MACROECONOMIC UPDATE

ADAPTING TO THE NEW NORMAL

PEFINDO is of the view that the spread of COVID-19 is changing how we live, confining many people to their homes and radically altering the way we move about. Since the magnitude and speed of the collapse in activities that has followed is unlike anything experienced in our lifetime, and the pandemic is inflicting high and rising human costs worldwide, the necessary protection measures are severely impacting economic activity. Despite the negative effects, the pandemic has already changed consumer behavior, with more concern for health and boosting the online sectors, and drawing some of us to altruism and the collective economy rather than an agglomeration of fragmented individuals.

GLOBAL NEW NORMAL

As the world continues to fight against the spread of COVID-19, what life might look like on the other side is not what we would have thought possible even several weeks ago. Almost all people are moving from offline to online. Schools and companies are establishing systems that enable students and staff to study and work from home.

The pandemic also requires us to lead a life with physical distancing (previously social distancing) and lockdowns. The fast-spreading coronavirus has also caused cancelled, postponed and rescheduled sports events across the world, including football, rugby, darts, cricket, tennis and golf, with the Tokyo Olympics being delayed for a year.

The disruption is also placing pressure on the global economy. Consumer behavior is changing, making some industries suffer, and we could face the most serious recession since the last century. A March survey by the Institute for Supply Chain Management reported coronavirus-related transportation restrictions (especially lockdowns) disrupted the supply chain of nearly 75% of companies. The disruption is mostly related to unexpected delays in receiving orders, and compounded by a supply chain information blackout from China.

TABLE 1. GLOBAL GROWTH FORECAST (%, YOY)

Institution	2020F	2021F
IMF	- 3.00	5.80
World Bank	- 0.20	na
S&P	- 2.40	5.90
Moody's	- 0.50	3.20

Note : na ; not available.

In April, the International Monetary Fund's (IMF) World Economic Outlook downgraded global economic growth in 2020 by 6.3 percentage points, from 3.3% in its January outlook to –3.0%. The World Bank estimates the pandemic is also likely to cause the first increase in global poverty since 1998, and will push 49 million people into extreme poverty in 2020. The three major global credit rating institutions between March and mid-April reviewed the ratings and evaluations of 47 countries, with none seeing an increase in their credit rating. Only 12 remained in the same credit rating, while the other 35 received lower ratings.

The COVID-19 response policies have also driven increases in un(der)employment and, consequently, drops in consumer income, which change the consumer, producer and investor relationship on a global scale. Many countries now face multiple crises — from health to financial — with a collapse in commodity prices, which interact in complex ways. On April 20, the WTI crude oil price for May delivery crashed into negative territory, falling as low as –USD40 per barrel. It was the first time the price of a futures contract for oil had gone negative and is the worst oil price in history. This makes 2020 look like the worst year since the Great Depression, and far worse than the Global Financial Crisis.

Physical distancing has, ironically, drawn some of us to be more concerned with health, ethics and society than ever before. Altruism and the collective economy are the societal lessons we learn from the pandemic, rather than an agglomeration of fragmented individuals.

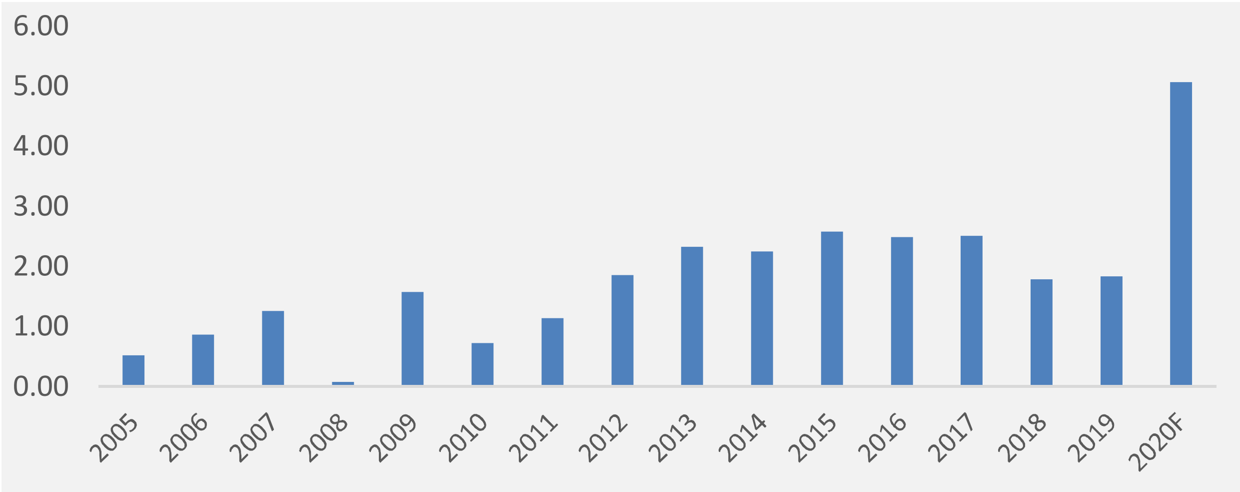
Internationally, leading world organizations are enhancing international and regional collective actions against the pandemic. On April 2, the World Bank Group said it would deploy up to USD160 billion over the next 15 months to help countries that need it. The IMF is also preparing for emergency assistance under its Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI), with the latest emergency financing (on April 17) used to helped Haiti with USD111.6 million.

INDONESIA IN THE **NEW NORMAL**

The new normal in Indonesia also reflects large-scale social restrictions (PSBB) in several cities and provinces. As of April 13, according to the Ministry of Manpower and the Workers Social Security Agency (BPJS Ketenagakerjaan), at least 2.8 million people have lost their jobs due to the pandemic, and the SMERU Research Institute projects 8.5 million people will fall into poverty this year.

The government projects the Indonesian economy will only grow 2.3% this year under a baseline scenario, and probably contract by 0.4% in a worst-case scenario, which would be the lowest since 1999. According to Government Regulation (*Peraturan Pemerintah*/PP) No. 54/2020 on the Revision of Allocation and Details in the Income and Expenses of the State Budget 2020, government income has been revised down to IDR1,760.9 trillion (from the initial target of IDR2,233.2 trillion) in 2020. Government spending will increase to IDR2,613.8 trillion (from the initial target of IDR2,540.4 trillion), making the budget deficit increase to 5.07%.

FIGURE 1. STATE BUDGET (APBN) DEFICIT (% TO GDP)

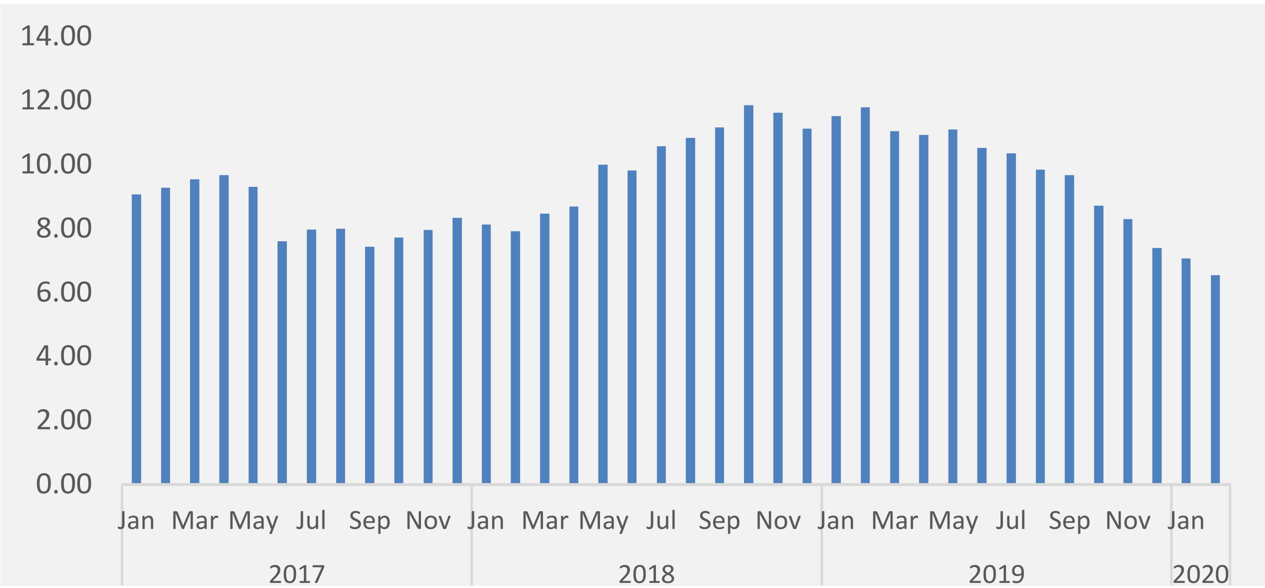


Source: LKPP-Kementerian Keuangan (2020)

S&P Global Ratings on April 17 revised Indonesia's credit rating outlook to "negative" from "stable", indicating the rising financial risks the country faces as it ramps up government spending in response to the pandemic. The rating agency expects a deficit of 4.7% of GDP this year, and for the next two years APBN is expected to be in deficit of above 3%.

The pandemic also disrupted financial intermediaries, as reflected by loan growth in the banking sector. The Financial Services Authority (OJK) and Bank Indonesia (BI) previously set a loan growth target of 11% YoY, but in mid-April slashed the projection to between 6% and 8%.

FIGURE 2. CREDIT BANK GROWTH (%, YOY)



Source: OJK (2020)

To minimize the impact of the pandemic, the Indonesian government has taken numerous measures in response, especially after President Joko Widodo declared a National Non-Natural Disaster. Finance Minister Sri Mulyani Indrawati allocated IDR405 trillion to support the health system and prevent side effects on the economic sector. This will likely be very beneficial to supporting the consumption side by increasing the transfer of cash to the poor. The Ministry of Finance issued Minister of Finance Regulation No. 31/PMK.04/2020 on Additional Incentives for Bonded Zone (KB) Companies and/or Companies with Import Facility for Export Purpose (KITE). The ministry also issued Minister of Finance Regulation No. 34/PMK.04/2020 to free all goods imported for the purpose of mitigating COVID-19 from customs and/or excise fees, and from added-value, luxury and income taxes. There was also an allocation of IDR8.6 trillion towards a previously announced six-month exemption from income taxes for workers with an annual income of up to IDR200 million in the manufacturing industry sector.

The Ministry of Trade is supporting the stimuli by allowing the import of used and refurbished medical devices, as well as reopening, in strict terms, the export of face masks and other personal protective equipment. Acting Minister of Transportation Luhut B. Pandjaitan has issued an additional implementing regulation to the implementation of PSBB with regard to the transportation of goods and passengers in general, in areas where PSBB is implemented, as well as for the mass exodus tradition observed during the Islamic holiday (Idul Fitri).

To implement Presidential Regulation in Lieu of Law (Perppu) No. 1/2020 on safeguarding the nation's financial system, under the Regulation of Members of the Board of Governors No. 22/5/PADG/2020 on the Auction of Government Bonds and State Sharia Bonds in Preserving the Sustainability of Managing the Finances of the State, Bank Indonesia (BI) conducted quantitive easing by allowed the purchase of long-term Indonesian government bonds in the primary market. On April 7, BI announced it had signed a USD60 billion repo facility deal with the US Federal Reserve to boost the dollar liquidity supply ¬– nearly half of Indonesia's total foreign reserves. The deal also supported a bilateral currency swap arrangement with the People's Bank of China (CNY200 billion) and the Bank of Japan (USD22.76 billion) to safeguard the nation's economy. BI Governor Perry Warjiyo said the deal was a vote of confidence in the Indonesian economy, and that the country already has similar deals with various central banks in the region available to safeguard the nation's economy.

A new McKinsey & Company survey on Indonesian consumer sentiment during the pandemic found more than half of respondents optimistic the economy will rebound within two to three months, faring better than most countries around the world. This also shows optimism correlates with an increase in spending, while more than half of the Indonesian economy is driven by household spending.

Reports by Kantar Indonesia on March 25 and Inventure on April 13 said spending will remain cautious and targeted a big shift in consumer needs, requiring businesses to adapt to changing consumer behavior. Spending trends are switching to online purchases and consumers are focusing more on boosting immunity through more exercise and healthy living. So, let's adapt to the new normal life.