

Economic impacts of and policy responses to the coronavirus pandemic: early evidence from Indonesia

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8 April 2020

Key messages

- This note covers the early economic impacts of and policy responses to the coronavirus pandemic in Indonesia.
- Prior to the pandemic, the Indonesian economy had a [positive economic outlook](#); however, the pandemic has led to a [revision of the economic growth forecast for 2020 downwards from 5.1% to 2.1%](#).
- In response to the pandemic, the Indonesian government has announced an [Rp 405 trillion \(\\$24.6 billion\) budget – 2.5% of GDP](#) – and has revoked regulation in anticipation of a [5% budget deficit](#).
- Indonesia's central bank, [Bank Indonesia, has had its powers extended](#), to enable direct government bond purchases and liquidity loan disbursements to systemic banks.

Introduction

The Indonesian economy is the largest in Southeast Asia and, prior to the pandemic, had a [positive economic outlook](#), supported by robust investment, stable inflation and a strong job market.

As of 8 April 2020, Indonesia has had [2,738 confirmed cases of COVID-19, with 221 deaths, the highest toll in Southeast Asia, and 204 recoveries](#).

The government has declared [a national public health emergency, and large-scale social restrictions](#) have been imposed. [Currently, schools and entertainment venues are closed and a work from home policy has been enforced nationwide](#).

There is currently a [temporary ban on all visits and transit of foreign nationals](#), except for medical, food and humanitarian aid support workers.

Economic and social impacts

Trade and production impacts

The World Bank has estimated that the COVID-19 pandemic will significantly slow [Indonesia's GDP growth to 2.1%](#) in 2020, down from an initially projected 5.1%, as a result of an expected drop in household spending, exports and imports.

Consumer Price Index Inflation was stable, low and within the target corridor of 3.0%±1% for March 2020 at [2.96% \(year on year\), slightly down from 2.98% \(year on year\) in February 2020](#).

Tourism has been hard hit, with [estimated losses since January of \\$1.5 billion](#) (0.2% of GDP). The [food and beverage and retail industries have also seen a significant decrease in daily earnings](#).

Finance

As of 8 April, the [US dollar–rupiah exchange rate is 16,245](#). [Bank Indonesia has intervened in the spot and domestic foreign exchange market and in the domestic government bond market](#) in order to stabilise market conditions. Measures have now also been put in place that allow [Bank Indonesia to directly purchase government bonds](#). The [rupiah has been Asia's worst-performing currency so far this year](#), and has depreciated by around 15% since the end of 2019.

The Indonesian stock market has been volatile recently, as the number of COVID-19 cases has risen; [stocks slumped by 20% during March](#) but the month ended with a [dramatic rebound of 600 points \(13%\)](#).

As of 31 March, Bank Indonesia held [Rp 1,031 trillion in reserve money \(6% of GDP\)](#).

Social impact

As of mid-March 2020, the COVID-19 outbreak [had not significantly affected the prices of strategic food commodities](#), except for garlic and sugar. Rationing has taken place and retailers have been ordered to [limit staple food purchases](#).

Fiscal impacts

The Indonesian government has [relaxed the budget deficit cap](#) of 3% of GDP, anticipating a budget deficit

of 5.07% in 2020. Regulation has been signed that enables the Indonesia government to charge [taxes on the digital economy](#).

Monetary and financial policy

Bank Indonesia most recently [cut interest rates by 25 basis points to 4.50%](#) in mid-March. Over the past year, [Bank Indonesia has cut its key policy rate six times by a total of 150 basis points](#).

Effective from 31 March until a yet to be determined date, [Bank Indonesia has relaxed mandatory reporting, suspended late submission penalties and postponed export suspensions](#).

[The Financial Services Authority \(OKJ\) has relaxed credit scoring and loan restructuring requirements](#) for informal workers and MSME owners.

Fiscal policy

On 31 March, the government issued a regulation to tackle the COVID-19 outbreak that [increased total state spending for the 2020 State Budget to up to 2.5% of GDP, or Rp 405.1 trillion \(\\$24.6 billion\)](#).

Rp 150 trillion (\$9.1 billion), 0.9% of GDP, has been allocated for economic recovery programmes including credit restructuring and financing for businesses, particularly MSMEs.

Rp 70.1 trillion (\$4.3 billion), 0.4% of GDP, has been allocated for tax incentives and credit for businesses. This encompasses income tax exemptions for workers in the manufacturing sector with incomes below Rp 200 million per year; import tax payment deferrals for six months in 19 manufacturing sectors; repayment of overpaid taxes without an initial audit; reduction of corporate income tax from 25% to 22%; and delay of debt payments by six months to provide micro loan credit for businesses affected by COVID-19.

Rp 110 trillion (\$6.7 billion), 0.7% of GDP, has been allocated for social protection. This includes increasing the number of households in the Family Hope Programme from 9.2 million to 10 million and increasing funds by 25%; increasing the number of Staple Food Card Programme households from 15.2 million to 20 million and increasing cash amounts by 30% from Rp 150,000 to Rp 200,000 for nine months; doubling the budget for the pre-employment card programme from Rp 10 trillion to Rp 20 trillion, in order to cover 5.6 million laid-off workers, informal workers and MSME owners and increasing cash amounts from Rp 650,000 to Rp 1 million for four months; providing, for three months, free electricity for 24 million

households using 450 Va and half price electricity for 7 million customers using 900 Va.

Rp 75 trillion (\$4.6 billion), 0.5% of GDP, has been allocated for health care that will be used to purchase medical equipment such as test kits and ventilators, and provide incentives for medical workers.

Rp 25 trillion (\$1.5 billion), 0.2% of GDP, had previously been allocated to anticipate staple foods needs and to conduct market and logistics operations.

Other policy

Indonesian citizens returning from overseas are subject to [stringent health protocols at airports, seaports and cross-border posts](#). Those who show no COVID-19 symptoms must carry out self-isolation protocol at home; those with symptoms must be isolated at a designated hospital.

As of 3 April, [22,158 prisoners have been granted an early release](#) to help prevent a possible surge in COVID-19 cases in overcrowded prisons. This is part of the increase in planned prisoner releases from 30,000 to 50,000 to prevent the spread of COVID-19.

Donor support

ADB has approved a [\\$3 million grant to support the Indonesian government in fighting COVID-19](#). The grant will help fund purchase of key medical equipment and personal protective gear and is financed by the Asia Pacific Disaster Response Fund.

The US, as part of funding to support ASEAN Member States in fighting COVID-19, [has provided \\$2.3 million in health assistance](#) to help the Indonesian government prepare laboratory systems, activate case finding and event-based surveillance and support technical experts for response and preparedness.

China has [donated medical supplies](#) consisting of test kits, masks, protective gear and portable ventilators.

Indonesia was one of four Southeast Asian countries that [received 2 million masks, 150,000 test kits, 20,000 sets of protective gear and 20,000 face shields from the Jack Ma Foundation and Alibaba Foundation](#).

Information in this note is correct as of 8 April 2020.

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