various scenarios of COVID-19 crisis. Depending on the spread of the pandemic, the best scenario (controlled pandemic) in terms of infected case and fatality rate, will be in the form of a U-shape, meaning it will be a controllable economic recession, as long as economic intervention is implemented until the market is normalized. As for the worst scenario (uncontrolled pandemic), it will have a L-shape recession with severe damages in the form of bankruptcy, layoffs, and over-pressure of the financial sector. Under this case, we will need immense economic intervention that may go beyond our economic capability.
- Sectors such as medical supply & services, food processing, agriculture will remain thriving while tourism, automotive, education, financial sectors, oil and gas are on the down side. This projection discounts several patterns that might outweigh the benefit. First, the significant increase in price of input production due to the global supply shortage. Second, limit to transferability of increased production cost. Third, problems in generating sufficient supply or service reliability between most of the increased demand as investment increases production or services capability and it may not be sustainable to generate enough return even after the pandemic ends. Lastly, systemic simplification to global supply chain disruptions which may prevent the business to run efficiently. It is also predicted that the thriving sectors will be affected if the pandemic is not handled well.
- Indonesia's overall real sector's turnover and profit is projected to lose more than 50% loss this year. In a survey, 35.4% of businesses stated that their turnover is projected to lose more than 50%. For profit projection, 21.2% of businesses stated that they are bracing for more than 50% loss this year. Those who are projected to benefit from this pandemic will not be able to offset those who are projected to suffer. As for the manufacturing sector,

37% of the manufacturers are projected to have more than 50% drop in sales, 22.8% stated that they are expecting 40 to 50% of sales drop. Only 1.6% said that they are profited by this pandemic.

- The commerce sector's damage is on the loose condition. Supermarket and minimarket businesses are doing well, but a survey by *Asosiasi Pengusaha Indonesia* (APINDO) has shown that players do not project any benefit although some of them may operate.
- Tourism and hospitality are the most affected with 1,139 hotels already closed as of April 2020. Pharmaceutical companies tend to suffer because they have issues on logistics, raw materials and also costs.
- As for the employment side, we have about at the moment, 197 million workers in Indonesia with the working age. The number for unemployment before was still low with 7.05%, of course today the number will not be the same due to COVID-19. Our biggest problem is the amount of 70.5 millions of informal workers are still more than the formal workers as much as 56 million. Update as of April 2020, from the Manpower Ministry there are already 1.25 millions of people who are terminated from work or unpaid leave. A lot of companies could not terminate people because they do not have the funds and cash flow. I had a meeting with the Manpower Ministry last week and I think in one week there was an increase of over 100%.
- Macroeconomics damages are in the demand and supply shock. In the demand side, we will experience damage due to shock in a form of sudden and significant drop in investment activities. Moreover, there is an extremely low consumption due to the drop of income and sudden freeze of commerce activities due to the quarantine measures. The *Pembatasan Sosial Berskala Besar* (PSBB) measure for the industries is concerning, this is why we are working with the Ministry of Industries to give exception for several businesses to still operate with health protocol. Yet in reality we are facing many challenges on the ground. Many businesses are not respecting the work permit they were given to them during the PSBB. We can remedy this damages through improvement of government consumption and social safety net programs, to protect more of the purchasing power. On the supply side, damages will occur from the supply shock, there will be disruption to 70% of production inputs. We also have to stop production in certain factories located in the red zone in which it is where our most industries are and also to protect industries in the green zones.

- 105 trillion Rupiah has been provided by the government as a stimulus. We need to address these challenges because for example, we get a fiscal stimulus as far as the income tax but originally it is only a specific sector and just two days ago the government finally heard us and has expanded to an 18 more sectors. We have also supported a lot of social security benefits so I think the government is also giving out BLT including *Kartu Pra-kerja* that has sparked controversies because people need cash more than training, but I want to highlight here that the problem is really on data to deliver social security benefit. Next is significant delay in stimulus distribution and claim process due to inefficient bureaucracy. Although we have a national task force, there is still a lot of delay in terms of distribution before it goes to the target. Moreover, there is a bottleneck of credit stimulus delivery primarily credit restructuring in banks. This is something I want to highlight because the government has come up with a *Peraturan Otoritas Jasa Keuangan (POJK) No 11/2020* where it is giving operating SMEs as well as the sector companies that are impacted by the COVID-19 to restructure. The problem is that this is not yet happening on the ground aside from SMEs because they are yet to work with their bank on this.
- I think we should prepare for an economic rebound in the post COVID-19 pandemic. KADIN's opinion is to continue our economic policy reform agenda (UU Cipta Kerja) to speed up economic rebound. Particularly, the issuance of the Omnibus Law with the entire clauses on employment. We heard that the government wanted to postpone the discussion on the employment clauses but we still believe that this is important to be included. The pandemic creates a high layoff, bonus demographic unemployment and business needs to create even higher efficiency and restructuring. Thus the trend and demand for high efficiency in business processes, resilience of supply chain, and accelerated transformation to industry 4.0 will increase in this post pandemic era. All of these contributed to high demand in job-creation in Indonesia. The Omnibus Law can play the maximum part in accelerating this, and all of the clauses of the law including also the employment clause. We may have faster rebound, higher investment inflow in almost all sectors, higher job creation and a higher chance to upgrade our economy to industry 4.0, since the flexibility and high mobility of workers will be guaranteed and enabled in the law. However, if we do not include the employment clause, we will just be focusing more on just getting capital intensive investment. This will be an issue and we will also have a lower chance of upgrading to Industry 4.0. due to the lack of flexibility and mobility of our skilled worker.

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## MODERATED DISCUSSION

### Dr. Dino Patti Djalal:

- What is the best way for Indonesian government to ramp up the stimulus to a sufficient amount without jeopardizing the fiscal sustainability?

### Gita Wirjawan:

- Fiscal sustainability could only be there if the business community thrives so that there is continuous and sustain tax collectability. At the moment, there is a stress that is being experienced by the real sectors and the stress has caused limping within many players of the business community. Moreover, there is risk of it turning into a paralysis at the rate that it is not getting the kind of remedy that it should. Whereas, on how do you actually ramp up the stimulus, I think the only way is to do it as soon as possible and as much as possible. I am saying this in full realization to the limitations of the fiscal space. In the first three months of 2020, it is already running at a deficit of about Rp70 to Rp80 trillion and it is under the assumption that there is no COVID-19 pandemic. As much as we want for the Ministry of Finance to borrow or collect more taxes, I think it is going to hit a wall in the context of how much is needed and the speed to do it. Therefore, the only solution is to monetize the fiscal space through quantitative easing. This would require an efficient coordination in policy making and implementation between central bank and the Ministry of Finance so that the Bank of Indonesia could participate in a primary issuance of bonds (*Surat Utang Negara* or *Surat Berharga Negara*) on a frequent basis and on a bigger scale than before. I think we have to consider getting the Ministry of Finance to issue debt instruments in Rupiah that would be priced inexpensively, and primarily bought by the central bank on an urgent basis so that the Ministry of Finance could undertake in providing social safety net and also liquidity support for the MSMEs.

### Dr. Dino Patti Djalal:

- As you said that the Ministry of Manpower reported that almost 2 million or even more have become unemployed due to COVID-19. What should the government do in helping them concretely? For example, is the *Kartu Pra-kerja* enough?

**Shinta W. Kamdani:**

- We need to clarify on the *Kartu Pra-kerja*, because this has created a lot of skepticism. At the moment, social safety net is really needed especially for the informal workers. *Kartu Pra-Kerja* was created before the pandemic occur with a purpose for the work training development. Because of the pandemic, now it is being used to give out cash to SMSEs, informal workers and workers who are terminated. Moreover, *Kartu Pra-Kerja* is not the only social helps that the government provided. For those who live in poverty they are already going to get the *Bantuan Langsung Tunai* (BLT). Our biggest worry right now is the MSMEs, and informal workers. What is important now is credits because if people want to restart their business, they will need credit. In order for us to recover and for these people who are out of job to regain their employment. Yet the question is will the business community be able to recover? Even if they recover it might be take a long period of time. Therefore, it is important for the unemployed to earn from somewhere else, for example by becoming an entrepreneur. This is where *Kartu Pra-kerja* might help. At the end, the solution is not only one, it needs multiple solutions.

**CONCLUDING REMARKS****Dr. Dino Patti Djalal:**

- We have come to the end of our discussion and I want to thank both speakers for their amazing analysis.