



# Indonesian Economy: Navigating the Danger Zone

Fithra Faisal Hastiadi Ph.D

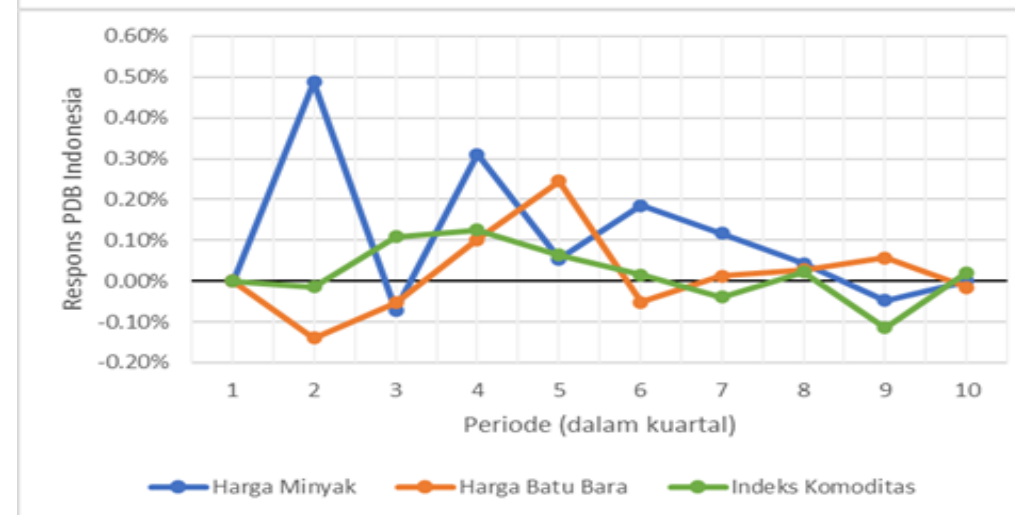
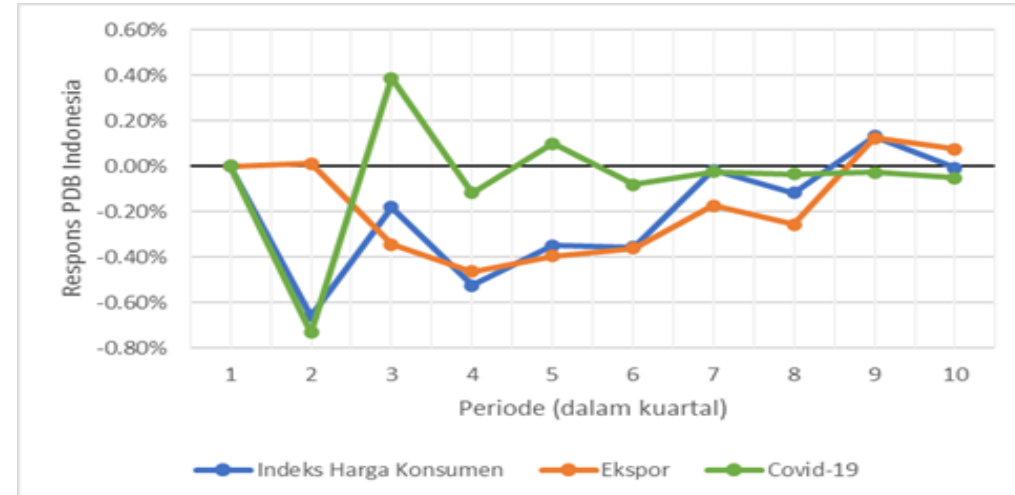
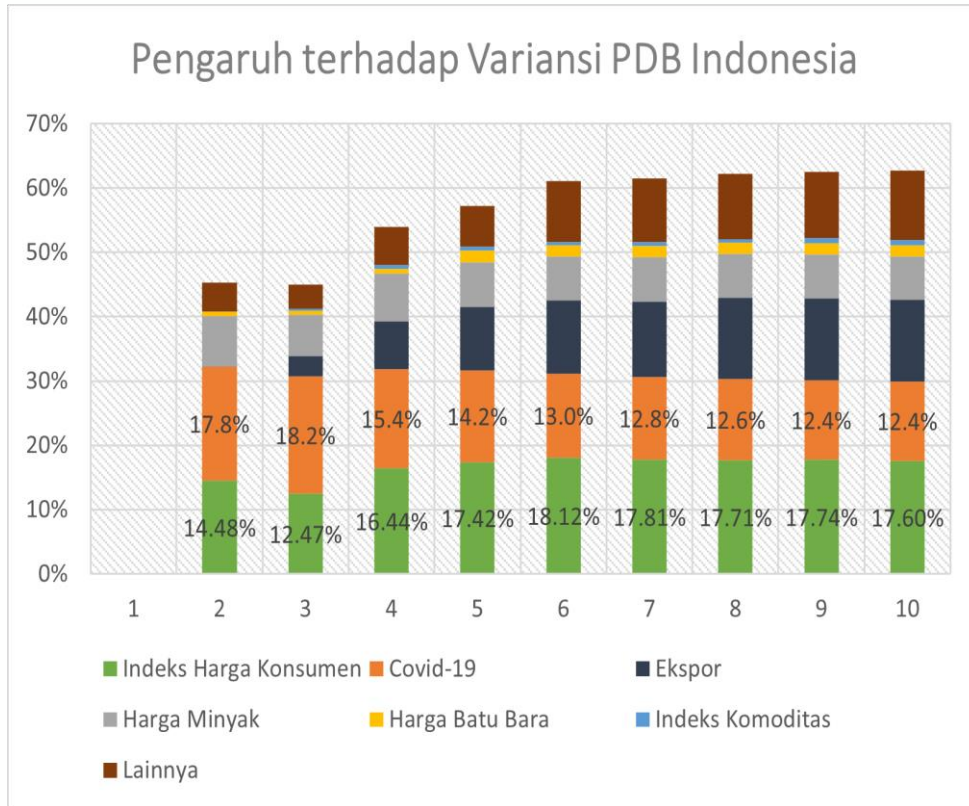
Executive Director of Next Policy

# A STARTING POINT

- Indonesia **bids farewell** to recession with positive 2021.
- Higher adoption of digital technologies by actors of economy.



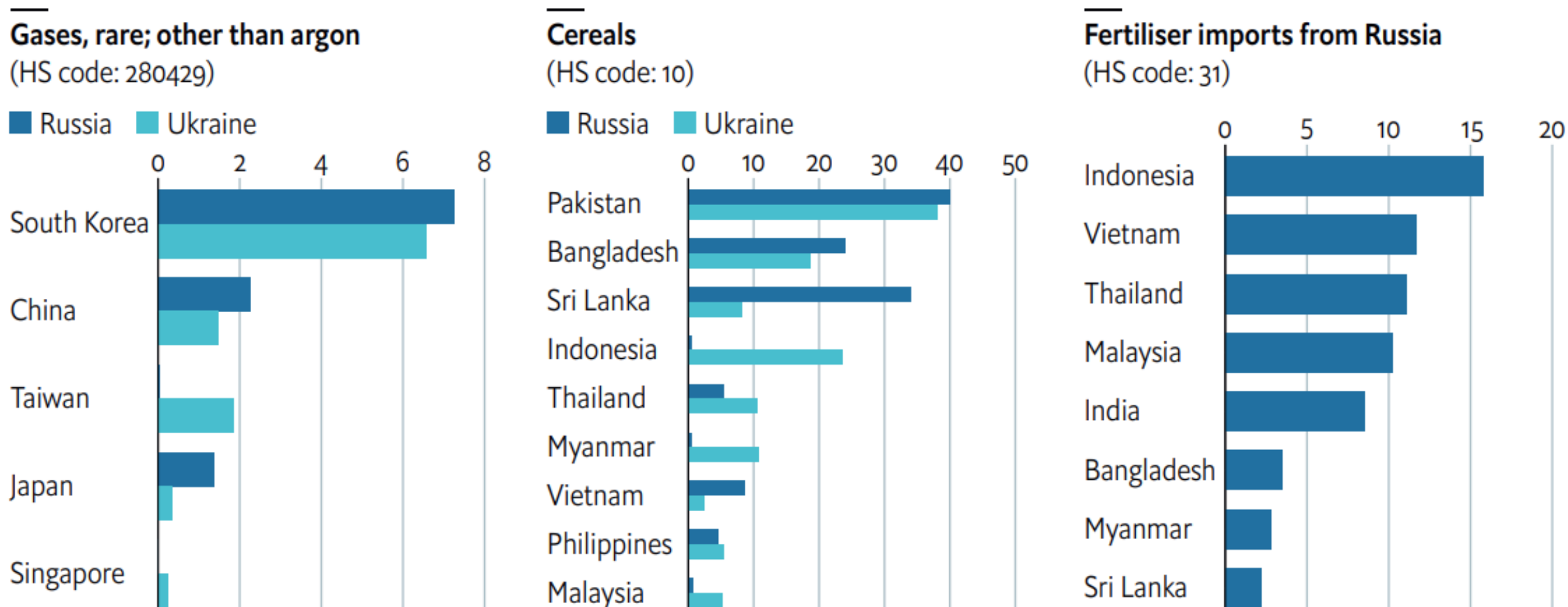
# Primary Source of Shocks: Covid-19 and Inflation



# The detrimental effects of the Russian Invasion

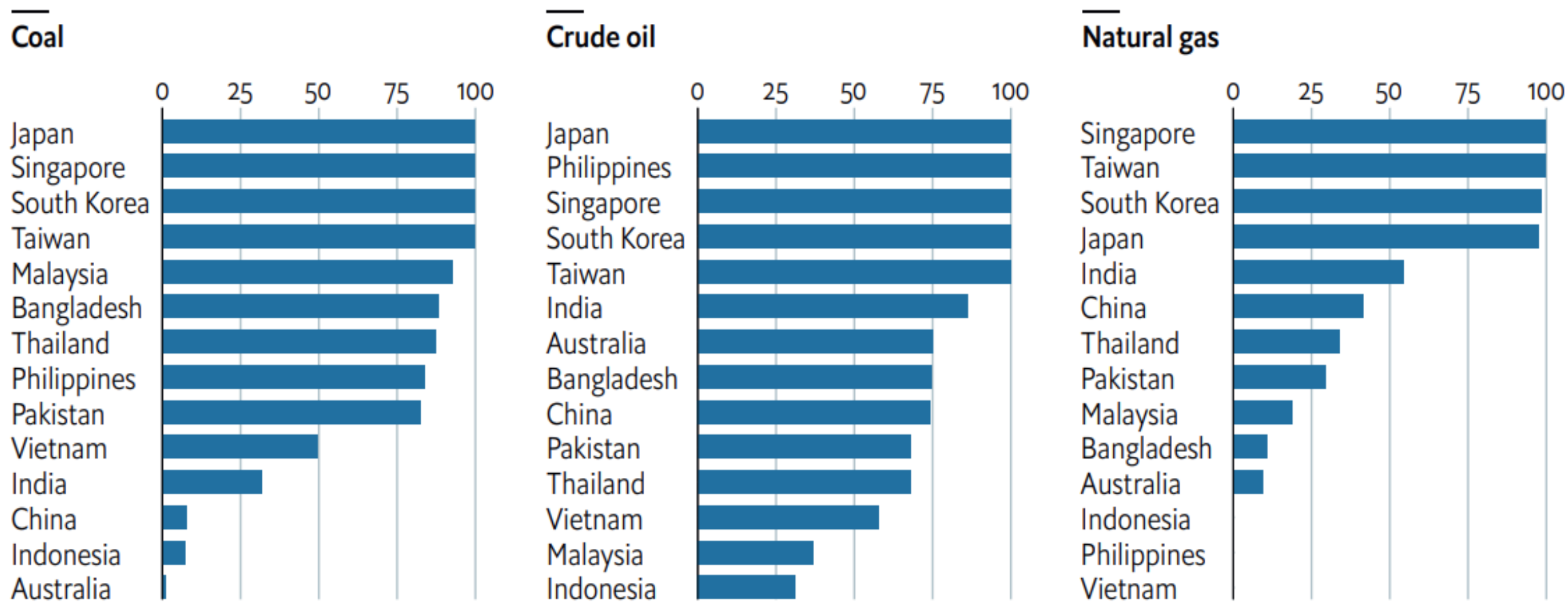
## Asia's trade exposure to the war is low, but there are vulnerabilities

(imports from Russia and Ukraine as a share of world imports, 2020; %)



## Asia's reliance on imported energy exposes it to higher prices

(imports as a share of total energy supply of that category; %)



## Ukraine crisis could heighten risks tied to Asia's geopolitical flashpoints

Risk scenario	Probability	Impact	Risk intensity
A security conflict emerges across the Taiwan Strait	Moderate	Very high	15
China moves against Taiwan's holdings in the South China Sea	Moderate	High	12
North Korea resumes development of nuclear weapons	Low	Very high	10
India-China tensions escalate to a military conflict	Low	Very high	10
A major conflict breaks out between India and Pakistan	Low	Very high	10
Armed hostilities breaks out between China and Japan in the East China Sea	Low	Very high	10
Major clashes break out among claimants in the South China Sea	Low	Very high	10

Intensity colour key: 1 to 4

5 to 8

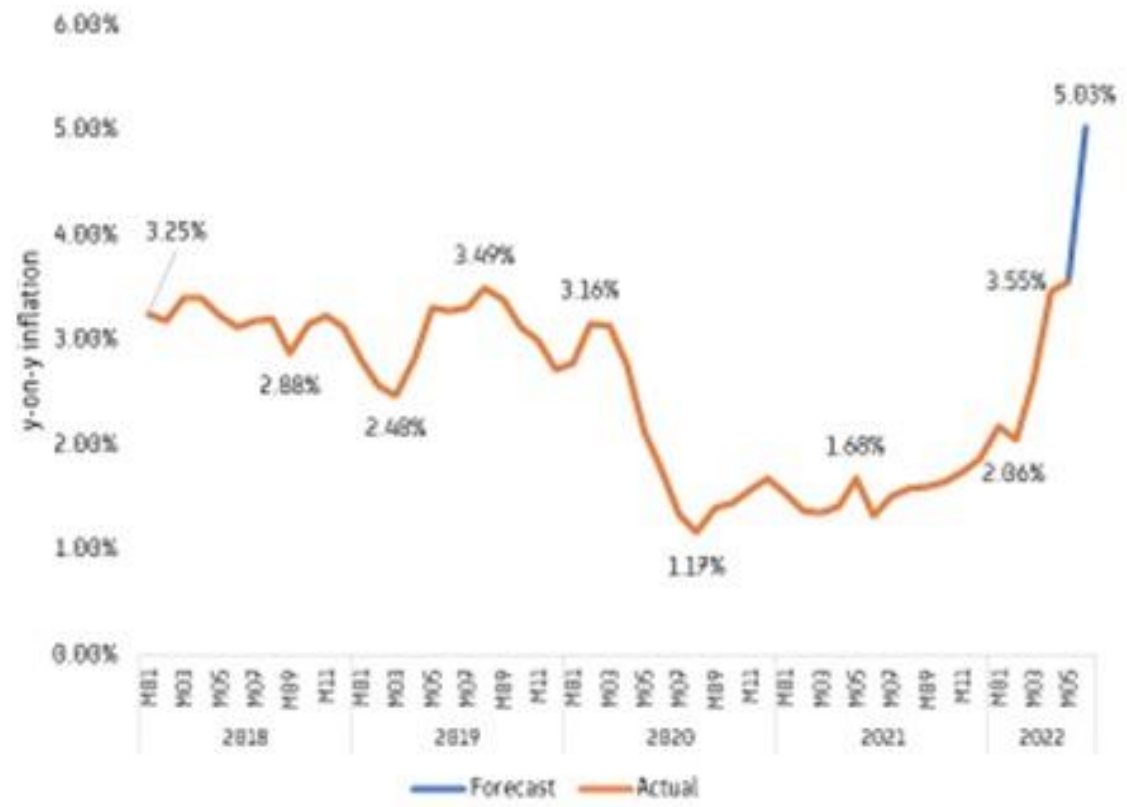
9 to 12

13 to 16

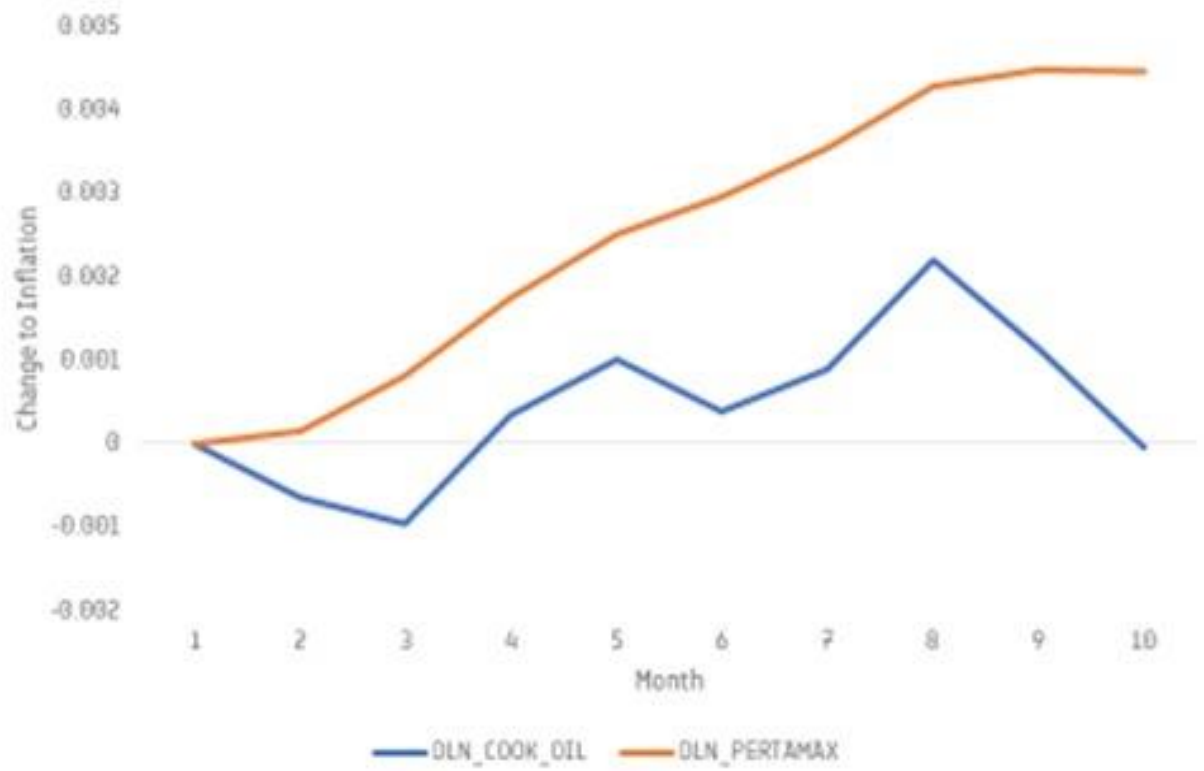
17 to 25

Note. Intensity is a product of the probability and impact ratings, where "very low" scores 1 and "very high" scores 5.

# Inflation (1/2)



**Inflation**  
Source: Own Calculation Based on Statistics Indonesia Database

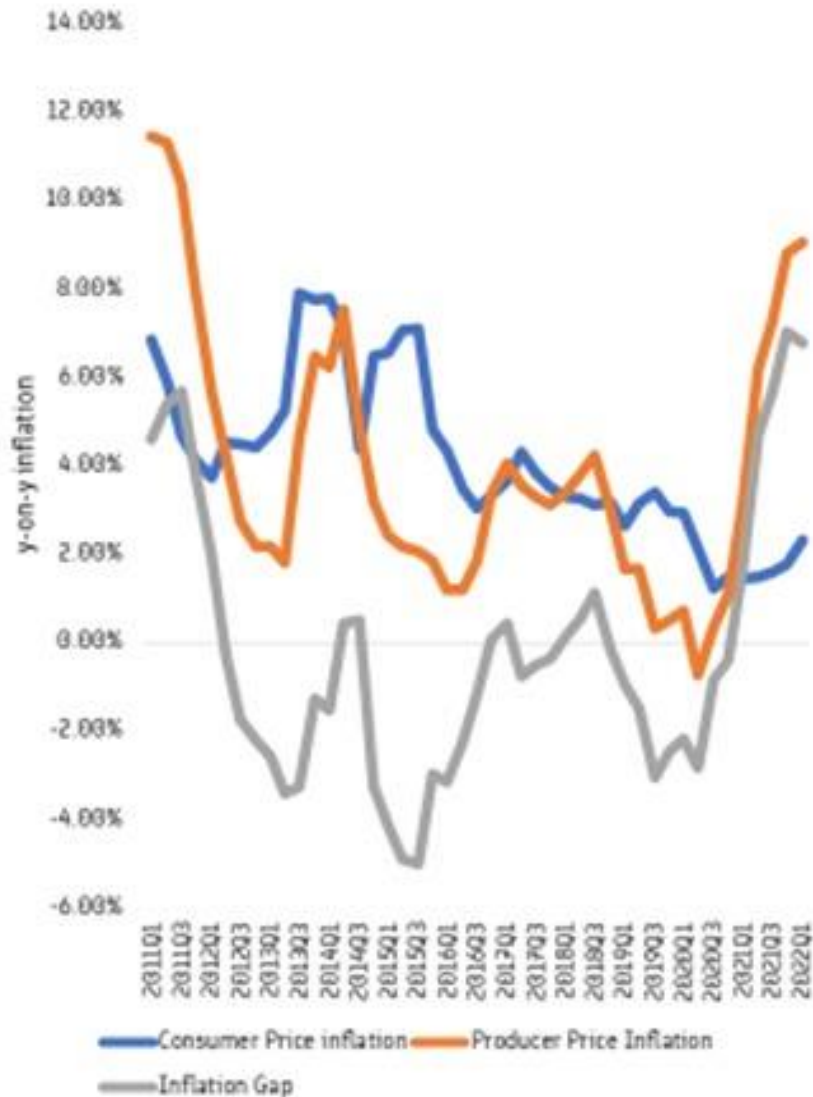


**IRF. Shock Impact of Cooking Oil and Pertamina (RON 92) Price to Inflation**  
Source: Own Calculation Based on Statistics Indonesia Database

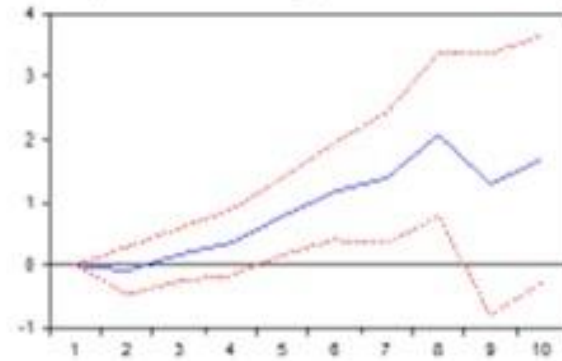
Prices are continuously climbing as a result of quick recovering demand and slow adjusting supply. Cooking oil and fuel as one of the most important commodities consumed by households are significantly contributing to high inflation...

Source: Author's Calculation

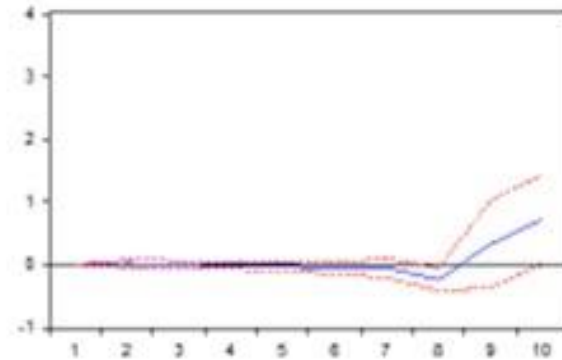
# Inflation (2/2)



Accumulated Response to Cholesky One S.D. Innovations  $\pm 2$  S.E.  
Accumulated Response of CONSUMER\_INFLATION to PRODUCER\_INFLATION



Accumulated Response of CONSUMER\_INFLATION to CONS\_GROWTH



Shock Impact of Producer Price Inflation and Consumption Growth to Consumer Price Inflation  
Source: Own Calculation Based on Statistics Indonesia Database

Source: Author's Calculation

	Extreme Deviation Regime	Narrow Deviation Regime
Extreme Deviation Regime	81.05%	18.95%
Narrow Deviation Regime	5.89%	94.11%

Transition Probabilities Matrix Between Extreme (S1) and Narrow Deviation (S2) Regime  
Consumer vs Producer Price  
Source: Own Calculation Based on Statistics Indonesia Database

The extreme gap between producer price and consumer price inflation implies a ticking bomb situation. Our calculation suggests that, with respect to producer price inflation shock, consumer price inflation should be rising after 3 months.

From the matrix, Both S1 and S2 are stable equilibrium conditions yet S1 is less stable. S1 has an 81.05% chance of staying in S1 but an 18.95% chance of changing to S2. While S2 has a 94.11% chance of staying in S2 but only 5.89% of changing to S1.

With further calculation, we expect the duration of S1 to be 5.28 quarters and S2 to be 16.98 quarters. This means the extreme deviation will gradually be narrowed in Q3 2022 and consumer price will catch up with the producer price.

# What about the Crisis in Sri Lanka?

# The Root cause

- ✓ Economic Mismanagement

  - Slashing taxes-causing credit rating downgrades

  - Corruption

  - Non diversified source of income

  - Creeping protectionism

  - Persistent deficit in trade

  - Hasty switch from pesticides to organic fertilizers (man-made food crisis)

  - Failed to do debt smoothing (Debt to GDP ratio reaching 101 %, unpayable short-term debt )

- ✓ The value chain shocks from the Russian Invasion-happening especially on fertilizers

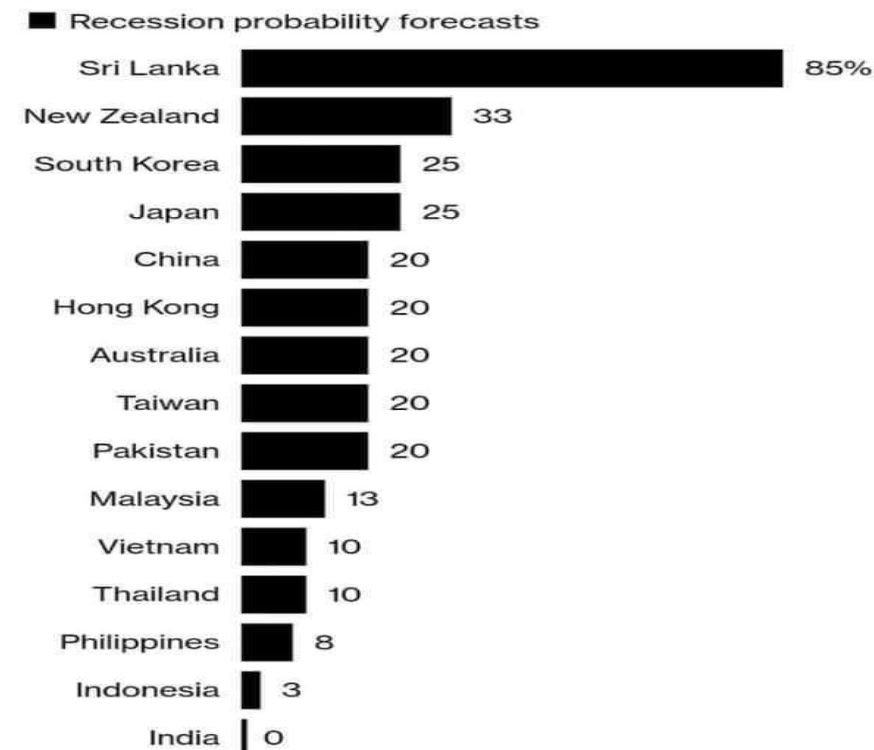
# Possible Recession?

	Government Bond Yield <sup>1</sup> , Latest (%)	5Y CDS Spread <sup>2</sup> , Latest (Bps)	Interest Expense <sup>3</sup> , (% GDP)	Government Debt <sup>4</sup> , (% GDP)	Sovereign Debt Vulnerability Ranking <sup>5</sup> (Lower Rank, Higher Risk)		Government Bond Yield <sup>1</sup> , Latest (%)	5Y CDS Spread <sup>2</sup> , Latest (Bps)	Interest Expense <sup>3</sup> , (% GDP)	Gross Government Debt <sup>4</sup> , (% GDP)	Sovereign Debt Vulnerability Ranking <sup>5</sup> (Lower Score, Higher Risk)
El Salvador	31.8	3,376	4.9	82.6	1	Cote D'Ivoire	9.1	539	2.0	51.8	26
Ghana	17.1	2,071	7.2	84.6	2	Serbia	6.2	318	1.7	55.6	27
Tunisia	32.1	1,200	3.0	87.3	3	Hungary	4.8	175	1.6	75.9	28
Pakistan	16.8	1,492	4.8	71.3	4	Uruguay	4.6	133	2.4	65.7	29
Egypt	13.2	368	8.2	94.0	5	Romania	6.1	292	1.6	56.0	30
Kenya	14.6	1,134	4.4	70.3	6	Iraq	8.0	667	0.7	35.0	31
Argentina	20.7	4,470	1.7	74.4	7	Panama	5.2	137	2.2	56.0	32
Ukraine	60.4	10,856	2.9	49.0	8	Oman	6.4	287	1.5	44.0	33
Bahrain	6.6	327	4.5	116.5	9	Indonesia	4.8	145	2.6	42.7	34
Namibia	9.4	593	4.2	69.6	10	Philippines	4.6	130	2.1	60.0	35
Brazil	6.0	299	7.2	91.9	11	Croatia	3.8	115	1.3	78.1	36
Angola	12.0	834	4.0	57.9	12	Israel	4.2	55	2.3	67.1	37
Senegal	10.2	602	2.1	75.3	13	Guatemala	6.5	264	1.7	30.6	38
Rwanda	8.9	567	2.5	72.0	14	Malaysia	3.7	105	2.2	69.3	39
South Africa	7.3	315	4.7	70.2	15	China	3.1	86	1.0	77.8	40
Costa Rica	7.6	294	5.2	69.4	16	Vietnam	4.9	162	1.0	41.3	41
Gabon	11.7	873	2.4	57.4	17	Peru	5.0	127	1.3	34.4	42
Morocco	7.3	330	2.4	77.1	18	Poland	3.8	117	1.3	53.3	43
Ecuador	13.3	1,006	1.3	62.2	19	Qatar	4.1	71	1.4	46.0	44
Turkey	10.1	839	3.0	43.7	20	Kazakhstan	4.6	248	-0.2	27.6	45
Dominican Rep.	7.9	450	2.9	59.4	21	Chile	4.7	116	0.4	38.3	46
Ethiopia	33.9	3,035	1.1	48.3	22	South Korea	3.4	54	-0.3	52.0	47
Colombia	7.3	297	2.9	60.6	23	UAE	4.1	70	0.7	31.7	48
Nigeria	12.8	990	2.3	37.4	24	Saudi Arabia	4.2	72	0.3	24.1	49
Mexico	5.5	178	4.5	58.4	25	Kuwait	3.4	76	-11.0	12.3	50

**Methodology:** <sup>1</sup>Weighted-average yield to maturity of the country's dollar bonds included in the Bloomberg Emerging Markets Sovereign TR Index. See [BSSUTRUU Index](#) and explore on [PORT<GO>](#).  
<sup>2</sup>Latest five-year credit default swap spread. See [SOVR<GO>](#). <sup>3</sup>Difference between the primary and overall budget balances, as projected by the International Monetary Fund. <sup>4</sup>Gross general government debt, as projected by the IMF. Interest and debt figures for Ukraine and Ecuador reflect 2021 estimates. <sup>5</sup>Composite rank is drawn from the average ranking across the four indicators. In a tie, the country with the wider CDS spread receives the lower rank.

## Recession?

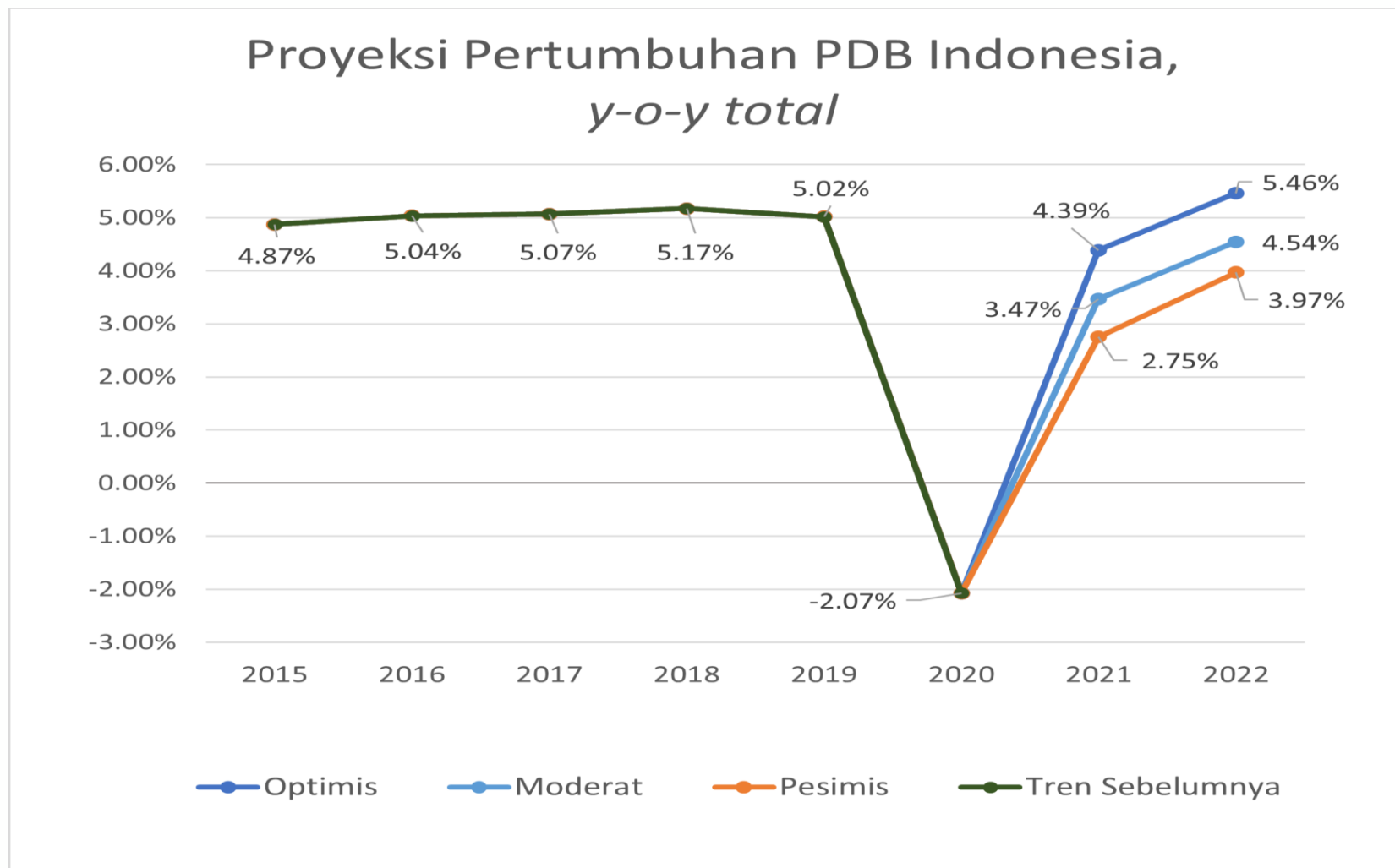
Asian economies seen increase in recession probability, yet still resilient than Europe and US peers



Source: Bloomberg surveys  
 Note: Forecast for Singapore is removed due to low response rate.

→ After Sri Lanka Defaulted, Who's Next?

# Indonesia: Solid growth but shocks are still looming



Source: Author's Calculation



# Post Covid Recovery: Pushing Key Sectors

## Sectors

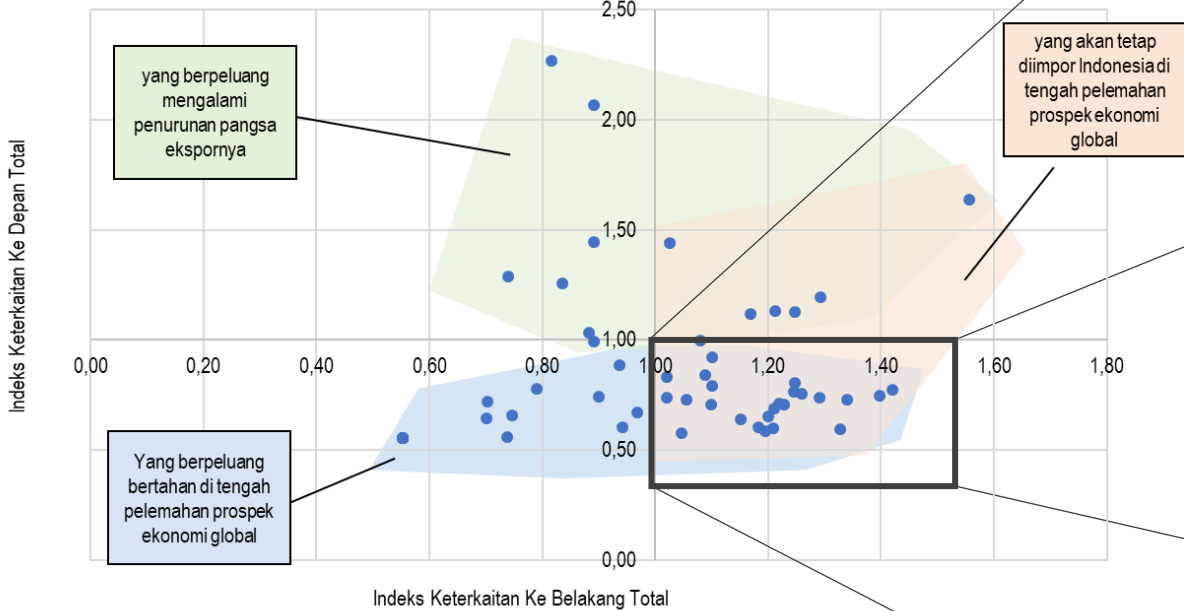
Road Transportation  
Automobiles-Repairation  
Restaurant  
Poultry  
Cattle Industry  
Motorbike  
Private School  
Animal and Vegetable oil  
Aviation  
Textile  
Company Services  
Private medical Service  
Feedmills Industry  
ICT  
Fisheries  
Transport Support  
Rubber



# Product Resiliency

Sektor Primer	Sektor Tersier
Penangkapan ikan dan akuakultur	Kegiatan tambahan untuk jasa keuangan dan kegiatan asuransi
Kehutanan dan penebangan	Kegiatan arsitektur dan teknik; pengujian dan analisis teknis
3.51%	Penelitian dan pengembangan ilmiah ←
	Periklanan dan riset pasar
<b>Sektor Sekunder</b>	Kegiatan profesional, ilmiah dan teknis lainnya; kegiatan kedokteran hewan
Perbaikan dan pemasangan mesin dan peralatan	Kegiatan pos dan kurir
Pembuatan peralatan transportasi lainnya	Pendidikan
Pencetakan dan reproduksi media yang direkam	Selokan; pengumpulan sampah, kegiatan pengolahan dan pembuangan; pemulihan material; kegiatan remediasi dan layanan pengelolaan limbah lainnya
Pembuatan furnitur; manufaktur lainnya	Kegiatan rumah tangga sebagai majikan; kegiatan memproduksi barang dan jasa yang tidak dibedakan dari rumah tangga untuk penggunaan sendiri
Industri tekstil, pakaian jadi dan produk kulit	Kegiatan organisasi dan badan ekstrateritorial
Memproduksi produk mineral non-logam lainnya	Pengumpulan air, perawatan dan pasokan
Industri kayu dan produk dari kayu dan gabus, kecuali furnitur; pembuatan barang dari bahan jerami dan anyaman	Kesehatan manusia dan kegiatan pekerjaan sosial
Industri produk logam fabrikasi, kecuali mesin dan peralatan	Kegiatan real estat
Industri logam dasar	Administrasi dan pertahanan publik; jaminan sosial wajib
Pembuatan peralatan listrik ←	Kegiatan penerbitan
Industri karet dan produk plastik	Pemrograman komputer, konsultasi dan kegiatan terkait; kegiatan layanan informasi
Produksi gambar bergerak, video dan program televisi, rekaman suara dan kegiatan penerbitan musik; pemrograman dan kegiatan penyiaran	Kegiatan hukum dan akuntansi; kegiatan kantor pusat; kegiatan konsultasi manajemen
Industri komputer, produk elektronik dan optik ←	Transportasi udara
Pembuatan produk farmasi dasar dan sediaan farmasi	Asuransi, reasuransi dan dana pensiun, kecuali jaminan sosial wajib
Industri mesin dan peralatan	Kegiatan akomodasi dan layanan makanan
Pembuatan kendaraan bermotor, trailer dan semi-trailer	Transportasi air
28.07%	Kegiatan pergudangan dan pendukung untuk transportasi
	Kegiatan administrasi dan layanan dukungan
	Kegiatan layanan lainnya
	Perdagangan grosir dan eceran dan perbaikan kendaraan bermotor dan motor
	Transportasi darat dan transportasi melalui jalur pipa
3.51%	45.61%

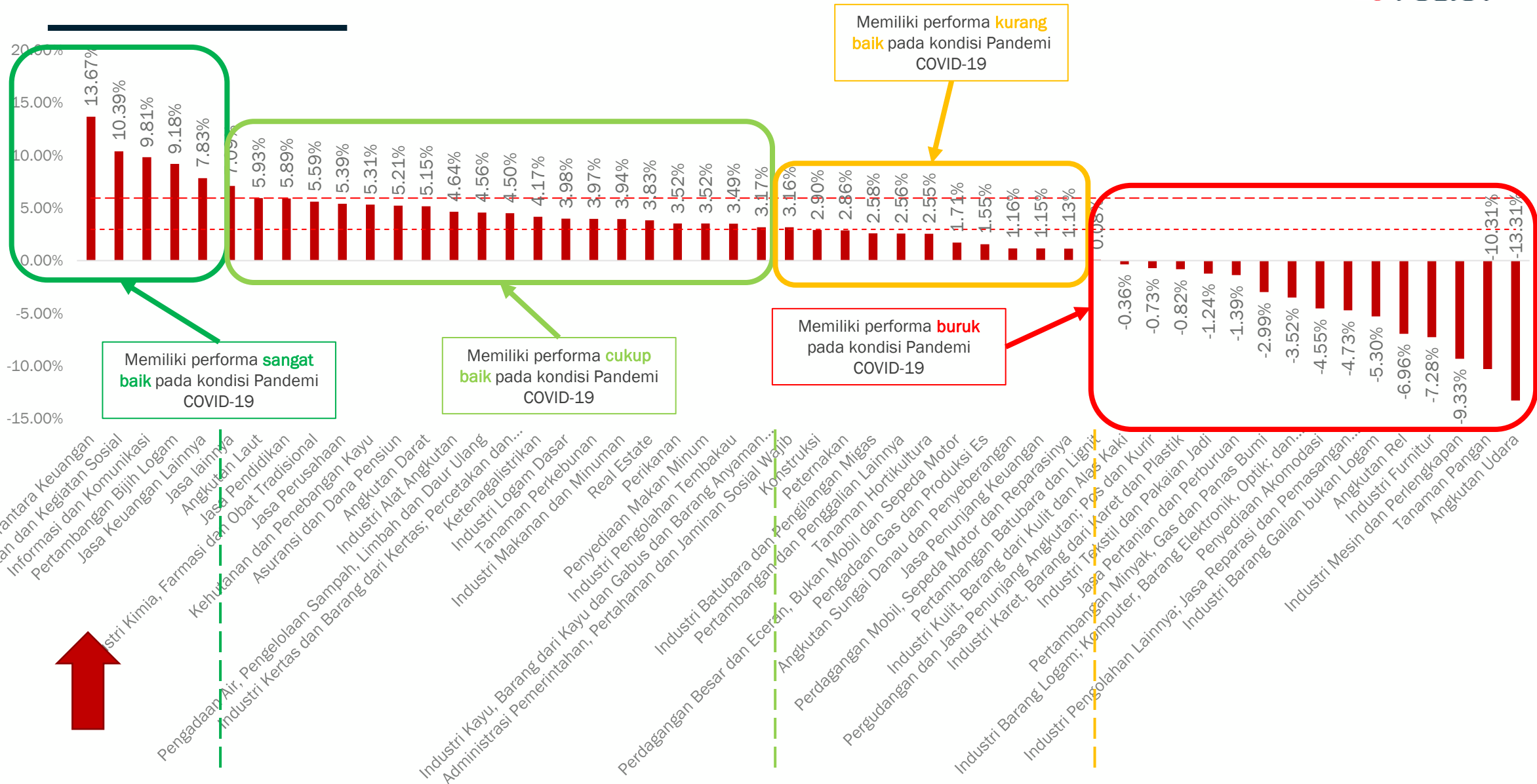
# Resilient sectors still needs strong import supports



Sektor Sekunder	Sektor Tersier
Pembuatan peralatan transportasi lainnya	Kegiatan pos dan kurir
Pencetakan dan reproduksi media yang direkam	Kesehatan manusia dan kegiatan pekerjaan sosial
Pembuatan furnitur; manufaktur lainnya	Kegiatan penerbitan
Industri tekstil, pakaian jadi dan produk kulit	Pemrograman komputer, konsultasi dan kegiatan terkait; kegiatan layanan informasi
Memproduksi produk mineral non-logam lainnya	Kegiatan hukum dan akuntansi; kegiatan kantor pusat; kegiatan konsultasi manajemen
Industri kayu dan produk dari kayu dan gabus, kecuali furnitur; pembuatan barang dari bahan jerami dan anyaman	Transportasi udara
Industri produk logam fabrikasi, kecuali mesin dan peralatan	Kegiatan akomodasi dan layanan makanan
Industri logam dasar	Transportasi air
Pembuatan peralatan listrik	Gedung dan pergudangan dan pendukung untuk transportasi
Industri karet dan produk plastik	Kegiatan layanan lainnya
Industri komputer, produk elektronik dan optik	Perbaikan jalan darat dan transportasi melalui jalur pipa
Pembuatan produk farmasi dasar dan sediaan farmasi	
Industri mesin dan peralatan	
Pembuatan kendaraan bermotor, trailer dan semi-trailer	



# Potential Winners 2021 and Beyond: ICT



# INPUT-OUTPUT ANALYSIS

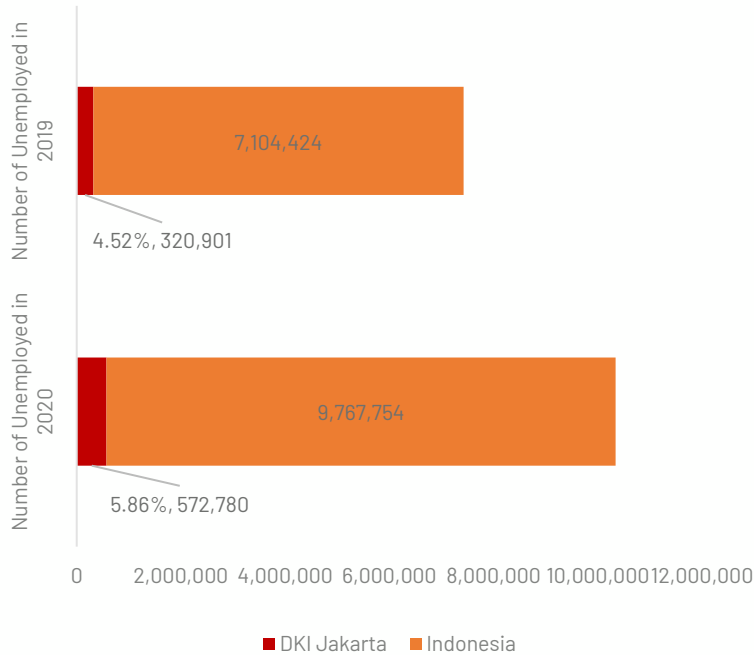
	Sector Name	Value-Added Multipliers
1	Music	1.007898647
2	Publishing	1.004268505
3	Advertising	1.003651137
4	Fashion	1.002034778
5	Application and Game Developer	1.000563213
6	Film and Animation and Video	1.000286369
7	Educational Services	1.000280116
8	Performing Arts	1.000164118
9	Financial Intermediary Services	1.00008866
10	Visual communication design	1.000086827

Top 10 sectors with the highest **Value-Added Multiplier**



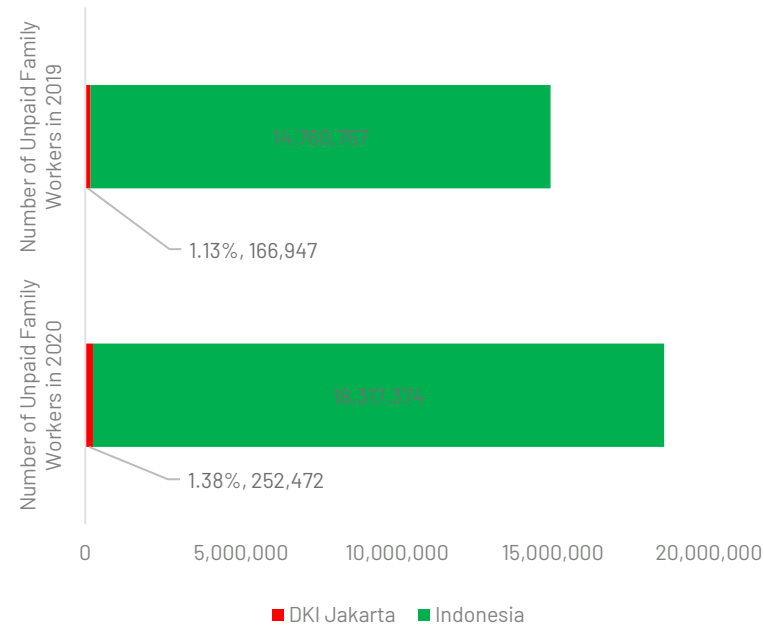
# COVID-19 SHOCK: LABOR CONDITION

Number of Unemployed in Jakarta and Indonesia



Unemployment rises significantly both in Jakarta and nationally. The contribution of Jakarta's number of unemployed to nationals also rise...

Number of Unpaid Family Workers in Jakarta and Indonesia



Within workers, the quality of work worsened. Number of unpaid family workers sky-rocketed. In Jakarta, the number of unpaid family workers rise by 51,23%...

Number of Entrepreneurs (Own Account and Employers) in Jakarta and Indonesia



Losing jobs does not mean giving up earnings. Many decided to switch jobs and become entrepreneurs. More entrepreneurs, More MSMEs...

**49%**

**Indonesian adults are still unconnected across various spatial,  
economic, and social dimensions.**

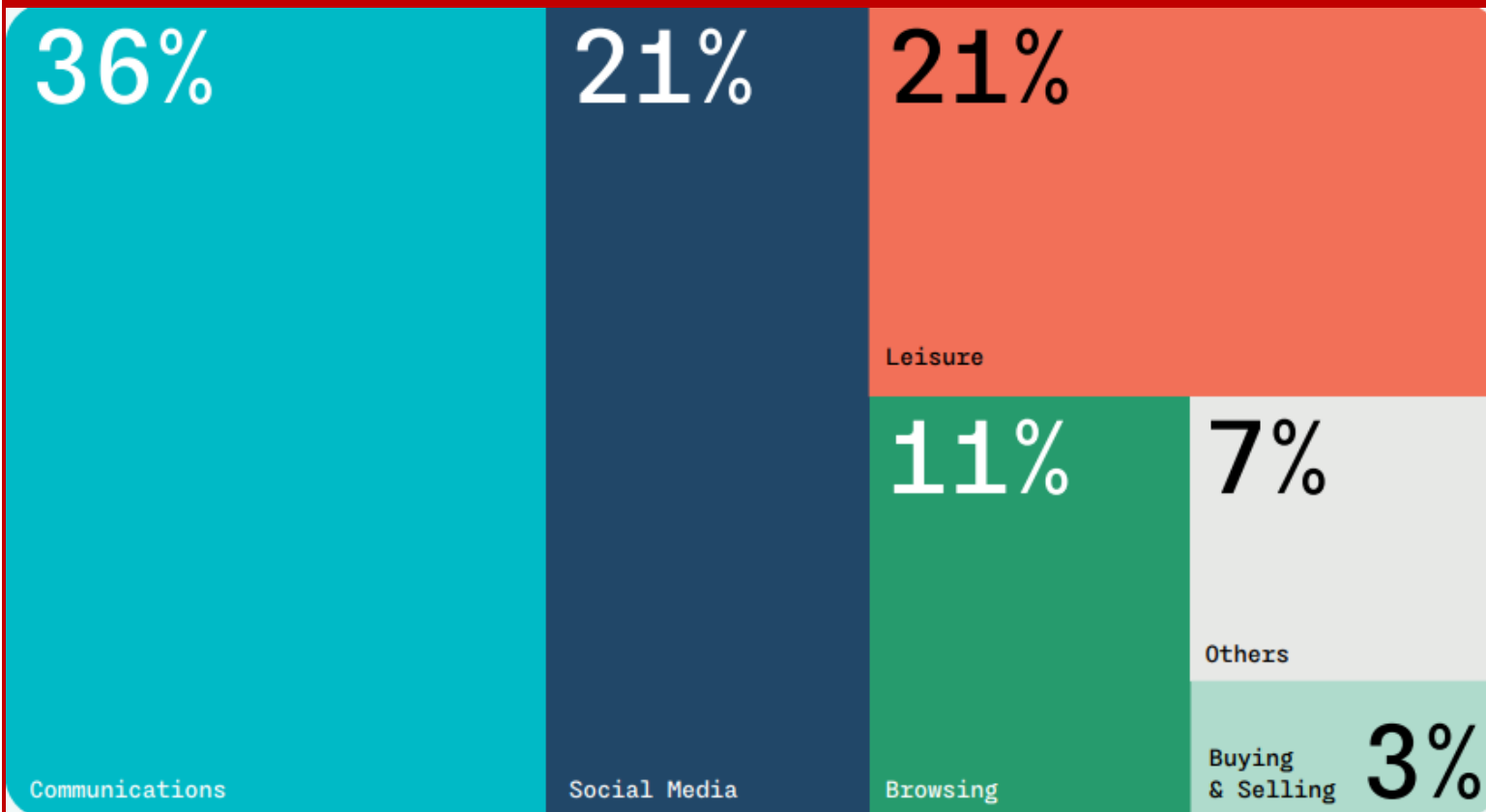
# INTERNET ACCESS

- While mobile broadband does well enough to penetrate the population—placing fourth in overall 4G adoption among ASEAN countries, the fixed broadband is lagging severely with only 4% of population or 16% of households—placing far beneath Singapore, Malaysia, Thailand, Vietnam, and Brunei.



- A fixed-broadband subscription is still considered as expensive by many.
  - Indonesia ranked 131<sup>st</sup> out of 200 countries in the 2019 ITU rankings on fixed-line fees.
- Internet quality offered by both mobile and fixed are among the lowest in ASEAN, 10<sup>th</sup> and 9<sup>th</sup> place consecutively.
- World Bank (2020) list main drivers of limited access to good quality internet in Indonesia:
  - limited spectrum,
  - unavailability of specific bands,
  - limited regulatory clarity on infrastructure sharing,
  - and lack of competition.

# TIME-SPENT DISTRIBUTION



E-commerce enhances consumer welfare by:

- providing cheaper options,
- greater product variety,
- convenience,
- and enables consumers to obtain goods previously unavailable in their area.

With only 3% time being spent in to.

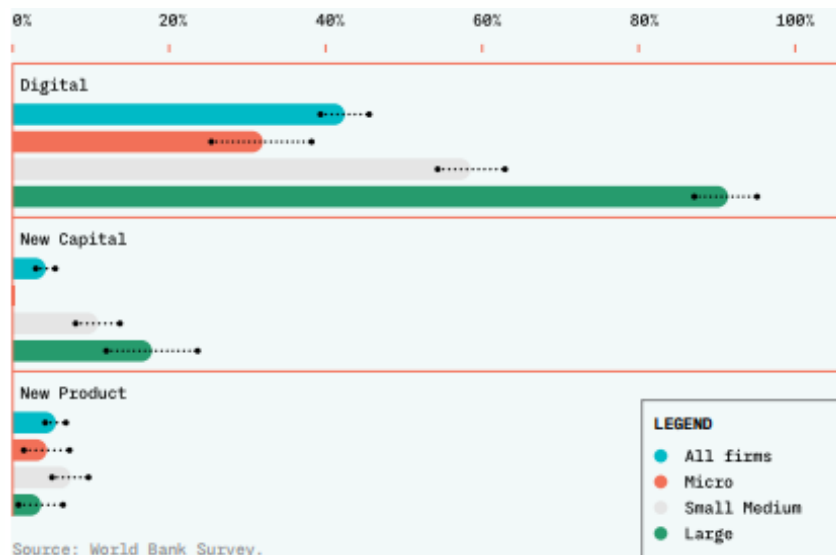


# MSMEs & INTERNET ADOPTION

- In Jakarta, the use of ICT for promotion and transaction of businesses are still lagging.

	Total Employed	Employee	Entrepreneurs
<b>Not Using Internet for Work</b>	1,862,010	857,289	745,491
<b>Using Internet for Work</b>	2,797,241	1,868,489	784,989
Promotion/Marketing	885,262	517,872	333,868
Communication	2,753,858	1,841,537	771,350
Transaction	1,000,623	529,250	436,096

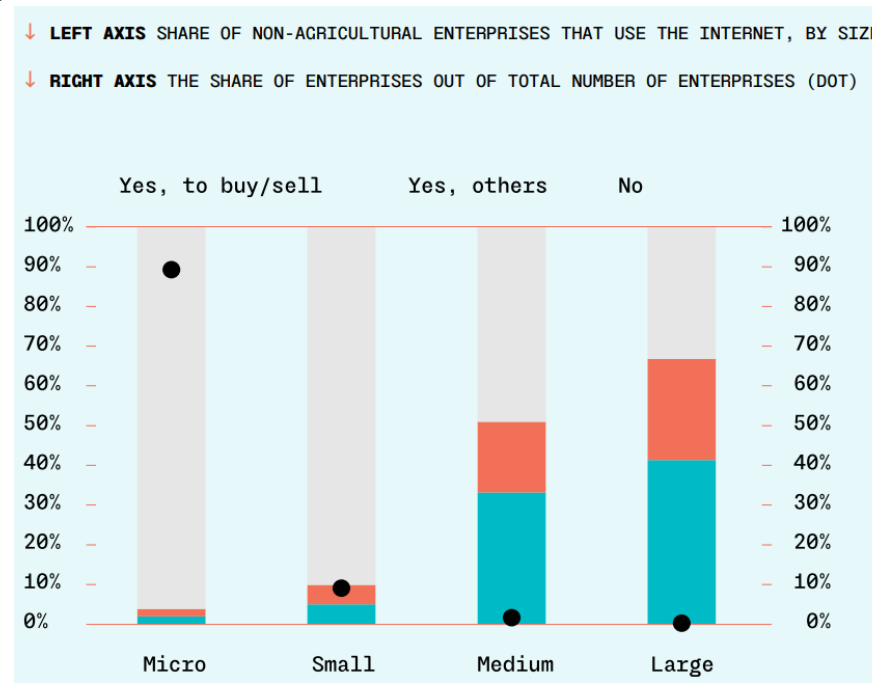
- Pandemic forced an uptake on digital technologies.



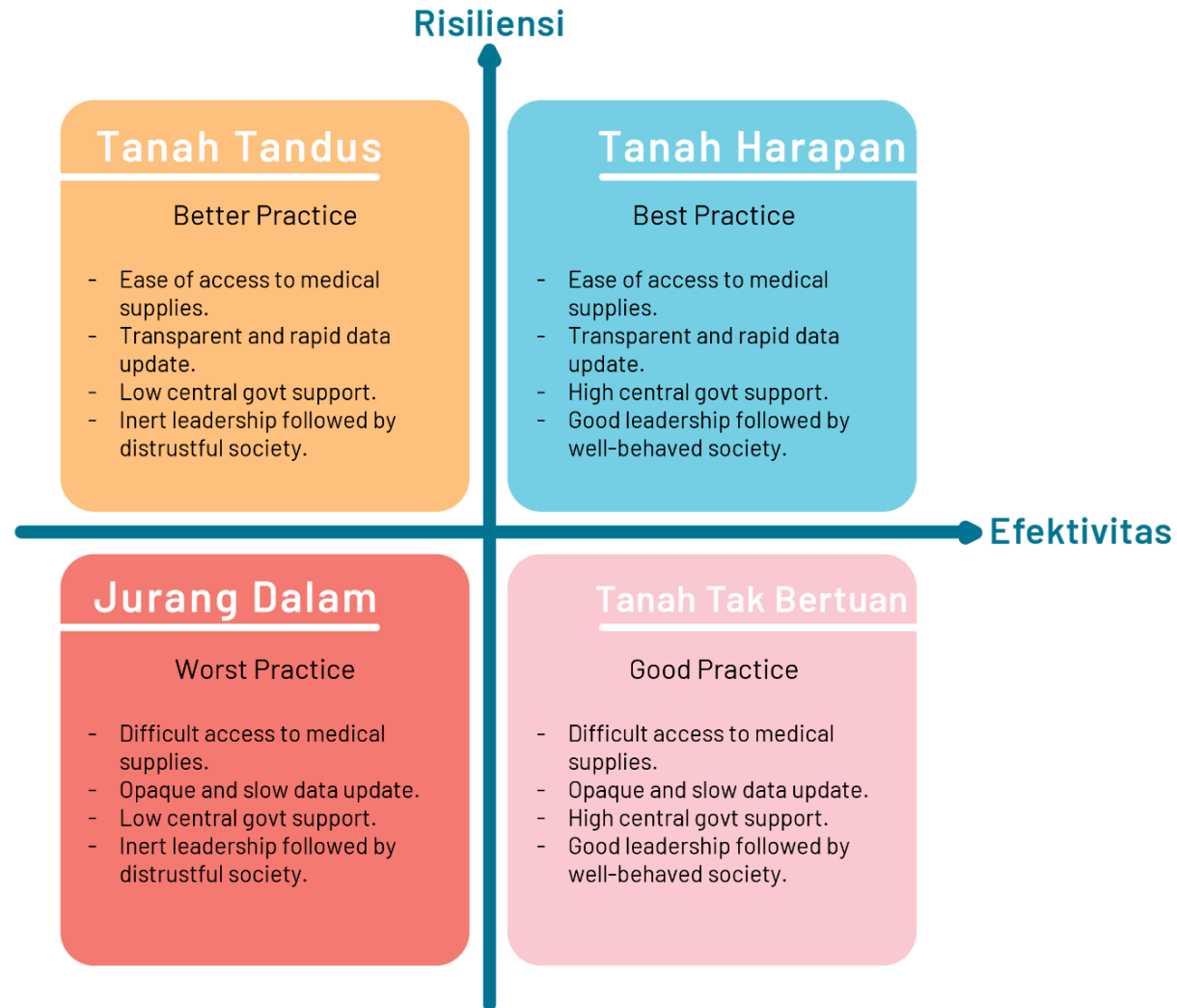
Around 58% of SMEs and 32% of micro firms reported by the World Bank adopted internet-related strategy in order to cope with the pandemic.

# MSMEs & INTERNET ADOPTION

- The low rate of internet adoption by business—mainly micro and small enterprises—also translates into **low adoption among workers**.
  - Account for almost 75.3 percent of Indonesia’s non-agricultural employment
  - In 2019, only 27.2 percent of all workers reported using the internet at their work.
  - There are **sharp heterogeneities in adoption** between different types of workers and firms, with the **higher skilled workers**, and larger and more formal establishments **having greater adoption rates**



# ILUNI UI Scenario Planning (Roadmap Indonesia 2045)





# OUR PROPOSAL

Quadruple Helix Ecosystem



# Post-COVID Recovery: Harnessing Digital Platforms

Fithra Faisal Hastiadi, Ph. D.

Department of Economics, Faculty of Economics and Business, Universitas Indonesia